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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

24 June 2023 *Chart comments at Friday's close* Analyst : Warwick Grigor

Industrial minerals generally, with two examples

There was no follow through of the bottom-fishing buying we saw in the previous week. Prices continued to fall last week with sellers having to come down to move even small volumes; a typical observation in June. There are many good buys in the market right now but, as usual after a sustained bear market, very few people have funds set aside to take advantage of these prices.

The question becomes which stocks will recover the best. Is it those that have failed to live up to the promotion, or is it those that have a good outlook but still haven't been able to withstand the sellers? The answer should be obvious. We should be acting to improve the quality of our portfolios, moving money from the stocks that are destined to be long term dogs and into those that still have real upside potential. Don't be afraid to take a loss if you find a company that gives you a better chance of recouping these losses.

Industrial minerals are not as easy as gold

One of the more unusual features of the Covid inspired boom in the resource stock market was the strong performance of many industrial mineral stocks. It was as if the punters were impervious to how these companies traditionally perform. Over the last 12 months we have seen these share prices revert to the norm. Those holding industrial minerals stocks need to hose down their expectations as they are unlikely to quickly return to favour.

By industrial minerals we mean products such as clays, kaolins, silica sands etc, i.e. non-metal stocks, that are used in a wide range of industrial applications as opposed to inputs into capital expenditure items. These are usually sourced from long-life mines with resources that last for many decades. Apart from the necessity of conducive geology with minimum impurities, the success of these mines depends on the ability to provide customers with consistent product. Once relationships have been forged with the customers, and reliability has been established, there is little incentive for customers to change allegiances.

Predictability of pricing

The prices paid for the products lack the volatility of metal prices and there is little room for speculators to drive prices in either direction. So, except for rare instances where industry leaders may suffer disruption to production, price movements are usually quite predictable … and usually boring. Successful producers will be those who provide stability and reliability of product, while keeping their cost structures highly controlled.

Sector entry can be challenging

Entry into the sector, by a new producer, has always been a challenge. There is no shortage of deposits around the world that could be added to the supply chain, but finding the buyers is the challenge. A new player has to interpose itself into an established supply chain. It has to find a point of differential to the benefit of the buyer.

Growth in general industrial activity usually determines the demand for these products, so annual growth in demand is seldom more than 5% p.a. This can easily be satisfied by current producers increasing production levels from what is a deep pocket of reserves, though increment capex might be a hurdle if there is no under-utilised capacity available.

Another issue for new entrants can be aggressive, predative pricing strategies from existing producers that are prepared to lower profit margins for a while if that means they can undermine the new supplier's economics when it is most vulnerable and has debt to service. It is not uncommon for such a leader to then stump up and buy the project or the company for a knock-down price just to remove the competition.

So, you can see that actually getting established in the industrial minerals supply chain comes with many challenges, unlike gold, which is the easiest product to sell.

Who should buy industrial mineral stocks?

The most logical buyers of industrial minerals stocks are those investors who are looking for reliable dividend income e.g superannuation funds. Fundamental analysis of recent and forecast supply and demand and trends will provide a good insight without the need to consider speculators. So, why do stock market punters have a flurry in the sector from time to time?

One obvious reason is a lack of familiarity of the sector and the traps therein, leaving debutants vulnerable to selective promotional hype. It can be a good example of salesmen inspiring buying of shares and managing to generate short term FOMO. You can't really criticise the promoters for doing their job and taking advantage of the naivety of the punters. That is how the market effectively redistributes funds from inexperienced players to those that are effectively paying for an education. Just make sure you are not one of those new chums.

What should existing holders of these share do now?

The share prices of many of the emerging industrial mineral companies have come down to earth over the last 12 months. Whether this is just due to the general bear market or because the shareholders have started to appreciate the the journey is not as spontaneous as they were in buying the share in the first place doesn't really matter. What does matter is where these companies are going over the next few years. Will there be a return of speculative hype in the sector? Probably not. Will these companies eventually achieve sales contracts and develop their projects and then make money? Maybe, but it will take time. They look simple on paper, but too many investors overlook the subtle difficulties. So, there may be many examples here of short term trades morphing into long term investments.

Where is the growth with speculative appeal?

Another point to consider in deciding whether or not the stocks suit your portfolio, is the long term growth prospects of the company. Once a company proves itself and successfully develops its first project, what is the project pipeline thereafter?

We have already observed that industry growth is related to general industrial activity of 5% p.a. or less. Any new mine will have to cross the same hurdles, so there is more to it than just having another deposit. There should not be an automatic expectation that past success can be quickly built on with the next project.

Contrast this with the gold sector. There is a multitude of gold projects all around the world awaiting the arrival of good quality, experienced operators to pick up the ball. There are many projects that have stumbled because inexperienced operators have made basic mistakes. The gold sector leaders are always scouting around these to buy them at the cheapest price possible , knowing that their skills can turn a project around and that the gold market will always take what they can produce - unlike the industrial minerals market.

The Bottom Line

Successful industrial mineral companies do exist. If they can repeat their initial success with expansions and make shrewd acquisitions, they can grow into very strong and safe investments. They can become institutional quality in their own right. However, as speculative plays in their pre-production stages, they are frequently shooting stars that come back down to earth. They become hard work when compared with gold stories that are much more variable and speculative.

Suvo Strategic is well along the path

Late last year we provided commentary on Suvo Strategic Minerals and assisted the Company in a $2m placement that was needed to complete the capital expenditure program at its long-established Pittong kaolin mine in Victoria. Recall that it purchased this small operation from the French owner, who had let the operation diminish to a sub-commercial scale due to a lack of attention and commitment as much as anything. It stood out as a good turnaround opportunity for Suvo. See the original commentary at http:// www.fareastcapital.com.au/newsletter.asp?id=505.

In November of 2022, our Bottom Line comment on Suvo was "*We can objectively assess the value of Suvo based on projected earnings once the rejuvenation program has been completed, taking into account the intended slimmed down product mix with an emphasis on higher margin lines*". Well, the capital expenditure program to take the plant back to nameplate capacity has been successfully completed, so when do we expect a return to profitability?

Suvo has reminded us of the final, critical requirement for a successful industrial minerals company; you have to be able to sell the product. It is not just a matter of opening the shop front. You have go into the market. To this end Suvo has conducted more than 70 interviews in recent months with potential customers and agents, mostly in Asian markets.

At the moment Suvo has sales agreements covering approximately half of its 50,000 tpa capacity. That is slightly less than the break-even rate, so its number one priority today is to secure sales for at least another 5,000 tpa to exceed the breakeven level. It is confident that it can do this over the next three months, with a longer term goal of selling all of it capacity within 12-18 months. At that point it could be enraging EBITDA of $8-10m p.a.

Securing a new customer takes time, probably 6-8 months, as the product has to be analysed and tested for suitability for purpose. Then shipments are settled on 30 day terms.

Can the market absorb the new production?

The global market for hydrous and dry kaolin is believed to be around 30 Mtpa with 50% of this being hydrous. The Asian region consumes about 5 Mtpa of the hydrous product. Of this, half is sold to the paper market and the rest goes to a wide range of uses. Thus there should be plenty of room for Suvo to sell another 25,000 tpa. Quality, not price, is the most important consideration.

So, if the market will take it and the route is procedural, why is Suvo not there yet? We are told that the Company was so focused on getting the plant back to the nameplate capacity that the sales push fell behind in the list of priorities. That is being addressed now with the expansion of the sale force and a focused sales drive. Suvo already has 85% of the Australian market covered, so the growth is going to have to come from Asian buyers.

Recent announcements

A new CEO, Hugh Thomas, was appointed in March 2023, and there was a board reshuffle. A small, $1.6m placement at 2.3¢ was completed on 19 June. The previous chairman resigned from the board and the CEO became Managing Director.

Last week Suvo announced a contract to sell the silica sands by-product to Barfold, a Victorian basalt quarry and recycled concrete company, for use in its premixed concrete. The current stockpile of about 180,000 tones of silica sand will be purchased by Barfold in the the first year. Thereafter, sales of sand will be linked to the production rate of kaolin with each tonne of hydrous kaolin generating 1.2 tonnes of sand. Suvo is expected to make $1.5m-$2m over the first three years, but it will also avoid the $9 pt cost of backfilling sand into the used open pit. It is not big money, but it is useful.

The Bottom Line

As the heading says, Suvo is well down the path to achieving long term profitability in the relatively stable industrial minerals sector. It is an example of a successful operating company in a sector that is more frequently populated by optimists and promoters that never quite get the business model to work.

The next question is … what is next? Where will the growth come from, and what is there to excite speculators in the stock market? There could be other projects and you could look to "green" cement and even high purity alumina. Share market performance will depend upon all of these, but it also has to contend with the comparisons with more speculative kaolin companies such as Andromeda Metals (ADN).

Disclosure: Interests associated with the author owns shares in Suvo and capital raising fees have been received .

Andromeda Metals - the Great White Hope

Andromeda has been one of the best performing industrial minerals stocks in recent years, recently being capitalised at $133m compared with Suvo's capitalisation of only $20m. Is there a good explanation for this, other than very effective stock promotion?

Back in April 2022, Andromeda's DFS detailed capital costs of $94m for a 300,000 tpa mine (for 150,000 tpa of saleable product) that had an estimated EBITDA of $82m p.a., with a six year capital payback period (gold products are considered good if the payback period is two years).

However, the projected scale seems to have been shrunk somewhat with the latest Quarterly talking about an initial Stage1A Starter Plant costing $50-60m. The Company is now working on a Bankable Feasibility Study (BFS) and an updated Definitive Feasibility Study (DFS). So, it seems that there are still a few hurdles relating to scale, funding and a final investment decision.

On the subject of selling the product, a couple of weeks ago Andromeda announced a binding offtake agreement for 25,000 of its Great White KCM™ product over the first three years of production, with the Japanese company Plantan Yamada Co Ltd. While it is described as "binding", it is still subject to standard conditions precedent. The Company says these are to the benefit of Andromeda, such as the decision to proceed with the development of the project, but you can be sure there are quality standards that are to the benefit of the buyer as well. Interestingly, when you click on the www.plantan.net site in ADN's ASX release, a gardening menu appears. There is no mention of ceramics.

We note that a previously announced offtake agreement with Asia Material Resources Ltd was cancelled earlier this month. This term sheet was cancelled due to the conditions precedent relating to the parties' internal approvals not being satisfied, so the long form agreement was not executed. We don't know whether there was an issue with product quality or some other reason.

Any mine like what Andromeda is planning will require an extensive sales book, so individual contracts should be placed in that perspective.

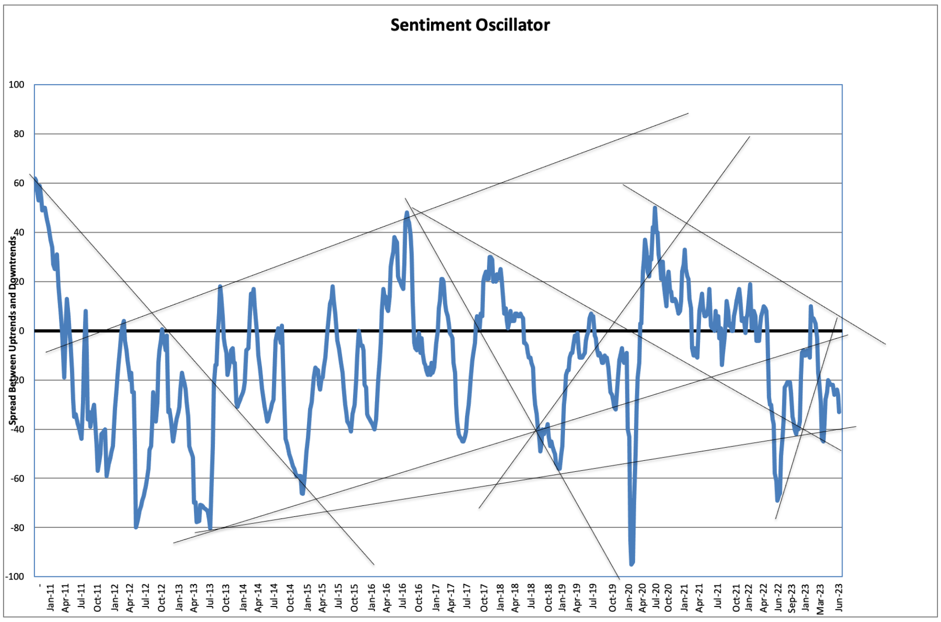
The pilot plant isn't due for completion until the end of July, 2023. Then Andromeda's current schedule calls for first shipments in October 2024, but on closer reading that seems to be for long lead time capital items. That suggests that the plant might not be commissioned until late 2025, meaning it could be many months after that before the plant is fully opertaional and the first revenue it received.

On the operational front, it has been pointed out that the project, in South Australia, is in a high salinity environment. That has implications for operating costs that require closer analysis.

The Bottom Line

At this point Andromeda appears to be a bigger story, but it still has to go through the final investment decision stage. Then it has to contend with financing, development and commissioning risks. As regular readers will recall, I usually view these as significant. This not a "done deal". Expectations are high with the market capitalisation of $130m, so lets hope the everything falls into place. I'm not sure that the disparity in capitalisations between Andromeda and Suvo are well-founded. There good be a good arbitrage opportunity.

We have deleted Magnetic Resources and Resource Mining Corp from our chart coverage.



Sentiment Oscillator: Sentiment dropped last week. There were 21% (24%) of the charts in uptrend, and 54% (50%) 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. 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	on support line in wedge	
Metals and Mining	XMM	failed at resistance line	
Energy	XEJ	edging higher	
Information Technology	XIJ	pullback	
Stocks	**Code**	**Trend Comment (updated comments in bold)**	**Main Interest**
5EA Advanced Materials	5EA	breached downtrend, then slumped	boron
92 Energy	92E	stronger, within a longer term downtrend	uranium
A-Cap Energy	ACB	still at lows	uranium
Alpha HPA	A4N	new high	HPA
Adriatic Resources	ADT	off its highs	zinc, polymetallic
Advance Metals (was Pacific American)	AVM	back to lows	coal, gold exploration
Alkane Resources	ALK	testing uptrend	gold
Alicanto Minerals	AQI	sideways at lows	base metals, silver, gold
Almonty Industries	AII	weaker	tungsten
Altech Chemical	ATC	failing at resistance line	HPA, anodes
Anteotech	ADO	trying to breach downtrend	silicon anodes, biotech
Alto Metals	AME	still in downtrend	gold exploration
American Rare Earths	ARR	down steeply	rare earths
Antilles Gold	AAU	rising	gold
Anax Metals	ANX	sideways below 8c	copper
Arafura Resources	ARU	down	rare earths
Ardea Resources	ARL	new low	nickel
Aurelia Metals	AMI	back to lows	gold + base metals
Australian Rare Earths	AR3	heavy correction on placement	rare earths
Arizona Lithium	AZL	new low	lithium
Azure Minerals	AZS	another surge higher	nickel exploration
BHP	BHP	fallen to support line	diversified, iron ore
Barton Gold	BGD	resuming uptrend	gold exploration
Beach Energy	BPT	down	oil and gas
Bellevue Gold	BGL	off its highs	gold exploration
Benz Mining	BNZ	surging out of downtrend	gold
Black Cat Syndicate	BC8	recapturing uptrend	gold
BMG Resources	BMG	down	gold exploration
Boab Metals	BML	at resistance line	silver/lead
Buru Energy	BRU	sideways	oil
Calidus Resources	CAI	new low	gold
Caravel Minerals	CVV	on support line	copper
Carnaby Resources	CNB	breached support line, down	copper
Castile Resources	CST	still in downtrend	gold/copper/cobalt

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Celsius Resources	CLA		rising on takeover bid	copper
Cobalt Blue	COB		risen to resistance line, then slump	cobalt
Cyprium Metals	CYM		suspended	copper
Dateline	DTR		correcting lower	rare earths
Ecograf	EGR		new low	graphite
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		risen to resistance line	gas
EQ Resources	EQR		on support line	tungsten
Euro Manganese	EMN		new low	manganese
Evolution Energy	EV1		down	graphite
Evolution Mining	EVN		off its highs	gold
First Graphene	FGR		down	graphene
Fortescue Metals	FMG		rising again	iron ore
FYI Resources	FYI		recovered to meet resistance line	HPA
Galena Mining	G1A		at lows	lead
Genesis Minerals	GMD		trying to breach downtrend	gold
Genmin	GEN		down	iron ore
Gold Road	GOR		breaching support line	gold
Great Boulder Resources	GBR		sideways to lower	gold exploration
Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		breached uptrend	gold exploration
Hastings Technology Metals	HAS		new low	rare earths
Hazer Group	HZR		testing uptrend	hydrogen
Heavy Minerals	HVY		down	garnet
Highfield Resources	HFR		down	potash
Hillgrove Resources	HGO		rising gently	copper
Iluka Resources	ILU		still at highs	mineral sands
ioneer (was Global Geoscience)	INR		just holding uptrend	lithium
Ionic Rare Earths	IXR		down	rare earths
Jervois Mining	JVR		breached new uptrend	nickel/cobalt
Jindalee Resources	JRL		at lows	lithium
Kaiser Reef	KAU		sideways through downtrend	gold
Kalina Power	KPO		new low	power station additive
Krakatoa Resources	KTA		new low	rare earths
Kingfisher Mining	KFM		off its lows	rare earths
Lepidico	LPD		sideways at lows	lithium
Lindian Resources	LIN		off its highs	rare earths + bauxite
Lion One Metals	LLO		slump	gold
Li-S Energy	LIS		breached downtrend	Lithium sulphur battery technology
Los Cerros	LCL		new uptrend being tested	gold exploration
Lotus Resources	LOT		down	uranium
Lucapa Diamond	LOM		down again	diamonds
Lunnon Metals	LM8		testing uptrend	nickel
Lynas Corp.	LYC		testing longer term downtrend	rare earths

Mako Gold	MKG	sideways	gold exploration
Marmota	MEU	drifting lower	gold exploration
Matador Mining	MZZ	down	gold exploration
Mayur Resources	MRL	softer	renewables, cement
Meeka Gold	MEK	at lows	gold
Megado Gold	MEG	rising	rare earths, gold exploration
MetalsX	MLX	down	tin, nickel
Meteoric Resources	MEI	rising again	rare earths
Metro Mining	MMI	rising	bauxite
Musgrave Minerals	MGV	up on takeover approach	gold exploration
Nagambie Resources	NAG	down	gold, antimony
Neometals	NMT	breached downtrend	lithium
Newfield Resources	NWF	down	diamonds
Northern Star Res.	NST	testing uptrend	gold
Nova Minerals	NVA	collapse on -.3 gpt grade, 9.9 Moz	gold exploration
Orecorp	ORR	off its lows	gold development
Pacific Gold	PGO	breached short term uptrend	gold exploration
Pantoro	PNR	down	gold
Panoramic Res	PAN	down	nickel
Parabellum Resources	PBL	down	rare earths
Patriot Battery Metals	PMT	rising again	lithium
Peak Resources	PEK	breached support line	rare earths
Peninsula Energy	PEN	rising	uranium
Perseus Mining	PRU	down	gold
Poseidon Nickel	POS	sideways	nickel
Provaris Energy	PV1	sideways	hydrogen
QMines	QML	new low	copper
Queensland Pacific Metals	QPM	long term down	nickel/cobalt/HPA
RareX	REE	down	rare earths, phosphate
Regis Resources	RRL	uptrend breached	gold
Renergen	RLT	breaching steepest downtrend	gas, helium
Richmond Vanadium	RVT	sideways	vanadium
RIO	RIO	recovery, but within a downtrend	diversified, iron ore
Rumble Resources	RTR	secondary downtrend	gold exploration
S2 Resources	S2R	sideways	gold exploration
Sandfire Resources	SFR	down	copper
Santos	STO	softer	oil/gas
Sarama Resources	SRR	down to new low	gold exploration
Sarytogan Graphite	SGA	down	graphite
Siren Gold	SNG	new low	gold exploration
South Harz Potash	SHP	down again	potash
Southern Cross Gold	SXG	down	gold exploration
Southern Palladium	SPD	down	PGMs
Stanmore Coal	SMR	down	coal

Strandline Resources	STA		down	mineral sands
Sunstone Metals	STM		down	gold/copper exploration
Suvo Strategic Minerals	SUV		new low	kaolin
Talga Resources	TLG		holding support line	graphite
Tamboran Resources	TBN		sideways	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		sideways	gold
Thor Mining	THR		sideways	gold exploration
Tietto Minerals	TIE		still down	gold
Vanadium Resources	VR8		drifting lower	vanadium
Venture Minerals	VMS		down	tin, tungsten
Vintage Energy	VEN		down	gas
Voltaic Strategic Resources	VSR		off its highs	REO + lithium
West African Resources	WAF		down	gold
West Cobar	WC1		down	rare earth + lithium
Westgold Resources	WGX		off its highs	gold
West Wits Mining	WWI		at lows	gold
Whitehaven Coal	WHC		bouncing off lows	coal
Xantippe Resources	XTC		down	lithium
Zenith Minerals	ZNC		down	gold exploration
Totals	21%	29	Uptrend	
	54%	76	Downtrend	
		141	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	21	14.9%	
Gold	21	14.9%	
Rare Earths	15	10.6%	
Oil/Gas	9	6.4%	
Nickel	7	5.0%	
Copper	9	6.4%	
Lithium	9	6.4%	
Iron Ore/Manganese	5	3.5%	
Graphite/graphene	5	3.5%	
Uranium	5	3.5%	
Silver	4	40.0%	
Tungsten	3	2.1%	
Mineral Sands	2	1.4%	
Vanadium	3	30.0%	
Zinc/Lead	2	1.4%	
Coal	2	1.4%	
Potash/Phosphate	2	1.4%	
Bauxite	2	1.4%	
Tin	2	1.4%	
Cobalt	1	0.7%	
Diamonds	2	1.4%	
Other	10		
Total	141		

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