

21 July 2020

## Pyx Resources Limited

### Operating a high-grade Zircon resource

The company listed on the NSX on February 25<sup>th</sup> after executing a reverse takeover – backing a mineral sands operation in Kalimantan into former ASX listed company South Pacific Resources. PYX also raised \$14m at \$0.40/share from new shareholders. Founders and management retain 67.9% of the issued capital. The mineral sands operation has been in production since 2015, processing 65.5% premium zircon out of a high-grade mineral sands deposit with outstanding Zircon content (4.7% Zircon grade). PYX is cashflow positive and following the issue has cash available to support operations.

### Business model

Pyx's Mandiri deposit is high grade with a typical sample valued at the high end of current mineral prices. Demand for mineral sands is expected to exceed supply in the next few years if economies return to growth. Processed ore graded at 65.5% Zircon is delivered to three international customers.

Zircon has broad application in a range of industries however demand is typically driven by residential construction where ceramic tiles using Zircon as a colour and hardness enhancer are the main product, while novel applications in recent years continue to drive up demand. China has been the largest user of Zircon and relative growth rates suggest this will remain the case. Mandiri also has the potential to supply a range of additional minerals (rutile, ilmenite, etc.) from the mineral sands. Since Iluka (the largest mineral sands producer) changed the pricing structure for mineral sands trading in 2015, prices have remained at higher levels.

Following deal close the company has let a contract for additional mining equipment to enable a production expansion at Mandiri. The deposit has a JORC compliant Zircon resource exceeding 6mt. Its current processing capacity is 1,500 tpm (or 18,000 tpa) with further expansion planned. Further exploration of the 2,032ha Mandiri tenement is likely to increase resource size. Mandiri is the largest resource identified since Sheffield Resources' Thunderbird deposit in 2012.

The company's Singaporean subsidiary (Takmur Pte Ltd) owns 99% of Indonesian subsidiary PT Andary Usaha Makmur (PT AUM) which has a contract to mine and process ore from the Mandiri deposit in Central Kalimantan Province, Indonesia, in return for 95% of profits from the mine and exports. Rights to mine the deposit and export Zircon are held by PT Investasi Mandiri (PTIM).

### Recent News

PYX announced on June 29 that it had secured mining license renewal for its Mandiri producing asset until September 2025 with opportunity to extend for a further five years.

#### Pro-forma earnings history (US\$m) of continuing operations

Year ended	Revenue	EBITDA	PBT	NPAT	EPS (c)*	OCF	P/E x
Dec-17	1.218	0.043	(0.017)	(0.019)	(0.007)	(0.196)	n.m.
Dec-18	4.761	0.490	0.404	0.303	0.113	0.036	5.5
Dec-19	6.858	0.091	(0.047)	(0.058)	(0.002)	(0.111)	n.m.

Source: Company data \*Based on shares on listing

#### Shares Summary

Share Code	PYX
Share price	\$0.62
Market Capitalisation	\$166.0M
Number of Shares	267.8M
Pro-forma Net Cash at 30 June 19	\$6.52M
Share Registry	Advanced Share Registry Services Ltd

#### RaaS 5-Point Score\* = 2/5

Revenue increasing (1); EPS increasing (0), Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (0) Gross Operating cash flow/EBITDA >90%(0)

#### Upside Case

- Significant upside price potential for Zircon
- Continued exploration and development of remaining Mandiri tenement
- Likely positive trend in Zircon supply / demand balance

#### Downside Case

- Travel restrictions as a result of COVID-19
- Exchange rate risk
- Volatile Zircon price and an element of sovereign risk

#### Board of Directors

Chairman & MD	Oliver Hasler
Non-Executive Director	Bakhos Georges
Non-Executive Director	Gary Artmont
Non-Executive Director	Alvin Tan

#### Catalysts

- Sustained growth in demand and price for Zircon
- Production expansion at Mandiri
- An increased resource base

#### Comparative Companies

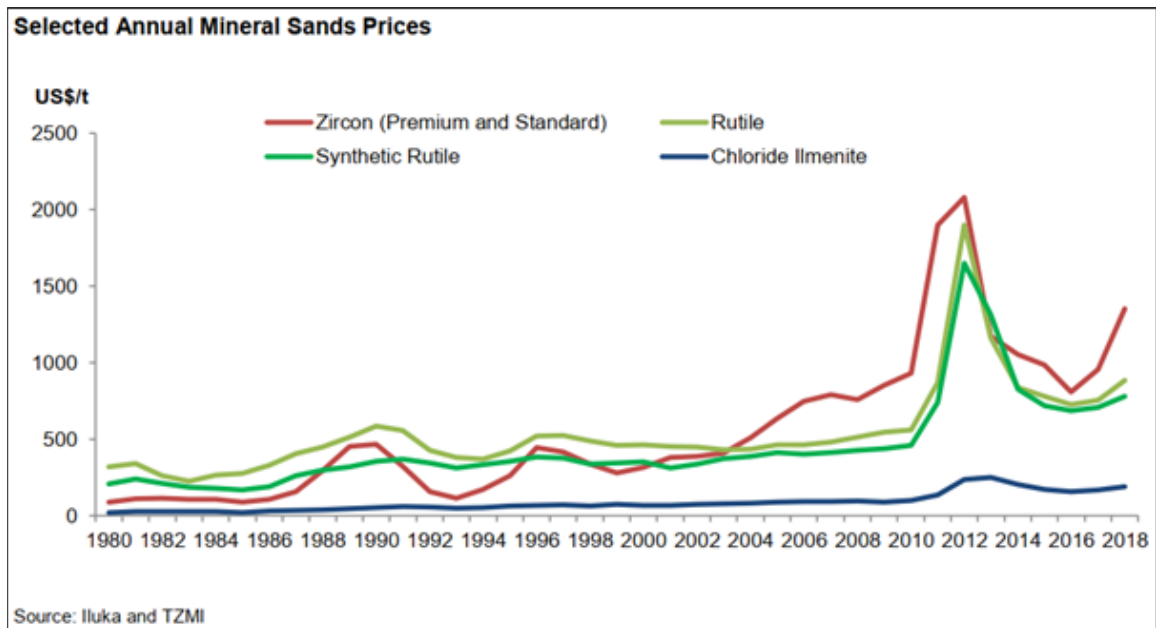
SFX.AX, ILU.AX, DRX.AX

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\* The RaaS 5-Point score is based on the company's performance in its last reported full year. Past performance is not a reflection of future performance.

Exhibit 1: Mineral sands prices (Annual)



Source: Iluka/TZMI

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# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 26<sup>th</sup> November 2018**



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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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