STOCKHEAD

Guy on Rocks: This lithium player's pivot into gold makes it one to watch

October 30, 2020 | Guy Le Page

Guy on Rocks' is a Stockhead series looking at the significant happenings of the resources market each week.

Former geologist and experienced stockbroker Guy Le Page, director and responsible executive at Perth-based financial services provider RM Corporate Finance, shares his high conviction views on the market and his "hot stocks to watch".

Market ructions

We're seeing a bit of broader volatility in the market ahead of the US election, which is not unexpected.

Gold has been in that sideways trading pattern between $US1850 ($2618) and $US1950 ($2760) over the last couple of months, but I still expect that will go above $US2300 by the end of this year or early next year.

We've seen a bit of a broader selldown in some of the market darlings, like De Grey Mining (ASX:DEG), which were trading at huge premiums.

I think the gold sector has come back to better buying. It was trading up around 1.4-1.5x NTA (net tangible assets), which is getting a bit overheated.

Looking at a lot of the stocks I've recommended previously, many have come back into a pretty good buying range.

On the commodities front, September was a quiet month, but that broader October uptrend has continued.

Obviously very strong ETF buying, with 82 per cent of the inflows going into precious metals.

The thematic for iron ore has softened a little bit. We're starting to see in the last month in some of the data coming out of China, a bit of an uptick in inventories at ports.

Of the 45 ports that stockpile iron ore there's been a bit of a climb, but I'm still optimistic that we'll see an iron ore price higher than $US100 for at least the medium term, which should obviously bode well for the likes of Fenix Resources (ASX:FEX), which is due to be in production in December.

Citibank's China copper end user tracker showed a 4.9 per cent increase in Chinese copper consumption in September. There's a lot of interest in copper with China's growth continuing.

On the nickel front, there's been a fairly significant move.

Philippines top nickel miner Nickel Asia suspended operations at its Hinatuan mine following a coronavirus outbreak.

The medium-term outlook still looks pretty strong, probably moving towards $US16,000-$US17,000 a tonne in the short term.

Obviously the big kicker with Tesla wanting to move away from cobalt is continuing to support nickel companies.

Hot stocks to watch

A new stock to keep a close eye on is Mali Lithium (ASX:MLL), soon to be renamed 'Firefinch'.

Obviously the name would imply its focus is on lithium, but the company recently closed a $74m financing and the acquisition of an 80 per cent interest in the Morila gold mine, which has produced about 8.7 million oz, from Barrick Gold and AngloGold Ashanti.

The mine is scheduled to produce just over 26,000oz and generate around $17m in free cash flow between now and May next year, Le Page says. That's assuming an $US1850 gold price.

The Morila mine also has about 1.3 million oz in resources. So Mali Lithium's first strategy is to go and drill out those resources and move as many into the (higher confidence) indicated category as possible.

The company closed the financing at about 16c, but the stock has drifted just under that.

I think it is pretty good value with an enterprise value (EV) (market cap + debt – cash) per oz of gold of around $75-$80. Most of these producers are trading at $150 to $200 an oz.

Mali Lithium had a pretty strong run up from around 14c to 24c, but closed Thursday at 15.5c. I think that's one that could probably get to 25-30c over the next six to 12 months quite comfortably.

The company has a pretty good board. Executive chairman Alistair Cowden has been around a long time and been involved in a lot of great mine developments, Le Page says.

Mali Lithium did publish a feasibility study on its Goulamina lithium project, which I don't think particularly excited the market, but with companies like Altura Mining (ASX:AJM) going into liquidation, it looks as though there's been enough supply side pressure on lithium to put a floor on prices for the time being.

The feasibility study revealed a pretty good set of numbers with a pre-tax net present value of $1.7bn and a reasonably low all-in cost of about $313 a tonne. I think that's a sleeper if there's an uptick in lithium.

The only problem with lithium is there's a lot of it around and it's not a rare metal, so I think Mali Lithium's focus is really going to be mostly on the gold, and it'll probably revisit the Goulamina project when prices recover.

Source: https://stockhead.com.au/experts/guy-on-rocks-this-lithium-players-pivot-into-gold-makes-it-one-to-watch/