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Argonaut Metals and Mining

Diggers and Dealers 2015

Quick Read

Argonaut attended the annual Diggers and Dealers conference in Kalgoorlie. During this time we visited a number of projects including; Anglo Gold/Independence Group's (IGO) Tropicana, Dacian's (DCN) Mt Morgans, Evolution's (EVN) Mungari, Gold Roads's (GOR) Gruyere, Northern Star's (NST) Paulsens and Kundana, Sandfires (SFR) DeGrussa, Sarasen's (SAR) Thunderbox and Sirius' Nova (summary details over). In this report we detail the highlights of the conference and site visits attended.

The Diggers wrap

Diggers conference: Amidst a tough market, the conference was still well populated with 1,700 attendees. Declining Australian exploration expenditure (down 9% Y-on-Y) was evident by the notable lack of new discoveries by junior explorers. Newsworthy exploration was dominated by cash generating mid-caps, namely SFR and NST. However, even promising drill results and Resource upgrades from these players failed to offset negative macro sentiments.

The Darling of Diggers: Dacian Gold (DCN) was undoubtedly the standout emerging story of Diggers this year. Step-out drilling increasing the mineralised strike of Westralia by 1.2km and a 76% Resources upgrade to 1.5Moz certainly bought DCN into the limelight. The Mt Morgan's project is amongst Argonauts top Australian gold acquisition targets. Talisman Minerals (TLM) also gained attention with 30% (pro-forma, SFR 70%) of the high grade Cu/Au Monty discovery in the Doolgunna province.

Fallen angel: IGO's share price has been on the slide since the announced acquisition of SIR. Also plaguing the company was the lack of clarity on the development plan and capital requirements of the Tropicana JV (Anglo 70%: IGO 30%). Attendees of the site visit came away with more questions than answers. The conceptual "coal-like" strip mining option raised concerns that out-of-the-box thinking was needed to off-set escalating stripping requirements.

All about Ausie Gold: With base metals sliding in the lead up to the conference and iron ore "a ghost of Diggers past", the Australian domiciled gold sector attracted the most interest. Most Australian companies maintain health margins against AUD gold prices. M&A activity was subdued during the event, limited to Metals X (MLX) who acquired Panoramic Resource's (PAN) Mt Henry Gold Project and RNI NL's (RNI) Grosvenor Gold Project, both in Western Australia.

Key Picks

DCN (SPEC BUY, \$0.73 target) – Reaching critical mass for a development scenario
SFR (BUY, \$6.50 target) – Monty discovery proof of concept of a VMS camp in the Bryah Basin
SIR (BUY, \$3.75 target) – Nova development well ahead of schedule

Dacian Gold (DCN) - Mt Morgans: Out of the shadows

Key takeaways:

- Infrastructure rich, haul roads, gas pipeline, Telstra tower on property, good exploration camp, 25km from Laverton with sealed air-strip, licenced bore field with good quality water, all on granted MLs
- Close to major mines, Wallaby only ~8km from Jupiter trend and less than 50km to Sunrise Dam
- Visual contact between mineralised ore and non-mineralised rock aids grade control
- Historical metallurgical recoveries 90-92% at 106 micron grind at both Jupiters and Westralia trends
- Lots of alteration and interconnectivity at the Westralia – Morgans North trend over nearly 3km indicating big system
- Discussions around building a 2mtpa plant (aimed to run at 2.3-2.5mtpa) close to Jupiters, fed by 1.5mt from open cut at Heffernans and 800kt from Westralia Morgans North (400ktpa from both declines) to produce around 225koz pa
- Capex of \$110 to \$120m was thrown around along with start-up working capital of \$30m. Feeling was that Dacian could build its 2mtpa plant and start the Heffernans open cut and two declines for sub \$150m
- Key next steps to making this all real is to delineate approximately 1.3moz of Reserves by undertaking 60,000m of diamond drilling on a 50m x 50m basis at Westralia and 30,000m metres of largely RC drilling at Heffernans
- Two diamond rigs working double shifts can complete the 60,000m of diamond drilling in four months

Figure 3: Open pit at Jupiter showing Syenite (pink) and rock competence (clean walls)



Source: Argonaut

Recommendation

Argonaut maintains a SPEC BUY recommendation and a \$0.73 target price.