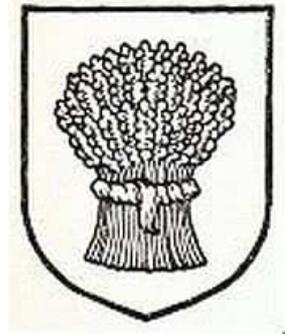


Monday, March 11, 2019



# HALLGARTEN & COMPANY

Portfolio Strategy

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## Model Mining Portfolio: Merger Madness

Performance Review – February 2019

# Model Mining Portfolio

## Merger Madness

- + **Base metals, particularly Zinc, seem to have shaken off their blues**
- + **M&A expectations are high even though the deals thus far have released little fresh money into the marketplace**
- + **Palladium continued to flirt with new highs during the month**
- + **Strong moves by listed Chinese REE players in the first moves months of 2019 maybe presage a more generalized recovery in the space**
- ✗ **No sooner is the dumb Newmont/Goldcorp merger on the table than the equally dumb Barrick/Newmont merger is posited**
- ✗ **Gold was slapped around when peace appeared a possibility in the US/China trade tussle**
- ✗ **China's exports are plunging**

### Extreme Mergers

We are now starting to wonder what contaminant has made it into the watercoolers at Barrick's headquarters. One takes a perfectly sensible and respected minebuilder like Mark Bristow and puts him within Barrick's four walls and suddenly idiocy sets in. The marketplace was waiting for the digestion of Barrick's assets to begin and instead the merged entity has run off in search of the Great White Whale of the gold mining space, Newmont. Was this an attempt at one-upmanship against Goldcorp? We find it hard to see why Barrick should be bothered to compete against that mediocre entity.

The supposed logic of the offer for Newmont is that it would combine two of the biggest gold producers in the world at a time when both companies are trying to "bolster shrinking gold reserves to boost growth as well as take advantage of rising prices". This sounds like trite marketing of the worst order.

Even less exciting for the mining fraternity was that Barrick was making an all-share offer of 2.5694 common shares for each Newmont share (equivalent to about \$33 per share), which represented a discount of \$3.48 to Newmont's closing price on Feb. 22, the last trading day before the offer was announced. This values the transaction at US\$18bn. All share offers however liberate no cash for trickle down to the cash-starved nether regions of the mining foodchain. Indeed rationalizing out of existence a major US-based miner may only have the effect of reducing in gross terms the exposure of major international institutions to the mining sector, where they are already too lightly represented.

Observers had been expecting word on how Randgold and Barrick would be melded together and which

parts would be flung off in the process. Instead it seems like Mark Bristow wanted an even bigger table on which to wargame his vision of the restructuring of the gold mining industry on a global scale. Reuters reported that even while he was tilting at Newmont he was also mooting a combination of their Nevada interests to achieve some sorts of synergy.

Van Eck, the king of the mining Index fund universe (and thus one of the biggest shareholders in Barrick Gold and Newmont Mining) was reported by the FT as calling on the two companies to agree a joint venture in Nevada that could generate hundreds of millions of dollars in cost savings. The manager at Van Eck said if the two bitter rivals could not reach an agreement they should publish a detailed study of the benefits and let shareholders decide.

Bristow was reported by Reuters as saying that Newmont's Australian assets likely would be sold to an Australian company should he prevail in his buyout and that he has already talked with several Australian miners, with Newcrest being touted as a potential buyer.

Barrick is touting the deal as an "unlocking of \$7bn in hidden NPV". Now we know Barrick and Newmont are inefficient but is there really that type of small change lying around under the sofa pillows?

Then again Newmont doesn't have much in the way of recent glories with which to defend itself. In a piece of mixed metaphor Newmont's CEO Gary Goldberg said of Bristow "The emperor doesn't have anything to sell". We are sure Bristow would beg to differ with some of Newmont's assets seemingly what he plans to sell...

As the discussions on Nevada began in November and had seemingly become deadlocked we wonder if this really is a genuine merger offer for Newmont or merely a feint to force the US company back to the negotiating table on terms that suit Barrick more. Now this would be the old wily Bristow at work... otherwise a plain vanilla merger for stock with fantastical supposed savings would be a sign that it's time to change the water cooler at Barrick's head office.

### **Attack of the Partisans**

The strange thing about the Vanadium space at the moment is the partisanship of its fans. Usually it's when a sector or metal is down and out that the knives come out. But we have come under full scale attack from the partisans of first Bushveld and then Largo Resources and this is despite us being bulls of Vanadium. What's up with this? Unfortunately it is that home truths about stocks, even in a strong metal, are perceived as being potentially damaging to the valuations of the personal holdings of the boosters of these particular companies. In the case of Bushveld it was not actually the stock we had commented on but the fact that the metal price was overvalued in the last quarter of last year. One would have thought that we had accused their grandmothers of being "ladies of the night". They took personal offence and went in for the kill. The rest is history though as we cleansed our Twitter feed of trolls and Vanadium retreated from its lofty heights as reality set in.

Monday, March 11, 2019

In the case of Largo though, it was the suggestion from us that there were investors out there who remembered the previous incarnations of the firm's management that riled the diehards. In our coverage update we pointed out the strong prospects of Largo and the excellent prospects of the metal. However that was not enough, we also had to erase from our memories all trace of the biggest debacle in mining history and the whole of the Rare Earth boom, of which we were participants. That was not going to happen.

These boosters seem to want to reinterpret history and cast certain executives as victims. Make no mistake the "victims" were the shareholders in that debacle. Beyond us not forgetting, the institutions that lost everything on the stock will also not forget and thus not invest in career revivals of the individuals concerned. One enthusiast tried to rewrite history and make out that one manager was a latecomer to the debacle when in fact he had been embedded in the company for most of the preceding decade. Fool themselves if they want to, but don't try and fool us. One even suggested we should "apologise" to the executive concerned. To him, we would note that those who forget history are destined to repeat it.

### **Portfolio Changes**

There were no portfolio changes in February.

### **The Portfolio Move**

The cash balance remained unchanged at \$202,000 at month end. The Model Mining Portfolio showed its strongest gain in a long while rising from \$4.176mn at the end of January to \$4. at the end of February. We note that all three of our Short positions are "in the black".

### **Much Ado About Niobium**

In the beginning there was the word... and the word was CBMM... and the word was big and the word dominated the Niobium space.... and still does.

Like all dominant industry players, it does not particularly fancy being dethroned from a position of dominance. We know this... players in the Niobium space know this... people who have been directors of CBMM know this... so why does anyone attempt to persuade the Great Unwashed of the equity markets that somehow CBMM will allow a disruptive new large mine to enter the space? Probably because they figure they can persuade the rubes to invest in Niobium stories in the absence of informed comment on the dynamics of the Niobium market.

Let's start with the big picture and it is large. There can only be said to be two miners that totally and utterly dominate their metals. The first is Materion that controls 80% plus of the global Beryllium market from its Spor Mountain mine in Utah and the other is CBMM with 84% of the Niobium market with its Araxa mine in Brazil. Materion's competitors are so small as to be unnameable but CBMM has tolerated

(and we use the word carefully) other players in its patch so that it cannot be accused of market and price manipulation. These other players are the Niobec mine in Quebec (owned by Magris, formerly controlled by Iamgold) and the Catalao Mine in Brazil, owned by China Moly (formerly held by Anglo-American). These parties all play nicely together (say no more) just as the Lithium Threesome used to get along so well (also, say no more).

<b>Niobium - The Good, the Bad and the Indifferent</b>			
	Metric Tonnes millions	Nb2O5 %	Nb2O5 Ctd 000s mt
<b>Existing Producers - Mine</b>			
Big 3: CBMM, Anglo, Magris	>1,450	1.59	23,342
Mineracao Taboca (Pitinga)	180	0.21	382
<b>Potential FeNb Producers (Project)</b>			
Alkane Resources - Dubbo	73	0.4	337
Niocorp (Elk Creek)	180	0.63	1,129
Cradle Resources (Panda Hill)	178	0.5	891
ThreeArc Mining (Tomtor)	154	5.16	7,946
Taseko (Aley)	84	0.5	419
Niocan/Eco-Niobium (Oka)	14	0.66	91
<b>Polymetallic Deposits</b>			
Eramet (Mabounie)	22	1.6	346
Lynas (Crown)	38	1.07	403
Pacific Wildcat (Mrima Hill)	94	0.73	692
Avalon (Nechalacho)	269	0.35	951
Globe Metals (Kanyika)	68	0.28	193
Tertiary Minerals (Ghurayyah)	385	0.28	1,078
MDN Mines (Crevier)	41	0.19	77
Regency Mines (Motzfeldt)	340	0.19	629
Commerce Resources (Upper Fir)	54	0.16	88
N.B. -Numbers may not add due to rounding			
•Excludes Mid-Ural (Lueshe) and Solikamsk (Lovozero)			
•Excludes cut-off grade metrics and doesn't distinguish between reserves and resources, etc.			

Source: Rittenhouse IR

The table above shows that there is no shortage of wannabes or rather that there were... Cradle Resources for instance has its Panda Hill project in Tanzania, so that for starters is dead in the water. Its website doesn't have an updated investor presentation after 2016. More damning though are the grades of the wannabes. Only one of them has a grade exceeding that of the majors, and that is Tomtor

in Russia.

Does CBMM want to welcome another player into this cozy club? Like it needs a hole in its head. In the interests of “orderly markets”, and keeping the inner circle of current producers in the comfort to which they are accustomed, any whiff of a potential new entrant will be greeted with a price cut in the metal that will ensure that any funders or offtakers for an interloper will quickly evaporate into the mist.

The obvious party that is rendered dead in the water by CBMM’s dominance is **Niocorp**. We have had this as a **Short** position in our Model Mining Portfolio for some months now. In our time, we have seen its Elk Creek deposit styled as Rare Earths, Niobium, then Titanium and now a quasi-Scandium deposit. All these potential output metals are either surplus to requirements or done better or cheaper or at lower capex elsewhere. And that is before we even mention the rather low grade nature of each and every metal in the occurrence. Hence our **Short** stance. We only recently learned that Elk Creek had a previous reincarnation as a Niobium asset of the infamous Molycorp. What goes around, comes around...

Up front capex is only an eye-watering US\$1.087bn. The company’s proposed Scandium production is (at its smallest) three times the largest estimate we have seen for the whole global consumption of Scandium. The proposed mine’s Niobium grade is less than half that of the majors. The Titanium grade at slightly over 2% is derisory compared to the TiO<sub>2</sub> grade of 48% - 55% in Ilmenite deposits controlled by Iluka. Rutile deposits commonly run at over 90% TiO<sub>2</sub>.

Brazil is regarded as a safe source for the US for Niobium, not to mention Niobec actually being in North America. The question is “who, literally, needs Niocorp’s mooted production?”. Frankly we cannot see anyone lining up for, and certainly no-one shelling out the type of money required to make this project move out of the “too hard” category into anything like reality.

We reiterate our **Short** call on this stock with a 12-mnth target price of 40 cents.

### **Parting Shot**

The PDAC convention of 2019 was a rather Goldilocks affair, neither too hot nor too cold (while it was mighty freezing outside, but that is par for the course). The late 2018 rally in gold certainly cheered the attendees but then gold took a hefty tumble on the eve of the event. Nevertheless the higher gold price had allowed a swathe of financings to get done (while it lasted) so there is nothing like cash in the till to cheer up managements. However for developers “running around money” does not get projects built. With gold not proving as solid as thought, the massed choirs singing Pennies From Heaven have been postponed for another year.

It was simple things that also cast a pall on the mood. The not-too-well-known decision to charge an entry fee for the investors show meant that retail footfall was massively reduced, particularly on the opening Sunday. This left booth-holders trepidatious that their “goods” would go unsold. For the likes of the mega-miners the non-appearance of retail was neither here nor there but for smaller players the

Monday, March 11, 2019

chance to interact with their bread and butter base was sorely missed. That said though many were also happy to not have ravaging hordes of pen- and cap-grabbers passing like locusts through the halls before the “real investors” even got to show up. Certainly charging \$25 per day for access added up if one was going to attend four days but most of the retail crowd would come only once anyway thus the cost of \$25 for a once a year day out to assess potential investment opportunities was a sorting device for the serious and the non-serious investor. If one wasn't going to spend the price of a couple of cinema tickets on being an informed investment decision-maker then how serious could an investor be.

Despite this the weekday footfall was solid and the place hummed with activity. We heard few complaints once the Sunday blip was compensated by decent weekday traffic.

If there were trends to be noted we might mention Vanadium (we would wouldn't we) but it's not that there were a lot of companies in the metal, per se (there are more ASX-players than Canadian ones) but there always seemed to be decent crowds around the Vanadium-themed companies. Lithium players were present but not in the numbers one might expect. Indeed quite a number of wannabe household names seemed not be in attendance. Cobalt plays were scarce indeed considering how hot the metal was just last year. This might signal that the promoters in this space are not seeing this as a blip but maybe as an endgame. We would beg to disagree, but if the price retreat clears out the non-serious then it won't be a bad thing. Uranium stocks were not overly obvious considering the high chatter levels last year and Rare Earths were largely invisible. We were not struck by a feeling that Silver was particularly being touted either.

While there were a few ASX names, there were no AIM players that we could see. African focused stories were scant and ex-CIS was conspicuous for its paucity of representatives.

Not too bad, not too fantastic.... Definitely not the ever of a new Supercycle.

## Mining Model Portfolio as at: 01-Mar-19

Security	Initiated	Currency	Avg. Price	Current	Portfolio Weighting	Increase in Value	Target	
<b>Long Equities</b>								
<b>Various Large/Mid-Cap</b>	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	29.49	7.40%	31.3%	\$38.00
	Sherritt International (S.to)	7/11/2013	CAD	1.28	0.47	3.00%	-63.2%	\$1.00
	Metals X (MLX.ax)	5/29/2014	AUD	0.67	0.32	2.50%	-52.3%	\$0.80
<b>Uranium</b>	Uranium Participation Corp (U.to)	10/20/2010	CAD	5.36	4.76	6.90%	-11.2%	\$6.00
	GoviEx (GXU.v)	6/29/2015	CAD	0.08	0.14	3.20%	70.4%	\$0.50
<b>Zinc/Lead Plays</b>	Zinc ETF (Zinc.L)	6/2/2010	USD	7.63	8.37	7.20%	9.8%	\$11.00
	NorZinc (NZC.to)	12/9/2011	CAD	0.82	0.08	0.20%	-90.2%	\$0.22
	Myanmar Metals (MYL.ax)	11/29/2018	AUD	0.06	0.08	2.90%	33.3%	\$0.13
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.49	1.00	5.40%	104.5%	\$1.70
	Telson Mining (TSN.V)	3/19/2018	CAD	0.79	0.38	2.50%	-51.9%	\$2.00
<b>Silver Producer</b>	Excellon Resources (EXN.to)	11/8/2018	CAD	0.74	1.08	4.20%	45.9%	\$1.35
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.49	0.23	1.10%	-52.6%	\$0.35
<b>Gold Producers</b>	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.19	1.80%	-17.4%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.18	2.00%	-41.3%	\$1.50
<b>Copper Producer</b>	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.08	1.50%	166.7%	\$0.15
<b>Coking Coal</b>	Colonial Coal (CAD.v)	6/4/2018	CAD	0.35	0.45	3.50%	28.6%	\$1.10
<b>Beryllium</b>	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.30	0.28	0.50%	-6.7%	\$0.35
<b>Tungsten Producer</b>	Almonty Industries (AIL.v)	7/31/2015	CAD	0.36	0.65	6.30%	79.4%	\$1.00
<b>Copper Explorer</b>	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.06	1.80%	25.2%	\$0.12
	Phoenix Global Mining (PGM.L)	9/28/2018	GBP	0.35	0.19	1.40%	-46.5%	\$0.74
	Panoro Minerals (PML.v)	1/22/2018	CAD	0.37	0.21	1.20%	-42.5%	\$0.65
	Argonaut Resources (ARE.ax)	11/22/2018	AUD	0.02	0.02	1.80%	11.1%	\$0.45
	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	0.84	1.60%	-46.5%	\$2.74
<b>Vanadium Developer</b>	Tando Resources (TNO.ax)	11/23/2018	AUD	0.11	0.11	2.60%	0.0%	\$0.50
<b>Lithium</b>	Neometals (NMT.ax)	7/31/2014	AUD	0.30	0.25	4.30%	-17.5%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.22	1.20%	-50.0%	\$1.38
<b>Manganese Developer</b>	EuroManganese (EMN.ax/EMN.v)	11/9/2018	AUD	0.20	0.28	3.50%	40.0%	\$0.60
<b>Scandium Explorer</b>	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.18	2.10%	28.6%	\$0.50
	Platina Resources (PGM.ax)	10/25/2018	AUD	0.07	0.08	2.90%	23.1%	\$0.18
<b>Gold Explorer</b>	Banyan Gold (BYN.v)	11/14/2017	CAD	0.06	0.05	2.20%	-19.4%	\$0.15
	Gunpoint Exploration (GUN.v)	11/9/2018	CAD	0.50	0.55	2.10%	11.1%	\$0.15
<b>Graphite Developer</b>	Talga Resources (TLG.ax)	8/25/2016	AUD	0.27	0.53	2.40%	100.0%	\$0.90
<b>Rare Earths</b>	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.14	0.04	1.20%	-71.7%	\$0.28
	Neomaterials (NEO.to)	10/25/2018	CAD	17.32	16.30	4.70%	-5.9%	\$23.00
<b>Unlisted</b>	New Noble Group	15/11/2017	SGD	0.20	n/a	n/a	n/a	
<b>Suspended/RTO</b>	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.015	n/a	-40.0%	
<b>NET CASH</b>					<b>202,602</b>			
<b>Short Equities</b>								
<b>Shorts</b>	NioCorp (NIO.to)	9/28/2018	CAD	0.61	0.58	62.00%	4.9%	\$0.40
	Lithium Americas (LAC.to)	10/25/2017	CAD	10.10	4.84	21.00%	52.1%	\$5.00
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.05	17.00%	16.7%	\$0.03

<b>Current Cash Position</b>	<b>202,602</b>
<b>Current Liability on Shorts Not Covered</b>	<b>246,342</b>
<b>Net Cash</b>	<b>448,943</b>
<b>Current Value of Bonds</b>	<b>0</b>
<b>Current Value of Long Equities</b>	<b>3,950,966</b>
<b>TOTAL VALUE OF PORTFOLIO</b>	<b>4,399,910</b>

<b>Short Equities</b>	<b>-7%</b>
<b>Long Equities</b>	<b>107%</b>

## Important disclosures

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