

Resources

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Iron ore boom filtering down to juniors, helped by BHP's latest bullishness

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With the price defying analysts' predictions of a sharp drop and BHP saying this week that it no longer expects "an abrupt step down", juniors such as Fenix and Strike are feeling investors' love. Plus, Chalice's nickel-copper find attracts international attention.

There is nothing like a boom in the price of a particular commodity to fire up things for the junior explorers and developers.

And we're not talking about gold this time.

It is the iron ore patch, where the combination of a run up in price to \$US125/t on China's V-shape economic recovery and a sub-72c dollar, is delivering a truly boom-time local price of \$175/t.

The impact of the boom time prices was reflected in iron ore holding up the earnings of Rio (June half) and BHP (June year) while all other commodities failed them in the COVID-19 world.

That is all well and good for the big end of town.

But now the boom is filtering down to a bunch of juniors which have been slow-baking their development opportunities waiting for an opening, one that has arrived in the form of \$175/t iron ore.

All followers of the iron ore space know that the price has defied analyst calls that it was over-cooked and would be back at \$US80/t and struggling by now, particularly with the pandemic smashing non-Chinese steel production.

But it has happened, and BHP for one made the call in its profit report that it is now not expecting an "abrupt step down" in demand from China.

It noted that it had previously outlined famine or feast scenarios around China's steel makers during the pandemic.

'We defined the "famine" as a drop in the crude steel run-rate towards the mid-to-low 800 Mtpa range under lockdowns, and the "feast" as a run-rate approaching the never before seen 1.1 Btpa area," BHP said.

"The reality has been that the famine never truly arrived, but the feast certainly did."

The year-to-date run rate in China is running close to 1 Btpa.

"With the economy-wide recovery on a relatively firm footing, we envisage an easing off from these explosive run-rates, not an abrupt step down, in the first half of financial year 2021," BHP said.

That's all positive stuff for the juniors, particularly those that had a strong investment case anyway had prices retreated to the famine scenario of \$US80/t or less.

Fenix:

It is against that backdrop that there was no surprise that Fenix (FEX) was rushed by investors in this week's \$15m placement at 14.5c a share.

Mentioned here in May when it was trading at all of 5c a share, Fenix is now 16.5c after the raising.

It is now fully-funded for the \$12m capital cost of its dig-and-truck Iron Ridge project in WA's Mid-West.

It is the one that a feasibility study showed that a 1.25mtpa operation at an iron ore price of \$A111/t would generate annual average EBITDA of \$16.4m. Needless to say that at \$A175/t, the feasibility assumptions have proved conservative.

The \$15m fund raising followed on from Fenix earlier in the week securing a mining co-operation and benefits agreement with the traditional owners on terms which were broadly in line with what was outlined in the feasibility study.

In the wake of Rio's disastrous Juukan Gorge episode, it was good to see that agreements with traditional owners have not come to a stop.

Fenix is now working towards sending off its first direct shipping iron ore early in 2021. It involves trucking the ore some 500km to Geraldton for export. It's a long way all right but it sure beats having to build a rail line and a port.

Other juniors bubbling:

Again in the wake of Rio blowing up the Juukan Gorge caves, it was good to see that the same native group it so offended – the Puutu Kunti Kurrama and Pinikurta people – signed off during the week on an agreement covering Strike Resources' (SRK) Paulsens East project in the Pilbara.

Strike was 7.3c ahead of the agreement and has since moved ahead to 11.5c on the basis that the agreement clears the "way for the project to advance". It has previously pointed to a 1.5mtpa operation over four years with upside.

On the larger scale of things, Flinders Mines (FMS) at 3.3c is 22% higher than it was last week after Canberra said it was OK for New Zealand's Todd Corp to hold a 10% voting interest in Flinders' Pilbara iron ore project.

It is the start of what is a bigger deal in which Todd takes on the funding required to get to final investment decision on first production from the 1.4Bt deposit, another that has been waiting for its day in the sun.

Julimar getting big for Chalice:

A first hole discovery can often disappoint with further drilling. But that is not the case with Chalice (CHN) and its Julimar PGE-nickel-copper-cobalt discovery, all of 70km north-east of Perth.

Latest drilling into the Gonneville intrusion, reported on Monday, proves the point, with the stock motoring from \$1.08 to \$1.48 by Thursday's market.

Most noteworthy was the latest drilling confirming that the high-grade zones hit in previous drilling are growing in scale and could have some serious tonnage potential about them, on top of the large PGE disseminated zone at the G1 discovery zone.

Julimar has attracted the attention of the Canadian market, which is more au fait with such polymetallic wonders.

That came through in a note from Red Cloud on Julimar's latest results. "These much higher grade PGE zones seem to have a lot of similarities with the footwall deposits in Sudbury. If we are right, Julimar is shaping up to be a very significant PGE-nickel-copper-cobalt discovery," Red Cloud said.

Chalice itself said that Monday's results from drilling in the G1, G3 and G4 zones had confirmed "that these zones host exceptionally high-grade mineralisation and remain open".

"The new 40 metre wide interval of matrix, minor massive and disseminated sulphides in the G1 Zone is 80m down-dip from one of our best high-grade intersections in JD003, which suggests that the zone may be widening and it remains open down-dip to the west.

"The recently discovered PGE-copper-gold dominant G4 Zone, announced in early July, has also been intersected in two, potentially three new holes and we now believe this could represent an entirely new target horizon along the footwall contact of the Gonneville intrusion with potential for further growth."

It is all exciting stuff and is bound to be attracting the attention of the major mining companies. As BHP might put it, Julimar has got all of the future-facing metals the world needs.

Having said that, Chalice is well funded to continue to grow the value story at Julimar without help.

So if a bid ever does come, the starting point will be much higher than is currently the case implied by Chalice's \$1.48 share price, remembering the company also has the hot Pyramid Hill gold project in Victoria in its portfolio.