ValueTheMarkets
VIEW FROM THE CITY

Will Asiamet be an obvious take-out target if the copper market turns? (ARS)

Indonesia-focused resources business Asiamet (LSE:ARS) has enjoyed a strong start to the year, with its shares rising from 4.2p to their current 6.4p. This gives the company a market cap of £59m. With one of its key copper assets approaching an investment decision and the development of its tier one Beutong project on the horizon, there is speculation in the City that Asiamet might be an attractive takeover target.

The view is that the prospectivity of Asiamet's portfolio might place it far ahead of its peers in the event that the next copper bull-run forces major resource players to make a scramble for supply of the red metal. Here, we take a look at the company and the prospects it offers.

KSK Opportunity

Asiamet is focused on the exploration and development of a portfolio of large copper-gold and polymetallic deposits on the Indonesian islands of Kalimantan and Sumatra. One of the company's key projects is an area on Kalimantan called KSK, where it owns a 100pc stake. This consists of the Beruang Kanan Main (BKM) copper deposit and the Beruang Kanan Zinc (BKZ) polymetallic project. BKM is the firm's most advanced asset and currently contains a 431.9kt copper resource.

A PEA completed in 2016 demonstrated the potential for developing a robust, low strip ratio, low capital intensity copper project at BKM. The assessment predicted that the asset would also boast low operating costs, strong cash flow generation capacity and upside potential. Specifically, the work gave the operation an after-tax NPV(10) of $204m, an after-tax IRR of 39pc, and set out 25ktpa copper cathode production over an initial eight years with immediate expansion potential.

Since the release of this study, Asiamet been completing a feasibility study at BKM, carrying out a $3.3m placing at 4.25p a share last November to support the completion of final infill work. The final results of this drilling were delivered in April to optimise the project's mine design and improve overall economics. Pending final permitting approvals, Asiamet now plans to provide an 'economically robust' feasibility study by the end of May ahead of proposed development and production throughout 2020.

Elsewhere, BKZ is a deposit of massive sulphide mineralisation intersected over an area of 300m X 110m and containing various metals. Following successful drilling, the company delivered JORC resource for the project in May last year. This gave the project's upper polymetallic zone a resource of 750,000 tonnes at 8pc zinc, 3.4pc lead, 50g/t silver and 0.35g/t gold.

ASIAMET RESOURCES

Mining

Source: LSE

Market Data

EPIC	ARS
Current Share Price	6.4p
52 Week High	12.25p
52 Week Low	3.33p
Market Cap	£59m
Shares in issue	1,005m
Market	AIM

Description

Asiamet Resources Limited is a dynamic junior company focused on the exploration and development of its portfolio of large copper-gold and polymetallic deposits on the Indonesian islands of Kalimantan and Sumatra, adjacent to the key growth markets in Asia.

Directors & Company Info

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Meanwhile, the project's lower copper zone is thought to contain 1.1Mts at 1.1pc copper and 13g/t silver. Given that the deposit is shallow and remains open in all directions, Asiamet has also identified numerous additional high-probability targets at the site. With BKZ being based fewer than 800m north of BKM, Asiamet plans to leverage off the proposed infrastructure at its more advanced project when bringing the deposit into development. It also plans to fund the deposit's development through cash flow from BKM.

Game Changer

The potential long-term jewel in the crown for Asiamet is its 80pc owned Beutong project. This is an extensive porphyry copper-gold system located on the island of Sumatra close to infrastructure and the coast. The asset comprises three different zones called Beutong East, Beutong West, and Beutong Skarn that collectively contain resources of 509Mt at 0.48pc copper, 0.13g/t gold, 1.28g/t silver, and 120ppm molybdenum.

ASIAMET'S ASSET LOCATIONS

Source: Asiamet Resources

These figures, released in March 2019 following a programme of infill drilling, translate into contained metal in Resource on an 80pc attributable basis of 1.95Mt (4.30Blb) copper, 1.69Moz gold and 16.73Moz silver. This makes it around six times larger than BKM.

What's more, Asiamet has said that Beutong boasts highly-mineralised chalcopyrite-bornite-magnetite-bearing breccia clasts proximal to a large magnetic body modelled at depth below current drilling. It believes this offers the potential for the discovery of a high-grade core similar to that seen in world-class porphyry systems such as Wafi Golpu, owned by Newcrest, and SolGold's Cascabel project in Ecuador.

Asiamet intends to carry out further drilling campaigns to expand Beutong's resource and test the potential for a high-grade core at depth. It will also investigate early-stage development options after securing the production licence needed to advance the asset to the development stage in January 2018. In particular, Asiamet is looking to explore the potential for a heap-leach starter operation on the upper 200m at Beutong as it has an oxidised cap. This work would then deliver early cash flow to develop a far more extensive operation.

View from the City

With BKM's feasibility study now imminent, Asiamet has re-entered the City's spotlight over recent months. Many have been quick to point out that no further processing is necessary on material produced at its projects. This means its end product should be relatively cheap due to avoiding levies and any restrictions put in place by the Indonesian government on unprocessed ore.

With this in mind, some experts expect Asiamet to become cashflow positive by 2021 and have net cash by 2022. As well as being significant in the context of the firm's current market cap, this would allow the organisation to use BKM as something of a 'starter asset' to fund the development of BKZ and – most importantly - Beutong. Given the evidence of deeper, higher-grade sulphides at Beutong, many believe the asset really has the potential to push Asiamet into the realm of a major copper producer.

To express Beutong's potential as a 'tier one opportunity', the asset is often compared to SolGold's flagship Cascabel project. Cascabel has impressive indicated resources of 2,050Mt at 0.60pc copper equivalent and a further 900Mt at 0.35pc copper equivalent of inferred resources. However, while it matches Cascabel in scale, Beutong has the added benefit of being much closer to the surface and outcrops. This characteristic leaves it amenable to open pit mining, while Cascabel will require underground mining- a much more expensive process. All-in-all, the potential for staged development using several different approaches makes Beutong one of the largest and highest-grade listed, pure greenfield copper projects in the world.

Aside from the promise offered by its projects, many have also been quick to highlight the experience held by Asiamet's management team. Chairman Tony Manini was instrumental in taking Oxiana from a $3m valuation up to $6bn and recently sold a mine called Martabe to an Indonesian group for $1.2bn. This local knowledge and contact network reduces the risk of operating in Indonesia when combined with Asiamet's ongoing efforts to win over local government support with community engagement across its assets.

Despite this management experience, near-term production potential from BKM, and huge exploration potential from Beutong, Asiamet continues to trade at a significant discount – even to its greenfield peers. With its potential to become a major copper player in mind, the business has been handed a 'buy' rating and significant upside potential from numerous brokers including Arden, Liberum, and Berenberg.

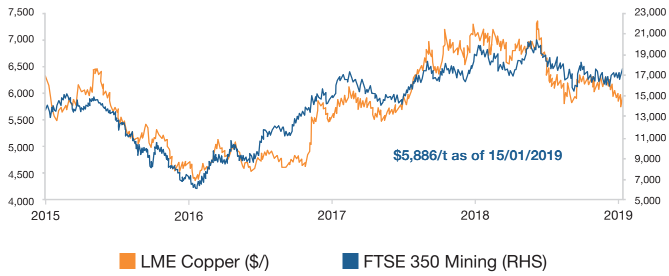
Catalysts for change?

Encouragingly for Asiamet's shareholders, many believe that conditions in the copper market could soon see the company's apparent undervaluation reverse severely. After a mixed period thanks largely to last year's commodity market downturn, there is a view that the red metal is entering an exciting phase moving forward that could make it a stand-out medium to long-term investment.

This potential positive reversal comes down to numerous fundamental drivers that are predicted to lead to a market-wide scramble for the metal. For example, on the demand side, China appears to be accelerating into a phase of infrastructure development. Indeed, the country is currently in the process of re-starting several public-private-partnership projects that stand at a value of $2.5m. These have the long-term goal of moving up to 200m people from rural areas to lower-tiered cities by 2025.

Meanwhile, the country's 'belt and road' initiative aims to create the world's largest platform for economic cooperation including policy coordination, trade, financing, social and cultural partnership. The work is expected to comprise a continuous network of highways, railways, ocean routes and ports, with plans to expand over 68 countries and several continents at the cost of $4trn to $8trm.

COPPER PRICE VS FTSE 350 MINING INDEX



Source: Bloomberg

Elsewhere, China is planning to ban all scrap imports by 2020 as part of its environmental reforms. Given that the country uses c.3.4Mt of scrap each year, this is expected to provide international processors and fabricators with a significant opportunity. Beyond China, copper demand is also likely to be enhanced by the global move towards renewable energy in the near to mid-term and from electric vehicles in the long-term.

Given copper's desirable properties and diverse applications, the opportunity for a massive surge in demand from all these areas is evident. At the same time, on the supply side, a sustained downturn is thought to have created an environment where not enough projects are coming on stream to meet predicted demand as a result of under-investment.

Despite predicting that 2019 will be a year of deficit, Arden highlights that the price of copper is yet to move considerably as traders are finding the metal 'untradeable'. This is because weak market conditions

> "Our view is that copper prices will rise in 2019 and maintain these levels before rising again into 2021. There are a few small caveats, but in times of copper price rises most firms linked to the red metal show significant share price gains."
>
> **Arden Partners**

have led to few positive fundamental drivers since mid-2018. However, the broker adds that it believes a copper run will start in the event of any positive outcomes from trade talks between the US and China and improvements to China's PMI data.

Take-out target

When a catalyst does prompt a copper bull run, several brokers have highlighted Asiamet as one of the world's primary beneficiaries. This comes down to both its short-term production potential – primarily on offer at BKM - and its long-term, market-leading opportunity at Beutong making it a highly attractive take-out target.

Asiamet has already indicated that it is open to a deal, previously suggesting that it is more likely to bring in a local JV partner than go down the traditional debt-equity financing route when advancing its assets. Its management has even indicated that it has had several approaches from parties interested in partnering on the development of BKM through offtake agreements or equity investments at an asset level. It is likely that the business is now waiting for the results of the BKM feasibility study before taking things further.

BKM Copper Deposit & Beutong Project

Source: Asiamet Resources

Meanwhile, it is possible that Beutong will enter the minds of major copper producers increasingly over the longer-term as Asiamet re-starts work and continues to de-risk the project.

Beutong Project – Infrastructure Advantage

Source: Asiamet Resources

Disclaimer

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