Successful Integra team tap appetite for leveraged exploration IPOs with return to WA goldfields

And Iluka's bullish assessment of mineral sands prices is good news for Strandline as it ramps up construction of its Coburn project in WA.

26th August 2021 **Barry FitzGerald**

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It is hard to move the dial when market caps are $8-$20 billion like they are for the leading gold producers.

They rely on the gold price to create share price momentum, and when the gold price is going through a consolidation phase at lower levels like it is now, that momentum is to the downside.

It is against that backdrop that gold IPOs are attracting greater investor interest than the performance of the leading gold stocks – and gold's retreat to below $US1800/oz – might have you believe.

The reason for that is simple enough. It is all about the inherent leverage to the upside a newbie has to a discovery being made.

The newbie's issued capital is nice and tight because it has just floated, or is about to. So it is easier to move the dial with a discovery in share price terms than it is for the leading gold stocks.

A tight capital base also differentiates the newbie from the established explorers which over the years have blown their capital bases due to the time-honoured practice of raising more funds to continue exploring. It means that leverage to a decent discovery is diffused across billions of bits of paper.

But for the newbies with market caps on listing generally in sub-$20 million territory, the leverage to a discovery can be extreme. The 20c share in the IPO can become a 10-bagger in a hurry, with a bit of luck.

The trick of course is to sort through the gold IPO options to pick the potential winners. As always, the best derisking exercise is to focus on the track record of the people behind the IPO, first, second and third.

E79 Gold Mines:

Today's interest among the crop of gold IPOs out there is a thing called E79 Gold Mines, which has a proposed ASX code of err… E79.

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) – it's working on a maiden resource estimate at its Thursday's Gossan copper/gold discovery in western Victoria – they were best known for their Integra Mining success.

Integra Mining 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.

The boots on the ground guy at E79 in the CEO role is Ned Summerhayes, formerly exploration manager at the $78m market cap Black Cat Syndicate (BC8), while Cairns is non-executive chairman and Ironside a non-exec.

E79 is out to raise up to $7m at 20c a share (35m shares, with Euroz Hartleys the lead manager) for a market cap of $13m (65m shares) at the issue price, against which it starts out with $9m cash for an enterprise value of $4m.

The flagship is a project on the sparsely explored southern end of the 30Moz Laverton tectonic belt, not far from where the $110m market cap Apollo Consolidated has had success outlining a 1.1Moz resource in recent times.

Cairns said he was introduced to the Laverton South project area by a former Integra exploration manager, a guy he says has a nose for gold.

"He walked into my office and said he had figured out some of the second order controls for the gold camps within the broader Laverton tectonic zone," Cairns said.

"And that he thinks that there is one of these subordinate controls crossing the tectonic zone down to the south on ground that is now the Laverton South project."

Despite 30Moz of gold found in the northern reaches of the Laverton belt, the southern end has largely been ignored.

Cairns said that is because of a long-standing assessment by the Geological Survey of WA that the southern extension of the belt was underlain by granite rather than the prospective greenstones found to the north.

"More recent geophysical data like magnetics has demonstrated that there may well be a very shallow granite sill, but there is greenstone underneath it," he said.

Whether there is another monster gold deposit like those found in the greenstones to the north waiting to be found remains to be seen. But worth a shot you would think by a $13m market cap company (at its issue price) on its debut.

Rounding out E79's portfolio is the Jungar Flats project in the north Murchison and about 45km north-east of Westgold's (WGX) 2.8m oz Big Bell project. E79's ground covers 30km of strike along the prospective Big Bell shear zone. Click here to see the E79's Gold Mines (https://e79gold.com.au/prospectus-disclaimer/) prospectus

Strandline (STA):

No surprise that the mineral sands sector is upbeat about its outlook at a time when the iron ore price has been smashed, albeit to a level that still represents elevated pricing and continuing bumper profits for the producers.

Iron ore is tied to steel which is early-cycle demand and price sensitive. Now that all the construction has taken place and is slowing down, it is a case of less steel and more glazed tiles (zircon) and paint (titanium dioxide) to finish the work off.

All that came through in the strong interim profit posted this week by the lead mineral sands stock, Iluka (ILU).

It reported that the tile manufacturers in a tile-crazy place like China have rebounded to be producing at pre-pandemic levels. That allowed Iluka, as the zircon king, to push through a $US70/t increase from April 1, and another $US125/t increase for good measure from July 1.

In titanium dioxide feedstocks, Iluka said that already robust demand for rutile was "amplified" for the half year. So much so that concerns are rising "regarding future industry supply over both the near and longer terms".

The market responded by pushing Iluka 4% in Thursday's market to $9.27, with Macquarie setting a 12-month price target of $11.10.

Not even Rio Tinto's (RIO) fragile planned restart of its violence-ridden Richards Bay minerals sands operation in South Africa, or Iluka deferring the closure of its rutile operation in Sierra Leone in response to some royalty relief, has been able to derail the optimism around mineral sands.

Nor should they either. Richards Bay's settlement with angry locals, and Iluka's need to extract a new fiscal deal with Sierra Leone, hardly inspires long-term confidence in either of the operations.

And as for either Rio or Iluka pumping money into the new developments needed to secure their long-term futures in either country, don't hold your breath.

Not to worry. There is a bunch of ASX juniors looking to pick up of the slack in meeting the world's future supply needs. Rising prices and the longer-term fear around supply is making their developments all the more leveraged to the upside.

Three come to mind – Strandline (STA, trading at 19.5c), Sovereign (SVM, trading at 61c), and the established WA producer Image (IMA, trading at 17c).

Strandline is marching towards production from December 2022 at its zircon-rich Coburn project in WA. The only real issue is whether Iluka takes it over first.

Sovereign's Kasiya rutile discovery in Malawi is as big as they come and must also be on the radar of the industry majors. Image's cashflows are on the rise from its production at Boonanarring operation in WA which comes with established expansion potential.

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Author Bio

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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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