February 26, 2024

Arizona Sonoran Copper Company (ASCU)

Cost Escalation Highlights Underwhelming PFS Economics

Event

Last week the Arizona Sonoran Copper Company released its much anticipated Cactus Pre-Feasibility Study (PFS). The comprehensive PFS highlighted a potential top-10 copper project located in the USA producing LMA Grade A copper cathode onsite via heap leach and a solvent extraction/electrowinning (SXSW) plant. Though certain marked improvements since the 2021 Preliminary Economic Assessment (PEA) - higher LOM, throughput and a nearly doubling of average annual production, due to corresponding cost escalation, the underlying economics have been somewhat underwhelming. In reaction to the PFS release, the negative market reception was somewhat justified in our view, however well overdone. Using the PFS metrics as a benchmark, we have updated our model and establish a 0.50x $NAV_{8\%}$ derived C$2.80 per share (rounded) 12-month price objective. This equates to upside of +140% from the most recent close. ASCU shares currently trade at a 0.21x discount to NAV multiple, compared to development peers trading nearer to the 0.50x-0.60x level.

Details

- **Size and Scope Increases Since the PEA –** Incorporating a massive resource increase as announced last October, the Cactus project is per PFS now envisioned to have a 21 year LOM with average annual production of 55,000 tons or 110M lbs of copper on an annual basis. Given expected recoveries between 85%-92% over full LOM, 1.15M tons or 2.31B lbs of Grade A copper cathode is expected to be recovered via heap leach facility and SXEW plant.
- **Cost Escalation –** As per PFS, the average C1 and AISC over LOM was estimated to be $1.84/lb and $2.34/lb respectively ($1.55 and $1.88 previously in the PEA). Note that given the large annual production increase relative to the PEA, the initial construction capex has also increased markedly, going from $124M in the PEA to the current $515M in the PFS. Moreover, note that the average opex over LOM also increased from the PEA's $9.06/t to the current estimate of $10.34/t
- **Potential for Future Improvement –** Given the estimated cost inflation over LOM, the corresponding NAVs and IRRs decline between the two studies, despite a near doubling of production output over LOM. We do highlight that there are multiple future opportunities for further project improvement stemming from continued drilling of the Inferred resource which would thus bring it into the mine plan. Additionally, a maiden resource at MainSpring may serve to be a potential open-pit which can conceivably provide for operating flexibility and lead to lower cost access to the Parks/Salyer deposit.

Conclusion

We have update our model and establish a 0.50x $NAV_{8\%}$ derived C$2.80 per share (rounded) 12-month price objective. This equates to upside of +140% from the most recent close. ASCU shares currently trade at a 0.21x discount to NAV multiple, compared to development peers trading nearer to the 0.50x-0.60x level.The full note and details can be found here:

Company Profile

Sector	Mining
Sub-Sector	Copper
Ticker	ASCUF
Ticker	ASCU.CN
Current Price ($)	C$1.16
12-Mth Price Objective ($)	C$2.80
Potential Upside	140%
Mkt Cap, Basic ($M)	93.7M
Mkt Cap, FD ($M)	$94.8M
EV ($M)	$82.8M
Shares O/S Basic (M)	109.0M
1-Mth Return	-20.2%
3-Mth Return	-20.0%
YTD Return	-33.7%

	2026e	2027e	2028e
Cu Production lbs '000	50,000	52,000	82,680

LOM Production lbs	2,310M
LOM avg. C1 cost$/lb	$1.84
LOM avg. AISC$/lb	$2.34

Cu - Indicated	Tons '000	lbs '000
Cactus	445.7	5,174

Cu - Inferred	Tons '000	lbs '000
Cactus	233.8	2,207

Company Description

Arizona Sonoran Copper Company is a OTCQX and TSX listed ISR copper company advancing the wholly-owned Cactus and Parks/Salyer projects in Arizona. The past producing Cactus mine is currently a PFS level project with an estimated 21 year LOM producing ~110M lbs of copper per year at an average C1 cost of $1.84 per lb or total cost of $2.34 per lb.

2-Year Stock Chart

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