

Consistent Cadence – secrets of successful mineral resource investing

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Say the words ‘mining investment company’ and more often than not you’ll be met with a glazed expression, and occasionally (rude) a yawn. However, if the company behind the investing is run by a management team fizzing with experience that gets the formula right and starts delivering consistent gains, you’ll have investors, both institutional and retail, sitting up, taking notice and running the slide rule over the numbers.

Cadence is of course a term generally associated today with cycling and the endurance required to maintain ‘good cadence’ – consistent performance over distance. For the directors of a mining investment firm this usually equates to taking a long term view; bringing early stage projects to fruition over a number of years, or in some cases, acquiring a commodity or project in an ‘uncool’ sector and waiting for the market to come of age.

AIM-quoted and aptly named **Cadence Minerals (KDNC:AIM)** certainly ticks all the requisite boxes, while the board, headed by CEO



and qualified geologist Kiran Morzaria have between them put together a diverse and no less impressive portfolio of early and later stage investment assets in iron ore, lithium and rare earth elements.

FLAGSHIP ASSET

The company’s flagship asset is without doubt the Amapa Iron Ore project in North East Brazil. Amapa is a large-scale iron open pit ore mine with associated rail, port and beneficiation facilities which at its peak in 2012 grew production to 6.1 Mt of iron ore concentrate product.

Prior to its sale the same year, owner Anglo American valued its 70% stake at \$866 million (100% \$1.2 billion) (after impairment) \$462 million (100% \$660 million). Following protracted negotiations with the secured creditors, Cadence has recently completed the

second phase of a planned three stage investment to rehabilitate the mine and acquire 27% of the issued share capital for a staged equity investment of just \$6 million, plus a first right of refusal to acquire up to 49%.

The Cadence management team have worked day and night on the project since announcing the initial heads of terms in May 2019, which was then described as a potentially transformative asset for Cadence.

CEO Morzaria said at the time: ‘It is rare in our industry to be presented with an opportunity to put forward a relatively modest investment to participate in such a project. Given the nature of the asset the capital costs are estimated to be substantially lower than would be normally associated with developing a similar sized project from scratch.’

Cadence has already hit

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numerous milestones at Amapa. In 2020 the Mineral Resource Estimate was upgraded by 21% to 185 million tonnes at 39% Fe from Anglo American's numbers in 2012 and the first shipment of 45,000 tonnes of iron ore sailed from Amapa's wholly owned Santana port– the first iron ore shipment from there since 2015.

The annual projections for Amapa production and EBITDA numbers, let alone the nascent project stand-alone value completely dwarf the current Cadence market capitalisation at around £28 million.

OTHER INVESTMENTS

But surprisingly, even this revelation reckons without Cadence's other investments which have also delivered solid returns over the past few years.

Cadence holds 8.7% of the equity in AIM-quoted **European Metals (EMH:AIM)**, which, through its 49% owned subsidiary Geomet controls the mineral exploration licenses awarded by the Czech State over the Cinovec Lithium and Tin project. In January, the project's post-tax NPV increased by 75% to \$1.94 billion based upon a lithium hydroxide price of \$17,000 per tonne (significantly less than the current price). There is no doubt that Cinovec is poised to be a major lithium supply hub for Europe and the rest of the world.

Currently however, with EMH shares trading at 60p, Cadence Minerals' stake is worth circa £10 million, or 35% of its total market cap, attributing a value of just £18 million to the rest of Cadence's assets (including Amapa).

The Yangibana Rare Earth Project in the Gascoyne

region of Western Australia recently caught the headlines and a feature in the FT after the NPV (net present value) project value increased by 84% to A\$1.01 billion following a loan from the Australian Government. Here Cadence owns 30% of 3 Mining Leases and 6 Exploration Licences which form part of the Yangibana Rare Earth Deposit along with Yangibana owner operator (70%) Hastings Technology Metals.

Cadence owns a 31.5% shareholding in Australian companies Lithium Technologies and Lithium Supplies, which each own 50% of Synergy Prospecting Pty Ltd. Synergy in turn owns the Litchfield Lithium Project in Australia's Northern Territories, the Picasso Lithium Project in Western Australia and the Alcoota Lithium Project near to Alice Springs. Some exploratory work has taken place on these projects over the past year, while the Litchfield Lithium Project is contiguous to Core Lithium's Finnis Lithium Project which has JORC compliant ore reserves of 7.4Mt. Lithium Technologies and Lithium Supplies also hold applications for six lithium properties in San Luis Province, Central Argentina.

Finally, The Sonora Lithium project in Mexico has generated considerable amounts of investor interest over the years. While Cadence has no direct interest, it owns a 30% direct interest in Mexalit, which holds the El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions, through its joint venture with Bacanora Lithium, along with a 30% direct interest in The Megalit, Buenavista, and San Gabriel concessions, which are held



by Megalit S.A de C.V. How this will develop given the recent takeover of Bacanora Lithium by Ganfeng International Trading (Shanghai) Limited has yet to play out.

STEADY GROWTH

During the past year Cadence shares have delivered steady growth, doubling in value from 15p to 30p highs, and despite returning to the 15p start point (along with its peer group) due to the impact of the Ukraine invasion on small cap mining companies, gains have been steady since the 3.3p low during the March 2020 Covid crash.

The consistency boxes have certainly been ticked by Cadence, and the company has certainly built a diverse portfolio of commodity assets which on many levels is coming of age. Regardless of the current impact of macro events on the share price, the potential individual values of each project the company are engaged in, (in particular Amapa), does indicate that shareholders could be sitting on an as of yet untapped store of value.

