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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

5 June 2021 *On Friday's Close* Analyst : Warwick Grigor

Helium market is looking tight

It was another positive week but on Thursday gold was hit by the thematic that will be reoccurring for the foreseeable future - inflation. The gold price goes up with inflationary expectations but it goes down when interest rates respond to inflation. At least, that is the broad theory, but the markets don't always hold the line.

Gold maintains its purchasing power over time because there isn't enough incremental production each year to allow a debasing of its value, whereas supply of fiat currencies can quickly be increased and this fuels inflation. That is why you have constant gold bulls out there.

Whatever gold is supposed to do, remember that almost all the gold that was ever mined is still available in bank vaults and potentially able to be traded. Speculators need to be aware of this fact when they are trying to pick the future gold price. While mine supply is constrained, supply of gold for trading purposes is not. This is the dominant reality when playing the gold market, more so than inflationary expectations. There is a range of influences on the gold price and what is the most important at any one point needs to constantly reassessed. Right now it is the outlook for interest rates.

Helium market is looking tight

We have all heard of helium but how many of us know about the market, the economics and the investment vehicles by which we can participate in the upside that is being predicted? Not many, I'd guess. There are two recognised helium companies listed on the ASX that I am aware of. Both have been listed in the chart comments for some time, waiting for me to find time to do some research; Blue Star Helium (BNL) and Renergen Ltd (RLT).

The state of the helium market

The biggest thing to affect the helium market at the moment is the depletion of the US strategic reserve, that was once as high as 30 BCF, stored underground in reservoirs in Oklahoma. A series of auctions has reduced this reserve to only 2 BCF, with final deliveries in 2021 expected to extinguish it completely.

The market for helium is expected to be tight for the foreseeable future, especially as helium is a by-product of planned oil and gas projects that have increasingly uncertain timelines. Even the forecast of a modest 1.5% growth in demand will create issues. Helium prices are already showing strong upwards volatility in anticipation.

The helium market was worth approximately US$10.6bn in 2019, and it is expected to grow to US$16bn in 2023. About 20 liquification plants supply the global market, with Qatar being the largest supplier of helium in the world, providing about one third of the market from concentrations of about 0.1% helium. Helium is traded on confidential long-term contracts, so pricing is somewhat opaque, but the spot price has been very strong recently. An interesting feature of helium is that it can only be stored in transportable containers for a maximum of 45 days.

Uses of helium

Helium is separated from natural gas after extraction from the ground. It is a rare inert gas, which is an irreplaceable element without substitute. It is widely used in diverse applications such as cryogenics (including MRI), welding, semiconductor manufacturing, optical fibre manufacturing, leak detection, lifting, rocketry and others. Liquid helium, is essential for superconducting due to its ultra-low temperature (- 269°C) and is increasingly viewed as a high-tech element owing to its growing use in electronics manufacturing.

Renergen to be producing late 2021

Background

The origins of Renergen go back to the ASX-listed Molopo Energy, when that company was granted exploration rights in 2007, and then a full petroleum production licence in 2012. Molopo sold the licences to Windfall Energy (Pty) Ltd in 2013, which then backed the assets into Renergen via an RTO. In 2016, RLT commenced small scale production of compressed natural gas (CNG).

The ASX listing was achieved in mid 2019, following the raising of $10m at 80¢ per share, giving a market capitalisation around $85m. At the time it described itself as an existing compressed natural gas producer (CNG) and an emerging helium and LNG producer, from its now 100%-owned Tetra4 Proprietary Ltd. The Tetra4's Virginia Gas Project is located in the Free State province about 250 km south west of Johannesburg.

An unusual renewable source of gas

Almost all the world's helium is derived from the decay of radioactive minerals within the Earth's crust. Renergen's helium deposit has moved up through large faults and mixed with the microbial methane in the deep subsurface within the geological region called the Witwatersrand Supergroup. Being largely biogenic it is effectively a continuous renewable resource.

Renergen has acquired significant borehole data from earlier mineral explorers, enabling it to develop a detailed three-dimensional underground geological model of the faulting, sills and dykes, all of which are carriers of the gas. The geological model has been used to determine drill targets and is detailed enough to provide coordinates, direction and entry azimuth to intersect targeted structures.

The low-pressure nature of the Virginia Gas Project has allowed the use of simple drilling techniques, such as percussion drilling and diamond coring, to a target depth of 400m to 750m below surface. Economics are very favourable due to these shallow depths.

Reserves, Resources and high grade concentrations

In May 2020, RLT had Proved, Probable and Possible Reserves of 284 BCF (methane) and 6.86 BCF (helium). Contingent Resources were 648 BCF and 20.9 BCF, respectively. Prospective Resources were in the range of 640-1,278 BCF (methane). Subsequent drilling success will likely lead to upgrades in the near future.

Where Virginia really stands out is with its grade, which is 10x richer than the next richest source, in the USA, at 3.4%. Renergen has even reported some concentrations up to 12% in a sandstone reservoir, drilled horizontally.

Generally, it is considered economically viable to extract helium from natural gas at concentrations as low as 0.1%, as shown in Qatar, which is only a fraction of Renergen's grade.

Development timetable and sales agreements

Renergen is to commence with daily production of up to 2,700 gigajoules (GJ) or 50 tons of LNG, and 350 kg of helium. Completion and commissioning of the plant are expected during the financial year ending February 2022. A Stage 2 development will triple these quantities.

In June 2020, Renergen announced that it had signed an agreement with Total South Africa Proprietary Limited ("Total") for the joint marketing and distribution of liquefied natural gas ("LNG") through Total's service stations. More recently, on 13/4/21, Renergen announced its first helium sales agreement for Stage 2 with iSi Automotive GmbH in the Company's first "Direct-to-Customer" helium deal. The ten-year sales agreement commences on the completion of construction of the plant for Phase 2 of Virginia Gas Project, assuming that positive studies are completed.

Finance

The strategic nature of RLT's project has led the US Government's US International Development Finance Corporation (DFC) to provide a US$40m loan for the development of the Virginia Gas Project. This is sufficient for Stage 1.

The Investment Proposition

The market capitalisation of RLT is $247m based on Friday's closing price of $2.10. We have not undertaken any type of earning estimate, preferring to rely on the thematic of a tightening helium market as the motivator for a rising share price environment and an analysis of the share price chart. The shares have come off a high of around $2.80, bouncing off the supporting uptrend line at just under $2.00.

Disclosure: Interests associated with the author own shares in Renergen

The Great Graphite Saga

One of first comments I made about graphite 5-6 years ago was that the traditional market was made up of traders who purchased parcels of graphite and sold it to companies that made bespoke products for their customers. The market was fragmented but it worked for the buyers. Then came along Syrah (SYR), saying that it was going to revolutionise the market and provide 30% of global supply. Blind Freddy could have told you that it was a flawed business model and it wouldn't work, yet there were literally dozens of companies that decided to follow the Pied Piper. All their share prices performed spectacularly at the time, so many people made money, but eventually the reality struck home.

Syrah announced first production in November 2017, expecting to produce at 160-180,000 tpa of graphite in concentrates initially, with longer term plans to rise to 300,000 tpa in 2019. Capital costs were in the order of US$210m.

The extended ramp-up period in 2018, saw Syrah go back to the market for a $94m institutional placement in September 2018, and a $9m SPP. By the end of 2019, graphite recoveries had improved from 53% in September to achieve 74%. In June it announced a $55m convertible note issue then, in July 2019, a 1 for 5 offer raised another $55.8m. However, only two months later, the wheels started to fall off. Graphite prices were collapsing and Syrah elected to reduce production rates. The value of the project assets was hit by a US$60-70m impairment charge.

The production rate fell to only 60,000 tpa for the December quarter while the Company waited for the graphite market to "rebalance". The decision to close down operations was made when the Covid-19 pandemic hit in March 2020, giving the company the opportunity to run down its stockpiles of finished product. After being closed for a year, the Balama graphite mine restarted in March 2021. It will be interesting to see if it can make any money this time around.

Early in 2020, the spin started to change to emphasise the thematic of decarbonisation of the transport sector via lithium ion battery powered EVs. Syrah was all about planning for anode production in the USA, with another A$56m raised to support the initiative.

Not sure whether this has been a success or a failure

There have not been many companies that have managed to raise as much money (around $800m) from equity markets over a short period of years, for a commercial failure, as has Syrah. In the last three years it reported Net Losses after Tax of US$9m, US$131m and US$61m. Yet the recent MD's presentation described operations as "resilient". I suppose it must be, given its capacity to keep raising, and losing money. It describes itself as a vertically integrated AAM company with a mine in Mozambique and processing facilities for anodes in the USA. Incredibly, the market capitalisation is still around $515m with a share price of $1.03 (having been $5.78 in July 2016, and 23¢ in April 2020). At one point Syrah was the mostly heavily shorted company in the market, with around 20% in short positions.

Plan B - its all about anodes

As the pioneer, Syrah was always going to be the the most important new graphite company. If it was operationally successful, it was alway going to flood the market for those that followed. With the benefit of hindsight, there wasn't enough room for one Syrah, let alone its disciples. The marketing and operational difficulties have ensured that the new wave of additional graphite producers didn't eventuate.

Nevertheless, it is difficult to hold down good promoters. Just as Syrah is trumpeting its future as an anode supplier, a number of other graphite wannabes are singing the same tune. The difficulties in the commissioning of a mine are being overlooked because the future is all about anodes. It doesn't matter that it is almost impossible to get a mining licence in countries like Sweden or Tanzania; that will take care of itself. Share prices are flying again.

Whether all these whizz-bang new anode plants coming out of the entrepreneurial end of the market can make any money remains to be seen. There are plenty of them but do they have superior products when measured alongside the large company competition? What is the most important ingredient - the graphite or the technology? If it is the technology, how do simple investors like us decide what is the best. Can we sensibly make investment decisions based on the spin coming from the promoters? It looks like a minefield to me - you know, the type that blows up! More research is required but there is enormous difficulty in getting information that can be relied upon.

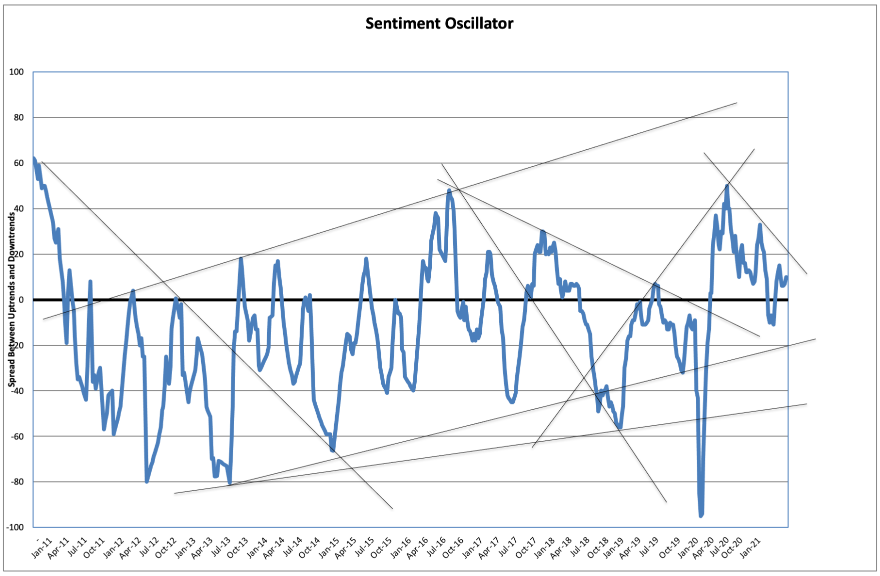
Aqua Technics has launched its graphene pools

It has taken longer than expected due to Covid interruptions and other delays, but Aqua Technics has finally launched its range of graphene enhanced swimming pools using First Graphene's PureGRAPH product. Have a look at the link to the advertisement, below.
Graphene Nano-Tech - Aqua Technics

We have added Antilles Gold (AAU) to the chart coverage this week. Antilles, previously named Panterra, operated a gold mine in the Dominican Republic that recovered gold from refectory ore. It has now shifted its focus to Cuba where it has a 49:51 JV with the Government on gold and copper projects. We will provide a more detailed commentary in subsequent weeks, but we think it is worth putting on the radar now as it digested the recent entitlement issue. FEC took up some shortfall shares in the that issue and it has purchased shares on market.

We have taken Myanmar off the list as it is still suspended and nothing seems to be happening on the political front.

Disclosure: Interests associated with the author own shares in Antilles



Sentiment Oscillator: Sentiment improved slightly over the week. There were 41% (40%) of the charts in uptrend and 31% (33%) 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		near highs	
Metals and Mining	XMM		bouncing	
Energy	XEJ		testing downtrend	

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Stocks	Code		Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N		new high	HPA
Adriatic Resources	ADT		rising	zinc, polymetalic
Alkane Resources	ALK		rising	gold, zirconia
Alicanto Minerals	AQI		rising	base metals, silver, gold
Altech Chemical	ATC		down	HPA, anodes
Alto Metals	AME		testing resistance line	gold exploration
American Rare Earths (was BPL)	ARR		down	rare earths
Antilles Gold	AAU		gold	
Arafura Resources	ARU		on support line	rare earths
Ardea Resources	ARL		sideways	nickel
Aurelia Metals	AMI		rallying	gold + base metals
Australian Potash	APC		breaching trend line	potash
Auteco Minerals	AUT		down	gold exploration
BHP	BHP		breached resistance line	diversified, iron ore
Base Resources	BSE		sideways	mineral sands
Beach Energy	BPT		down, near lows	oil and gas
Bellevue Gold	BGL		down	gold exploration
Blue Star Helium	BNL		down	gas, helium
Boab Metals	BML		down	silver/lead
Breaker Resources	BRB		down	gold exploration
Buru Energy	BRU		slump on placement	oil
Calidus Resources	CAI		breached downtrend	gold
Capricorn Metals	CMM		rising	gold
Caravel Minerals	CVV		new high	copper
Celsius Resources	CLA		surge higher	uptrend
Chalice Mining	CHN		new high	nicklel, copper, PGMs, gold exploration
Chase Mining	CML		slump	nickel/copper/PGE
Chesser Resources	CHZ		strong rally	gold exploration
Cobalt Blue	COB		testing downtrend	cobalt
Cyprium Metals	CYM		softer	copper
Danakali	DNK		sideways	potash
De Grey	DEG		steeply higher	gold
E2 Metals	E2M		downtrend	gold exploration
Ecograf (was Kibaran)	EGR		testing downtrend	graphite
Element 25	E25		rising again	manganese
Emerald Resources	EMR		rising	gold
Euro Manganese	EMN		downtrend	manganese
Evolution Mining	EVN		rising	gold
Firefinch	FFX		strongly higher	gold
First Graphene	FGR		breached short term downtrend	graphene
Fortescue Metals	FMG		slump	iron ore
Galaxy Resources	GXY		rising again	lithium
Galena Mining	G1A		on support line	lead

Galilee Energy	GLL		down	oil and gas, CBM
Genesis Minerals	GMD		down	gold
Gold Road	GOR		rising	gold
Hastings Technology Metals	HAS		down	rare earths
Hazer Group	HZR		down	hydrogen
Highfield Resources	HFR		rising	potash
Hillgrove Resources	HGO		spiked higher on drill intercept	copper
Iluka Resources	ILU		new high	mineral sands
Image Resources	IMA		sideways	mineral sands
Independence Group	IGO		bouncing	gold
ioneer (was Global Geoscience)	INR		continuing down	lithium
Ionic Rare Earths (Oro Verde)	IXR		collapse on scoping study	rare earths
Jervois Mining	JVR		rising again	nickel/cobalt
Jindalee Resources	JRL		at highs	lithium
Kairos Minerals	KAI		rising	gold exploration
Kin Mining	KIN		sideways	gold
Kingston Resources	KSN		sideways	gold
Kingwest Resources	KWR		down	gold
Latitude Consolidated	LCD		strongly higher	gold
Legend Mining	LEG		turned down at resistance line	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		testing downtrend	bauxite
Lithium Australia	LIT		down	lithium
Los Cerros	LCL		rising again on drill results	gold exploration
Lotus Resources	LOT		surge to new high	uranium
Lucapa Diamond	LOM		breaking downtrend	diamonds
Lynas Corp.	LYC		testing downtrend	rare earths
Magnetic Resources	MAU		uptrend	gold exploration
Mako Gold	MKG		down again	gold exploration
Manhattan Corp	MHC		down	gold exploration
Marmota	MEU		still down	gold exploration
Marvel Gold	MVL		on support line	gold exploration
Matador Mining	MZZ		new uptrend	gold exploration
MetalTech	MTC		breached downtrend	gold
Meteoric Resources	MEI		down	gold exploration
MetalsX	MLX		near highs	tin, nickel
Metro Mining	MMI		down again	bauxite
Mincor Resources	MCR		down	gold/nickel
Musgrave Minerals	MGV		rising	gold exploration
Nelson Resources	NES		down heavily	gold exploration
Neometals	NMT		rising	lithium
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		rising	gold
Oceana Gold	OGC		surge higher	gold

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Oklo Resources	OKU		down	gold expl.
Orecorp	ORR		breached downtrend	gold development
Orocobre	ORE		steeply higher	lithium
Oz Minerals	OZL		new high	copper
Pacific American Holdings	PAK		sideways	coal
Pantoro	PNR		breached support line	gold
Panoramic Res	PAN		breaching uptrend	nickel
Peak Minerals	PUA		new low	copper exploration
Peak Resources	PEK		testing downtrend	rare earths
Peel Mining	PEX		testing support	copper
Peninsula Energy	PEN		new high	uranium
Poseidon Nickel	POS		down	nickel
Perseus Mining	PRU		testing downtrend	gold
Pilbara Minerals	PLS		back to highs	lithium
Polarex	PXX		down	polymetallic exploration
Queensland Pacific Metals	QPM		new high	nickel/cobalt/HPA
Ramelius Resources	RMS		rising again	gold production
Red5	RED		testing downtrend	gold
Red River Resources	RVR		testing downtrend	zinc
Regis Resources	RRL		new low on large financing	gold
Renergen	RLT		heavy fall	gas, helium
Resolution Minerals	RML		new low	gold exploration
Resolute Mining	RSG		down	gold
RIO	RIO		correcting lower	diversified, iron ore
Rumble Resources	RTR		surge to new high	gold exploration
Salt Lake Potash	SO4		down	potash
St Barbara	SBM		testing downtrend	gold
Sandfire Resources	SFR		new high	copper
Santos	STO		testing uptrend	oil/gas
Saturn Metals	STN		breached downtrend	gold exploration
Sheffield Resources	SFX		rising	mineral sands
St George Mining	SGQ		risen to resistance line	nickel
Silex Systems	SLX		secondary downtrend	uranium enrichment technology
Silver Mines	SVL		surge higher	silver
Sipa Resources	SRI		testing downtrend	general exploration - Ni,Cu, Co, Au
South Harz Potash	SHP		rising again	potash
Stanmore Coal	SMR		breached steepest downtrend	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		improving	
Talga Resources	TLG		testing downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Tesoro Resources	TSO		testing downtrend	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		rising	gold exploration

Tietto Minerals	TIE		at lows	gold
Titan Minerals	TTM		sideways	gold
Venturex	VXR		surge on funding	zinc
Vimy Resources	VMY		steeply higher	uranium
West African Resources	WAF		higher	gold
Westgold Resources	WGX		breached downtrend	gold
West Wits Mining	WWI		off its highs	gold
Western Areas	WSA		testing downtrend	nickel
Whitehaven Coal	WHC		rallying	coal
Wiluna Mining	WMX		down	gold
Yandal Resources	YRL		rising again	gold exploration
Zenith Minerals	ZNC		surge to new high	gold exploration
Zinc Mines of Ireland	ZMI		rising	zinc
Totals	41%	59	Uptrend	
	31%	45	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	**34**	**23.6%**	
Gold Exploration	**25**	**17.4%**	
Nickel	**12**	**8.3%**	
Copper	**9**	**6.3%**	
Oil/Gas	**6**	**4.2%**	
Lithium	**8**	**5.6%**	

Zinc/Lead	**6**	**4.2%**	
Rare Earths	**7**	**4.9%**	
Mineral Sands	**5**	**3.5%**	
Iron Ore/Manganese	**5**	**3.5%**	
Potash/Phosphate	**5**	**3.5%**	
Coal	**4**	**2.8%**	
Uranium	**4**	**2.8%**	
Graphite	**2**	**1.4%**	
Bauxite	**2**	**1.4%**	
Silver	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Tin	**1**	**0.7%**	
Diamonds	**1**	**0.7%**	
Other	**5**		
Total	**144**		

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