Today's Market View - Altus Strategies, Edenville Energy, Oriole Resources and more...

SP Angel . Morning View . Thursday 20 08 20

Risk sentiment pulls back as Fed minutes highlight outlook concerns

MiFID II exempt information - see disclaimer below

Altus Strategies* (LON:ALS) BUY - 100p, CLICK FOR PDF - General Counsel appointment

Antofagasta (LON:ANTO) - Earnings dip in H1/20 on weaker copper prices, 6.2c interim dividend announced

Edenville Energy* (LON:EDL) - Rukwa wash plant resumes operations

Oriole Resources (LON:ORR) - Directors award themselves share options

Power Metal Resources* (LON:POW) - Australian gold JV operational update

Talga Resources (LON:TLG) - A$10m placement

Chinese crude steel output rises 9.1% YoY as producers ramp up production for stimulus projects

China produced 93.36mt of crude steel last month, with daily production averaging 3.01mt - a drop of 1.3% month-on-month.

Crude steel output in the first seven months amounted to 593mt, up 2.78% compared to the same period last year (China Coal).

China's domestic stainless steel prices hit a six-month high on Thursday, as a weaker US dollar pushed up commodity prices such as nickel which then drove up stainless steel prices.

Stainless steel cold-rolled 2mm prices stood at 14,500-14,900 yuan ($2,095-2,153)/t - up by 400 yuan compared to a week earlier (Fastmarkets MB).

China - July downstream stainless steel data highlights the strength of China's economic recovery and stimulation of domestic demand

Refrigerators - 9.15 million units, up +29.7% YoY
Air conditioners - 18.51 million units, up +6% YoY

Washing machines - 6.86 million units, up +37.3% YoY

Elevators - 121,000 units, up +4.3% YoY

China flooding continues to worsen raising economic cost of disruption, reconstruction and future cost of prevention

The Yangtze river and a number of its tributaries have risen to dangerous levels over the past week

The province of Sichuan which includes a major upstream section of the Yangtze has raised its flood emergency response to its highest level.

Over 100,000 have been evacuated along the Yangtze with some 63m affected by the flooding

10,000 people trapped in Wexian county, Gansu province by heavy rain and mud slides and another 36,000 people are evacuated from Ya’an City alone

Estimates as to the economic cost range from $9 of economic losses to $25.8bn of costs according to Chinese authorities

One dam for a small reservoir in the southern region has already collapsed while another was deliberately blown up.

China built thousands of dams between the 50s and 60s on orders from Chairman Mao after droughts but many were hastily and poorly built.

2m people died in flooding in 1931 and a further 3,000 died from flooding in 1998 highlighting the regular nature of flooding from monsoon rains.

This year the Yangtze has seen the heaviest rainfall recorded since records began in 1961

China’s policies of rapidly building infrastructure next to rivers and on flood plains has exacerbated the impact of the heavy rains

Yangtze river delta water levels are above safe limits with roads, Bridges and power lines washed away, gas pipelines ruptured

Some areas warned to expect >70mm of rain per hour

Conclusion: Nature provides the rain but most flooding occurs as a result of construction and farming techniques. China will have to work hard to ensure the safety of industry and people along the Yangtze in future years.

IG TV / SP Angel interview

https://youtu.be/Juk4zG_uPmI

VOX Markets / SP Angel podcast

https://www.voxmarkets.co.uk/media/5f34f9999f98da001bbc4b1c/?context=/listings/LON/HZM/multimedia/
Dow Jones Industrials -0.31% at 27,693
Nikkei 225 -1.00% at 22,881
HK Hang Seng -1.88% at 24,705
Shanghai Composite -1.34% at 3,362

Economics

US - US - Fed likely to propose an average inflation rate target

FOMC minutes highlighted members’ concerns over the ongoing public health crisis weighing heavily on economic activity, employment and inflation.

Minutes also showed members were more reluctant to provide clearer guidance on future rate increases.

The Fed left interest rates unchanged close to zero at their July meeting and continued to buy Treasury and mortgage backed bonds at a pace of around $120bn a month.

Next FOMC meeting is on September 15-16.

UK - CPI rose 0.4% in July vs 0.1% in June and 1% higher yoy

Input PPI was 1.8% (3%), yoy -5.7% (-6.7%)
Output PPI 0.3% (0.3%), yoy -0.9% (-0.9%)

Canada - CPI fell 01% in July vs rising 0.8% in June

Currencies


Commodity News

Precious metals:

Gold US$1,945/oz vs US$1,985/oz yesterday - Swiss gold exports rise 6.4% in July

Europe's key refining hub saw exports increase to 102.6 tonnes in July vs 96.4 tonnes in June, according to customs
data.

Sales to the US continued to slow, falling 7.4% MoM to 63.2 tonnes.

Exports to India recovered to 14.9 tonnes from 0.9 tonnes in June, whilst sales to the UK tripled to 13.7 tonnes vs 4.2 tonnes in the previous month.

Gold ETFs 108.5moz vs US$108.5moz yesterday

Platinum US$938/oz vs US$950/oz yesterday

Palladium US$2,170/oz vs US$2,178/oz yesterday

Silver US$27.09/oz vs US$27.45/oz yesterday

Base metals:

Copper US$ 6,599/t vs US$6,645/t yesterday - Copper - Global copper smelting activity falls to two-year low due to Yangtze flooding and smelter maintenance in China.

LME copper stocks fell a further 1,800t today to 104,425t down 265 from 140,925t on 7th January and down 53% from a peak of 221,425t on 26th February due to Coronavirus panic selling.

China refined copper production remained stable despite difficulties at 814kt in July but rose 3.9% for the year to date to 5.63mt.

Copper prices continue to rise on strong demand from restocking and the restoration of economic growth in China

The price may also reflects some anticipated demand for copper for new stimulus projects in China, particularly for new wind farms and EV charging infrastructure which we are increasingly seeing in local stimulus programs

The terrible flooding along the Yangtze did not appear to have disrupted copper smelting in the first half but as the flood waters have risen we now think some smelters are suffering logistical problems.

The Coronavirus has also shut copper mines across Latin America, particularly in Peru, interrupting supply

Copper looks well supported over $6,000/t

Aluminium US$ 1,789/t vs US$1,783/t yesterday

Nickel US$ 14,680/t vs US$14,715/t yesterday

Zinc US$ 2,486/t vs US$2,487/t yesterday - Zinc production fell 0.2% to 524kt but was 4.6% higher for the year to date at 3.57mt

Lead US$ 1,985/t vs US$2,002/t yesterday - Lead rose a massive 18.9% to 522k and was also up 5.8% for the year to date at 3.37mt

Tin US$ 17,450/t vs US$17,645/t yesterday
Energy:

Oil US$45.0/bbl vs US$45.1/bbl yesterday
Natural Gas US$2.433/mmbtu vs US$2.423/mmbtu yesterday
Uranium US$31.00/lb vs US$31.20/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US$124.6/t vs US$122.1/t
Chinese steel rebar 25mm US$545.8/t vs US$547.1/t
Thermal coal (1st year forward cif ARA) US$55.4/t vs US$56.1/t
Coking coal futures Dalian Exchange US$117.5/t vs US$116.5/t

Other:

Cobalt LME 3m US$33,200/t vs US$33,200/t
NdPr Rare Earth Oxide (China) US$49,784/t vs US$49,061/t - Researchers extract REEs from acid mine drainage

Scientists at Penn State University have developed a two-stage treatment process which enables them to recover a high concentration of REE whilst using smaller amounts of chemicals than previously possible.

The study published in Chemical Engineering Journal details that AMD from coal mining operations in Appalachia, USA represents a promising source of REE because it contains high concentrations of the minerals and it is already being collected and treated due to environmental concerns.

The minerals dissolve into the water, however carbon dioxide can be added to the AMD ponds which brings them to a neutral pH of 7- allowing the minerals to be extracted and the pond to be environmentally remediated.

The extraction process occurs by the CO2 reacting and forming carbonates, which the REE then bond with and precipitate out of the water at lower pH values.

According to the report, 90% of the aluminium was recovered at pH 5 and 85% of the rare earth elements were recovered by pH 7 (Mining.com).

AMD is a promising domestic source of REEs for the US, as it often contains high concentrations of the minerals and the US is trying to reduce its reliance on China who currently produce 85% of the world’s supply (The Engineer).

Lithium carbonate 99% (China) US$4,913/t vs US$5,015/t
Ferro Vanadium 80% FOB (China) US$30.3/kg vs US$30.3/kg
Antimony Trioxide 99.5% EU (China) US$5.2/kg vs US$5.2/kg
Tungsten APT European US$205-210/mtu vs US$205-210/mtu

Graphite flake 94% C, -100 mesh, fob China US$430/t vs US$430/t

Graphite spherical 99.95% C, 15 microns, fob China US$2,275/t vs US$2,275/t

Battery News

Xos raises $20m for production of its delivery vehicle following new Californian emissions regulations

Xos Trucks confirmed it has raised $20m to accelerate production of its X-Platform, Class 6 delivery truck. The deal includes a partnership with Metalsa.

The funds are expected to be used to expand operations and scale production of its electric skateboard chassis to meet increased demand expected following an emissions ruling in California that requires at least 50% of all trucks in the state to be zero emission by 2035.

The California Air Resource Board has signed a number of auto makers into agreements binding them to new regulatory standards. GM, Fiat Chrysler and Toyota Motors have not signed up and have sided with an EPA lawsuit challenging California's authority to have its own emissions standards.

The agreement commits those automakers involved: BMW, Ford, Honda, VW, Volvo, Rolls Royce and Audi to annual emissions reductions through to 2026.

The skateboard chassis (X-platform) is designed for medium duty bodies with range requirements up to 200 miles. Metalsa was part of the design process and provided components for the chassis.

Xos has supplied trucks to UPS and Loomis following trials in 2019.

Panasonic to invest further $100m into US Gigafactory

Japanese electronics company Panasonic is set to invest an additional $100m into a new battery cell production line at Tesla's Gigafactory 1 in Nevada according to Nikkei.

What would be the 14th line is expected to increase production output to 39GWh. In 2019 it was reported that Panasonic sees potential to increase production to 54GWh.

Panasonic recently revealed they hope to increase the energy density of their 2170 cells by 20% in the next 5yrs. The Company supplies the 2170 which utilize NCA cathode chemistry to Tesla for the Model 3 vehicle.

Panasonics US Chief has suggested Panasonic plan to improve their battery in stages having already cut the amount of cobalt used to below 5% according to Reuters.

Lucid claim the 'Air' vehicle will be the fastest charging EV

Lucid have already announced their upcoming 'Air' model will have a range of 517 miles and now they have announced they expect it to be the fastest charging vehicle on the market, capable of recovering 20 miles per minute charged. This corresponds to a peak charging power of 300kw.
To achieve this a 350kw CCS DC fast charger would be required which is one of the rarer chargers which may turn out to be a limiting factor. The vehicle can recover up to 80 miles per hour on Level 2 with the onboard charger able to handle up to 19.2kw.

Lucid is also offering the ‘Wunderbox’ a proprietary onboard charging unit providing the ‘Air’ with interoperability with the charging infrastructure and 3yrs free fast charging from Electrify America.

The Wunderbox will also be capable of bi-directional with fully enabled vehicle to grid technology.

The vehicle has a 900V+ electrical architecture which reduces thermal losses and enables the model to be charged so quickly according to the Company.

The Lucid Air is expected to debut in September and deliveries are scheduled for 2021.

Company News

Altus Strategies* (LON:ALS) 76p, Mkt Cap £53m - General Counsel appointment

BUY - 100p

Sandra Bates, a partner at London-based law firm Keystone Law and an international lawyer with 20 years of experience, joins Altus as General Counsel

Ms Bates has a good track record in advising listed and private companies in the natural resources sector on commercial transactions as well as ESG matters.

She also acts as a NED at Adriatic Metals and Pensana Rare Earths as well as a member of Women in Mining UK.

*SP Angel acts as Nomad and Broker to Altus Strategies

Antofagasta (LON:ANTO) 1,103p, Mkt Cap £10.9bn - Earnings dip in H1/20 on weaker copper prices, 6.2c interim dividend announced

Revenue came down 15.3%yoy to $2,138.8m in H1/20 (H1/19: $2,525.6m) largely reflecting a 12.5%yoy drop in realised copper prices.

Copper sales were down 2.2%yoy and by-product revenues dropped 25.0%yoy.

EBITDA was down 22%yoy at $1,012.8m (H1/19: $1,305.9m) as a drop in revenues was partly compensated by lower unit costs.

Net cash costs fell 5.9%yoy to $1.12/lb (H1/19: $1.19/lb) on the back of a depreciation in the Chilean peso, lower input prices and Cost and Competitiveness Programme related savings.

The latter contribute $78m in costs savings, equivalent to 8c/lb, with the Group on target to hit $100m for FY20.

Underlying EPS was down 42.0%yoy to 13.7c (H1/19: 30.7c).

FCF (post interest) amounted to $120.6m (H1/19: $801.8m) after accounting for movements in the working capital (-$53.5m v +$301.6m in H1/19) and $550.1m in capital expenditures (H1/19: $465.5m).
As announced previously, FY20 copper production is expected to come in at the lowest end of the original 725-755kt guidance range assuming no COVID-19 related shutdowns are reintroduced.

FY20 guided cash costs have been revised lower by 10c/lb to $1.20/lb reflecting weaker Chilean peso (USDCLP of 800).

Regarding COVID-19 related operations' update, the Company did not record any significant negative impact on operations with all of its sites continuing to operate during the period. The Company is currently running with around 2/3s of its workforce at its operations and most of the balance working from home.

Work on growth project including Los Pelambres, Centinela and Zaldivar was largely suspended since March with only some activity reported during the period and mostly focused on the desalination plant at Los Pelambres. All three projects will be restarting in stages during H2/20 involving revised health protocols to account for COVID-19.

Net debt stands at $319.5m, equivalent to 0.15x of EBITDA, down $243.9m from YE19 following the Antucoya refinancing.

The Company announced a 6.2c interim dividend (H1/19: 10.7c), consistent with the dividend policy of a minimum 35% payout ratio (35% of underlying net earnings).

Edenville Energy* (LON:EDL) 0.05p, Mkt Cap £4.1m - Rukwa wash plant resumes operations

The was plant at the Rukwa thermal coal project resumed operations yesterday following a restrt of mining activities in the Northern Pit on 3 August.

The Company has also completed repairs and upgrades to roads between mining and processing operations following the damage caused by the unusually heavy rainy season earlier this year.

Separately, the team reports production of pre-paid coal with the product now ready for collection, pending the arrival of client's trucks at site.

Oriole Resources (LON:ORR) - 0.36p, Mkt cap £3.32m - Directors award themselves share options

Oriole Resources kindly update the market on the issue of options to themselves in lieu of salary.

We normally applaud directors for keeping cash in companies and closer alignment with shareholders.

But, if we look more closely we see a number of directors have other roles within other companies.

While this is probably lucky for them we wonder if the board have been overly distracted elsewhere.

Having said that, there is little doubt the board is a 100% improvement on the last lot led by Marcus Engelbrecht who we hope never to see involved with a junior mining company ever again.

Bob Foster who founded Stratex (now Oriole) left the company with more than £6m in 2017 and while Engelbrecht was responsible for disposing of a good proportion of this we wonder what the current board has been doing with remnants and the exploration portfolio to earn its keep.

We can see Oriole has been busy selling royalties but historically investors invested in Oriole for exploration and discovery.
Oriole does hold a stake in the Thani Stratex exploration company which is working in Djibouti but Oriole also has its own exploration managers in Turkey and Cameroon.

Conclusion: It is our view that the Chairman needs to shake things up a bit at Oriole to put more effort into its exploration and create performance for investors.

Press releases on the good work done by Thani Stratex in which Oriole holds just 11.8% do not count as significant progress by Oriole in our book and the company needs refocussing on its exploration to create value. If Bob Foster was still running the company we feel sure they would be some form of gold or other mineral discovery going on somewhere.

Power Metal Resources* (LON:POW) 1.2p Mkt Cap £9.4m - Australian gold JV operational update

Following the finalising of a drilling programme at the company's Botswana Molopo Farms Complex last week, Power Metal have announced a further operational update in respect to its Australian gold joint venture company Red Rock Australasia (RRAL)- in which POW has a 49.9% interest.

RRAL previously commissioned and has now received historical reports and targeting assessments of its 11 license applications, which are now being used in the preparation of the NI 43-101 report and develop exploration programmes.

Three of the license areas are of particular interest to the company: the Blue Ribbon project (which the company has already commented on), the Blue Whale project and the Blue Chip project.

Paul Johnson Chief Executive Officer of Power Metal Resources commented: "In July Power Metal announced impressive data from the Blue Ribbon project, one of the smallest licenses in the 11 license JV portfolio and where some 70,000 ounces of production and gold nuggets up to 85 ounces had been identified within historical records"

"I am pleased to now announce the findings from two more projects where we have further impressive data including recorded production of some 112,085 gold ounces (Blue Whale), deep lead former worked mines (Blue Chip) and the potential for Ballarat style gold targets under cover”.

"The quartz mines of the Ballarat West goldfield have produced a recorded 800,000 ounces of gold at an average grade of approximately 14g/t. A further 6 million ounces of gold is estimated to have been won from the ancient river channels that cross the field”.

Exploration recommended includes mapping, geochemical sampling, interrogation of seismic data, possible additional geophysics, and an initial three hole drilling programme at the Shepherd's Flat area of Blue Whale Project

The company are reviewing the remaining eight projects and expect to provide further updates on the findings to the market in the coming weeks.

*SP Angel act as Nomad and broker to Power Metal Resources

Talga Resources (LON:TLG) A$0.58, Mkt cap A$141m - A$10m placement

Talga Resources has placed A$10m of new stock with investors at A$50c/s.

The funds are to be used to 'Scale-up manufacturing of Talnode®-C customer samples to satisfy larger automotive OEM qualification processes underway;
Progress the commercial Detailed Feasibility Study to support design, engineering and project finance options for the Vittangi Anode Project;

Expansion, infill and geotechnical drilling to better define the ultimate tonnage potential of the overall Vittangi graphite project and support mine planning; and

General working capital.'

Talga is running an investor webinar on Tuesday 1st September at 10.30am AWST (3:30am UK time) if any investors want to wake up for it.

Conclusion: We see Talga as a leader in the field of EV Li-ion battery anodes. The location of their mine in Sweden along with facilities in the UK and Germany place them well for new battery manufacturers in Europe who are looking to source feedstock locally.

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+SP Angel employees may have previously held, or currently hold, shares in the companies mentioned in this note.
Sources of commodity prices

Gold, Platinum, Palladium, Silver

BGNL (Bloomberg Generic Composite rate, London)

Gold ETFs, Steel

Bloomberg

Copper, Aluminium, Nickel, Zinc, Lead, Tin, Cobalt

LME

Oil Brent

ICE

Natural Gas, Uranium, Iron Ore

NYMEX

Thermal Coal

Bloomberg OTC Composite

Coking Coal

SSY

RRE

Steelhome

Lithium Carbonate, Ferro Vanadium, Antimony

Asian Metal

Tungsten

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