Research as a Service

Flash Comment

20th April 2021

Consolidated Zinc Limited

New processing plant the first step to unlocking value

Consolidated Zinc Ltd (CZL.ASX) is a junior mining and exploration company, holding a 100% interest in the Plomosas Zn-Pb-Ag mine in Chihuahua, Mexico, where commercial zinc production was re-established in Dec-2018. As part of optimising operations at Plomosas, CZL has completed the construction and commissioning of its own processing plant and recently announced the delivery of the initial zinc and lead concentrates. We see this as a critical path item to delivering improved commercial outcomes and profitability from its high-grade operations over 2021 which is a transitional year to higher stable and sustainable returns. By assuming greater, direct operational control at the mine, CZL is well positioned to benefit from stronger post-COVID economic growth and metals demand.

Business model

Consolidated Zinc is a junior minerals company with current production and cashflow from its 100% owned Plomosas mine located in Mexico and holding significant exploration tenements around the highly prospective Santa Eulalia mining district. The company's strategic plan to optimise economic returns at Plomosas through debottlenecking run of mine operations and producing concentrates through its purpose-built processing plant.

First concentrates produced…it should all ramp up from here

As an important first step, CZL has delivered first zinc and lead concentrates from its newly commissioned processing plant, which was completed within budget and close to the expected timing. This now closes the loop with the company having "*…full control over both the mining and processing functions for the first time".*

From this point on the Plomosas financials should better reflect the economic opportunity afforded by its high-grade ore in an environment of improving margins on strong metals pricing and falling costs. We note CZL will benefit from recently announced reductions in treatment charges (c.47% lower) as costs 'normalise' in a post-COVID world.

Operating its own processing plant and retaining the contract option should result in the company reducing ROM stockpiles of around 3 kt, over the course of 2021. We would also highlight the expansion potential of the project as the company aims to deliver operating rates of 200tpd, perhaps by the end of 2021.

Valuation

We model a risked valuation of A$34mn (A$0.12/share) to the asset base against a **reference share price of A$0.05/share** and highlight the strong NAV to share price premium (>250%) likely reflecting investment uncertainty over the macro economic environment and delivery of improved Plomosas performance. It's worth highlighting **we have been conservative in our model assumptions on both operating and metals pricing** and note in our opinion strong upside risk to forecasts. For further detail, refer to our recent initiation report **Set to benefit from post-COVID growth**.

Share details	
ASX Code	CZL
Share Price (intraday)	$0.05
Market Capitalisation	$14.7M
Shares on issue	293.9M
Net cash at 31 Mar (est)	$0.8M
Free float	~61.8%

Share price performance (12-months)

Upside Case

- Delivery of operational improvements beyond guidance – higher metal recovery/lower costs.
- Progress on the 'northern' block evaluation – the potential to double resource tonnages
- Metal prices higher than modelled through med-long term – the project is highly sensitive to price assumptions.

Downside Case

- Mine operations underperform the guidance
- The global economic recovery is significantly slower than forecast with weaker demand for metals with consequent lower prices
- COVID shutdowns return impacting travel and the supply chain

Catalysts

- 2Q quarterly results demonstrate improved operations and financials
- Initial results from gold sampling exploration could support new project opportunities

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