

Coal looks like a profitable dark horse again

During the week the All Ords hit a 10 year high but you wouldn't know it if you were only looking at the juniors. One leading broker in Sydney was heard to say that this has been the worse June end of tax year sell down that he can remember. It has been ugly out there and rather frustrating, but for those who have some spare cash, it is probably the best buying opportunity that you will see in 2018.

It is interesting how many companies are out there trying to raise money now, at what we know is the worst month in which to be doing so. Most of them are struggling, especially the IPOs. It is not smart to be swimming against the tide.

Coal fired power stations are still essential in the mix

Notwithstanding the environmental push against coal and leading institutions around the world black-banning investment in the sector, it seems that there is still plenty of money to be made. Ironically, it is the rejection of new coal projects by investors and governments around the world that is underwriting what looks like a very profitable period coming up. Future supply growth is under siege so the lack of supply response will keep prices high. Irrespective of what the greens want, coal is going to be an essential commodity for many decades to come. That was the opinion of a panel of speakers at the Energy Mines and Money Conference in Brisbane last week.

We have seen thermal coal prices hit US\$118 pt in recent days. The Minerals Council of Australia is saying that thermal coal demand from Asia could increase by 400 mt by 2030, up from 740 Mt to 1.147 Bt. There has to be new mines developed to meet this demand, and any delays will invariably lead to high coal prices. So much for alternative energy and the green movement. It seems that only the affluent countries are prepared to cut their noses off despite their faces.

The Monash Forum has released a Fact Sheet stating that there are 467 coal fired power stations under construction and another 903 planned. Australia is out of step with the 50 countries that are part of this program. Why is it that Australia is shutting down its coal fired power stations? Is Australia the only country that has got it right? Hardly. As investors we must be sure not to be carried away with the anti-coal crusaders, because if we are, we will miss what continues to be a very promising sector in which to invest. Of all cyclical sectors coal is the one that offers the most extreme swings, going from extreme despair to euphoria. That means there are regular, very profitable trades to be made.

Coking coal shortage also seem likely

A similar environmental push against thermal coal is affecting coking coal supplies. Increasingly tough environmental legislation in Queensland is standing in the way of developing new coking coal mines. If the costs go

up, the prices will have to rise accordingly to justify the development costs. Thus, when looking at existing producers, they should make strong profits in the foreseeable future. New projects will become more attractive depending upon where about in the world they are located.

So, let's take another look at Pacific American Coal

We have previously provided coverage of Pacific American Coal) PAK, suggesting it is an incredibly cheap entry into the coking coal sector. We have even put out money where our mouth is, accumulating a >12% shareholding in the company. Recent coking coal price movements add strength to our conviction.

The key statistics are a \$7.2m market capitalisation with the shares selling at 4.4¢. As at 31 March, it had \$4.8m in cash. Its 100%-owned Elko coal project has 257 Mt of JORC compliant coal resources, with 181 Mt of this in the Inferred category. A reasonable in-ground value of the raw resource, at this juncture, could be 10¢ a tonne i.e. \$25.7m. This per tonne value would increase by a factor of 10-20x if it is advanced to the predevelopment stage with mining reserves, but the lower valuation is appropriate today. The market capitalisation leaves plenty of room for upside.

Logistics are very important with bulk commodities. In this regard the deposits are located about 20 km from a rail head. From there the distance to port is about 1,000 km, which sounds a long way, but this is still an economic proposition. Teck send its coal a similar distance, from its mines to the north of Elko.

Back in May 2017, PAK released the findings of a study prepared by Palaris Australia Pty Ltd. It assessed the Elko mid-volatile hard coking product would be comparable to other British Columbian coals currently being exported, demonstrating low ash, low fluidity, low basicity index and high CSR. The report suggested that mining could commence with open pits, but another option might be to commenced with adits for a lesser environmental footprint.

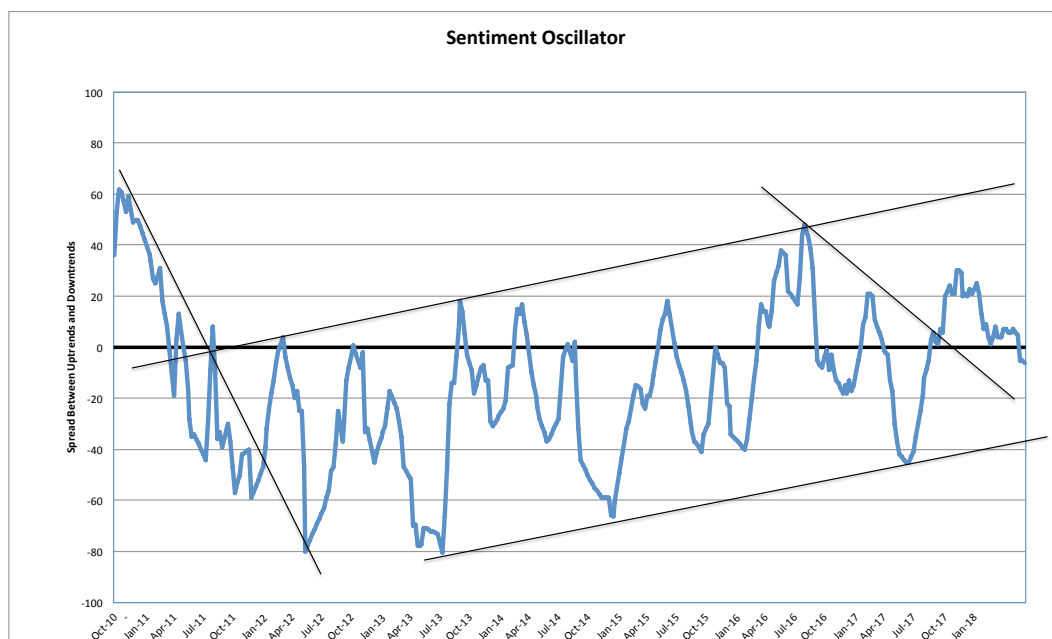
Of the seven coal seams mapped at Elko, three have been assessed to be suitable for coking coal products, providing a mix of both HCC and premium quality PCI.

In April 2018, PAK received approvals for a drill program in the field season that has just commenced. The program will comprise 8,500m of drilling in approximately 11 holes. The aim is to improve the quality of the information, determine down-dip extensions, identify general structural trends and collect core for testing and commencement of commercial discussions with potential off-takers and financiers.

The main point about PAK, in our view, is that its share price is extraordinarily cheap when compared with its peers. News flow from the drill program will add to confidence levels about the resource at the same time that investors are awakening to the potential of the coal sector generally. We have an expanding information curve in a

topical sector, and this invariably leads to a higher share price.

Disclosure: Interests associated with the author own shares in PAK (>12% substantial shareholder)










Sentiment Indicator: Sentiment weakened again during the week; 35% (35%) of the charts were in uptrend and 41% (40%) in downtrend on Friday's close.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

Indices	Code	Trend Comment	
All Ordinaries	XAO	at highs	
Metals and Mining	XMM	continuing with uptrend	
Energy	XEJ	near highs	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	steep rise	zinc
Aeon Metals	AML	correcting below resistance line	copper + cobalt
Alacer Gold	AQG	back to recent highs	gold – production
Alkane Resources	ALK	wedge forming	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	base forming	nickel, cobalt
Alicanto Minerals	AQI	down	gold exploration
Allegiance Coal	AHQ	softer	coal
Alliance Resources	AGS	continuing down	gold exploration
Altech Chemicals	ATC	holding on support line	industrial minerals - synthetic sapphire
Anova Metals	AWV	new low on poor production report	gold
Antipa Minerals	AZY	new low	gold
Apollo Consolidated	AOP	slump	gold exploration

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Archer Exploration	AXE		breach of support	magnesite, graphite
Argent Minerals	ARD		sideways within downtrend	polymetallic
Aurelia Metals	AMI		new high	gold + base metals
AusTin	ANW		down	tin, cobalt
Australian Bauxite	ABX		but a new low	bauxite
Australian Potash	APC		new low	potash
Australian Mines	AUZ		down	cobalt/nickel
Australian Vanadium	AVL		at resistance line	vanadium
Azure Minerals	AZS		new low	silver
Bounty Coal	B2Y		recent listing	coal
BHP	BHP		re-approaching recent high	diversified
Base Resources	BSE		sideways through downtrend	mineral sands
Bathurst Resources	BRL		sideways	coal
Battery Minerals	BAT		collapse to new low	graphite
BBX Minerals	BBX		down	gold
Beach Energy	BPT		near highs	oil and gas
Beadell Resources	BDR		another new low	gold
Berkeley Energia	BKY		down	uranium
Berkut Minerals	BMT		new low	cobalt
Blackham Resources	BLK		sideways	gold
Blackstone Minerals	BSX		new low	gold, cobalt
Broken Hill Prospect.	BPL		sideways	minerals sands, cobalt
Buru Energy	BRU		new high	oil
Cardinal Resources	CDV		testing uptrend, down	gold exploration
Cassini Resources	CZI		sideways	nickel/Cu expl.
Celsius Resources	CLA		off high after placement	copper/cobalt
Chalice Gold	CHN		heading lower	gold
Cobalt Blue	COB		breaching steep uptrend	cobalt
Comet Resources	CRL		new low	graphite/graphene
Crusader Resources	CAS		new low	gold/iron ore
Dacian Gold	DCN		breached uptrend	gold exploration
Danakali	DNK		testing downtrend	potash
Doray Minerals	DRM		resumed uptrend	gold
Draig Resources	DRG		down	gold
Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		sideways	gold
Emerald Resource	EMR		testing downtrend	gold
Evolution Mining	EVN		new high	gold
Excelsior Gold	EXG		down	gold
FAR	FAR		uptrend emerging	oil/gas
First Cobalt	FCC		new low	cobalt
First Graphene	FGR		holding uptrend	graphite
Frontier Diamonds	FDX		new low	diamonds
Fortescue Metals	FMG		rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY		rising again	lithium
Galilee Energy	GLL		retaining uptrend	oil and gas, CBM
Gascoyne Resources	GCY		holding longer term uptrend	gold
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		new high	gold exploration
Golden Rim	GMR		new low	gold exploration
Graphex Mining	GPX		breaching downtrend	graphite
Heron Resources	HRR		downtrend persisting	zinc
Highfield Resources	HFR		down again	potash
Highlands Pacific	HIG		testing recent uptrend	copper, nickel

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Hillgrove Resources	HGO	sideways	copper
Iluka Resources	ILU	on support line	mineral sands
Image Resources	IMA	resumed LT uptrend	mineral sands
Independence Group	IGO	rising, but with a pullback	gold, nickel
Jervois Mining	JVR	strong bounce	nickel/cobalt
Karoo Gas	KAR	new low	gas
Kasbah Resources	KAS	sideways	tin
Kibaran Resources	KNL	stronger	graphite
Kin Mining	KIN	down heavily	gold
Legend Mining	LEG	upside break from correction trend	exploration
Lepidico	LPD	down	lithium
Lithium Australia	LIT	breached uptrend	lithium
Lucapa Diamond	LOM	breached downtrend	diamonds
Macphersons Res.	MRP	Spike though downtrend, then pullback	silver
Marmota	MEU	sideways	gold exploration
MetalsX	MLX	slump through support	tin, nickel
Metro Mining	MMI	downtrend	bauxite
Mincor Resources	MCR	uptrend	nickel
Mineral Deposits	MDL	strongly higher on takeover approach	mineral sands
Myanmar Minerals	MYL	downtrend breached	zinc
MZI Resources	MZI	new low	mineral sands
Neometals	NMT	down	lithium
Northern Cobalt	N27	down again	cobalt
Northern Minerals	NTU	rallied back to resistance line	REE
Northern Star Res.	NST	off its high	gold
NTM Gold	NTM	continuing downtrend	gold
Oceana Gold	OGC	breached downtrend	gold
Oklo Resources	OKU	down	gold expl.
Orecorp	ORR	holding support	gold development
Orinoco Gold	OGX	down	gold development
Orocobre	ORE	secondary downtrend	lithium
Oz Minerals	OZL	continuing in uptrend	copper
Pacific American Coal	PAK	falling back to support line	coal, graphene
Pantoro	PNR	pullback	gold
Panoramic Res	PAN	new high	nickel
Peel Mining	PEX	downtrend confirmed	copper
Peninsula Energy	PEN	sideways through downtrend	uranium
Perseus Mining	PRU	breached downtrend	gold
Pilbara Minerals	PLS	rallying	lithium/tantalum
PNX Metals	PNX	sideways	gold, silver, zinc
Polarex	PXX	down	polymetallic
Prodigy Gold	PRX	name change from ABM Resources	gold
Red5	RED	down	gold
Red River Resources	RVR	fallen to support line	zinc
Regis Resources	RRL	new high	gold
Resolute Mining	RSG	still in downtrend	gold
RIO	RIO	back to highs	diversified
Salt Lake Potash	SO4	breached downtrend	potash
Saracen Minerals	SAR	new high	gold
St Barbara	SBM	strong	gold
Sandfire Resources	SFR	new high	copper
Santana Minerals	SMI	new low	silver
Santos	STO	off its high	oil/gas
Sheffield Resources	SFX	rising again	mineral sands

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Sino Gas & Energy	SEH		confirming uptrend	gas
Sipa Resources	SRI		sideways	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		testing uptrend	oil/gas
Syrah Resources	SYR		back to downtrend	graphite
Talga Resources	TLG		softer	graphene
Tanami Gold	TAM		sideways	gold
Tiger Realm	TIG		back to lows	coal
Triton Minerals	TON		down	graphite
Troy Resources	TRY		uptrend breached	gold
Tyranna Resources	TYX		back to lows	gold exploration
Vango Mining	VAN		surge to new high	gold
Vector Resources	VEC		new low	gold
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		down	graphite
West African Resources	WAF		down	gold
Westwits	WWI		down	gold exploration/development
Western Areas	WSA		rising again	nickel
White Rock Minerals	WRM		new low	silver
Whitehaven Coal	WHC		new high	coal
WPG Resources	WPG		down again	gold
Wolf Minerals	WLF		sideways at lows	tungsten
Totals	35%	49	Uptrend	
	41%	58	Downtrend	
		142	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	33	23.2%	
Gold Exploration	15	10.6%	
Coal	10	7.0%	
Copper	9	6.3%	
Graphite	9	6.3%	

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Weightings of Sectors Represented in the Company Charts			
Oil/Gas	8	5.6%	
Mineral Sands	7	4.9%	
Cobalt	7	4.9%	
Lithium	7	4.9%	
Zinc	6	4.2%	
Silver	5	3.5%	
Nickel	5	3.5%	
Potash/Phosphate	4	2.8%	
Uranium	3	2.1%	
Bauxite	2	1.4%	
Tin	3	2.1%	
Diamonds	3	2.1%	
Iron Ore	1	0.7%	
Other	5		
Total	142		

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