# LIVEWIRE INTERVIEW

October 26 2021

## *The School of Rock (and 6 micro-caps for your watch list)*

**ALLY SELBY**

Livewire Markets

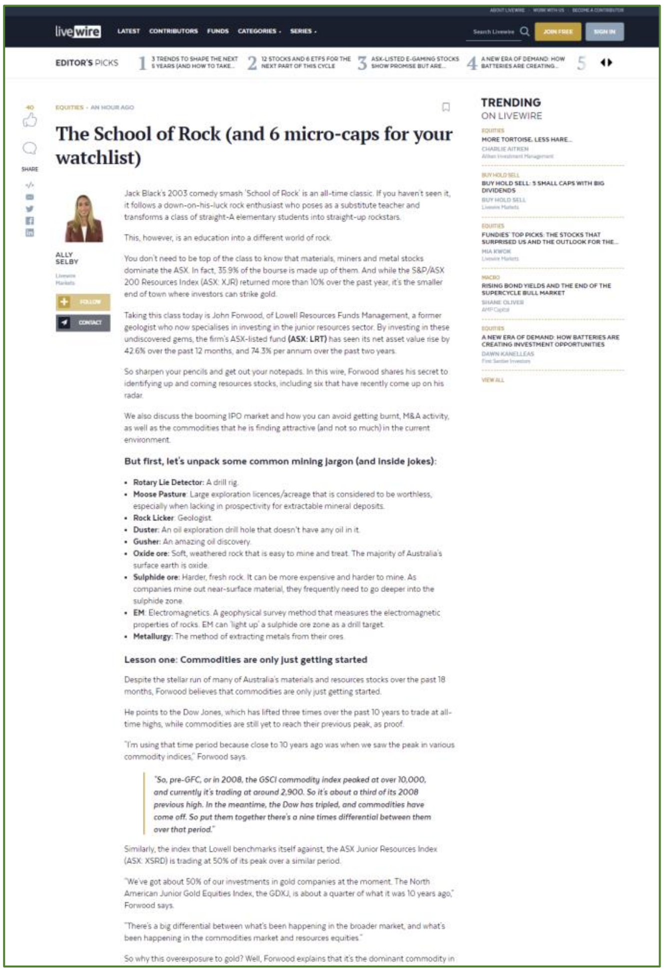
FOLLOW

CONTACT

Jack Black's 2003 comedy smash 'School of Rock' is an all-time classic. If you haven't seen it, it follows a down-on-his-luck rock enthusiast who poses as a substitute teacher and transforms a class of straight- A elementary students into straight-up rockstars.

This, however, is an education into a different world of rock.

You don't need to be top of the class to know that materials, miners and metal stocks dominate the ASX. In fact, 35.9% of the bourse is made up of them. And while the S&P/ASX 200 Resources Index (ASX: XJR) returned more than 10% over the past year, it's the smaller end of town where investors can strike gold.



ABOUT LIVEWIRE · WORK WITH US · BECOME A CONTRIBUTOR

livewire LATEST CONTRIBUTORS FUNDS CATEGORIES SERIES Search Livewire JOIN FREE SIGN IN

EDITOR'S PICKS 1 3 TRENDS TO SHAPE THE NEXT 5 YEARS (AND HOW TO TAKE... 2 12 STOCKS AND 6 ETFS FOR THE NEXT PART OF THIS CYCLE 3 ASX-LISTED E-GAMING STOCKS SHOW PROMISE BUT ARE... 4 A NEW ERA OF DEMAND: HOW BATTERIES ARE CREATING... 5

40 SHARE

EQUITIES · AN HOUR AGO

The School of Rock (and 6 micro-caps for your watchlist)

ALLY SELBY

Livewire Markets

FOLLOW

CONTACT

Jack Black's 2003 comedy smash 'School of Rock' is an all-time classic. If you haven't seen it, it follows a down-on-his-luck rock enthusiast who poses as a substitute teacher and transforms a class of straight-A elementary students into straight-up rockstars.

This, however, is an education into a different world of rock.

You don't need to be top of the class to know that materials, miners and metal stocks dominate the ASX. In fact, 35.9% of the bourse is made up of them. And while the S&P/ASX 200 Resources Index (ASX: XJR) returned more than 10% over the past year, it's the smaller end of town where investors can strike gold.

Taking this class today is John Forwood, of Lowell Resources Funds Management, a former geologist who now specialises in investing in the junior resources sector. By investing in these undiscovered gems, the firm's ASX-listed fund **(ASX: LRT)** has seen its net asset value rise by 42.6% over the past 12 months, and 74.3% per annum over the past two years.

So sharpen your pencils and get out your notepads. In this wire, Forwood shares his secret to identifying up and coming resources stocks, including six that have recently come up on his radar.

We also discuss the booming IPO market and how you can avoid getting burnt, M&A activity, as well as the commodities that he is finding attractive (and not so much) in the current environment.

**But first, let's unpack some common mining jargon (and inside jokes):**

- **Rotary Lie Detector:** A drill rig.
- **Moose Pasture**: Large exploration licences/acreage that is considered to be worthless, especially when lacking in prospectivity for extractable mineral deposits.
- **Rock Licker**: Geologist.
- **Duster:** An oil exploration drill hole that doesn't have any oil in it.
- **Gusher:** An amazing oil discovery.
- **Oxide ore:** Soft, weathered rock that is easy to mine and treat. The majority of Australia's surface earth is oxide.
- **Sulphide ore:** Harder, fresh rock. It can be more expensive and harder to mine. As companies mine out near-surface material, they frequently need to go deeper into the sulphide zone.
- **EM**: Electromagnetics. A geophysical survey method that measures the electromagnetic properties of rocks. EM can 'light up' a sulphide ore zone as a drill target.
- **Metallurgy:** The method of extracting metals from their ores.

**Lesson one: Commodities are only just getting started**

Despite the stellar run of many of Australia's materials and resources stocks over the past 18 months, Forwood believes that commodities are only just getting started.

He points to the Dow Jones, which has lifted three times over the past 10 years to trade at all-time highs, while commodities are still yet to reach their previous peak, as proof.

"I'm using that time period because close to 10 years ago was when we saw the peak in various commodity indices," Forwood says.

> *"So, pre-GFC, or in 2008, the GSCI commodity index peaked at over 10,000, and currently it's trading at around 2,900. So it's about a third of its 2008 previous high. In the meantime, the Dow has tripled, and commodities have come off. So put them together there's a nine times differential between them over that period."*

Similarly, the index that Lowell benchmarks itself against, the ASX Junior Resources Index (ASX: XSRD) is trading at 50% of its peak over a similar period.

"We've got about 50% of our investments in gold companies at the moment. The North American Junior Gold Equities Index, the GDXJ, is about a quarter of what it was 10 years ago," Forwood says.

"There's a big differential between what's been happening in the broader market, and what's been happening in the commodities market and resources equities."

So why this overexposure to gold? Well, Forwood explains that it's the dominant commodity in

TRENDING ON LIVEWIRE

EQUITIES
MORE TORTOISE, LESS HARE...
CHARLIE AITKEN

BUY HOLD SELL
BUY HOLD SELL: 5 SMALL CAPS WITH BIG DIVIDENDS
BUY HOLD SELL

EQUITIES
FUNDIES' TOP PICKS: THE STOCKS THAT SURPRISED US AND THE OUTLOOK FOR THE...
MIA KWOK

MACRO
RISING BOND YIELDS AND THE END OF THE SUPERCYCLE BULL MARKET
SHANE OLIVER
AMP Capital

EQUITIES
A NEW ERA OF DEMAND: HOW BATTERIES ARE CREATING INVESTMENT OPPORTUNITIES
DAWN KANELLEAS

VIEW ALL

Taking this class today is John Forwood, of Lowell Resources Funds Management, a former geologist who now specialises in investing in the junior resources sector. By investing in these undiscovered gems, the firm's ASX-listed fund **(ASX: LRT)** has seen its net asset value rise by 42.6% over the past 12 months, and 74.3% per annum over the past two years.

So sharpen your pencils and get out your notepads. In this wire, Forwood shares his secret to identifying up and coming resources stocks, including six that have recently come up on his radar.

We also discuss the booming IPO market and how you can avoid getting burnt, M&A activity, as well as the commodities that he is finding attractive (and not so much) in the current environment.

This article can be read at [https://www.livewiremarkets.com/wires/the-school-of-rock-and-6-micro-caps-for-your-watchlist](https://www.livewiremarkets.com/wires/the-school-of-rock-and-6-micro-caps-for-your-watchlist)

## But first, let's unpack some common mining jargon (and inside jokes):

- **Rotary Lie Detector:** A drill rig.
- **Moose Pasture**: Large exploration licences/acreage that is considered to be worthless, especially when lacking in prospectivity for extractable mineral deposits.
- **Rock Licker**: Geologist.
- **Duster:** An oil exploration drill hole that doesn't have any oil in it.
- **Gusher:** An amazing oil discovery.
- **Oxide ore:** Soft, weathered rock that is easy to mine and treat. The majority of Australia's surface earth is oxide.
- **Sulphide ore:** Harder, fresh rock. It can be more expensive and harder to mine. As companies mine out near-surface material, they frequently need to go deeper into the sulphide zone.
- **EM**: Electromagnetics. A geophysical survey method that measures the electromagnetic properties of rocks. EM can 'light up' a sulphide ore zone as a drill target.
- **Metallurgy:** The method of extracting metals from their ores.

## Lesson one: Commodities are only just getting started

Despite the stellar run of many of Australia's materials and resources stocks over the past 18 months, Forwood believes that commodities are only just getting started.

He points to the Dow Jones, which has lifted three times over the past 10 years to trade at all-time highs, while commodities are still yet to reach their previous peak, as proof.

"I'm using that time period because close to 10 years ago was when we saw the peak in various commodity indices," Forwood says.

***"So, pre-GFC, or in 2008, the GSCI commodity index peaked at over 10,000, and currently it's trading at around 2,900. So it's about a third of its 2008 previous high. In the meantime, the Dow has tripled, and commodities have come off. So put them together there's a nine times differential between them over that period."***

Similarly, the index that Lowell benchmarks itself against, the ASX Junior Resources Index (ASX: XSRD) is trading at 50% of its peak over a similar period.

"We've got about 50% of our investments in gold companies at the moment. The North American Junior Gold Equities Index, the GDXJ, is about a quarter of what it was 10 years ago," Forwood says.

"There's a big differential between what's been happening in the broader market, and what's been happening in the commodities market and resources equities."

So why this overexposure to gold? Well, Forwood explains that it's the dominant commodity in the junior resources sector, largely because it's "relatively easy to explore for" and the "capital intensity of developing a project is low".

However, right now, Forwood believes it's a particularly good time to be investing in gold.

"The Fed in the US is really caught between a rock and a hard place. Undoubtedly inflation is taking off. Everything is becoming more expensive, from used cars to real estate, to a bag of potatoes," he says.

"Is the Fed going to try and bring inflation back under control? If it does, there's so much debt out there that raising interest rates is going to really pummel the economy. We think that the Fed probably will inch interest rates up, but that will be really bad for the broader economy. So you could well see some stagflation like we saw in the 1970s."

During that decade, the price of gold lifted 10 times, Forwood adds.

***"We think there's a pent up possibility that gold could really take off," he says.***

### Lesson two: Deciphering the good and bad from the flood of IPOs

The average number of resources IPOs in the mid-2010s was five a year, Forwood says. This year, to the end of September, there have been 75.

"There has probably been more in the last few weeks, pushing us closer to 90," he says.

So how do you decipher the good from the bad in junior resources IPOs? Glad you asked.

Just last week, the Lowell Resources Fund invested in the IPO of **Alvo Minerals (ASX: ALV)**, which has a base metals project in Brazil**.** In this case, it was the management team that got Forwood over the line. The team still own about 22% of the company post-IPO.

"They've got a really good commitment and lots of skin in the game," he says.

"And I've personally known the MD for a long time. He's married to a Brazilian lady. He's spent at least, I think it's seven years, living in Brazil, and knows the country really well. And he's completely committed to it. So that's the number one thing to look for, to see the commitment of management to the project."

You also need to look out for good news flow, Forwood says, as really, "that's the product for junior explorers".

***"If you're not actually in production and mining and producing something, the only product that you've got is your announcements to get the market interested," he says.***

***"So you want to be able to see that that company will be able to advance its projects. And generally in mineral exploration, that means drilling."***

Companies need to have drill rigs, drillers and most importantly, permits to drill, Forwood says. They also need to be well-funded and not raising the minimum amount of capital for an IPO.

For added x-factor, investors should look out for something new; you don't want to be investing in a prospect that has been previously listed and changed its name to come to the market again, he says. Surprisingly (to me at least), this is not uncommon.

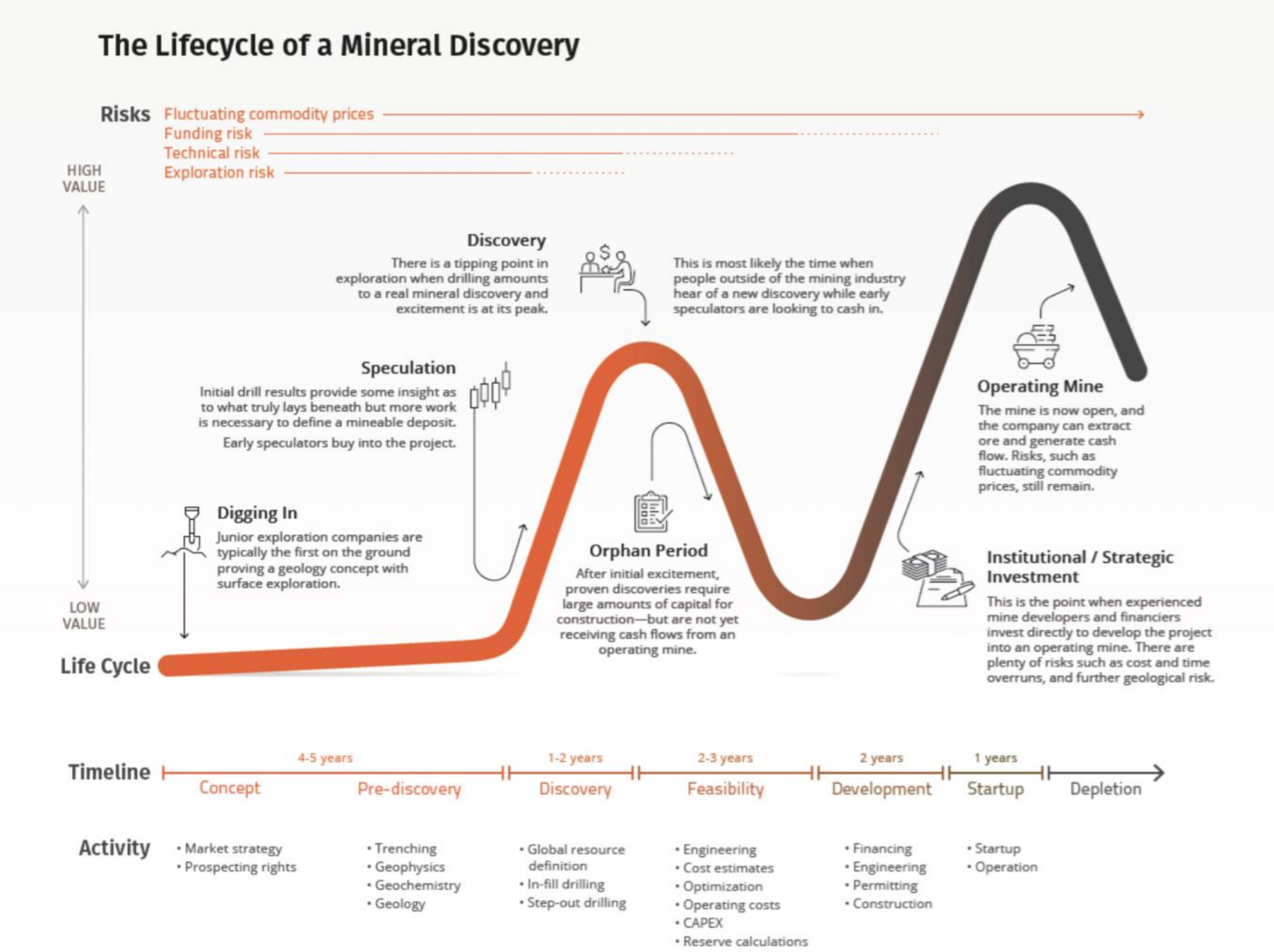
***"It is a problem in mining. The good deposits get mined out and the bad deposits get recycled and they never get mined because they're not economic, and you see them again and again in IPOs," Forwood says.***

"So you've got to be cautious. If you see a renamed project, that's a bit of a red flag for me."

Another red flag is when IPO funds are used to repay founders (i.e. founders are cashing out at IPO), he says.

## Lesson three: What metrics, if any, can you use?

Forwood's target investment stage is based on the "Lassonde Curve", which represents the life stages of a junior mining company (as seen below). The Lowell Resources Fund invests at the beginning of the lifecycle, from discovery to reserve definition and drill out, and typically exists before the company gets into the "orphan period".




*Source: Visual Capitalist*

"In the life cycle of mining projects, the first peak is: The company makes a discovery and drills it out, and the share price goes for a run," Forwood explains.

"Then it gets into the 'boring bits' where you have to do the feasibility study on opening a mine, you have to apply for the permit to open the mine, you have to get the finance, and typically, during that period, you can see a slump in share price.

"Once all that's done and hopefully the company gets into production, then you see it rise towards the underlying NPV of the project that's reflected in the share price."

The majority of the companies the Lowell Resources Fund invests in are start-ups and don't turn a profit.

"If they're still exploring, it's very much beauty is in the eye of the beholder. If they don't actually have a defined commodity reserve or resource in the ground, then you can't really use any metrics," Forwood says.

The size of an exploration licence is meaningless, he adds.

***"It's not the size of the ground. It's the quality of the exploration prospects that you've got," Forwood says.***

Once there is a resource in the ground, then you can typically prescribe an enterprise value per ounce or per barrel, he says.

"Then you can start to stack up, "Okay, who looks like they're trading at a very high EV per ounce? Who's trading at a low EV per ounce?" There are usually reasons why that happens, but you can pick up some anomalies in the market. It does give you a bit of a feel for value," Forwood says.

### Lesson four: When it comes to M&A, should we invest in takeover targets or acquirers?

M&A activity in the resources sector, like the rest of the ASX, has picked up in recent times. These include deals like **BHP (ASX: BHP)** selling its petroleum business to **Woodside (ASX: WPL)** and a Korean company called POSCO making a bid for a small, Queensland-based gas producer called **Senex (ASX: SXY).**

We've also seen **Orocobre (ASX: ORE)** take over **Galaxy Resources**, as well as two Chinese companies take over **Millennial Lithium** and **Neo Lithium.** And there's an ongoing bidding war taking place between Twiggy Forest (Wyloo Metals) and BHP for Canadian nickel miner Noront.

At the smaller end of town, there's currently a contested takeover for **Apollo Consolidated (ASX: AOP)**, which has a million-ounce gold deposit in Western Australia, he adds.

"It's not in production. It's really just in a feasibility study. And there's a couple of mid-tier gold miners - one called **Ramelius (ASX: RMS)** and one called **Gold Road (ASX: GOR)**, which are in a takeover tussle for that company," Forwood says.

***"We think M&A activity is only going to increase because these companies have got good access to funding, and generally they've got fairly limited organic growth prospects. So put those two together, and you should see more M&A."***

Other companies that could potentially be takeover targets include **Musgrave Minerals (ASX: MGV)**, **Saturn Metals (ASX: STN)**, and Canadian company **Talon Metals (TSX: TLO)**, Forwood says.

### Lesson five: What's hot (and not) in commodities

Other than gold, Forwood believes that energy stocks have a lot of upside ahead of them, and while the Lowell Resources Fund doesn't invest in coal, it does invest in oil and gas.

"There's a massive decarbonization theme happening at the moment, but oil and gas are going to be around for a long time yet," he says.

***"We've seen the oil price jump up to $80 a barrel, and a number of analysts are calling it to go to $100 a barrel, possibly as soon as the end of this year. And a similar thing has happened in gas globally. Massive, huge gas shortages both in China and in Europe. And we're reading about it particularly in the UK. So, we think that there are some really good opportunities in gas and in oil."***

Currently, Forwood's portfolio is underweight lithium and uranium, as following the fantastic run of many of these companies, it's difficult to still find value in these stocks at the moment.

"A lot of lithium companies have been re-rated quite significantly, and we find it hard to see value in a lot of these companies at the moment. While the fundamentals are fantastic for lithium, the number of names is not there".

Uranium, in comparison, is and always has been a "really interesting space", Forwood says. But recent investment by financial players in physical uranium has distorted its price significantly.

"It's pushed the price of uranium up from around US$30 a pound to close to US$50 a pound. And the uranium stocks have had a fantastic run on the back of that," he says.

***"Even at US$50 a pound, on average, most Australian uranium projects are still not going to go ahead. They need, on average, about US$65 a pound to break even, or to push the button on development."***

Despite this, Forwood notes that in the speculative juniors space, you can still make a lot of money with projects that don't get off the ground.

"So there's still potential upside in a lot of these speculative uranium stocks," he says.

## Lesson six: 6 opportunities that Forwood has recently identified

Knowing our readers, I'm guessing this is the reason you turned up to this "School of Rock" class. Forwood has very kindly shared six stocks that the Lowell Resources Fund has recently been buying in the junior resources sector, as outlined below:

### 1. FAR Limited (ASX: FAR)

FAR is an oil and gas company operating in West Africa. Forwood explains that it was involved in a big oil discovery offshore Senegal approximately seven years ago and eventually sold out to Woodside.

Now, FAR is about to drill a new off-shore oil prospect in a joint venture with Petronas, the Malaysian state oil company in the neighbouring country of The Gambia, he says, where the same geological structure runs from the known discovery (which Woodside now owns) to the prospect in The Gambia.

"They're about to drill a billion-barrel target, which is absolutely enormous. And they've got 50% of it," Forwood says.

***"It might be a duster, but even if it is, they're trading pretty much at their cash backing at the moment. They'll use about $30 million to pay for their share of the oil well, but the downside is probably the share price might go to 50% or 70% of its current level. The upside, however, is probably a 10 bagger."***

### 2. Arrow Minerals (ASX: AMD)

Gold exploration company Arrow Minerals is also based in West Africa, but onshore in a country called Burkina Faso.

In February this year, it announced a joint venture with a North American zinc miner called Trevali, which has been exploring and drilling its exploration licences for zinc, but coming across high-grade gold, Forwood says.

"So Arrow Minerals has done a joint venture to go and explore for gold on the zinc miner's ground," he says.

***"There are some really high-grade hits that have never been followed up, what you might call low-hanging fruit. And Arrow is about to start a drilling program to follow up some of these really exciting gold prospects."***

### 3. Musgrave Minerals (ASX: MGV)

Musgrave Minerals is one of the Lowell Resources Fund's major holdings, and Forwood has recently been boosting this position. This is mainly because the company's exploration licence/location is excellent from an M&A position but also because of some recent high-grade discoveries.

***"They've been making new discoveries, hitting new gold lodes. There are some real bonanza grades, and they're close to surface," Forwood says.***

In Australia, the high-grade gold that is near-surface and easy to mine is largely gone, he adds. This means most miners need to drill deep (and build an underground mine) to access high grades.

"Musgrave has been finding high-grade gold close to surface. This means you can just have an open-pit mine, which is generally a lot cheaper from a CAPEX and OPEX point of view," Forwood says.

## 4. Azure Minerals (ASX: AZS)

Azure Minerals is a nickel company that Forwood has recently been adding to the Lowell Resources Fund portfolio. It has an interesting project up in the Pilbara, near Port Hedland, he says, of which it owns 60% of the project and the other 40% is owned by mining entrepreneur Mark Creasy.

Azure uses a geophysical technique called EM, electromagnetics, which basically pumps a big current into the ground, Forwood explains. If there's sulphide at depth, it may light up a zone as a drill target.

***"They've been drilling these sulphide targets, and almost getting a 100% success rate or discovery rate, in their drilling," he says.***

"So they've found a significant amount of nickel already and they've got a lot more targets to drill. Some of them even are bigger than the ones that they've drilled to date."

As an added bonus, Azure also has a gold project down south near Kalgoorlie

"The company with the adjacent exploration licence **(Genesis Minerals, ASX: GMD)** has been drilling for high-grade gold right up to the boundary between the two exploration licences," Forwood says.

"And Azure is about to start drilling immediately across the boundary on their ground to test some gold prospects there."

## 5. Australian Rare Earths (ASX: AR3)

The Lowell Resources Fund's main rare-earths position is Australian Rare Earths, which was listed on July 1 this year.

"They listed at 30 cents and they've recently been trading around the 90 cents per share mark," he says.

While he likes the management team, it was this project's "metallurgy" that attracted him to this investment.

***"This particular rare-earths project has relatively low grades of rare-earths. We're talking about 800 parts per million of rare-earths in a tonne of rock. So that's relatively low compared to say Lynas Corporation," Forwood says.***

However, the advantage of the Australian Rare Earths project is the metallurgy is really good, he says.

"It's a clay, it's really close to the surface. It's often in the top 10 metres. So there is potential to simply mine the clay, and then about 50% of the rare earths comes out when you wash it with, basically, seawater," Forwood says.

***"They don't need any fancy chemicals or lots of power or anything like that. It's really easy to extract. As opposed to many other rare-earths projects where you basically need a really complicated chemistry set to extract the rare earths."***

## 6. Caravel Minerals (ASX: CVV)

A recent ten-bagger for the team at Lowell Resources Funds Management, Caravel Minerals holds a very large but low-grade copper project in the Wheat belt of Western Australia.

"We bought into that company about 18 months ago at four cents a share. It's currently trading at about 44 cents a share," he says.

This stock is a "good bit of leverage" to the copper price, he adds.

***"In 2019, the company did what you call a scoping study, which is basically a desktop economic analysis of the project. Back then they used the prevailing copper price (at US$3 per pound of copper), to run the economics on the operation," Forwood says.***
***"At US$3 the project looked good but it wasn't a ball tearer."***

Currently, the copper price has been trading at around US$4.60 per pound of copper, Forwood says, helping the project's net present value to skyrocket into the billions.

***"Caravel has a market cap of under $200 million. So it's trading at about 10% of the value of its underlying project. And we think there's still plenty of upside there," he says.***

**What micro-cap materials or resources stock are you backing?**

Forwood has shared six of his winning picks, but what are you backing? Let us know in the comments section below. And if you have any questions, leave them in the comments section and I will endeavour to get a response to all of you.

**Never miss an update**

Enjoy this wire? Hit the 'like' button to let us know. Stay up to date with my content by hitting the 'follow' button below and you'll be notified every time I post a wire.

**Not already a Livewire member?** Sign up today to get free access to investment ideas and strategies from Australia's leading investors.

---

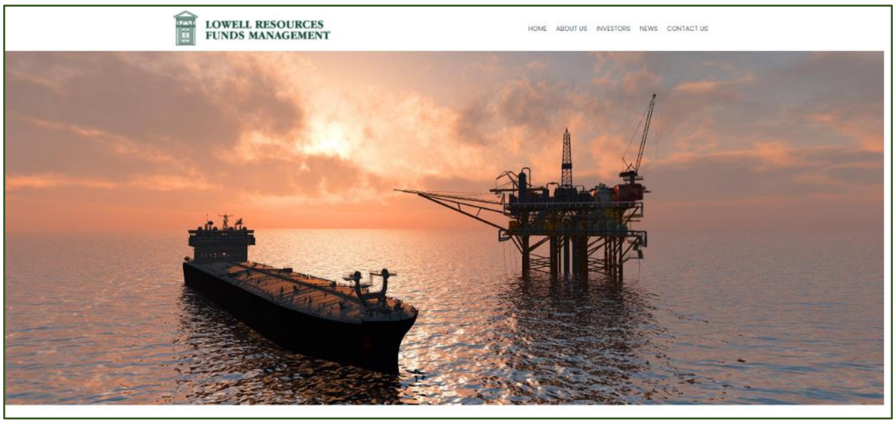
## CONTACT US

For enquiries or to request an information pack https://www.lrfm.com.au/contact-us.html

## ABOUT US

Lowell Resources Funds Management Ltd ('LRFM') is manager of the Lowell Resources Fund, a junior-resources focused fund that is listed on the ASX (ASX: LRT). LRFM management continuously reviews global economic conditions as they impact the resources sector and manage their portfolios accordingly.

## VISIT OUR WEBSITE




For more information about the Fund, investment portfolio and our regular updates about the resources sector.

http://www.lrfm.com.au

## Important Note

The investment manager for Lowell Resources Trust, Lowell Resources Funds Management, ABN 36 006 769 982 AFSL 345674 provides financial products and services to wholesale clients only.

This article has been prepared by Lowell Resources Funds Management for information purposes and should not be construed as to be providing financial advice. Before making any financial decision you should seek advice from a licensed financial adviser.

This is general information and is NOT intended to constitute a securities recommendation. Forecasts in this presentation are predictive in character, based on numerous assumptions including the forecasted outlook for key variables and may be effected by various factors including inaccurate assumptions, risks and unforeseen events. Accordingly, actual results may differ materially from those forecasted.