

## Alliance Resources - an interest gold strategy for investors

Markets have continued to move either sideways or without much conviction as the forecast economic slowdown weighs on peoples' minds. Is it fully priced in yet? One fund manager from Europe surprised me by stating that there were actually signs of an upward turn appearing in that part of the world. It is obviously embryonic, so we need to watch and see if it can be reflected in wider numbers.

The IPO market (for large companies) is taking a backward step in both the US and Australia as risk aversion is taking hold. Reading about the numbers for We Work leaves me scratching my head. What sort of fantasy land were the promoters and investment banks living in? Sure, the bigger the deal the higher the fees that can be charged and that is what motives investment bankers, but there is a limit to how far you can push the "bigger fool strategy". The market over in Wall Street can certainly do with a reality check.

### *When "backing the man" may be lower risk*

Alliance Resources (AGS) is a low-key exploration stock based in Melbourne, in the Ian Gandel camp. The shares did very well back in the uranium boom days more than 10 years ago, with a 25% equity in the high grade Four Mile West discovery in South Australia, but it all went pear shaped as a result of unsatisfactory dealings with the joint venture partner, General Dynamics. The less said about it the better. Notwithstanding the disappointment, shareholders did benefit from capital returns of \$58.4m following a settlement reached on Four Mile West.

After a number of years licking its wounds, AGS is making comeback as a successful gold explorer and soon, an emerging gold producer. So far the resource is still modest at about 250,000 oz, but the grade is usefully high.

You need to look beyond the resource as it stands today, and take a view on what has been happening corporately. In mid August, Gandel Metals launched a takeover bid for AGS, at 14¢ a share.

You can look at the bid in a number of ways. Firstly, Ian Gandel is no dummy. He would not be paying a premium to the market if he didn't think that there was potential for the company to do much better, and therefore the share price moving much higher. Maybe he is a true believer and is a more patient than the next man, but that would mean he is serious investor rather than a trader. Other investors would do well to accept a bit of leadership here.

Secondly, now that the stock has tightened up significantly following the takeover bid, there is potential for a much stronger share price in the event of continuing good news flow. The traders have been removed from the equation and there should be no overhang in the market.

Thirdly, now that Gandel Metals has moved to 68% and the top three shareholders have more than 83% of the issued shares, there is a big chance that there will be another bid at some point to clean up the balance. Gandel Metals (and associates) started out with 32.3% holding and by the close

of the bid it was up to 68.21%. Maybe Gandel will just do the 3% creep every six months and try and squeeze out minorities rather than do a full bid. Maybe there will be some greenmailers on the register that frustrate any move to gain 100% ownership. The worst case scenario for minorities would be if directors just decided to delist the company, but you could be certain that this would go down like a lead balloon.

"*Backing the jockey*" is a tried and true technique of investing. It usually requires patience, and you want to make sure that the jockey doesn't "*hang the minorities out to dry*", and that is always a risk. However, in this case Ian knows what it is like to be a victim of such a scenario. It would be unlikely, in my opinion, that he is a man who would stoop that low.

So, how good is the Weednanna gold project? Back in April, a Scoping Study said that a \$40-48m investment would be needed for a 250,000 oz p.a. treatment plant, based on 181,000 oz at 5.1 gpt. Open pit and underground mining would be undertaken. An independent technical report released in September valued the project at \$22.9m, a useful premium to the recent market capitalisation of around \$18m. However, these numbers don't include an additional 60,000 oz (> \$120m in revenue) that were in the Inferred category. The rigidity of the ASX Listing Rule 31 prevented their inclusion even though they will most likely be mined and recovered.

I wouldn't be taking the Scoping Study and valuation as anything more than a starting position from which there could be substantial upside. Drilling will tell us more over time, but the main point to get across to readers is that there is little downside from these levels and that is a good starting point.

*Disclosure: Interests associated with the author have recently purchased shares in Alliance Resources.*

### *Graphite glut to continue for at least five years*

During the week we had Hexagon call in to give us an operational update. One of the first points made by the CEO is that there are so many graphite projects on the development list that the price will remain under pressure for at least five years. A good example is Syrah, which is having trouble selling its output. Further, China is finding new, very large orebodies. He was quite adamant that there was no likelihood of Hexagon's McIntosh orebody in WA being developed in the near term. Nevertheless, he believes that Hexagon can make money out of graphite by buying what he needs from existing producers. It is what he intends to do with the graphite that is the key rather than having a mine itself. We will delve deeper into the outlook for this company in a subsequently Weekly.

In a similar vein, Kibaran Resources is focusing on the downstream markets for flake and spherical graphite, though it does intend to develop its Epanko graphite orebody in Tanzania. It has developed an environmentally friendly purification technology that doesn't rely on the use of costly and toxic hydrofluoric acid, a process widely used in China. To reflect this product it has just announced it will change its name to EcoGraf.

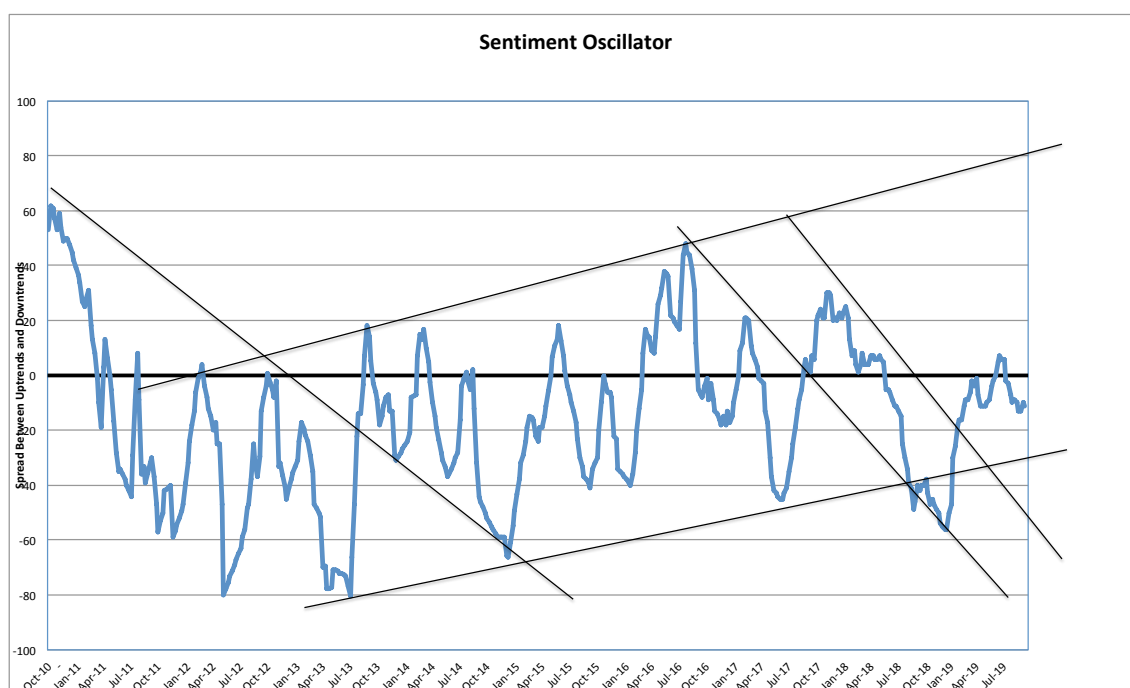
Epanko itself is forecast to produce 60,000 tpa of flake graphite during an 18 year mine life. Development has been frustrated by changes to Tanzania's mining regulations, but there are many companies in a similar position. German financier KfW IPEX-Bank has been mandated to raise US\$40m and a second lender is working on a US\$20m facility. Equity will be need for the balance of the US\$110m capital expenditure budget.

Separately, development of the EcoGraf project could cost US\$23-\$49m, for a 5,000 tpa-20,000 tpa capacity. One of the key selling points could be that Kibaran's spheronised

graphite for use in anodes will be an alternative to Chinese supply. Given geopolitical tension many countries would like to reduce their dependence on sources from a communist country.

An obvious question to ask is whether EcoGraf can be made from flake graphite from Syrah, or other suppliers. Does Kibaran even need to develop its own mine ahead of the commissioning of the EcoGraf plant? If not, then it may actually be a much better investment proposition

Interestingly, Kibaran's annual report states that demand for spherical graphite will increase by 700% by 2025. It is difficult to reconcile this view with that of Hexagon's, but this is where you have to distinguish between graphite concentrates and spherical graphite as the refined product. Is the concentrate market going to be able to supply the spherical graphite manufacturers, and what will the correlation be in pricing of both products?



**Sentiment Oscillator:** Sentiment is still struggling. There were 31% (34%) of the charts in uptrend and 42% (44%) 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. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.*

Indices	Code	Trend Comment
All Ordinaries	XAO	testing wedge on the upside
Metals and Mining	XMM	down
Energy	XEJ	testing wedge on the upside



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Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA		breaching uptrend	HPA
Adriatic Resources	ADT	broad, shallower uptrend	zinc
Aeon Metals	AML	new low	copper + cobalt
Alacer Gold	AQG	testing uptrend	gold – production
Alkane Resources	ALK	steeply higher	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	sideways	nickel, cobalt
Alicanto Minerals	AQI	fallen to support line	gold exploration
Allegiance Coal	AHQ	sideways through uptrend line	coal
Alliance Resources	AGS	higher	gold exploration
Altech Chemicals	ATC	rallied meet resistance line	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP	rising	gold exploration
Arafura Resources	ARU	breached downtrend	rare earths
Argent Minerals	ARD	down	silver
Aurelia Metals	AMI	continuing with less steep downtrend	gold + base metals
AusTin	ANW	new low	tin, cobalt
Australian Bauxite	ABX	sideways	bauxite
Australian Potash	APC	continuing with uptrend	potash
Australian Mines	AUZ	testing secondary downtrend	cobalt/nickel
Australian Vanadium	AVL	new low	vanadium
BHP	BHP	less steep downtrend	diversified, iron ore
Base Resources	BSE	sideways	mineral sands
Bathurst Resources	BRL	down	coal
BBX Minerals	BBX	down	gold exploration
Beach Energy	BPT	risen through resistance line	oil and gas
Beacon Mining	BCN	down	gold production
Bellevue Gold	BGL	correcting lower after placement	gold exploration
Berkeley Energia	BKY	in secondary downtrend	uranium
Blackstone Minerals	BSX	correcting lower	gold, cobalt
Bounty Coal	B2Y	still in downtrend	coal
Breaker Resources	BRB	down	gold exploration
Broken Hill Prospecting	BPL	steeply higher, then all the way back down	minerals sands
Buru Energy	BRU	testing uptrend	oil
Buxton Resources	BUX	continuing down	nickel exploration
Capricorn Metals	CMM	sideways consolidation	gold
Cardinal Resources	CDV	breached uptrend	gold exploration
Cassini Resources	CZI	softer	nickel/Cu expl.
Celsius Resources	CLA	falling back to lows	copper/cobalt
Central Petroleum	CTP	new uptrend	oil/gas
Chalice Gold	CHN	new uptrend	gold exploration
Chase Mining	CML	testing downtrend	nickel/copper/PGE
Chesser Resources	CHZ	breached downtrend	gold exploration
Cobalt Blue	COB	breaching downtrend, but pullback	cobalt














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Dacian Gold	DCN		strong rise	gold
Danakali	DNK		sideways to lower	potash
Davenport Resources	DAV		down	potash
Egan Street Resources	EGA		under takeover offer, but weaker	gold
Emerald Resource	EMR		gentle downtrend	gold
Evolution Mining	EVN		correcting lower	gold
Exore Resources	ERX		higher for placement then slump	gold exploration
FAR	FAR		sideways at lows	oil/gas
First Graphene	FGR		short term down	graphene
Fortescue Metals	FMG		rallying	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		sideways movement	lead
Galilee Energy	GLL		slump back to trend line support	oil and gas, CBM
Gold Road	GOR		new high	gold
Graphex Mining	GPX		drifting lower	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		down heavily	potash
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		breached downtrend	mineral sands
Image Resources	IMA		regained uptrend	mineral sands
Independence Group	IGO		new high	gold, nickel
ioneer (was Global Geoscience)	INR		rising again	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		heavy fall	lithium
Karoon Gas	KAR		heading lower	gas
Kasbah Resources	KAS		new low	tin
Kibaran Resources	KNL		new low	graphite
Kin Mining	KIN		new low	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lithium Australia	LIT		new low	lithium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		secondary uptrend	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		breached uptrend	gold exploration
MetalsX	MLX		rallying	tin, nickel
Metro Mining	MMI		back to downtrend	bauxite
Mincor Resources	MCR		continuing higher	gold
Musgrave Minerals	MGV		breached downtrend	gold exploration
Myanmar Minerals	MYL		new low	zinc
Nelson Resources	NES		new uptrend	gold exploration
Neometals	NMT		continuing down	lithium
Northern Cobalt	N27		surge out of downtrend	cobalt
Northern Minerals	NTU		down	REE

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Northern Star Res.	NST		down heavily	gold
NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		failed at resistance line	gold
Oklo Resources	OKU		bounced off lows	gold expl.
Orecorp	ORR		rising again	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		strong bounce	lithium
Oz Minerals	OZL		sideways testing of downtrend	copper
Pacific American Holdings	PAK		sideways	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		still down	copper
Peninsula Energy	PEN		down	uranium
Pensana Metals	PM8		testing downtrend	rare earths
Perseus Mining	PRU		correcting	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		breached uptrend	polymetallic exploration
Prodigy Gold	PRX		sideways	gold exploration
Ramelius Resources	RMS		new high	gold production
Real Energy	RLE		new low	gas
Red5	RED		correcting lower	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		on support line	gold
Resolute Mining	RSG		heavy correction	gold
RIO	RIO		down	diversified, iron ore
Salt Lake Potash	SO4		breached uptrend	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		uptrend	gold exploration
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		but heavy correction	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		down	mineral sands
Sundance Energy	SEA		heading lower	oil/gas
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		breached downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Tiger Realm	TIG		down	coal

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Troy Resources	TRY		testing downtrend	gold
Vango Mining	VAN		moving higher	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		sideways under LT downtrend	uranium
West African Resources	WAF		improving	gold
Westgold Resources	WGX		breached uptrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		surge out of downtrend	nickel
Whitebark Energy	WBE		rising	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		breached ST uptrend	gold exploration
Zinc Mines of Ireland	ZMI		breached downtrend	zinc
Totals	31%	45	Uptrend	
	42%	61	Downtrend	
		144	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	22.9%
Gold Exploration	19	13.2%
Nickel	10	6.9%
Oil/Gas	10	6.9%
Coal	8	5.6%
Lithium	8	5.6%
Mineral Sands	6	4.2%

Zinc/Lead	7	4.9%	
Rare Earths	6	4.2%	
Potash/Phosphate	5	3.5%	
Copper	5	3.5%	
Cobalt	4	2.8%	
Graphite	4	2.8%	
Tin	3	2.1%	
Iron Ore	3	2.1%	
Uranium	3	2.1%	
Bauxite	2	1.4%	
Vanadium	2	1.4%	
Silver	2	1.4%	
Diamonds	1	0.7%	
Other	3		
Total	144		

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