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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

23 March 2024 *Chart comments updated on Friday's close* Analyst : Warwick Grigor

The junior sector continues to miss out on the party

Anyone would think that the world is full of roses rights now, given the strength of broader equity markets. Even the statement that interest rates won't fall just yet didn't worry the investors. Instead, it sent the Dow and the gold price to record highs. So, what do you make of it? What is technically bad news - the delay in the interest rate cuts - is driving markets higher.

The big surprise over the last year has been the resilience of the US economy while inflation has been brought under control. All the doomsday predictors have been caught short.

Yet, the resources sector continues to be under downward pressure in contrast to the rest of the market. Iron ore prices are coming off, which affects our leaders, while the junior end is almost brain dead. Fundamentals only play a minor role at that end, as it is all about sentiment and enthusiasm - or lack thereof.

I sat on a panel at the Mining News Conference in Sydney last week alongside of three institutional type investors, discussing the critical metals scene … and associated topics. What was glaringly obvious was that these three investors are a long way removed from the thought process of the vast majority of "investors" in the stock market. These guys look at real business models in pursuit of fundamental value. They were not interested in whatever was hot in market at any particular time, because they knew it was not the way to make serious money. They were investors, not traders.They don't look to HotCopper for information. They do their own homework and their outlook is always sober. So, it doesn't take much to understand why they were all less than enthusiastic about critical metals. The description "critical" was not a motivator as it is more about marketing than reality. Perhaps there is room for us to think more like them.

Lifestyle companies are a curse

Thinking further on why the junior resource sector is in such a depressed state, the obvious answer is that there are precious few buyers and too many companies. Why is that? Why does no one want to buy the speculative end. The answer is staring us in the face.

The rort we see with lifestyle companies has turned so many investors away. Too many directors and CEOs have been sucking money out of companies that never seem to achieve anything. Their main focus is chasing the latest buzz words so they can raise money to pay themselves. There are literally hundreds of these heavily promoted companies that seem to have lost sight of the reason why they should exist. They don't care about shareholders. Well, now it is the shareholders turn to not care. To be fair, not every company is a lifestyle company, but there are enough of them to poison the general sentiment.

The old style broking model where advisers support stocks in the after market doesn't exist anymore. The brokers are all about 6% placement fees with no after market support. They want 10-20% discounts to the market and as soon as a placement is done, their clients sell the shares down to the placement price, or lower. Adding options to the package almost guarantees that the shares fall further.

When companies go to the market to raise funds two or three times in a 12 month period, it guarantees a downward spiral. When brokers upsize a placement in pursuit of more fees, it saturates the market such that there is no after market buying. Investors are becoming increasingly annoyed with this tactic.

There are still some very good companies at the bottom end and these probably represent very good buying. Some will be turnaround stories but others will be on a short path to positive cashflow. These are the ones that won't be forced to repeatedly go to the market. Look for companies where we can see that the directors are focused on increasing shareholder wealth rather than maintaining their lifestyles.

Strong lift in diamond resources for Lucapa

In a recent note on Lucapa, I stated that the mine life on resources tends to be a rolling four year period. That means that as ore is mined, it is generally replaced by on-going exploration and proving of additional gravels. The actual life of the operation could easily exceed 10 years from this point, but there is no need to spend the money to prove resources too far ahead of mining to have confidence in the future.

Almost as if to say I was being too conservative, Lucapa has just announced that the life on resources has doubled to eight years. Last week it announced a 48% increase in the alluvial diamond resource at Lulo to 228,000 carats. At the average modelled value of US$1,897/ct, this has an in-situ value of A$665m (LOM has 40% equity). It is a big number, but it goes without saying that the real numbers we should be looking at are the expected cash operating margin and forecast profitability. Lucapa has shown that Lulo can generate strong profits. It has done so for many years and I expect that it will continue to do so. To date the mine has recovered approximately 200,000 carats.

As we said recently, Lucapa needs to focus more on Lulo for both the operating cashflow it can achieve, with the blue sky still being the discovery of the original source pipes. I continue to believe this is the best strategy.

As a footnote, the release also said that the increase was calculated after the drilling of 11,000 auger holes and 960 hole pitting programs. Thus, it involves a fair bit of work.

The grade has dropped from 5.82 cphm^3 to 4.55 cphm^3 but this would not take account of the very large, high value stones that frequently turn up. We can still expect strong positive cash flows for many years.

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Disclosure: Interests associated with the author owns shares in Lucapa Diamonds.

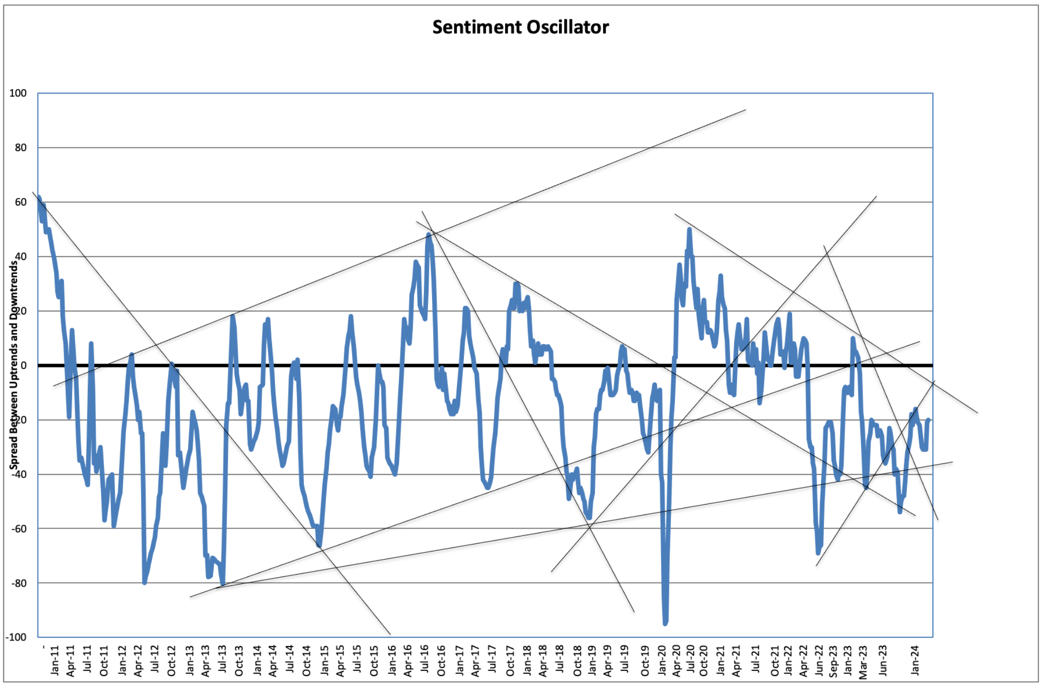
When the regulator turns dictator

For all their oversight and intervention, allegedly in the interests of a well-informed, orderly market, the activities of the ASX and ASIC don't seem to have made much difference to the proliferation of lifestyle companies.

Originally the ASX was a collective of brokers and market operators with a vested interest in maintaining an efficient market, but then the ASX listed itself on its own platform. That is when it all changed. ASIC became more involved due to the ASX performing under par but the trouble with ASIC is that its perspectives of the markets and how they operate are not hands-on. Most of the regulators don't actually understand what they are trying to regulate.

From the starting point of being a regulator, the ASX and ASIC have become dictators. The level of intervention has not improved anything. It has just made things more difficult and bureaucratic. There is an inability to act consistently across the entire market because there is always a shortage of staff. However, addressing that shortage won't help things if more lawyers are employed, who don't understand market dynamics.

These guys need to go back to the first principles of markets and redesign their approach. They need to look at the issues from the investors point of view. Their job should to promote efficiency and honesty, but not through obstruction and anal intervention. Regulators are fine, but becoming dictators take the role too far.



Sentiment Oscillator: Sentiment was steady. There were 28% (28%) of stocks in uptrend and 48% 49%) in downtrend at the close of the week.

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	a new high	
Metals and Mining	XMM	rallying	
Energy	XEJ	down	
Information Technology	XIJ	new high	
Stocks	**Code**	**Trend Comment (updated comments in bold)**	**Main Interest**
5EA Advanced Materials	5EA	spiked through downtrend	boron
92 Energy	92E	rising	uranium
Adriatic Resources	ADT	new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM	back to lows	coal, gold exploration
Aguia Resources	AGR	breached LT downtrend	phosphate, copper exploration
Alkane Resources	ALK	down	gold
Alicanto Minerals	AQI	rallying	base metals, silver, gold
Alligator Energy	AGE	breached uptrend	uranium
Almonty Industries	AII	testing uptrend	tungsten
Alpha HPA	A4N	wedge forming	HPA
Altech Chemical	ATC	breaching downtrend	HPA, anodes
Alto Metals	AME	rallying	gold exploration
American Rare Earths	ARR	surge through downtrend line	rare earths
Anax Metals	ANX	sideways through downtrend, at lows	copper
Anteotech	ADO	breached downtrend	silicon anodes, biotech
Antilles Gold	AAU	new low	gold and copper expl.
Arafura Resources	ARU	surge out of downtrend	rare earths
Ardea Resources	ARL	breaching downtrend	nickel
Arizona Lithium	AZL	strong rally	lithium
Astral Resources	AAR	gentle downtrend	gold
Averina	AEV	suspended	phosphate
Aurora Energy Metals	1AE	breaching correction pattern in LT uptrend	uranium
Aurelia Metals	AMI	rising	gold + base metals
Australian Rare Earths	AR3	at lows	rare earths
Australian Strategic Materials	ASM	strong rally but hit LT resistance line	rare earths
Azure Minerals	AZS	another surge higher then pullback	nickel exploration
BHP	BHP	down	diversified, iron ore
Barton Gold	BGD	sideways through support line	gold exploration
Beach Energy	BPT	rising gently	oil and gas
Bellevue Gold	BGL	new high	gold exploration
Besra Gold	BEZ	breached downtrend	gold
Black Cat Syndicate	BC8	steep rally	gold
BMG Resources	BMG	down	gold exploration
Boab Metals	BML	heavy fall	silver/lead

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Cadoux (was FYI)	CCM		testing steepest downtrend	HPA
Calidus Resources	CAI		down	gold
Caravel Minerals	CVV		strong rally	copper
Carnaby Resources	CNB		secondary downtrend	copper
Castile Resources	CST		breaking uptrend	gold/copper/cobalt
Cazaly Resources	CAZ		back to downtrend	rare earths
Celsius Resources	CLA		stronger	copper
Cobalt Blue	COB		down again	cobalt
Cyprium Metals	CYM		new low	copper
Ecograf	EGR		breaching downtrend	graphite
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		fallen to support line	gas
EQ Resources	EQR		breaching downtrend	tungsten
Euro Manganese	EMN		testing downtrend	manganese
Evolution Energy	EV1		new low	graphite
Evolution Mining	EVN		crashed lower	gold
First Graphene	FGR		new high	graphene
Fortescue Metals	FMG		off its high	iron ore
Galena Mining	G1A		suspended	lead
Genesis Minerals	GMD		testing uptrend	gold
Genmin	GEN		suspended	iron ore
Gold 50	G50		down again	gold exploration + gallium
Great Boulder Resources	GBR		new low	gold exploration
Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		new low	gold exploration
Hastings Technology Metals	HAS		back to lows	rare earths
Hazer Group	HZR		testing downtrend	hydrogen
Heavy Minerals	HVY		new low	garnet
Hillgrove Resources	HGO		rising gently	copper
Iluka Resources	ILU		heavy fall	mineral sands
ioneer (was Global Geoscience)	INR		new low	lithium
Ionic Rare Earths	IXR		breached downtrend	rare earths
Jervois Mining	JVR		new low	nickel/cobalt
Jindalee Lithium	JLL		back to lows	lithium
Kaiser Reef	KAU		breached downtrend	gold
Krakatoa Resources	KTA		new low	rare earths
Kingfisher Mining	KFM		breached downtrend	rare earths
Lepidico	LPD		new low	lithium
Lindian Resources	LIN		new low	rare earths + bauxite
Lion One Metals	LLO		heavy fall - suspension	gold
Li-S Energy	LIS		new low	Lithium sulphur battery technology
LCL Resources	LCL		new low	gold exploration
Lotus Resources	LOT		rising	uranium
Lucapa Diamond	LOM		sideways	diamonds

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Lunnon Metals	LM8		new low	nickel
Lynas Corp.	LYC		still down	rare earths
Marmota	MEU		rising	gold exploration
Mayur Resources	MRL		breached uptrend	renewables, cement
Meeka Gold	MEK		down	gold
MetalsX	MLX		down	tin, nickel
Meteoric Resources	MEI		breaching downtrend	rare earths
Metro Mining	MMI		new high	bauxite
Midas Minerals	MM1		slump	lithium
Nagambie Resources	NAG		collapse to a new low	gold, antimony
Neometals	NMT		new low	lithium
Newfield Resources	NWF		down	diamonds
Nexgen Energy	NXG		rising	uranium
Northern Star Res.	NST		rising	gold
Nova Minerals	NVA		off its highs	gold exploration
Pacific Gold	PGO		new low	gold exploration
Paladin Energy	PDN		new high	uranium
Pantoro	PNR		rising again	gold
Patriot Battery Metals	PMT		testing downtrend	lithium
Peak Resources	PEK		new low	rare earths
Peninsula Energy	PEN		breached downtrend	uranium
Perseus Mining	PRU		testing support line	gold
Poseidon Nickel	POS		new low	nickel
Provaris Energy	PV1		down	hydrogen
QMines	QML		new low	copper
Queensland Pacific Metals	QPM		new low	nickel/cobalt/HPA
RareX	REE		new low	rare earths, phosphate
Regis Resources	RRL		turned down again	gold
Renergen	RLT		down	gas, helium
Richmond Vanadium	RVT		rising	vanadium
RIO	RIO		off its highs	diversified, iron ore
Rumble Resources	RTR		new low	gold exploration
S2 Resources	S2R		down	gold exploration
Sandfire Resources	SFR		rising again	copper
Santos	STO		weaker	oil/gas
Sarama Resources	SRR		sideways	gold exploration
Sarytogan Graphite	SGA		rising off lows	graphite
Siren Gold	SNG		bounced from lows	gold exploration
South Harz Potash	SHP		new low	potash
Southern Cross Gold	SXG		spike to new high	gold exploration
Southern Palladium	SPD		testing downtrend	PGMs
Stanmore Coal	SMR		testing uptrend	coal
Strandline Resources	STA		suspended	mineral sands
Sunstone Metals	STM		meeting resistance line	gold/copper exploration

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Suvo Strategic Minerals	SUV		rising	kaolin
Talga Resources	TLG		rallying	graphite
Tamboran Resources	TBN		rising again	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		rising again	gold
Thor Energy	THR		new uptrend	uranium
Tietto Minerals	TIE		surge on takeover approach	gold
Vanadium Resources	VR8		drifting lower	vanadium
Venture Minerals	VMS		breached uptrend	tin, tungsten
Vintage Energy	VEN		breached downtrend	gas
Voltaic Strategic Resources	VSR		new low	REO + lithium
West Cobar	WC1		new low	rare earth + lithium
Westgold Resources	WGX		new high	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		testing uptrend	coal
Xantippe Resources	XTC		suspended	lithium
Zenith Minerals	ZNC		new low	gold exploration
Totals	28%	38	Uptrend	
	48%	66	Downtrend	
		138	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 Exploration	**18**	**13.0%**	
Gold	**19**	**13.8%**	
Rare Earths	**14**	**10.1%**	

Lithium	**10**	**7.2%**	
Copper	**9**	**6.5%**	
Uranium	**9**	**6.5%**	
Oil/Gas	**8**	**5.8%**	
Nickel	**6**	**4.3%**	
Iron Ore/Manganese	**5**	**3.6%**	
Graphite/graphene	**5**	**3.6%**	
Silver	**4**	**44.4%**	
Tungsten	**3**	**2.2%**	
Mineral Sands	**2**	**1.4%**	
Vanadium	**3**	**33.3%**	
Zinc/Lead	**2**	**1.4%**	
Coal	**2**	**1.4%**	
Potash/Phosphate	**3**	**2.2%**	
Bauxite	**2**	**1.4%**	
Tin	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Diamonds	**2**	**1.4%**	
Other	**9**		
Total	**138**		

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