

Thursday, 8 November 2018

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Overnight Action

World Markets	+ / -	%	LME, Cash	+ / -	%	Bulks	+ / -	%			
Dow Jones	26,180	545	2.1	Aluminium (US\$/t)	1,971	36.3	1.9	Fines -62% (US\$/t)	75.90	0.00	0.0
S & P 500	2,814	58	2.1	Copper (US\$/t)	6,171	-13.0	-0.2	Fines -58% (US\$/t)	65.35	-0.35	-0.5
FTSE 100	7,117	77	1.1	Lead (US\$/t)	1,905	18.3	1.0	Rebar (Yuan Ctrct)	3,958.00	0.00	0.0
TSX Comp	15,369	77	0.5	Nickel (US\$/t)	11,744	44.0	0.4	Therm. Coal (US\$/t)	105.45	1.55	1.5
ASX All Ords	5,982	23	0.4	Zinc (US\$/t)	2,503	-39.0	-1.5				

Currencies	+ / -	%	Precious Metals (Bloomberg)	+ / -	%	Energy	+ / -	%			
\$US/\$A	0.728	0.00	0.00	Gold (US\$/oz)	1,226.1	-0.4	-0.0	Brent (US\$/bbl)	71.96	-0.17	-0.2
\$US Index	96.204	-0.11	-0.12	VanEck Junior Au	27.7	-0.3	-0.9	WTI (US\$/bbl)	61.67	-0.54	-0.9
\$US/Euro	1.143	0.00	0.07	NYSE Au Bugs	145.9	-2.0	-1.3	UxC U. (US\$/lb)	29.00	0.20	0.7

Morning Snippets

Key News Overnight

- Global equities surged overnight as the markets moved past the hurdle of uncertainty surrounding the US mid-term elections. Investors can now look towards other economic news flow with the Fed's decision on interest rates coming out tomorrow and a potential for a resolution to the US-China trade war at the end of the month.
- Last night marked the fourth best gain this year for the Dow, up 2.1%. The S&P and Nasdaq rose 2.1% and 2.6% respectively.
- Oil continued its downward trend, with WTI down nearly 1%, which is the eighth-daily loss in a row. Oil has now dropped \$15/bbl since its four year high over a month ago.
- The expectations that the Democrats hold on the House will curtail Trump's ability to shoot from the hip will be tested early as Attorney general Jeff Sessions was forced to resign, replaced by a Trump loyalist, in turn throwing into question the Russia investigation led by Robert Mueller.
- The fall in the US dollar and the DXY hitting its lowest for two weeks (96.18) will help support commodity prices. The VIX fell sharply -20% @ 16.36. Gold rose for the first time in 4 sessions.

Botanix Pharmaceuticals (BOT) | BOT treats its first patient | SPEC BUY
Analyst | Michael Eidne
Market Cap \$65m | Current Price \$0.08 | Valuation \$0.20

- BOT has treated its first patient in its Phase 1b BTX1308 psoriasis study.
- The study is being done in collaboration with BioSkin GmbH and an Australian dermatology clinic. BioSkin is a German clinical contract research organisation which has a “psoriasis plaque test” which is clinically validated and utilised by a number of leading dermatology companies.
- The study design will test 15 patients at a single study site in Australia and read out is expected in Q1 CY19.
- This is BOT’s third ongoing clinical study using CBD formulations for skin disorders. BOT’s phase 2 acne clinical trial readout is expected in mid-2019 and it is the process of preparing for a phase 2 atopic dermatitis trial.

TAG Oil (TAO.TSX) | Tamarind Resources Buys Tag Oil’s New Zealand Assets
Not covered | No rating
Market Cap CAD\$34m | Current Price CAD\$0.40 | Michael Eidne

- TAO has sold its complete asset portfolio to Tamarind Resources for US\$30 in cash, a 2.5% overriding royalty and US\$5m in event specific payments, of which US\$500k has already triggered.
- Tamarind now has three producing oil fields, Tui and TAG in New Zealand and the Galoc field in the Philippines. Post the transaction the three fields will be producing ~5,000 bopd net to Tamarind.
- Tamarind are late life asset experts and specialise in reworking mid to late life fields to extend their lives by either increasing overall field recovery of oil in place or accessing previously overlooked accumulations with the field or near field.
- Argonaut is currently working with Tamarind with a view to IPO on the ASX in Q2 CY19.

From the Drillbit

Calidus Resources (CAI) | Additional high-grade results from Warrawoona
Not covered | No rating
Market Cap \$25m | Current Price \$0.03 | James Wilson

- Drill results show extensions to the main Klondyke Resource as well as extensions to Klondyke East and a new zone known as St George located 150m north of (and parallel) to the main resource area.
- Best results from Klondyke East infill included 2m @ 20.84g/t Au, 6m @ 3.82g/t Au, 1m @ 12.75g/t Au.
- Best Results from St George Zone included: 6m @ 7.61g/t Au (inc 1m @ 40.64g/t Au), 8m @ 5.64g/t Au and 14m @ 1.77g/t Au.
- RC drilling for resource calculation has been completed, with a further 22 diamond drill holes targeting a 600m zone of mineralisation below the existing pit designs.
- A resource upgrade is expected in early 2019.

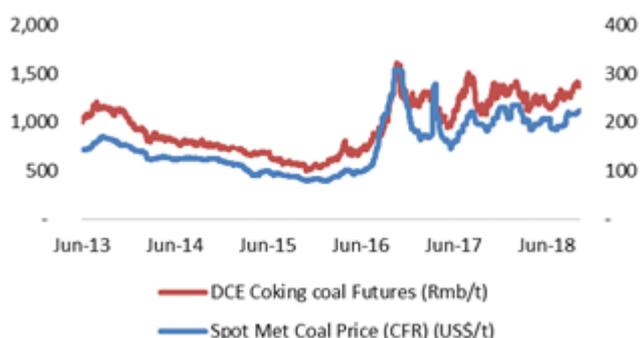
Orient Express

Coking Coal/Coke: Rising Coking Coal and Coke Prices

Analyst | Helen Lau

- China's imported hard coking coal prices increased to US\$220/t (CFR), the highest level in eight months on tight domestic supply and solid demand. Recall, that the Chinese government suspended operations at 41 coal mines in Shandong for safety checks following a coal mine accident in October. 70-80% of those coal mines produces coking coal. As most of these mines have since passed the safety check, their operations have resumed, yet prices keep rising. We believe this is mainly because of a production capacity check in Shanxi, China's largest coking coal producing province, constraining coking coal production.
- As of the 15th of November, producing coke ovens are required to shut down their operations to comply with environmental measures during the winter season. Thus, with coke supply at low levels and steel mill inventories declining to 8.6 days, 4 days lower than the same time last year, prices are set to continue to rise. The rising spot coke prices in turn is a boost to coking coal prices. Therefore overall, both coking coal and coke prices in China should stay buoyant. Stocks in focus are Yanzhou Coal (1171 HK/BUY) and Stanmore Coal (SMR AU/BUY).

Figure 1: Coking Coal Prices



Source: Bloomberg

Recent Research

Ausdrill (ASL) | Edikan clouds the bigger picture | BUY

Analyst | Ian Christie

Market Cap \$1,055m | Current Price \$1.545 | Valuation \$2.25

The Barmenco acquisition has completed, although the loss of the Edikan contract caught us by surprise. But focussing solely on this loss risks missing the bigger picture in our view. With at least 30 other mining and production drilling contracts across the group, ASL is bigger than one mine site. Other contracts have been extended and pipeline opportunities remain. We like the Barmenco acquisition and maintain a BUY call on a revised blended valuation of \$2.25 (prior \$2.40). [Read More](#)

Western Areas (WSA) | Reserves Required | BUY

Analyst | Matthew Keane

Market Cap \$632m | Current Price \$2.36 | Target Price \$2.75

Western Areas (WSA) released September Q results with 5.4kt Ni in concentrate and C1 cash costs of A\$2.99/lb (before payability), broadly in line with Argonaut's forecast of 5.4kt @ A\$2.80/lb. Cash and receivables declined \$7.7m to \$164.3m after a ~\$13m increase in capital works and exploration, including \$4.4m on the Odysseus project. WSA recently released a DFS on Odysseus and formalised its decision to mine. Argonaut derives an unconvincing post-tax IRR of 12% applying a long-term nickel price of US\$6.50/lb and 0.72 AUD/USD FX. At current milling rates Forrester has ~4.5 years remaining mine life based on reserves. We believe the share price will come under increasing pressure if reserves are not replenished at Forrester. Maintain BUY recommendation with a revised target price of \$2.75 (from \$3.40). [Read More](#)

Gascoyne Resources (GCY) | Pricing in the risk | SPEC BUY

Analyst | James Wilson

Market Cap \$72m | Current Price \$0.14 | Target Price \$0.24 | Valuation \$0.48

Gascoyne Resources (GCY) recently announced Board changes which saw the departure of the Managing Director and the newly appointed Chairman. The stock was severely sold off as a result of this and the disappointing Sept Q production report. We recently met with the new management to flesh out the recent developments and how these might be rectified going forward. A number of issues have arisen which have caused a cascading effect to lower production and cashflow which is critical in the early stages of any mining project. We do see many of these issues as being mitigated over coming months which is a key positive. Argonaut views the share price at current levels presents a significant, albeit risky opportunity. Our modelling reflects a heavy discount to account for production risk going forward, but still implies a ~70% upside to the current share price. Speculative Buy. [Read More](#)

Sovereign Metals (SVM) | PFS confirms high margin | SPEC BUY

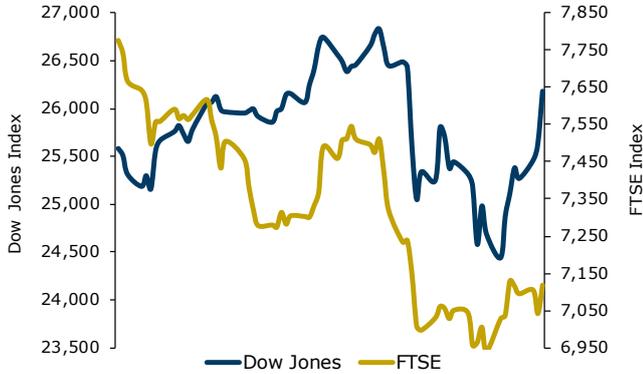
Analyst | Matthew Keane

Market Cap \$24m | Current Price \$0.09 | Target Price: 0.16

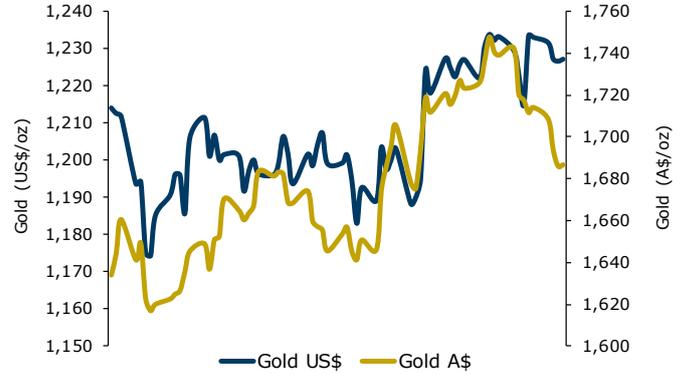
➤ Sovereign Metals (SVM) released a Pre-Feasibility Study (PFS) for its 100% owned Malingunde graphite project in Malawi. Malingunde is a rare high grade saprolite deposit, with low strip ratios, free digging and minimal crushing resulting in low operating and capital costs. SVM forecast's FOB cash costs delivered to Nacala Port in Mozambique average US\$323/t (per tonne concentrate) life of mine (LOM). Capital costs are also low, estimated at US\$49m. While Malawi is a land locked country, the project has access to port via a recently refurbished rail line with excess capacity. Argonaut maintains a SPEC BUY recommendation with a target price of \$0.16. [Read More](#)

Chart Pack – last 3 months

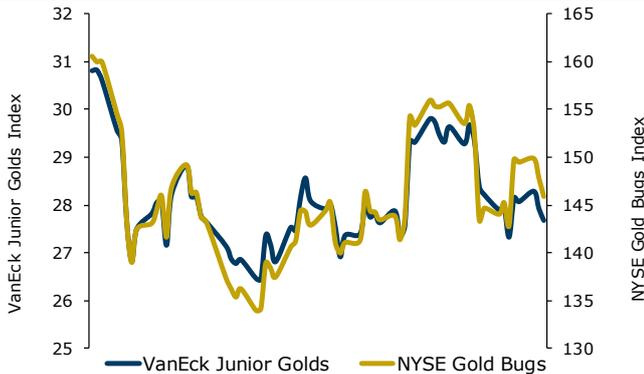
International Equity Markets



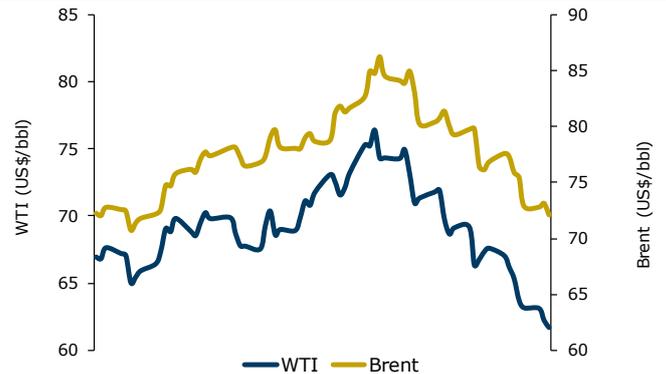
Gold



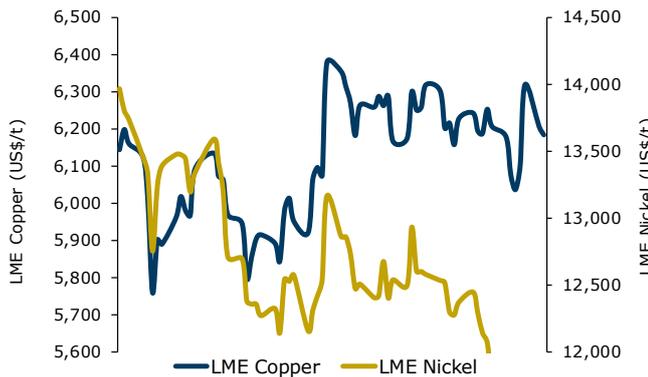
VanEck Junior Golds (GDXJ) & NYSE Gold Bugs Index (HUI)



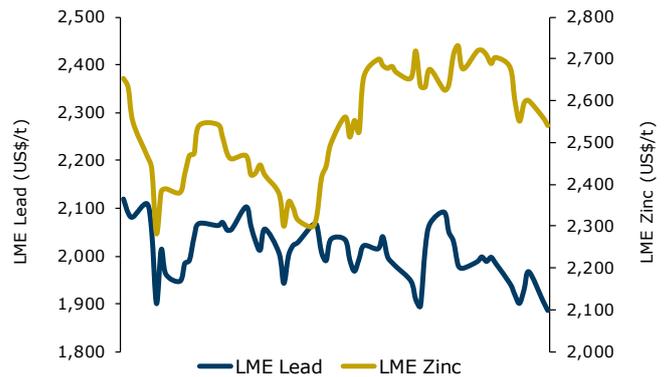
Oil



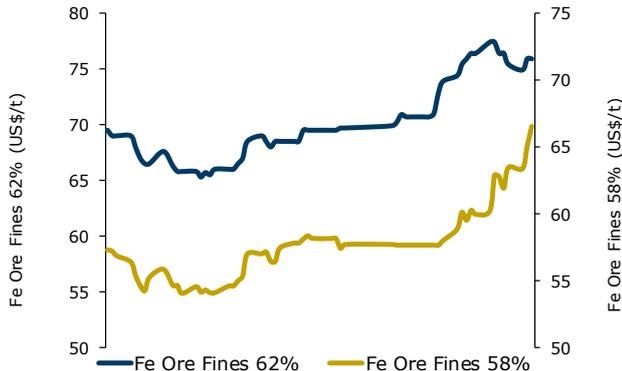
Copper & Nickel



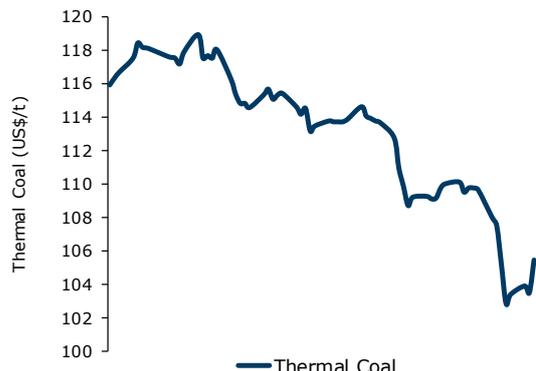
Lead & Zinc



Iron Ore



Coal



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Gascoyne Resources (GCY): Argonaut acted as Joint lead Manager to the Placement that raised \$21.5M in November 2017 and received fees commensurate with this service. Argonaut acted as Joint Lead Manager to the Placement that raised \$19M in August 2018 and received fees commensurate with this service

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