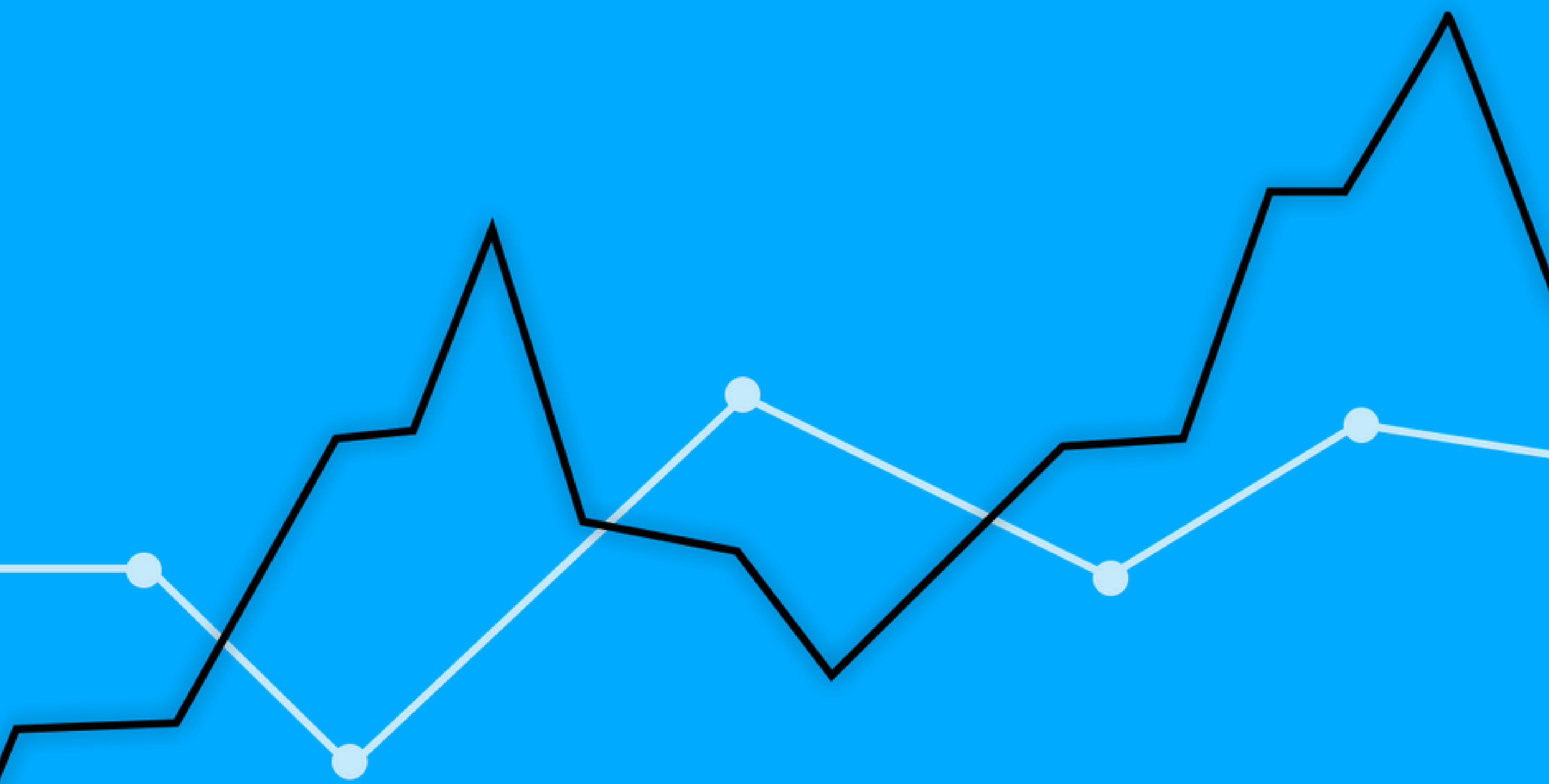
Energy & Mining

Small Caps: Special Report

GOOD TIMES ARE COMING

December 2024



under the radar REPORT

Special Commodities Report

We are going through a period of intense commodity volatility, which increases uncertainty in mining stocks. UTRR Mining Analyst Peter Chilton discusses the risks and opportunities to profit, looking first at the key factors impacting the supply and demand of each commodity, and then we drill down into the stocks we cover.

The 3 big factors impacting commodity supply and demand

1. The energy transition has introduced a new source of demand for many commodities and added complexity.

2. The other great problem of our age is disentangling China. The Asian giant controls the marginal production of many of these commodities, on the supply side, and is one of the big demand centers. Both factors have a big impact on prices, to say the least.

3. Last, there is the impact of technology, which can reduce costs and can also eliminate the need for certain commodities.

Below we cover the important dynamics for major commodities then we discuss the stocks we cover, which are in order of those our mining analyst Peter Chiton prefers.

Richard Hemming
Founder and Head of Investments

Please note: All prices & recommendations as @28.11.24

LOGIN ONLINE

Uranium

The growth in intermittent renewables solar and wind power generation brings with it the need for 'firming' for the non-generation periods and a realisation that nuclear energy, which is proven, is the only surefire solution. Globally, many countries are turning to nuclear with power plant life extensions and new builds.

Technology is advancing, with safer plants and small modular reactors (SMRs) being developed, although not commercially available yet. The main alternative for firming is gas, which is a fossil fuel, which over the long term could be expensive and in short supply.

Long-term outlook: Uranium prices have strengthened considerably but has fallen below recent peaks. With current nuclear power capacity and planned increases in many jurisdictions the demand trajectory is solid. To avoid supply deficits from expected rising uranium demand, new projects are needed. Given the magnitude of the supply increment needed, projects are likely to require much higher uranium prices to be incentivised.

Paladin Energy (PDN.ASX): SPEC BUY

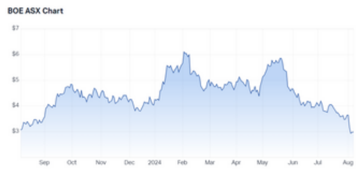
Current Price: $7.81
Market Cap: $2,336m
Net Debt/Net Cash: -$189m

Risk Rating: 4
52 week high: $17.98
52 week low: $6.83*

Radar Rating: Early mover advantage by bringing on new uranium production. Good scale, long life. Hiccup provides buying opportunity.

**1 for 10 share consolidation from 11 April 2024*

Boss Energy (BOE.ASX): SPEC BUY



Current Price: $2.77
Market Cap: $1149.6m
Net Debt/Net Cash: $100m

Risk Rating: 4
52 week high: $2.38
52 week low: $6.11

Radar Rating: Now a uranium producer, providing earnings leverage to an inevitable uranium price recovery, although the timing of the recovery is uncertain.

Lotus Resources (LOT.ASX): SPEC BUY

Current Price: $0.23
Market Cap: $495m
Net Debt/Net Cash: $25m

Risk Rating: 4
52 week high: $0.493
52 week low: $0.20

Radar Rating: Lotus' Kayelekera project expected to be Australia's third new listed uranium producer, but is higher risk than PDN & BOE.

Uranium continued...

Silex Systems (SLX.ASX): SPEC BUY

Current Price: $5.51
Market Cap: $1307.2m
Net Debt/Net Cash: $113m

Risk Rating: 5
52 week high: $3.01
52 week low: $6.74

Radar Rating: Uranium enrichment technology and production. Commercial revenue targeted before 2030.

Bannerman Energy (BMN.ASX): HOLD

Current Price: $2.71
Market Cap: $483m
Net Debt/Net Cash: $24m

Risk Rating: 5
52 week high: $4.87
52 week low: $1.90

Radar Rating: Advancing uranium development project in Namibia, a proven jurisdiction. Valuation leveraged to the uranium price in a tight market.

Please note: The stocks are listed in order starting with our most preferred stock at the top and least preferred, or the stock with the most risk at the bottom, in each industry.

Lithium

Lithium is used for energy storage. It is favoured over many alternatives because of its high energy intensity. Lithium-based batteries are a key component of the energy transition.

The energy transition appears to be lagging behind with a slower uptake of EVs than originally projected. Planning controls are also holding back transmission lines and wind farms and delaying the installation of grid batteries. The prospect of high prices has led to oversupply, particularly in Chinese downstream lithium capacity.

Long-term outlook: Assuming the path of energy transition and electrification continues, the outlook for lithium is still strong with future supply deficits unless additional production capacity is brought on.

Pilbara Minerals (PLS.ASX): HOLD

Current Price: $2.39	**Risk Rating: 4**
Market Cap: $7,197.6m	52 week high: $4.58
Net Debt/Net Cash: $1200m	52 week low: $2.31

Radar Rating: Lithium demand out to 2035, but recovery timing uncertain. Well positioned as the largest hard rock miner in the world, could double output.

Liontown Resources (LTR.ASX): HOLD

Current Price: $0.74	**Risk Rating: 5**
Market Cap: $1,795.4m	52 week high: $1.72
Net Debt/Net Cash: -$195m	52 week low: $0.56

Radar Rating: Globally significant large-scale hard rock lithium project. First production in mid CY24 with expected valuation accretion. Possible corporate target.

Lake Resources (LKE.ASX): HOLD

Current Price: $0.044	**Risk Rating: 5**
Market Cap: $76.8m	52 week high: $0.15
Net Debt/Net Cash: $32m	52 week low: $0.03

Radar Rating: Globally significant long life (25 years) undeveloped lithium project. Funding route uncertain, adding risk. Lithium recovery and patience needed.

Argosy Minerals (AGY.ASX): HOLD

Current Price: $0.03	**Risk Rating: 5**
Market Cap: $46.6m	52 week high: $0.19
Net Debt/Net Cash: $9m	52 week low: $0.03

Radar Rating: Appeal of expansion potential and leverage to lithium price recovery. Given the size of its landholding, could be an M&A target.

Energy Gas

The key is the energy transition. Oil demand is reducing, while gas demand is rising, which is why we have more focus on the latter in terms of stock recommendations.

Long-term outlook: Gas demand is climbing, being used for firming (power for when the wind doesn't blow or the sun doesn't shine) and as an interim substitute for fossil fuels like coal because of its relatively low carbon emissions.

Gas supply is complex, with export markets through liquification is a big factor driving up domestic prices. We favour low-cost domestic gas producers.

Amplitude Energy (AEL.ASX): SPEC BUY

Current Price: $0.18
Market Cap: $475m
Net Debt/Net Cash: -$279m

Risk Rating: 4
52 week high: $0.24
52 week low: $0.10

Radar Rating: Production in the Gippsland Basin (Victoria) with potential for significant longer term production growth in the Otway Basin (Vic).

Comet Ridge (COI.ASX): HOLD

Current Price: $0.16
Market Cap: $177.7m
Net Debt/Net Cash: $2m

Risk Rating: 5
52 week high: $0.238
52 week low: $0.15

Radar Rating: New east coast gas supply entrant with large reserves. The potential is worth holding on to and government support boosts confidence, but the timing remains highly uncertain.

Strike Energy (STX.ASX): HOLD

Current Price: $0.205
Market Cap: $587.4m
Net Debt/Net Cash: -$30m

Risk Rating: 4
52 week high: $0.505
52 week low: $0.16

Radar Rating: Largest holder of Perth Basin gas Reserves and Resources. Renewables driving gas demand for firming. Strong medium term outlook for earnings.

Energy Oil

In contrast to most other commodities, the demand growth trajectory for oil is slowing. According to the International Energy Agency, oil demand growth is expected to plateau towards the end of the current decade to 2030.

The key is supply, with factors including rising North American production; blockades due to war and financing difficulties. Please read our analysis in UTRR Small Caps, issue 612 (8 Aug 2024) for more details.

Long-term outlook: The best indicator of the future is the current price, which favours smaller producers like Karoon Energy (KAR) because they have less constraints and more flexibility.

Karoon Energy (KAR.ASX): SPEC BUY

Current Price: $1.31
Market Cap: $1055m
Net Debt/Net Cash: -$104m

Risk Rating: 4
52 week high: $2.42
52 week low: $1.29

Radar Rating: The purest ASX listed oil stock for oil price leverage. Leverage increasing as the company scales up due to production growth and new projects.

Energy& Mining
INVESTMENT CONCLUSION

Diversification is the key when it comes to investing and this is especially the case when investing in resources. The low-cost, well-funded producers are always the safest, which is where our positive recommendations are weighted towards.

We're more positive on **nuclear/uranium stocks** than other sectors because of the relative certainty of nuclear power stations growing globally – on many continents – which is a reflection of the need for reducing carbon emissions and improvements in technology, which has already been proven.

This is a game changer, which is not going away. Funds have been committed and uranium supply is woefully short when you go out even 2 years ahead. When you build a nuclear power station you contract for uranium supply years ahead because you need guarantees.

Lithium we are still bulls, but there is more uncertainty. China is a bigger factor, which can't be ignored. The fact is that the industry, while nascent, has matured to the degree that there are big lithium producers. These producers are low cost and the time to buy is when sentiment is low. But we think that there is so much uncertainty about China that we're holding fire. Prices could go further south and we are looking for more evidence of demand outside of China. The rest of the world is catching up, but it's still in the early stages when it comes to battery production.

Oil and gas are classified as different commodities in this report. The transition to a low-carbon economy is more beneficial for gas than for oil. We like localised low-cost operators, albeit there is a high degree of risk, both operational and price.

Energy & mining
Special Report

under the radar REPORT

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039 Telephone 1300 100 343 Email radar@undertheradarreport.com
Editor Richard Hemming, Publisher Caroline Mark ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

Please note: All prices & recommendations as @28.11.24