

Ticker: SVM AU **Net cash:** ~A\$8.9m **Project:** Kasiya / Nsaru, Malingunde
Market cap: A\$256m **Price:** A\$0.61/sh **Country:** Malawi
RECOMMENDATION: BUY **TARGET (unc):** A\$1.20/sh **RISK RATING:** SPECULATIVE

We have no doubt that the size and grade of Sovereign’s discovery make it ‘disruptive’ in size. However, the reason for the quality, being a new style of ‘metamorphosed weathered’ deposit will bring with it bespoke mining requirements of course. We expect the year-end scoping study to add colour to mining methods, mine layout, TMF and settling pond design, met work including variability, and ESG studies. We think that an appointee of such calibre as Paul Marcos who has decided to join Sovereign is an excellent qualitative check-mark against the project. In parallel, the **macro** situation of mineral sands is improving daily as restocking and global recoveries drive demand and prices up, while political disruptions in Sierra Leone, Madagascar and South Africa have lead to multiple projects either being halted or being put on notice, and ultimately increase the attractiveness of Sovereign as an M&A target in our view. For now, **we maintain our BUY rating, lifting our PT from A\$0.95/sh to A\$1.20/sh** based on 5% in-situ valuation (ie US\$65/t rutile vs. ~US\$1,300/t spot) over 644Mt rather than the prior nominal 500Mt. On macro alone we note that rutile prices have over doubled since 2017, yet most major producers are only trading at the same price they were trading at in CY17 – a macro opportunity if we have ever seen one. This is partly down to a lag in pricing disclosure as producers report basket prices only quarterly, and even that is backward looking given substantial volumes of each quarter are on backward looking contracts.

Figure 1. Share price of Kenmare, Iluka, Ronox and Sovereign against 95% rutile CIF China



Source: Bloomberg

New head of Development joins from Base Resource and macro winds blow in Sovereign’s favour

Sovereign has appointed Paul Marcos as Head of Development. Paul joins from Base where he spent five years, latterly as Metallurgical and Processing Superintendent – Project Development, undertaking the DFS for Kwale North and Kwale Phase 2. Prior to that he spent 8 years at Iluka in production and development roles. He also served as a Senior Technical Consultant at TZMI, the global mineral-sands consulting firm, and worked for Ausenco as Lead Process Engineer for numerous mineral sands and bulk commodity project.

Why we like Sovereign Metals

1. Pure rutile deposit increases margin, addresses downstream ESG requirements
2. Unique metallogenesis drives large grain size and premium low-deleterious product
3. On hydropower, hydro mineable, on modern rail to deep-water port with allocation
4. PFS-level Malingunde graphite project adds diversification and second pillar to value
5. Potential ‘province scale’ discovery with 4,000km² of unique geology largely undrilled

Catalysts

1. **2Q21:** Kasiya infill, Nsaru definition drilling
2. **1H21:** Maiden JORC compliant resource estimate for Kasiya
3. **2H21:** SCPe PEA

Research

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TENDER: The analyst recommends tendering shares to a formal tender offering

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|--|----|
| BUY: | 44 |
| HOLD: | 0 |
| SELL: | 0 |
| UNDER REVIEW: | 0 |
| TENDER: | 0 |
| NOT RATED: | 0 |
| TOTAL | 44 |

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