

Ticker: SVM AU **Net cash:** A\$8.0m **Project:** Kasiya / Nsaru, Malingunde
Market cap: A\$217m **Price:** A\$0.52/sh **Country:** Malawi
RECOMMENDATION: BUY **TARGET (unc):** A\$1.20/sh **RISK RATING:** SPECULATIVE

When we met Sovereign many years ago, claims of ‘best logistics’ were met with some eyebrow raising for this asset lying in Africa, in a landlocked country. Many investors were burnt by similar cries of ‘operating rail’ on the iron ore mines of West Africa as variably collapsed colonial rail lines struggled to hit fractions of nameplate. However, as further supported by today’s study, Kasiya’s location on a new-generation rail line (built to spur of Vale coal operations in Mozambique), to a genuine deepwater port (embayment not river, not in a congested city-port either) oddly leaves this landlocked country with best in class logistics. Most peers are on the coast by virtue of being marine shorelines, but still have to truck substantial distances to port, while all-rail here again lowers the carbon footprint for Sovereign. **We maintain our BUY rating and A\$1.20/sh PT** based on 5% in-situ valuation (ie US\$65/t rutile valuation @ ~US\$1,300/t spot) over 644Mt. With ‘more rutile than needed’ already, we still expect i) the addition of Nsaru MRE and updated Kasiya MRE to be a key catalyst in 4Q21, followed by ii) a year end scoping study which we fully expect to ruffle feathers in more polluting, socially challenged, permit challenged, and reserve-declining peers to the benefit of Sovereign shareholders.

Logistics point

Results from a logistics study for Kasiya show the fully-operating rail over the property is only operating at 15% of capacity, with the connecting Nacala deep water port only 41% utilised. Data will feed into the 4Q21 scoping study. Using rail over peers trucking to port substantially lowers the carbon footprint. The existing rail sees ~6.2Mt pa of volume, mainly coal, hauled with a fleet of 101 locomotives and 2,677 wagons. By virtue of the line receiving world bank funding, it is general access. The port has capacity of 300,000 20’ containers pa.

Figure 1 Underutilised Nacala logistics corridor with road to site, rail to deep-water container port



Source: Sovereign Metals

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. **2H21:** Kasiya infill, Nsaru definition drilling
2. **4Q21:** Maiden MRE for Nsaru, updated Kasiya MRE
3. **Year end 2021:** PEA

Research

Brock Salier (London) M: +44 7400 666 913 bsalier@sprott.com

Justin Chan (London) M: +44 7554 784 688 jchan@sprott.com

Brandon Gaspar (Toronto) M: +1 437 533 3142 bgaspar@sprott.com

Eleanor Magdzinski (Toronto) M: +1 705 669 7456 emagdzinski@sprott.com

SCP Valuation			
Kasiya in-situ value @ 644Mt (US\$bn)	8.0	Basic shares on issue (m)	423
Kasia @ 5% insitu value (US\$m)	401	Dilutive options and RSUs (m)	44.8
Kasiya asset valuation (A\$m)	542	Average strike (A\$/sh)	0.26
Plus cash on hand (A\$m)	8.0	Fully diluted shares (m)	468
Nominal graphite valuation (A\$m)	10.0	SCP NAV/sh (A\$/sh)	1.22
Plus cash from dilutive options (A\$m)	11.6	Recommendation	BUY
Sovereign group NAV (A\$m)		Price target (A\$/sh):	1.20

Source: Sovereign, SCP estimate

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BUY:	46
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

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