

Offtake and funding sets Pilbara Minerals apart

A market minnow finally finds itself in the right place, at the right time



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Pilbara Minerals Ltd is attempting to cast off the industry stereotype of mining juniors needing multiples of their market values to fund expensive projects while struggling to find offtake partners to regain development momentum.

In an era in which development timelines are testing the patience of the most tolerant investors, Pilbara Minerals seems lightning fast. It bought into a tantalum project called Tabba Tabba 75km southeast of Port Hedland, Western Australia, in October 2013. A processing plant is being readied for a third quarter 2014 start.

The company has disclosed a maiden JORC resource containing 572,200lb of tantalum pentoxide with a 455,000lb mining reserve. It has a five-year offtake agreement with Global Advanced Metals (GAM) to take all of what the Pilbara mine can produce. The company's February 2014 feasibility study described a 162% internal rate of return. The "robust" project economics foreshadowed a A\$16 million (US\$14.9 million) EBITDA over the first 18 months after spending A\$3.9 million and advancing A\$1.5 million in working capital.

In a recent presentation in Melbourne, director Neil Biddle outlined an investment proposition based on imminent cash flows for a company with a market value of just A\$12 million (US\$11.2 million). Pilbara Minerals appears on the verge of commercial success, having taken investors on a circuitous route to where it is today.

In 2010, the company had an option over an Indonesian iron-sands property while also flying surveys over Pilbara tenements looking for base metals or gold. Later in the year, it headed off to Sulawesi attracted by a high-grade gold property. By March 2011, the iron-sands idea had been dropped because size, quality and access had all fallen short of what had been expected. The mundane work of exploring in the Pilbara was continuing, but the company was looking enviously elsewhere. In January 2012, it was eyeing base metals in South America and southern Africa for a viable business model.

Work in the Pilbara was restricted to desk studies during 2012 but the search for some-



Geotechnical diamond drilling at Tabba Tabba in Western Australia

thing better continued and, in October 2012, attention swung to a "major copper/gold project in PNG". This, according to the rationale presented at the time, would enable the company to reposition itself as a leading minerals explorer and developer focused on discovering world-class gold deposits.

Pilbara Minerals completed the acquisition of Sturt Resources, the holder of the PNG assets and a company funded by Neil Biddle, in May 2013. In January 2013, the company transferred up to an 80% interest in the Pilbara tenements on which little work had been done over the previous year, to Fox Resources.

Directors are the lookout for projects with a focus on base and precious metals, according to the 2013 annual report in September. In late October, the company announced it would become a tantalum miner. GAM, which owns the Greenbushes and Wodgina tantalum projects in Western Australia as well as being one of the leading global refiners of the metal, was offering a five-year mining and offtake agreement at a fixed price at a new site in the Pilbara.

The deal required Pilbara Minerals to buy into a joint venture with Perth-based metallurgical consultants Nagrom, at the insistence of GAM. Nagrom itself would carry the bulk of the operational duties including provision of the relatively small number of plant staff.

Finally, the company appears to have something to sink its teeth into. Nothing else now matters. There was no mention of base metals in Africa or South America or even gold in PNG, for that matter, in the latest quarterly activities statement.

It seems the tantalum transaction arose from a personal contact between Biddle and Nagrom and the coincidental willingness of GAM to hive off its mining role to retain a focus on where most of the value along the tantalum supply chain was going to be found.

During this search for a sustainable busi-

ness model, the Pilbara Minerals market capitalisation has doubled, but the number of shares outstanding has risen more than tenfold with more to come after the likely conversion of outstanding convertible notes. Earlier investors would still be feeling the pain and, no doubt, interested in recouping some of their losses.

Although the company has made much of the five-year offtake agreement with GAM, Tabba Tabba has adequate reserves for only 18 months of production at the anticipated mining rate. The feasibility study and existing funding arrangements actually imply a lousy equity investment proposition with A\$13.1 million now being needed in equity and pre-production capital to get back just A\$6.2 million.

A much longer mine life than envisaged in the feasibility study would be needed for an investment to make sense. Up to five years at Tabba Tabba may be possible with a decent exploration effort. Pilgangoora will offer another source of ore to turn the company into a longer-term tantalum supplier. If this can be done, a market value well north of where it is now would almost certainly follow.

As it turns out, this is an investment long on irony. It requires investors to chuck out the feasibility study as largely irrelevant as well as the two-dozen pages of filings required by the stock exchange ostensibly to comfort investors about the validity of the study as a basis for decision making.

An appropriate investment return now depends almost wholly on exploration success from a company with a minimal supporting track record. In its favour on this occasion, Pilbara Minerals appears to have found itself in the right place at the right time supported by well-established partners with a chance to transform an otherwise peripatetic history. That, a feasibility study notwithstanding, is the investment proposition. ▼