



Prospect Resources Ltd (PSC.ASX)

In copper elephant country

Event:

- Acquisition of **Zambian copper project**; PT change.

Investment Highlights:

- Mumbezhi Copper Project in world class region.** It is located in the Zambian copper belt – a Tier 1 geological copper jurisdiction which includes Barrick Gold's Lumwana and First Quantum Minerals' Sentinel and Kansanshi copper mines. Mumbezhi licence covers 356km² and its major deposit Nyungu located only 30km south west of Lumwana.
- Acquisition terms.** PSC will acquire 85% of Mumbezhi from the current 100% owner Global Development Cooperation Consulting Zambia Ltd for US\$6.5M (US\$5.5M cash and US\$1M shares) on CPs. PSC also issued 8.3M shares at \$0.12 and 6.25M options to Orpheus Uranium Ltd (ORP, previously Argonaut Resources NL) - the prior owner of Mumbezhi, for reimbursement of select exploration costs, all exploration data, and withdrawing all legal claims.
- Exploration Target: 130-180Mt at 0.45-0.65% Cu for 580-1,150kt contained Cu.** Mumbezhi was explored by ORP with the focus on Nyungu deposits, including 9,330m of drilling. Near surface intercepts suggests open-pit mining potential. There is also an exploration target of 15-20Mt for 12-25kt of cobalt.
- Not just size - metallurgy also attractive.** Historic met tests show average 78% Cu recovery in the transition ore and 87% in the primary sulfide zone using flotation, and producing saleable concentrate of 25.6% Cu.
- Licence background.** ORP had the licence from 2011 until its cancellation in 2021, the Minister citing non-compliance and ORP disputing the claim. Eventually ORP - with new CEO, desire to focus on its Australian projects, and wish to avoid lengthy appeal - decided to divest Mumbezhi, which anyway had fluctuated in priorities vs other ORP projects, including not being drilled for period of four years between 2017 and 2021.
- Where PSC can make a difference.** PSC key management have experience in sub-Saharan Africa, spend considerable time in the region - including MD Sam Hosack five years in Zambia. This contributed to successfully commercialising the Arcadia lithium project in Zimbabwe. PSC is also acutely focused on managing portfolio of projects, quickly identifying what has strongest potential, and ensuring priority. We expect similar will occur for Mumbezhi.
- Maiden Resource targeted 3Q 2024.** PSC has begun analysing acquired data, and is targeting a maiden JORC Resource 3Q 2024.

Earnings and Valuation:

- Comparable valuation implies A\$128M for Mumbezhi.** We attempt an implied first pass look-through at Zambian Cu projects when they were at near similar stage to Mumbezhi – including when Equinox Minerals owned Lumwana, Kiwara plc owned Trident (later Sentinel) and currently Midnight Sun Mining's Solwezi. We derive a weighted average valuation of \$128M (100%).

Recommendation:

- We maintain our Buy and raise our 12-month price target to \$0.29 from \$0.14,** based on valuation. Catalysts include 1) Closure of acquisition 2) Maiden JORC Resource; 3) Further drill and met results; 4) Progress of lithium projects.

Disclosures

The analyst owns 60,400 PSC shares. Foster Stockbroking and other staff own 50,000 PSC shares. Carnport owns 1,000,000 PSC shares.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.290
Previous	\$0.14
Share price (A\$)	\$0.205
ASX code	PSC
52 week low-high	\$0.063-0.21
Valuation - (A\$/share)	\$ 0.290
Methodology	peer comparable

Capital structure

Shares on Issue (M)	463
Market cap (A\$M)	95
Performance rights (M)	5
Options (M)	32
Net cash (debt) (A\$M)	21
Diluted EV (A\$M)	82
Ave daily volume ('000)	604

Substantial shareholders

	%
Eagle Eye Asset Holdings Pte Ltd	15.3%
Mitsubishi UFJ Financial Group Inc	6.8%
Morgan Stanley and subsidiaries	6.8%
JP Morgan Chase & Co and its affiliates	5.4%

Board

Mark Wheatley	Non-Executive Chairman
Sam Hosack	Managing Director
Gerry Fahey	Non-Executive Director
Zivanayi (Zed) Rusike	Non-Executive Director
Gaurav Gupta	Non-Executive Director
HeNian Chen	Non-Executive Director

Share price graph



Analyst: Mark Fichera

+612 9993 8162

mark.fichera@fostock.com.au

ACQUISITION OF ADVANCED COPPER PROJECT

In Zambian elephant country

- In April 2024 PSC announced acquisition of the Mumbezhi Copper Project (Mumbezhi), located in the Zambian copper belt – a world class geological copper jurisdiction which includes Barrick Gold’s (Barrick) Lumwana and First Quantum Minerals’ Sentinel and Kansanshi copper mines.
- For example Lumwana is a conventional truck and shovel open-pit mine of mostly fresh copper sulfide, the ore is processed using flotation to produce copper (Cu) concentrate. Resources are 1.92bt @ 0.52% Cu for 10Mt contained Cu, while Reserves are 480Mt @ 0.58% Cu for 2.8Mt contained Cu supporting a 36-year mine life.
- The Mumbezhi licence covers 356km² and its major deposit Nyungu is located only 30km south west of Lumwana while being east of Sentinel, therefore lying between the two major mines.

Figure 1: Mumbezhi location



Source: Company

Acquisition terms

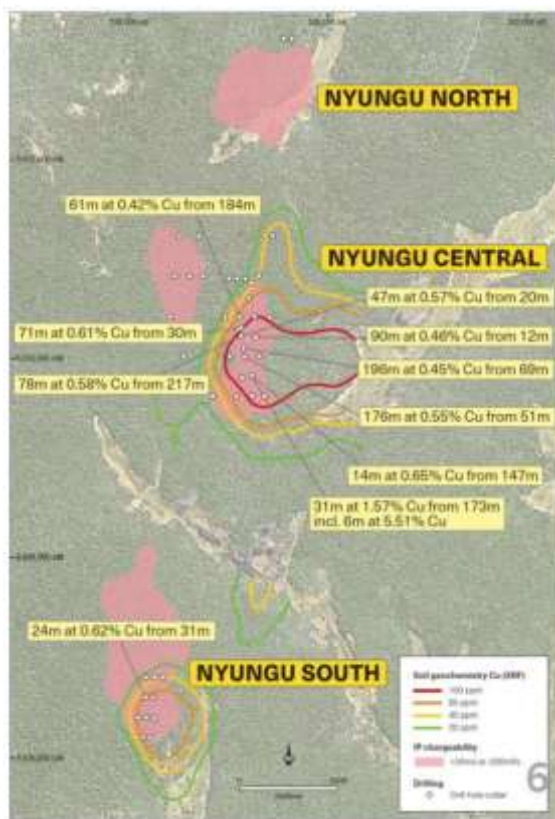
- PSC secured binding agreement to acquire 85% of Mumbezhi from the current 100% owner – Global Development Cooperation Consulting Zambia Ltd (GDC) - for US\$6.5M (comprising US\$5.5M cash and US\$1M shares, to be priced at 20% premium to 5-day VWAP upon all CPs satisfied). CPs include Ministerial consent for transfer of licence.
- Meanwhile PSC has also issued 8.333M shares at \$0.12 (\$1M) and 6.25M options at exercise price \$0.15, expiry 11 April 2027, to Orpheus Uranium Ltd (ORP, previously Argonaut Resources NL) - the prior owner of the Mumbezhi project, for reimbursement of select exploration costs, and in return ORP sharing all of the project’s geological and mining data, including physical drill core; and ORP agreeing to withdraw all legal claims, including appeals, to the exploration licence. Also, upon defining a JORC Resource exceeding 500kt contained Cu at cut-off grade 0.5% Cu milestone, PSC will pay \$2.5M to ORP.

HISTORIC EXPLORATION

Significant Exploration Target of 580-1,150kt contained Cu

- The area covered by the Mumbezhi was explored by ORP for about ten years, primarily on the Nyungu deposits, with prospectivity identified across other areas, with 50 RC and diamond drill holes were undertaken for 9,330m. Near surface mineralised intercepts suggests potential for open pit mining of copper and cobalt, including:
 - 71.4m @ 0.61% Cu from 29.6m,
 - 47.0m @ 0.57% Cu from 20.0m, and
 - 90.0m @ 0.46% Cu from 12.0m.
- A 1.7km strike was defined at Nyungu Central of about 250 width and 1km strike at Nyungu South, while soil anomalies identified prospects at Nyungu North and Nyungu East. In 2013 and 2017 ORP estimated Exploration Targets for Cu and cobalt (Co) across Nyungu, including 130-180Mt at 0.45-0.65% Cu for 580-1,150kt contained Cu.

Figure 2: Mumbezhi’s Nyungu deposits



Source: Company.

Figure 3: Mumbezhi - Nyungu Exploration Target

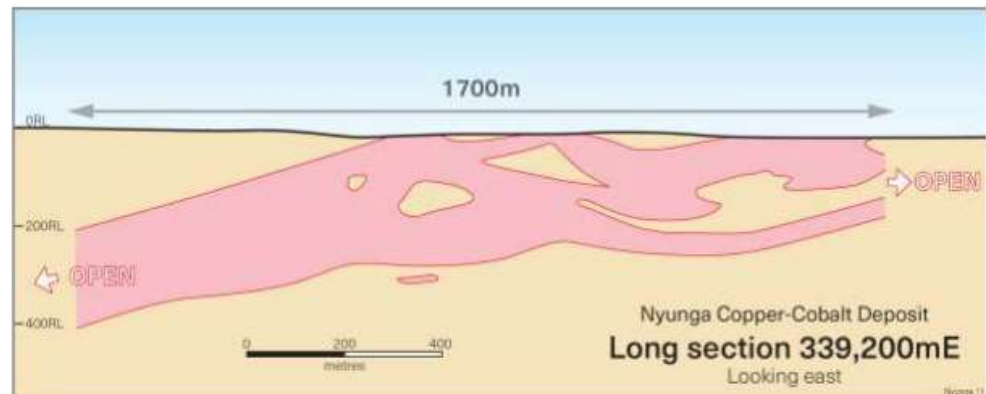
Commodity	Tonnage Range (Mt)	Grade Range (%)	Contained Metal Range (kt)
Copper*	130 to 180	0.45 to 0.65	580 to 1,150
Cobalt*	15 to 20	0.08 to 0.12	12 to 24

Source: Company; ORP. *Estimated 2013; ^estimated 2017.

Open-pit low-strip potential

- RPM undertook a preliminary open-pit study on Nyungu Central and South deposits in 2018, suggesting Nyungu Central having a low strip of 1.5x to 280m depth at a Cu price of around US\$3.25/lb, and 2.3x strip to 350m depth at US\$4.90/lb, implying a low sensitivity to strip.

Figure 4: Nyungu Central Long Section, looking east



Source: Company.

Attractive metallurgy

- Historic met tests conducted showed up to 88% Cu recovery (average 78%) in the transitional zone and up to 96% (average 87%) in the primary sulfide zone using flotation, producing a concentrate of 25.6% Cu. ORP also contemplated an early low-capex stage of mining oxide and transitional from surface, crush and grind, and treating with leach and SXEW or Albion process. These options may potentially may be examined by PSC.

Licence background

- The licence is set to expire on 1 December 2025 but is renewable for another three years to 2028, or convertible to a mining licence. ORP had the licence from 2011 until its cancellation in 2021, just prior to when it was due to expire, the Mines Minister citing non-compliance. ORP disputed the claim. Following, a nationwide moratorium was held for audit of existing licences, and the Zambian High court allowed a stay of execution on the cancellation, referring the decision back to the Mines Minister, who cancelled.
- We believe ORP, with a new CEO, a desire to focus on its Australian projects, and wanting to avoid lengthy appeals process, divested the project. Muzembhi actually fluctuated in ORP's priorities over the years vs the suite of other projects, a factor why it seemed to progress slowly - at one stage the company did not drill for period of four years between 2017 until 2021, despite the promise of the Exploration Target.

Where PSC can make a difference

- We expect PSC to make marked difference on Muzembhi under its stewardship. Its key management has experience in sub-Sahara Africa, having considerable time in the region, including MD Sam Hosack spending five years in Zambia. The company has already demonstrated success of staying close to the ground from commercialising the Arcadia lithium project in Zimbabwe. PSC has also appointed a consultant - Mr Valentine Chitalu - who will act as PSC's Zambia Strategic Advisor. As an incentive he is provided an option to acquire 5% of the project for US\$2.5M.

- The company also has a sharp focus on managing portfolio of projects, quickly identifying what has strongest potential, and ensuring it receives priority. This ensured Arcadia’s eventual development, and we expect similar will occur for Mumbezhi.

TARGETING MAIDEN RESOURCE 3Q

Analysis underway

- PSC has begun processing and analysing data it has acquired, including physical drill core. Some holes from the late 2,800m drill campaign in late 2021 were not reported by ORP following cancellation of the licence, although ORP mentioned copper content was confirmed in some holes by XRF and visual mineralisation encountered to 300m depths. PSC will report these in due course. The company aims to estimate a maiden JORC Resource for Nyungu in 3Q 2024.

Figure 5: Mumbezhi Timeline

Mumbezhi Project Target Key Workstreams	2024			2025	
	Q2	Q3	Q4	Q1	Q2
Binding Agreements Executed	•				
Transaction Completion	•				
Maiden Mineral Resource Estimate (MRE)		•			
Metallurgical Studies		•			
Infill and Extension Drilling Programmes		•	•		
Scoping Study			•	•	
Updated MRE				•	
Mining Lease Application				•	•

Source: Company.

VALUING MUMBEZHI

Look-through from other Zambian projects – \$128M for Mumbezhi (100%)

- We have looked at similar Zambian copper projects at various exploration stages to gauge a value of Mumbezhi:
 - **Lumwana.** In 2005 Lumwana had a JORC Resource of 900Mt a 0.7% Cu when Equinox Minerals (EQN) increased its interest to 100%, having a market cap then of A\$79M (or A\$128M in real 2024 terms). A feasibility study had been completed. Eventually it was acquired by Barrick in 2011 for US\$7.5b.
 - **Trident.** In 2009 Trident had a Resource of 340Mt at 0.72% Cu across 4km of strike, owned by Kiwara plc and valued at A\$292M (real 2024 terms), prior to being acquired by First Quantum for US\$260M later that year. No economic studies had been undertaken. The Resource increased to 1,200Mt at 0.5% Cu and contains the Sentinel mine.
 - **Solwezi.** Currently owned by Midnight Sun Mining, Solwezi is in pre-Resource early stage, with drilling over some areas of the project. Market cap is around A\$63M.
- We have weighted these to come up with a potential valuation for Mumbezhi. It’s far from perfect – we note that the significantly higher valuation of Kiwara vs EQN even though the former’s Trident had a smaller Resource and had no economic study undertaken. Therefore, we weight it lower than EQN. We conservatively give highest weight for Midnight Sun Mining, even though it has no Resource or Exploration Target.

**Figure 6: Wtd average valuation of Zambian copper projects at early stage**

Company	Project	Stage	Date	Mkt cap A\$M real 2024	Weighting %	Implied project value weighted A\$M
Equinox Minerals	Lumwana	BFS	2004	128	30%	38
Kiwara plc	Trident	Resource	2009	292	20%	58
Midnight Sun Mining	Solwezi	Exploration	2024	63	50%	32
Implied Mumbhezhi valuation:						128

Source: Companies; Foster Stockbroking estimates.

PSC VALUATION

Rises to \$0.29 from \$0.14

- Our valuation of PSC has increases to \$0.29 from \$0.14 using the valuation of Mumbhezhi implied from peer analysis, and partially offset by decline in comparable lithium valuations since our last report, impacting Step Aside and Omaruru.

Figure 7: PSC Valuation

Segment	A\$M	A\$/share
Copper – Mumbhezhi (85%)	109	\$0.22
Lithium - Step Aside, Omaruru	14	\$0.03
Cash from in-money options	5	\$0.01
Cash for acquiring Mumbhezhi	-8	-\$0.02
Net cash	21	\$0.04
Total	341	\$0.29
Shares now	463	
Shares for acquiring Mumbhezhi	5	
Performance rights	5	
Options-in-money at valuation	32	
Fully diluted shares M	505	

RECOMMENDATION & PRICE TARGET

Maintain Buy, 12-month PT raised to \$0.29 (prior \$0.14)

- We maintain our Buy recommendation on PSC and lift our 12-month price target to \$0.29 from \$0.14 based on valuation.
- Catalysts include 1) Closure of acquisition 2) Maiden JORC Resource; 3) Further drill and met results; 4) Progress of lithium projects.

FOSTER STOCKBROKING DISCLOSURES

Name	Department	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
James Gore	Institutional Sales	+61 2 9993 8121	james.gore@fostock.com.au
David Salmon	Institutional Sales Perth	+61 2 9993 8168	david.salmon@fostock.com.au
Doc Cromme	Institutional Sales	+61 2 9993 8132	doc.cromme@fostock.com.au
Jason Lal	Institutional Sales	+61 2 9993 8144	jason.lal@fostock.com.au
Ellie Bedoyan	Corporate	+61 2 9993 8132	ellie.bedoyan@fostock.com.au
Mark Fichera	Head of Research	+61 2 9993 8162	mark.fichera@fostock.com.au
Hazmy Hazin	Research Analyst	+61 2 9993 8130	hazmy.hazin@fostock.com.au

Foster Stockbroking Pty Ltd
A.B.N. 15 088 747 148 AFSL No. 223687
Sydney: Level 9, 275 George St, Sydney, NSW 2000 Australia
Perth: Level 9, 66 St Georges Terrace, Perth WA 6000 Australia
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
<http://www.fostock.com.au>
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Review disclosure: The report was authored by the analyst named on the front page of the report and was reviewed and checked by Hazmy Hazin, Research Analyst.

Disclosure review. All the disclosures in the report have been reviewed and checked by Hazmy Hazin, Research Analyst.