

26 August 2017

On Friday's Close

Analyst : Warwick Grigor

The wheels are turning again as placement activity picks up

It was about six weeks ago that I suggested the market had bottomed but a few kind readers opined that I was a bit premature. Ever since then the Sentiment Oscillator has headed upwards. Yes, volumes have been thin, but many stocks have breached downtrends and have started patterns that could turn into uptrends. Many have improved by 10-20%, and more. We need time to confirm a new uptrend, but the Oscillator is very good in giving us changes in direction. I repeat what I said last week, "if you are not buying now, you will be playing catch-up".

Suddenly, starting late last week, the wheels are turning again. This week I have been offered at least two new placements each day. Maybe brokers have realised they haven't been making money lately, so they have pulled their fingers out. Maybe companies that couldn't raise money in the June quarter have decided to push the button now, encouraged by the improving prices. Whatever the reason, people seem to want to play again. There is clearly an appetite out there.

The Draig placement was heavily overbid. They wanted \$3m, but had bids for \$12m (so I was told). Be careful in ascribing too much to this sort of statement though. As soon as it looks like a placement will be filled, the free loaders jump on and give inflated bids hoping that they get some stock, even after scaling back. Don't forget that brokers are always prone to exaggerate. Nevertheless, it has been a good result for a company that I think will offer very good trading opportunities.

Stronger metal prices lead to positive reviews

If you have been reading research released by the large brokers you will find them full of positive opinions regarding the level of demand for metals and commodity prices. The weakness in the first six months of 2017 was anomalous. There is now some catching up to do.

The LME base metals index is at its highest level since Q4/14. Copper is back to its highest price since late 2014, and aluminium futures in China are at a six year high. Iron ore prices are holding recent highs. Gold continues to fluctuate near the peak of its trading range. There is nothing bearish to worry about.

WWI getting cash flow from gold

You may recall that West Wits (WWI) has a multi-million ounce gold resource in the Central Rand Goldfield in the Witwatersrand, in South Africa. It has an historical JORC resource of 12.8 Moz at 4.6 gpt to a depth of 3,100m. Normally this would have shareholders doing cartwheels, but enthusiasm needs to be moderated due to the depth and the issues with dewatering below the 400m level. So, the company chooses to focus on the near surface resource of 1.4 Moz, to that 400m depth. The resource statement is 12.7 Mt at 3.38 gpt.

WWI is aiming to produce 100,000 p.a. for 10 years. To this end it started with an open pit at Sol Plaatje, in August 2016. The scheduled rate was 130,000 tpa, with earnings to be shared with the contractor. First receipts were received in November 2016, but there were some issues with the grades and the contractor. A new contractor was appointed in June 2017, with a planned production rate of 15,000 tpa. Agreement was reached to treat the ore in Sibanye Gold's Ezulwini treatment plant, 40 km trucking distance away.

Last week WWI announced that its 60% share of the cash flow is expected to be \$155-\$175,000 per month, on treatment tonnages of 10-15,000 tonnes per month, from September, for an initial period of 15-18 months. While this production and projected cash flow will be most useful for a company capitalised in the market at only \$8.2m, it is nonetheless modest. However, the corporate strategy needs to be placed in perspective. This is just the first step in commercialising the > 1 Moz near surface resource. WWI is going through the process to secure permitting for the larger resource. It can then expand beyond the current mine plan to include development of the underground ore as well. This is where the 100,000 oz p.a. target comes into play.

Once the permits are in place WWI will have a significant gold production asset that will be readily saleable to a number of companies operating treatment plants in the area. Earlier modelling suggest that the NPV of these gold assets could be in the order of \$250-\$300m. WWI's share of this, after Black Empowerment takes its cut, would be 70% or \$185-\$222m. The smart strategy being considered by WWI would be to sell this for some sort of a discount to a nearby operator.

The net figure to WWI could be in the order of \$50-100m i.e. at least five times the current market capitalisation. A sale of this magnitude would enable the company to make a sizeable capital return to shareholders. Thus, we are looking at a gold asset play here, where shareholders could make a multiple of the current share price. It has taken a while to get to the current point, and it will be at least another year before it will have all of the licences in order, so shareholders need to continue to be patient.

Likewise, patience has been required for WWI's very exciting Derewo gold project in Papua. This looks as exciting as Porgera did in the early days, or Mt Kare. The issue is getting full access to commence production from the alluvial areas. Once this is achieved, exploration for the hard rock can commence. Downside from this point is minimal, while there is upside potential measured in multiples.

Marmota - in a hot spot of gold exploration in S.A.

During the week I sat through a presentation with Marmota Ltd (MEU), a company that started out as a uranium explorer in South Australia, that had to do a quick shimmy when the Fukushima nuclear accident pulled the rug out from under the feet of the uranium explorers. It is now an active and successful gold explorer in the vicinity of the Challenger gold mine.

The Challenger gold orebodies, 740 km NW of Adelaide, were first discovered by Dominion Mining and Resolute in 1995. The discovery was notable at the time due to the use of calcrete sampling on the surface, to identify underlying orebodies. Kevin Wills, the current exploration director for Marmota, pioneered this exploration methodology when he took it from the CSIRO research team and applied it in the field. Mining commenced with an open pit in 2002, and moved to the underground phase in 2005. By June 2007, there were one million ounces of gold in resources, and 512,000 oz in reserves. In 2005/06, the mine produced 108,080 oz. The high grade of 9.52 gpt enabled a cash cost of only \$280/oz. By 2013/14, the grade had dropped to 4.8 gpt, gold production was 74,954 oz and the cash costs had increased to US\$1,504/oz. Hence the decision by Kingsgate, then the owner, to close the mine.

WPG Resources (WPG) purchased the mine from Kingsgate in March 2016, at a nominal cost of \$1m. By that time the 650,000 tpa facility had produced 1.1 mill. oz of gold, but there was still 140,000 oz of remaining gold resources. The plant began operating again in May 2016, treating low grade stockpiles, and underground mining recommenced. The production target was 50,000 oz p.a. from a 360,000 tpa mining operation, with another 20,000 oz p.a. to come from ore trucked in from the Tarcoola deposit that comprised 710,000 tonnes at 3.1 gpt, for 71,000 oz in the reserve category. More recently the production target has been lifted to 80-90,000 oz p.a. Cash costs have been in the range of A\$1,475/oz to A\$1,600/oz, and they are expected to fall.

MEU commenced gold exploration in earnest about 18 months ago and immediately started to achieve success at the Goshawk prospect, about 50 km NE of the Challenger gold mine. Earlier calcrete sampling had identified subtle anomalies above sediments that are up to 15m deep.

Three rounds of aircore and RC drilling have outlined the Goshawk prospect over about 500m in strike length, on 20m spacings. Some very good drill results have been released, including composite samples of 4m at 40 gpt from 32m, 4m at 10 gpt from 32m and another 4m at 10 gpt from 32m. When these are split into 1m intervals, they all seem to have at least the minimum cut-off grade of 0.5 gpt, meaning they are good mining widths and not overly influenced by spotty gold.

Aurora Tank has an interesting supergene zone that is in the process of being defined. From surface, there is a layer of sediments that could be up to 15m thick, and beneath that there is a mineralised zone that seems to range from 1 to 15m in width, but maybe averaging half of this. This supergene zone extends down to the depth of weathering at around 40m average, vertical. Thus, the supergene zone of interest could be in the order of 30m from top to bottom.

My back of the envelope numbers suggest there could be 4-8,000 tonnes per vertical metre (tpvm), which works out

as 120-240,000 tonnes of potential ore. Depending upon the grade, there could be 20-50,000 oz in the structure. Maybe it could be larger, but it depends on the grade, whether it is cut, and a few other parameters of which I don't yet have the benefit. While that doesn't sound much, it is a useful start. The mineralisation is open at depth but there hasn't been enough drilling below 50m to extend the guesstimate any deeper. We have already seen how subtle gold on surface can lead to deep underground orebodies such as Challenger, which extend to hundreds of metres below the surface.

The proximity of any resource to the hungry Challenger mill could be very significant and enable a quick conversion of gold in the ground to cash in the bank, depending upon economics and toll treatment charges or sale terms. If a cash margin of \$500/oz was received, it would mean \$10-15m or more in quick order for Marmota.

A shallow open pit mine is unlikely to be an expensive affair. The top 15m would probably be ripple or free dig, with light blasting required once the saprolite zone with the gold ore is being mined. The waste to ore ratio will need to be calculated, but at this point it is probably going to be modest.

Getting back to the exploration story, there are two main explorers in the NW Gawler Craton apart from WPG; Marmota and Tyranna. Both have large ground positions and both have been achieving good exploration success. Marmota has 100% of its licences, whereas Tyranna hold some in a 72:28 joint venture with WPG with a 219,000 oz resource announced. Ground positions are large and in theory, any orebodies found could be processed through the Challenger mill rather than building stand-alone treatment facilities. Thus it is a good area for juniors to be exploring.

The calcrete sampling technique has been proven to be effective, though the ppb grades of gold can be tiny and easily overlooked by the untrained eye. Actual grades on surface are dependent upon the level of sedimentary cover that overlies mineralisation, with grades lower when the cover is thicker.

Marmota is a tightly run company. The chairman, Dr Colin Rose, runs it on the smell of an oily rag. He wants to make money out of share price appreciation, not by charging director and management fees. Thus he is well-aligned with the interests of shareholders. The market capitalisation is \$8-9m. Cash is running low at around \$0.5m now, suggesting that a small placement might be in the offing soon (a 10% placement at current prices would raise about \$750,000). If the opportunity comes up, it would definitely be worth a punt as further drilling could quickly build a solid resource base.

Stop Press: After writing this column the company announced a Trading Halt for a capital raising. We understand that it will place 45 mill. shares at 1.7¢ to s.708 investors, for a total raising of \$765,000. Half of this is expected to be placed with existing shareholders. If you would like to participate please email or call Warwick or Robert at Far East Capital, by close of business on Monday.

Is the electric car just a fashion, or an economic reality? Who has done the numbers?

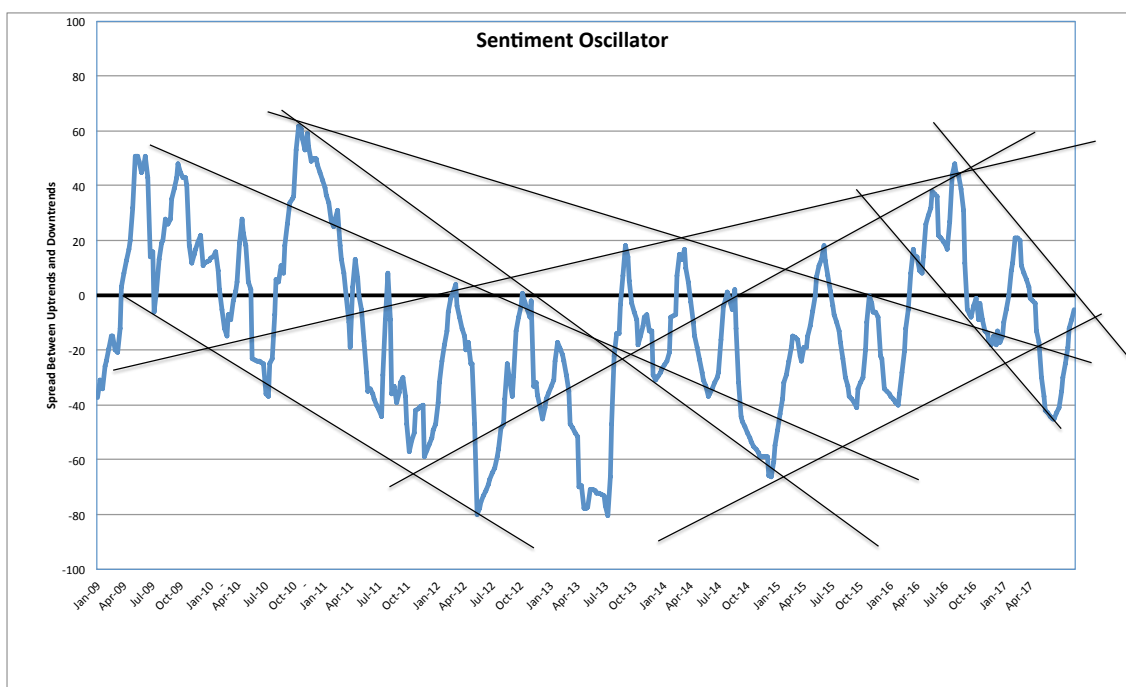
During the week I was sent an email questioning the economics of electric cars. On a superficial view, promoters of electric cars like to say that electric motors give 95-98% efficiency and petrol engines have efficiency levels of 35-40%. These are isolated statistics. I did a quick search on the internet to see what other relevant figures are circulating, but it quickly became obvious that there are many posts pushing electric cars that use conveniently supportive statistics. The whole topic is highly politicised and there is a real risk of forming views on inaccurate or biased figures.

It is not just the engine efficiency that you need to understand. You have to consider the electricity grid. A Tesla home charging system needs a 75 amp system. The average house (in the USA) is equipped with a 100 amp system. The author said that in his street of 25 houses, the system would only be able to support three houses with a

single Tesla each. That is an infrastructure limitation. What would it cost to upgrade the infrastructure?

The same author calculated that the General Motors electric hybrid car, the Volt, costs 74¢ a mile to operate. A similar size car that works on petrol alone costs 10¢ a mile. The Volt costs \$46,000 to buy, and the petrol car costs \$20,000. You don't have to be an economist to figure out which is better value.

Australians also have to consider the cost, and the volatility (upwards) of the electricity price. As the oil price remains at low levels, and the electricity price keeps rising, the pendulum swings very much in favour of petrol and diesel cars. Nevertheless, there is enormous pressure from greenies and governments to abandon internal combustion engines. We should be guided more by economics than by social green bullying.



Sentiment Indicator: The recovery in sentiment continued during the week but look at the Oscillator chart. The recovery is about to meet some resistance. There may need to be a correction before much longer. There were 32% (29%) of the charts in uptrend and 37% (38%) in downtrend.

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	still sideways
Metals and Mining	XMM	still rising
Energy	XEJ	sideways


















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Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	stronger	gold
Aeon Metals	AML	testing uptrend	copper + cobalt
Alacer Gold	AQG	falling from rally	gold – production
Alkane Resources	ALK	spiked higher	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	weaker	phosphate
Alicanto Minerals	AQI	new low on rights issue shortfall	gold exploration
Allegiance Coal	AHQ	rising	coal
Alliance Resources	AGS	sideways	gold exploration
Alltech Chemicals	ATC	pullback after breakout	industrial minerals
Anova Metals	AWV	strong rebound, then fell again	gold
Antipa Minerals	AZY	rallying	gold
Apollo Consolidated	AOP	strong rise	gold exploration
Archer Exploration	AXE	pullback	magnesite, graphite
Argent Minerals	ARD	gentle uptrend	polymetallic
Aspire Mining	AKM	testing downtrend	coal
Atrum Coal	ATU	surged higher	coal
Aurelia Metals	AMI	at apex of wedge	gold + base metals
Auroch Minerals	AOU	down	exploration
Aus Tin	ANW	testing downtrend	tin, cobalt
Australian Bauxite	ABX	stronger	bauxite
Australian Potash	APC	slump back into downtrend	potash
Australian Mines	AUZ	gentle uptrend commenced	cobalt/nickel
Australian Vanadium	AVL	down	vanadium
Avanco Resources	AVB	nudging resistance line	copper
AWE	AWE	breached downtrend	oil and gas
Azure Minerals	AZS	strong rise	silver
BHP	BHP	uptrend	diversified
Base Resources	BSE	breaching uptrend	mineral sands
Bathurst Resources	BRL	continuing higher	coal
Battery Minerals	BAT	reached resistance line	graphite
BBX Minerals	BBX	uptrend, but correcting now	gold
Beach Energy	BPT	breached steepest downtrend	oil and gas
Beadell Resources	BDR	testing downtrend	gold
Berkeley Resources	BKY	testing downtrend	uranium
Berkut Minerals	BMT	steeply higher	cobalt
Blackham Resources	BLK	slump to new low	gold
Broken Hill Prospect.	BPL	down again	minerals sands, cobalt
Buru Energy	BRU	sideways at lows	oil
Canyon Resources	CAY	new low	bauxite
Cardinal Resources	CDV	rising again	gold exploration
Carnegie Clean Energy	CCE	down	wave energy
Cassini Resources	CZI	testing downtrend	nickel/Cu expl.
Chalice Gold	CHN	holding uptrend	gold
Cobalt One	CO1	rally on change of name (from Equator)	cobalt
Cobalt Blue	COB	new uptrend	cobalt
Comet Resources	CRL	new high	graphite/graphene
Consolidated Zinc	CZL	downtrend	zinc
Corizon Mining	CZN	steeply higher	cobalt
Crusader Resources	CAS	breached downtrend	gold/iron ore
Dacian Gold	DCN	breached downtrend	gold exploration
Danakali	DNK	still in uptrend	potash
Doray Minerals	DRM	back in downtrend	gold

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Draig Resources	DRG		rising	gold
Duketon Mining	DKM		new low	nickel
Eden Innovations	EDE		breached short term downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		new uptrend started	zinc
Evolution Mining	EVN		ST down, within LT uptrend	gold
Excelsior Gold	EXG		back to recent high	gold
Finders Resources	FND		LT uptrend	copper
First Australian	FAR		testing uptrend	oil/gas
First Graphite	FGR		testing secondary downtrend	graphite
Fortescue Metals	FMG		short term uptrend	iron ore
Galaxy Resources	GXY		testing downtrend	lithium
Galilee Energy	GLL		down	oil and gas, CBM
Gascoyne Resources	GCY		breached uptrend	gold
Global Geoscience	GSC		back to highs	lithium
Gold Road	GOR		uptrend continuing	gold exploration
Graphex Mining	GPX		new low then strong recovery	graphite
Heron Resources	HRR		drifting lower	zinc
Highfield Resources	HFR		continuing down	potash
Highlands Pacific	HIG		down	copper, nickel
Hillgrove Resources	HGO		back to highs	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		testing uptrend	mineral sands
Independence	IGO		sideways	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached support line	gas
Kibaran Resources	KNL		testing downtrend	graphite
Kin Mining	KIN		surge on gold discovery announcement	gold
Legend Mining	LEG		sideways	exploration
Lithium Australia	LIT		pullback after breakout	lithium
Lucapa Diamond	LOM		down	diamonds
Macphersons Res.	MRP		downtrend	silver
MetalsX	MLX		LT uptrend in play	tin, nickel
Metro Mining	MMI		sideways to higher	bauxite
Mincor Resources	MCR		new uptrend	nickel
Mineral Deposits	MDL		on support line	mineral sands
Mustang Resources	MUS		breached downtrend	diamonds, rubies
Myanmar Minerals (Top End)	MYL TND		rising on re-listing	zinc
MZI Resources	MZI		down	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rallying	gold
NTM Gold	NTM		breached uptrend	gold
Oceana Gold	OGC		down after steep fall	gold
Oklo Resources	OKU		heavy correction	gold expl.
OreCorp	ORR		down	gold development
Orinoco Gold	OGX		breached downtrend, then pullback	gold development
Orocobre	ORE		under longer term downtrend	lithium
Oz Minerals	OZL		breached downtrend	copper
Pacific American Coal	PAK		down	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		surge through downtrend	copper
Peninsula Energy	PEN		PEN	uranium
Perseus Mining	PRU		new low	gold

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Pilbara Minerals	PLS		hugging downtrend line	lithium/tantalum
PNX Metals	PNX		down	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		confirming uptrend	gold
Resolute Mining	RSG		still going lower	gold
RIO	RIO		recovery	diversified
RTG Mining	RTG		breached downtrend	copper/gold
Salt Lake Potash	SO4		down	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		rallying	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		breached downtrend	silver
Santos	STO		under long term support line	oil/gas
Sheffield Resources	SFX		still in downtrend	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		down	gas
Southern Gold	SAU		resuming uptrend	gold
Stanmore Coal	SMR		breaching long term support	coal
Sundance Energy	SEA		down	oil/gas
Syrah Resources	SYR		strong rise	graphite
Talga Resources	TLG		spike then pullback	graphene
Tanami Gold	TAM		short term down	gold
Tempo Australia	TPP		breached downtrend	mining services
Teranga Gold	TGZ		at lows	gold
Tiger Realm	TIG		breached downtrend	coal
TNG Resources	TNG		testing short term downtrend	titanium, vanadium
Torian Resources	TNR		new low	gold expl'n
Toro Energy	TOE		breached first downtrend	uranium
Troy Resources	TRY		new uptrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		uptrend breached	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		strong rise	gold
Westwits	WWI		rallying	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		down	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		still down	gold
Wolf Minerals	WLF		down	tungsten
Totals	32%	46	Uptrend	
	37%	54	Downtrend	
		146	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	34	23.3%
Copper	11	7.5%
Gold Exploration	14	9.6%
Coal	10	6.8%
Oil/Gas	9	6.2%
Potash/Phosphate	5	3.4%
Mineral Sands	7	4.8%
Graphite	7	4.8%
Silver	6	4.1%
Zinc	7	4.8%
Lithium	5	3.4%
Nickel	5	3.4%
Uranium	4	2.7%
Cobalt	4	2.7%
Tin	2	1.4%
Bauxite	3	2.1%
Diamonds	2	1.4%
Iron Ore	1	0.7%
Other	10	
Total	146	

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