



ARGONAUT
The Natural Choice in Resources

TOP 13 SPEC STOCKS 2017

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CURRENT SMALL CAP TRENDS

- ▶ Quality small cap sector has been weak for 4-5 months.
- ▶ Gold price volatility has seen a mild recovery in the producers with developers remaining cheap.
- ▶ Any announcement with less than “spectacular” results is providing a reason for juniors to be sold off.
- ▶ Daytrading volumes have exploded across the junior iron ore, cobalt and cannabis sectors.
- ▶ Clients last major upside move was in Noxopharm (NOX) with a 15c to 89c rally. The bulk of the upside was captured with sales in the mid 70’s.

CURRENT SMALL CAP TRENDS

- ▶ Interest remains in graphite and lithium, however more powerful moves seen in the cobalt and cannabis speculative frenzies.
- ▶ **Medicinal cannabis sector not subjected to 24hr pricing, however the bubble will deflate on an exhaustion of buyers and traders. Further bombed out explorers likely to back door in deals. Botanix (BOT) a 2c RTO clients took part in, reached a high of 7.2c.**
- ▶ Stemcell United (SCU) 1.3c to a high of \$1.085 not healthy for the market. Last notable performances were Summit (SMM) <10 to \$1.60+, and further back to Fifth Element (FTH) 20c IPO to \$8.00 with 13 shareholders on the final list.

KEY POINTS TO REMEMBER

- ▶ A significant discovery will see a junior re-rate regardless of the market conditions. The discovery of Prominent Hill, DeGrussa and Nova/ Bollinger all occurred in poor markets.
- ▶ **All about the BUY price.** I maintain the mantra of “Buy low and buy lots”. Less stocks and greater conviction provides a greater chance of transformation than having a balanced portfolio, where the winners tend to balance out the losers/sideways movers and you end up going nowhere.

KEY POINTS TO REMEMBER

- ▶ Selling pressure doesn't mean they know something we don't. You cannot have poor drilling results when the company isn't drilling.
- ▶ Even if a 10c stock should be trading at 30c there will still be plenty of sellers around who are often spooked by nothing more than a handful of others wanting out at higher levels.
- ▶ Market depths mean little in illiquid and undervalued juniors prior to undertaking high impact drilling campaigns, phase 1-2 trials or on the cusp of earnings momentum.

KEY POINTS TO REMEMBER

- ▶ Hotcopper hasn't changed since 1997. The way stocks are discussed still provides an indication of quality juniors, pump and dumps, and those on their way to oblivion.
- ▶ The low priced/high market cap stocks where posters come together to advise management and appoint their own representatives are the ones likely to eventually slip into administration. A large number of moderated posts from emotional shareholders and overuse of the words takeover, cappers, and accumulation is also another sign.

TOP 13 SPEC STOCKS 2017



RED METAL LTD (RDM) 13.5c

RDM is my top speculative suggestion for 2017. The market valuation of \$25.6m is more than underpinned by Maronan (30mt @ 6.5% lead, 106 g/t silver with a gold-copper component). Another two potential company makers have emerged in the Emu Creek and Leichhardt copper projects in QLD.

The Lawn Hill zinc project and the Pernatty Lagoon “Powerball” targets add further appeal along with opportunistic pegging of the Nullarbor Plain WA, and ground contiguous with a major graphite deposit. **Strong speculative buy with my 40c-50c 2017 target range maintained.**



STAVELY MINERALS (SVY) 12.5c

Drilling at “The Bank” and Toora West in Victoria has failed in the hunt for a major orebody and SVY’s share price has drifted lower. SVY is now only capped at \$15m with management owning around 45%, and a copper project the subject of a scoping study that provides the downside support. There are still numerous exploration options and a Victorian gold-copper focus that could yield exciting results. I’d still be backing Cairns and Ironside to build a company with large holdings and expertise.

Very hard to get stock sub 14c but one to build holdings. I still believe SVY is a **40c+ opportunity** however a lack of near-term exploration success may see this take a little longer.



MRG METALS (MRQ) 1.4c

MRQ is a \$4.5m micro-cap is trading at shell value, and this provides one of the most attractive risk/reward profiles in the junior resource sector. The next phase of drilling at Yardilla is set to resume within two weeks, with 7 holes planned in the hunt for a “Tropicana” style gold deposit. MRQ have also mentioned a walk-up drill target in QLD with drilling planned in Q2 2017.

The share price would indicate little COS at 1.4c, however any sniffs of mineralisation and MRQ would see multiple share price upside. **3c-4c is attainable near-term on moderate success, with further upside possible on a big hit on an QLD IOCG target.**



HRL HOLDINGS (HRL) 10c

HRL is my top selection in the small industrial sector and clients have recently been afforded the opportunity to take as much of the 10c rights issue as they wanted. HRL are Octfolio and Morrison Geotechnical (QLD based) and these two acquisitions should see significant revenue growth and the potential to win new business by offering a more complete environmental service. Management have built +\$200m companies in the past and I would expect further expansion both organically and through M&A activity.

One to accumulate with funds you don't need tomorrow and I see some decent upside potential once the inevitable stock "digestion" takes place. **25c-30c medium-term target taking into consideration some dilution from the placement/rights issue.**



METRO MINING (MMI) 14.5c

Both MMI and HRL are the “slow growers” amongst the stocks I cover, yet both have the potential to become five-baggers. Argonaut has just released a detailed [report](#) with a 44c target price which covers MMI’s impressive BFS with an IRR of 81% and a rapid payback period of 1.7 years. There is potential for the bauxite market to outperform some subdued price forecasts, along with the capacity for MMI to ramp up production from the proposed April 2018 commencement date. **45c-50c target range with the potential to outperform on any bauxite price strength and corporate appeal.**

METAL BANK (MBK) 2.4c

MBK remains under selling pressure from recent news flow that has shown considerable potential but lacking that major exploration hit. The success at Triumph with the IP technology has seen the project open right up with MBK suggesting that 95% of the project area can now be explored effectively. With the relaxation of the National Park buffer zone, there are a number of other exciting targets. The current share price weakness is a major buying opportunity and will only take moderate interest to see the share price back over 3c.

With 2M ounces of gold at Triumph still a possibility I see a target price range of 12c-13c without taking the Eidsvold Project into consideration.

OPENDNA (OPN) 16c

OPN is an exciting speculative opportunity that is trading below its 20c issue price. OPN is lead by the tech entrepreneur Jay Shah, who has developed a product focusing on psychographic profiling that is now being powered in the Sportsblog app and set to grow even further. The key now is for OPN to sign a “household” name that is likely to trigger a share price re-rating. A [detailed presentation](#) has been released that simplifies OPN’s business model. **35c-40c target range, with further upside potential should major contracts and JV alliances come to fruition. Very strong speculative buy up to 18c.**

ADHERIUM (ADR) 18c

ADR has been “poleaxed” by fund selling post its 50c IPO. Fidelity also took a \$4m placement (8m @ 50c) and since then the share price has touched a low of 16c. ADR have an alliance with AstraZeneca (\$78bn company) to develop/sell its SmartInhaler. Bell Potter in a recent research note downgraded its target price to 53c from 78c due to the slower than expected rollout of the product. ADR not only represents an opportunity for the share price to return back to the 50c issue price, but also to grow in the digital health space. Here is a [news story](#) on the ADR’s SmartInhaler. (Not mentioned but logo seen on the product).

Very strong speculative buy up to 20c, with a target range of 40c-50c where I would expect significant selling pressure.



EMU NL (EMU) 17c

EMU are set to drill the monster Vidalita Gold Project in Chile next week. As far as geology goes this one is shaping up with 235 soil samples all returning gold and silver. EMU have a second project in Chile, however in the event of a barren hole and /or a disappointing drilling result I would expect the share price to lose 50%+ providing clients with another buying opportunity. The stock is thinly traded so near-term entry opportunities will be limited in the head stock, however exposure can be gained via the options or partly paid shares. EMU is a junior I believe clients can profit from regardless of the drilling results at Vidalita, however it won't be an easy hold at times.

A high risk/high reward buy with 50%+ downside, and multiples to the upside in the event of a discovery. Coverage will continue post Chile as I would expect a pipeline of targets to emerge.

ALT RESOURCES (ARS) 6.9c

Regardless of the results at Paupong (pending), ARS is now only capped around \$7m. Seven diamond holes are in progress at Paupong with another drilling program planned at Mt Roberts-Cottee in May. ARS is an illiquid “lobster pot” during quiet periods and we are seeing this now. The stock managed to run to 14c on low volume and any hits will see a repeat performance. There hasn’t been too much damage from the 8c capital raising and where possible I’d suggest some accumulation in the 6’s as activity continues. **Looking for 8c-10c on encouraging results at Paupong, and success in building a small gold resource in WA.**

PHARMAUST (PAA) 5.6c

PAA with a market cap of \$8.8m is “stupid” cheap. My core speculative stocks include RDM, MBK and PAA and I am suggesting clients build a portfolio around these three. Epichem is likely to see revenues in the vicinity of \$4m PA with further growth potential. Pending news flow includes a revised phase 2 trial of Monepantel in canines and any success would see moves towards Novartis exercising its option which would provide the basis for commencing phase 2 trials in humans. The appointment of Dr Richard Hopkins is likely to see PAA’s profile improve significantly, and a lack of investor awareness has contributed to client being provided with this outstanding growth opportunity. Despite being heavily set from 5c (with a free 1/3 option), I am suggesting clients increase holdings up to 6c. **20c-25c remains realistic.**

MINOTAUR EXP (MEP) 7.1c

MEP's share price has weakened, yet the potential for a major discovery at Electra in QLD remains. Whilst the drilling around Prominent Hill in JV with Oz Minerals (OZL) hasn't provided some decent "smoke", the hunt for major orebodies continues. MEP (\$15m cap) is underpinned by an industrial minerals division and a mention of potash potential shouldn't be discarded. MEP has been a great stock for clients, yet hasn't really done much on the scoreboard. The time to buy MEP is when you don't feel like doing so, and that time is **NOW**. Accumulate in the **low 7's** for a short to medium-term upside target range of **11c-12c**.

NOXOPHARM (NOX) 45c

NOX was one of those stocks that many clients hated yet went ahead and bought anyway. It went vertical from 15c to a high of 89c with windfall profits taken along the way. NOX has made a series of positive announcements including a collaboration with UNSW for stroke/brain injuries and research into abscopal response. Dr Graham Kelly has done everything possible to build the foundations of a biotech company with substance and news flow suggests we are in the early stages of this journey. Best buying strategy is to accumulate in the mid 40's with a **\$1.20+ range on any initial success with NOX66.**

FINAL COMMENTS

The junior end of the market remains tough, however all 13 stocks covered I believe are hideously “undervalued”, although NOX’s strong performance has seen its risk profile increase. **MBK, RDM and PAA** remain my “core” stocks and I suggest clients also buy a selection of the other stocks based on the risk/reward profiles. Regardless of my views and coverage on YMYC there are some stocks clients will sell early, however the focus should be on the fundamentals and not what others are doing.

Whilst I would like 13/13, in reality 5 will be very successful, 4 will do “ok”, 2 will go sideways with the possibility 2 will bomb out.

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