Vast Resources plc

EQUITY DEVELOPMENT

2018. Year of the litmus test

22 January, 2018

2018 looks to be a pivotal year for Vast as the company seeks to turn Manaila to account, and flip the needle towards being a cash flow positive operation, and re-open Baita Plai. In addition to ironing out operational inefficiencies and ramping up the quantity and quality of concentrate production at Manaila, Vast is chomping at the bit to push the button on a major expansion to unlock the value of its Romanian assets. Financing remains the key to unlocking this plan.

Board Refresh… Roy Pitchford resigned as CEO from the end of December. Vast's focus has moved from being solely on Zimbabwe when Roy joined the company, to largely Romanian focussed at present. With Romania becoming the focal point of the company's growth strategy, this naturally prompted Mr Pitchford to resign to focus on new opportunities, coinciding with a time of considerable change in Zimbabwe.

…but continuity remains. Andrew Prelea**,** the President of Vast's Romanian subsidiary has stepped up to the CEO role. Andrew is Romanian and extremely familiar with Vast's operations, having joined the company in 2012. He has been involved in the mining sector in Romania in one way or another for over 26 years.

Oiling the cogs. The new CEO has plans to cut-costs at the corporate level, always a welcome move in the eyes of shareholders. However, more important in our view, is the raft of planned work underway at all operations to increase production and cut costs. A portion of Manaila's woes are related to issues we typically see when commissioning new capacity, e.g. inefficiencies in the new zinc flotation circuit. Issues such as these should be ironed out as Vast's remedial action comes to fruition. The balance of operational issues (e.g. lower grades) stem from funding constraints which have hampered key activities such as overburden removal. Despite this, Vast has made progress and concentrate volumes and quality are improving, and a third revenue stream (gold and silver) is being ramped up. The balance of the scales is being tipped.

Lots of cogs, not much oil. Financing is one of the last remaining hurdles holding back both the optimisation of current operations, and the company's expansion plans. The funding requirement for Romania is $10m, which should allow Vast to execute its growth strategy, underpinned by a new metallurgical complex at Manaila, and reopening of Baita Plai. Vast remains in the final stages of negotiating financing attached to off-take offers and other non-dilutionary mechanisms.

The year of Coalescence? Vast remains well placed to leverage its position in two "under-the-radar" jurisdictions, where if funding allows, the multiple strands of the company's growth strategy should start to coalesce. Talking the talk, is likely to become walking the walk and 2018 should be the year of delivery. In Romania, the focus on cost control and ramping up operations, should provide the backbone to springboard into Manaila's new metallurgical facility which Vast anticipates will slash operating costs. The final grant of the Baita licence would allow the button to be pushed on mine development. In Zimbabwe, the continually improving political situation, may result in a more favourable outlook for the Group's assets in the country.

Upcoming catalysts: December quarter production (late Jan), Carlibaba JORC-resource (Q1), financing and off-take update, grant of Baita Plai Association Licence.

Company Data

EPIC	VAST
Price	0.60p
52-week Hi/Lo	0.78p / 0.25p
Market cap	£30m
ED valuation/share	1.03p
Shares in issue	5,113m
Avg. daily volume	149m

Share Price, p

Source: ADVFN

Company Description

Vast Resources plc is an AIM-quoted resource development company that converted from an exploration company to a mining company in 2015, with two operating mines; the Manaila polymetallic mine in Romania (100%), and the Pickstone-Peerless gold mine (25%) in Zimbabwe.

Vast has several growth projects, the most important being the planned re-start of the Baita Plai polymetallic mine (80%) in Romania, which the company plans to commission shortly.

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What's coming up for Vast

The company's present focus remains on its wholly-owned assets in Romania. We shall analyse the update on operations at Manaila when the December quarter production results are released in late January. What is clear is that 2017 was largely a year of setting the scene for Vast. The strategy is in place, and now the company just needs to secure funding to execute its growth plans. This will be a key milestone for the company.

Funding. The company needs $10m to fully pursue its expansion plan in Romania, and to provide extra funds for remedial work to optimise current operations. Despite receiving two financing offers, one from Romania which was matched by Vast's strategic investor in Zimbabwe, the company is of the view that these no longer reflect the true value of the company. This predicated on the operational progress at Manaila, drilling at Carlibaba, and the imminent award of the Baita Licence. Thus, Vast remains in discussions with several parties for non-dilutionary mechanisms including debt finance, vendor finance and strategic investments. This remains the critical component to unlocking the value of the company's Romanian assets. In terms of existing financing, we note that Sub-Sahara has a right to re-call its $4m loan within 60days if there is *"a change of CEO of Vast where SSA is not satisfied about the incoming CEO".* Vast is seeking confirmation that they will not seek to exercise this right.

Drilling supports 2nd pit. In late November the company released the final drill results from drilling at Carlibaba. The results validated the historic assay data, and crucially have provided the confidence needed to support the development of a second open pit operation at Manaila.

JORC-Resource. Vast expects to declare a maiden JORC-resource at Carlibaba during Q1 2018. Further economic assessment work will be undertaken to support the development of the new processing plant (see below).

New Facility. In addition, the results also support the construction of a new metallurgical facility on site. This new centralised facility will be located at Carlibaba and will replace the current facility at Iacobeni which is located 34km away via road. Naturally, this would reduce transportation costs considerably and feed through to much lower operating costs (Vast estimates -25% reduction). The new facility will simplify logistics, negating the requirement to truck ore along the 34km road, which exposes the current trucking operation to considerable risk during the treacherous winter months. We view the construction of a new facility as being on the critical path for Vast, considering that transport costs currently amount to c.30% of current operating costs.

Exploration. Vast plans to continue evaluation work at the Piciorul Zimbrului and Magura Neagra prospecting licences, located 74km away from Manaila. Both targets are polymetallic and may have potential synergies with the Manaia operation.

Baita Plai Licence. The final Association Licence for Baita Plai is due shortly. In late 2017 Vast was chosen to be granted a right to mine at Baita Plai as part of a competitive selection process. This is typically the precursor to the grant of a full licence and Vast believes that has made significant progress in meeting the authorities' due diligence requirements, and that a positive outcome is due in the near-future. A positive resolution here would be a major de-risking event for the company. The project has a low re-start capex (c.$1.5m) and Vast believes that it will be able to re-start production in a short time frame.

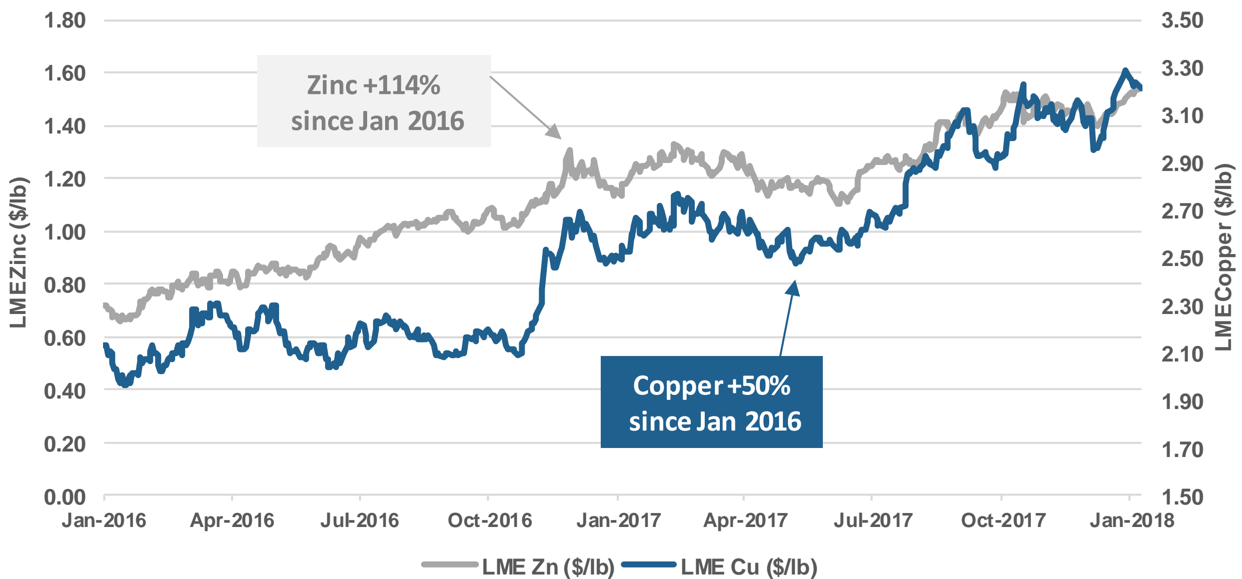
Copper and Zinc are flying

Whilst Vast's 25% interest in Pickstone provides gold exposure, the company's Romanian assets are focused on copper and zinc, two the better performing base-metals over the last couple of years. **Copper is up 50% and zinc is up 114% over the last two years**. Vast's shares have performed relatively well over the last 12 months, but we see this as driven largely by development milestones (e.g. Baita licence) as opposed to metal price correlation. As Vast continues to ramp up operations, we believe that the share price correlation may return, providing the company with more leverage to the copper and zinc price.

Vast Resources share price vs. LME Copper

Source: Equity Development, LME, LSE

LME Zinc (LHS) vs. LME Copper (RHS) – the last two years



Source: Equity Development, LME, LSE

The outlook remains promising

We still see a significant structural deficient emerging in both the copper and zinc markets, which should provide a supportive backdrop for Vast's Romanian activities over the next 12 to 18 months, and over the long term.

Copper is slipping to Deficit

The copper market remains hot, and we see further gains in the LME copper price. Although copper has made a stunning recovery of the last two years, emerging from the deepest cyclical down-turn in decades, we believe that there is scope for the red metal to run further. Looking at supply-demand fundamentals, the years of surplus ended in 2016, 2017 tipped the balance into deficit but critically, the full effect of the structural deficit is only just starting to bite and according to most commentators, a deficit of 130kt is expected this year. Although a component of this is likely already priced-in, we see further tightness ahead. We see this driven by a number of factors:

- **Supply disruptions remain a risk.** Copper supply risk remains elevated, and is not likely to diminish this year. Although declining industry head-grades contribute to this, the major risk stems from labour contract negotiations in Chile and Peru, which collectively produce 41% of the world's copper. Six of the largest ten copper mines globally are located in Chile. We believe that the raft of labour contracts expiring is likely to result in further strike action which will reduce mine output. Serial offender, Escondida, the world's largest copper mine, is likely to be in the news again this year as labour contracts expire in mid-2018.

- **LME stocks remain low.** Copper inventories on the LME continue to hover at around 200kt, the lowest level since mid-2016, and well below the recent peak of 675kt in mid-2013. Even accounting for off-exchange stocks, we don't see inventories are providing much of a buffer if demand continues to increase, and the above supply disruptions kick in.

- **Electric vehicle build-out is becoming reality.** Electric vehicles (EV) require a substantial amount of copper, around 4x that of a standard car. EV's require c. 83kg of copper per vehicle, versus 23kg for an internal combustion engine vehicle, according to International Copper Association (ICA). The amount of copper used is even greater than this if you consider inverters for motors and charging infrastructure and charging points.

  Glencore sees a net impact of +160kg of copper per EV, and by 2025, an increase in copper demand of 1.7Mtpa. Either way, the key point is that the build-out of EV capacity has always been a rather nebulous concept, but over the last year in particular, we are increasingly seeing that the ramp-up is happening. The pace of this remains uncertain in our view, but we can't argue that the transition has started. EVs will be the future.

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