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Opportunities and insights for resources investors

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## Longer-term appeal of copper stocks just increased thanks to September sell-off

*Plus, first assays for Sunstone's porphyry play should be close, runaway mineral sands prices a big tailwind for Strandline and Chris Cairns' new gold float E79 shakes off gold market weakness with strong demand for IPO*

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✍ Barry FitzGerald

Share Article

The copper stocks have not been spared from the broader market malaise. That's despite the copper price remaining nice and strong at \$US4.17/lb.

Plug the spot price into the current earnings period and profits for the producers are going to be substantially higher than the pricing of copper equities would have you believe.

If there was a feeling the copper price was about to tank, fair enough. But it is near-impossible to find a forecaster who thinks the copper price is headed for a dive like say, iron ore.

Goldman Sachs renewed its \$US5/lb copper call by the end of year in June, and Glencore's Ivan Glasenberg reckons we're on our way (as does Goldman) to \$US6.80/lb copper come 2025.

There will come up and downs for the copper price before 2025.

That is a pivotal year because it is when a combination of demand from the global decarbonisation and electrification push smashes into a forecast structural shortage in supply because of declining grades, mine depletion and a lack of new mine developments.

The good news in all that is the copper stocks have earnings upside in the here-and-now, which is not being reflected in their share prices. And they also have longer-term appeal when the supply deficit comes home to roost.

It's why the sell-off in Sandfire (SFR) following its game-changing \$2.6 billion acquisition of the MATSA complex in sunny Spain will not last. Renewed broker targets on the stock following the deal suggest as much.

The average 12-month target price from six brokers for Sandfire was \$7.40, with a high of \$8.80 and a low of \$6.40. Sandfire traded on Thursday at \$5.43. That was up 5.7% on the day, suggesting the re-rating of the stock – and perhaps the broader ASX copper sector – is underway.

## **SUNSTONE:**

With the copper producers being beaten up for no good reason, it has been too much to expect the ASX copper explorers to swim against the tide.

But it can be different for those explorers that are drilling away at prospects that just might become game-changers for them.

Sunstone (STM) is one of those.

A diary note suggests that the company – trading at 2.2c for a market cap of \$48 million against which it is holding \$23m in cash and liquid investments – must be about due for a drilling results update on its El Palmar copper-gold prospect in northern Ecuador.

Sunstone reported on September 6 that the second drill hole had returned a 250m intersection of copper mineralised porphyry, based on visual inspection.

Sunstone's MD Malcolm Norris has been involved in big porphyry discoveries in the past, including the nearby Alpala deposit owned by the \$A1.15 billion London-listed SolGold, which has BHP and Newcrest as substantial shareholders.

So it was a no-brainer to make a diary note on the El Palmar drilling back on September 6 when Norris noted that the second hole "appears to be well mineralised over a substantial interval".

"Given what we have seen in the first two holes, we are increasingly optimistic about the potential at El Palmar and we are looking forward to receiving the assays," Norris said.

Aren't we all?

## **STRANDLINE RESOURCES:**

If copper's relative price strength is a reason to be taking advantage of the lower copper equity values delivered by the broader sell-off in equities, it is a case of doubly so in the mineral sands stocks.

The prices of mineral sands have been on the tear, as Shaw's Peter O'Connor put it in a recent note on Strandline (STA), which is five months into the development of its Coburn project in WA's Gascoyne region.

Strandline is trading at 20c and, in his note, O'Connor increased his price target on the stock from 58c to 71c in response to his upgraded zircon and rutile price forecasts.

After a choppy 2020 because of COVID, mineral sands prices started to move higher in a meaningful way as 2021 started to open. Pricing for the stuff is opaque. But it can be said prices are now approaching 10-year highs.

That is dreamtime stuff for Strandline with its fully-funded Coburn project, which is due to send its first ore to the processing plant in the December quarter next year.

Based on lower mineral sands prices used to arrive at its final investment decision on the development back in May, Coburn is forecast to post annual average EBITDA of \$A104 million for an initial 22.5 years.

That is interesting stuff given Strandline is currently valued by the market at \$220m.

It is worth running through just how dreamtime things have become for Strandline, putting aside the \$150m in soft-dollar financing the Coburn project received from the Federal Government's NAIF fund to complete the project's financing.

Strandline gave the go-ahead on a forecast price for zircon of \$US1,400-\$US1,500/t. The spot price is now \$US2,000/t, if not more. The rutile priced plugged into the investment decision was \$US1,100-\$US1,200/t. It is now moving into \$US1,400/t territory.

Some of that upside from prices was captured in O'Connor's research note on Strandline. His EBITDA forecast for 2023 was increased from \$78m to \$102m, and his forecast for 2024 was increased from \$110m to \$167m. Again, Strandline is a \$220m company.

"Strandline is a very different company from when we first initiated coverage in February 2020 with the share price at 11c," O'Connor said.

"Back then, the market capitalisation was only \$40m and the company had the huge challenge of funding a \$300m development at Coburn.

“Strandline is now fully funded, Coburn is under construction, the market capitalisation is over \$200m, and the mineral sands markets are tightening.”

O'Connor's note did not address the market chatter that the closer Strandline gets to first production, the more likely it is that Iluka, the ASX king of the mineral sands business, will break cover to make Coburn its own with a takeover bid.

Iluka keeps its Narngulu mineral separation plant busy near Geraldton with material from its South Australian mining operation. It lands the imports at Geraldton port, the same port that Coburn will be using.

So Iluka and Strandline trucks will be passing each other – the simple reason behind the takeover chatter.

Strandline will account for about 5% of the global zircon market, 4% of the rutile market and 10% of the chloride ilmenite market on current tonnages.

Having said that, there is nothing in the current Strandline price to suggest the chatter has any traction.

But with first production from Coburn fast approaching, the opportunity for Iluka to pick up a meaningful and fully-funded project in a Tier-1 location (i.e. not Sierra Leone) might just prove too hard to resist.

## **E79 GOLD MINES:**

The gold sector remains friendless, even if there is nothing wrong with an Aussie gold price just shy of \$2,400/oz.

Normally \$2,400/oz would be considered special, and conducive to more gold IPOs getting away.

But expect the brakes to be hit on gold IPOs in the current environment, unless they have a good story to tell.

The latter point has come through in the \$4m IPO of E79 Gold Mines, with the newbie due to list next week after pulling in \$7m despite US gold price weakness messing with broader interest in the gold space.

As mentioned previously, the IPO marks a return to the WA goldfields by Chris Cairns, as non-executive chairman, and Peter Ironside, as a non-executive director.

Before the success the pair have had at Stavely Minerals (SVY) they were best known for their Integra Mining success.

Integra was the Eastern Goldfields explorer which made three greenfield discoveries and became a gold producer with a resource base of more than 2m ounces. It was acquired by Silver Lake in 2013 for \$426m, a good enough reason you would think to have another crack with E79.

A background like that no doubt fuelled E79's over-subscription. It all gets back to the three things that matter with any IPO – people, people and people.

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## Author Bio

### Barry FitzGerald




Barry FitzGerald has covered the resources industry for 30 years. The inaugural winner of the Diggers & Dealers Media Award in 2003, Barry is a committee member of the Melbourne Mining Club, a non-profit organisation formed to foster industry debate.

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In conjunction with @jpequitypartner (<https://twitter.com/jpequitypartner>) \$GML (<https://twitter.com/search?q=%24GML&src=ctag>) MD Mark Cossom will deliver an Investor Webinar this Thursday at 1:00pm AEDT (10:00am AWST) on the progress of the Company's Gidgee Gold Project and imminent mineral resource upgrade.

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