

Alpha small company research

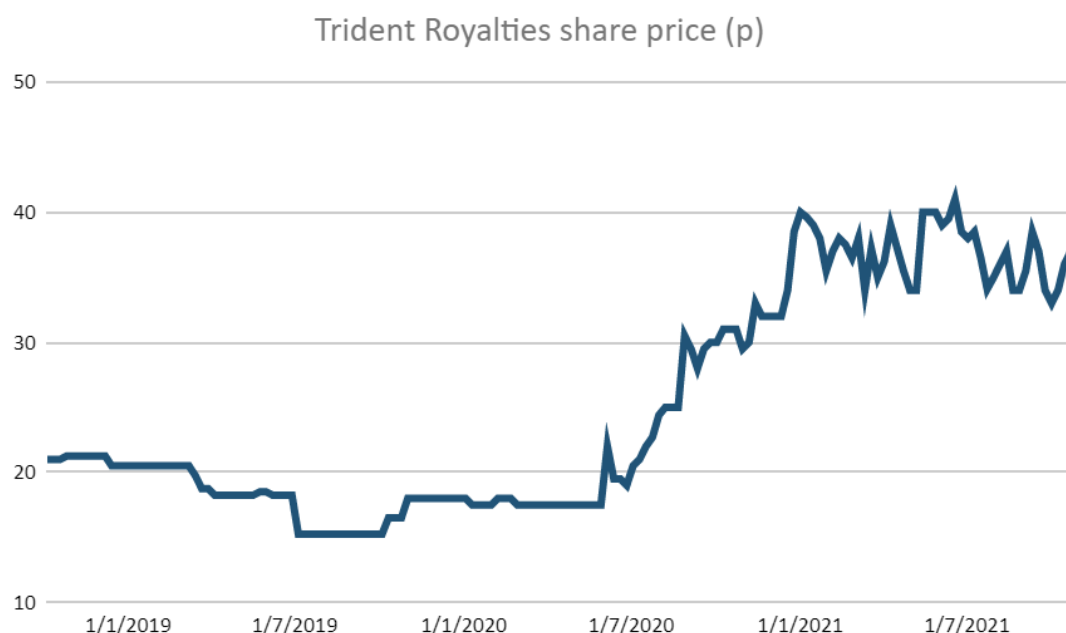
1 November 2021

A lowly-rated commodity and green energy inflation hedge

This below the radar royalties natural resources company is set to generate explosive profit growth in the coming years as demand for clean technology and green energy ramps up

Simon Thompson's view:

'The global move away from fossil fuels is now accelerating as policy makers, government bodies, and investors are increasingly recognising that electrification is happening on a scale that was simply not envisaged even a decade ago. Accordingly, the evolution is driving demand for key commodities such as lithium, graphite, and cobalt, and other technology metals including copper and nickel. One small-cap royalty company is well ahead of the game and has already created substantial hidden balance sheet value for shareholders in the two years since listing its shares on Aim and it provides a smart way of playing the investment upside.'



Source: FactSet

Bull points

1. Offers exposure to the global mining sector (copper, iron ore, gold, lithium).
2. Portfolio benefits from global macro drivers and hedge against inflation.
3. More than half of portfolio valuation is exposed to lithium.
4. Royalty companies outperform the mining sector with a lower risk profile.
5. Attractive assets in resource friendly jurisdictions.
6. No exposure to major mining risks.
7. Asset diversification reduces revenue volatility.
8. Potential to expand portfolio with minimal additional overheads.
9. Exploration and expansion upside from royalty investments.
10. Significant director share buying.

Bear points

1. Only three investments are currently generating royalties.
2. Execution risk on exploration assets.
3. Future dividends dependent on royalty streams scaling up.

Key information

Trident Royalties (TRR)	
Ticker	TRR
Current price	37p
Target price	60p
Market cap	£66.8m
52 week high	45.3p
52 week low	28.75p
Pro forma net cash	\$5.6m (post \$2.5m investment in Lincoln gold mine)
Shares in issue	180.7m
Financial year end	31 December
Next event	annual results March/April 2022
Website	www.tridentroyalties.com

Commodities across the spectrum have been benefiting from improved market sentiment, and increased end-market demand as the global economy bounces back from the Covid-19 pandemic. A rise in inflation expectations is also driving the rally given that many investors buy commodities as an inflation hedge. As the velocity of money ramps up as economies return to some normality, and central banks around the world maintain relatively benign monetary policy programmes, then the commodity complex should continue to do well in a negative real interest rate environment. This is adding even further fuel to talk of a commodities super cycle.

The case is not without merit considering the fundamental change in global demand dynamics in the past 20 years. The evolution is accelerating, driven by broader recognition across the globe, by policy makers, government bodies, and capital markets, that electrification is happening on a scale that was not anticipated even a decade ago. Accordingly, it is fuelling a market for key commodities such as lithium, graphite, and cobalt, and renewing demand for other technology metals including copper and nickel.

For instance, copper is expected to benefit from greater demand for electricity in a shift away from fossil fuels given that a greater portion of future power generation is forecast to come from renewable energy. Wind farms and solar panels require as much as five times more copper than that needed for fossil fuel power generation, and electric vehicles use four times as much copper as internal combustion engine vehicles.

In the U.S.A, President Biden's mandate was based on a commitment to spend \$2trn on clean-energy infrastructure that will see the installation of 500m solar panels and 60,000 wind turbines by 2025, and 500,000 charging stations for electric cars by 2030. Analysts at research consultancy CRU estimates that by the 2030s, the use of copper in wind turbines, electric vehicles and other "green" technology will hit 6m tonnes of refined copper, accounting for 20 per cent of estimated global consumption. Commodity experts at investment bank Bernstein forecast that copper demand from renewables and electric vehicles could grow more than seven times by the 2050s, if the world is going to meet its net zero greenhouse gas emissions target.

These dynamics are not only driving demand for copper, which hit an all-time high this year, but other battery metals, too. For instance, 57,300 tonnes of lithium carbonate equivalent (LCE) was deployed globally in batteries of new passenger electric vehicles in the second half of 2020, or almost double that in the same period of 2019 (source Adamas Intelligence). It's a similar story for battery-grade nickel (69 per cent growth) and battery-grade cobalt (85 per cent growth).

Demand continues to ramp up. Global electric car sales surged by 140 per cent in the first quarter of 2021 (source: IEA), and in the past week alone car hire firm Hertz has placed a massive \$4.2bn order for 100,000 Tesla electric cars. Moreover, as companies and

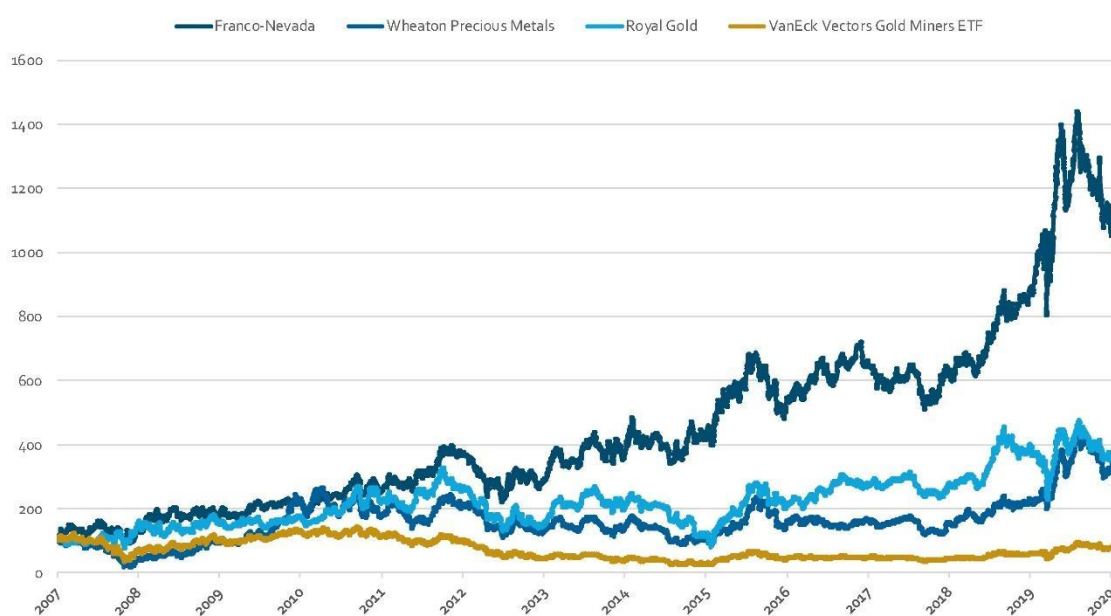
governments internationally look to recalibrate their infrastructure to support this new age of electrification, it is having a profound impact on other commodities such as iron ore.

However, previous supercycles have taught us that alongside increasing spot metal prices, operating costs can surge. This puts pressure on margins, essentially denying investors the full advantage of positive commodity movements. Furthermore, during commodity bull runs, companies are exposed to capital cost overruns, equity dilution and misguided mergers & acquisition (M&A) activity as over bullish management strive to expand their near-term production.

Royalty streams produce improved risk-adjusted returns

Bearing this in mind, an alternative way to gain exposure to commodity prices – whilst being largely insulated from the issues associated with direct equity ownership – is through royalty streams. Royalties typically earn a percentage of turnover from the production of commodities, providing direct exposure to commodity prices without direct exposure to operating and other expenses, and so have a lower risk profile than mining equities. Royalty companies have also outperformed mining equities, too.

Royalty companies have outperformed mining companies, with a lower risk profile



Source: FactSet; relative performance since 2008

Capital and exploration expenditure by operators often benefit a royalty or stream holder by extending the life of mines, increasing production rates and progressing development assets towards production without cost or dilution to the royalty holder. Producing royalties also tends to deliver strong cash returns which can be leveraged through relatively lower cost debt and can underpin dividend returns to shareholders of royalty companies.

In addition, royalties provide further tangible benefits to investors as they are considered high yielding investments which rank senior in the capital structure. They are often secured and traded at attractive valuation multiples, while the scale and commodity diversity offered by a long-term royalty and streaming model inherently enhances value.

One such Aim-traded company that offers exposure to commodity royalty streams is **Trident Royalties (TRR)**.

Trident Resources (Aim:TRR)				
Ord price:	37p	Market value:	£ 66.9m	
Touch:	36-37p	12-mth high/low:	45.3p	28.75p
Dividend yield:	nil			
Net asset value*:	32.3c	Net cash**	\$5.6m	
Year to	Revenue	Pre-tax	Diluted earnings	Dividend
31 Dec	(\$m)	profit (\$m)	per share (c)	per share (p)
2018	nil	-0.30	-2.27	nil
2019	nil	-0.69	-3.13	nil
2020	1.7	1.65	2.45	nil
2021^	2.0	-0.60	-0.40	nil
2022^	5.2	1.50	0.50	nil
2023^	6.8	2.60	1.00	nil
2024^	22.6	18.30	9.50	nil
% change	232%	603%	850%	-

SETSqx

* Net asset value at 30 June 2021. Net cash at 30 June 2021 adjusted for \$2.5m post period end investment in Lincoln Gold Project.

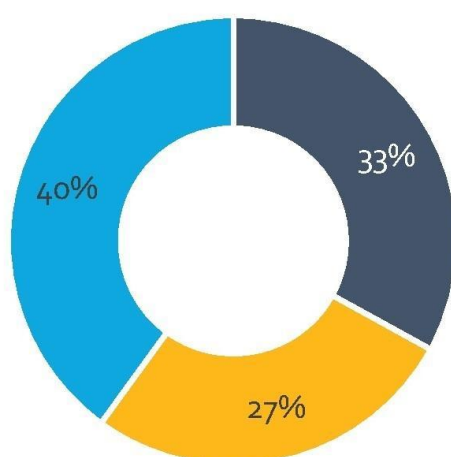
^ Tamesis Partners forecasts (27 September 2021).

Source: Trident Resources annual report, London Stock Exchange

The board's strategy is to construct a royalty and streaming portfolio that broadly mirrors the commodity exposure of the global mining sector (excluding thermal coal) with a bias towards production or near-production assets. This differentiates Trident from the majority of peers which are heavily weighted to precious metals.

Global Mining Sector by Total Revenue

■ Base ■ Precious ■ Bults, Battery, Industrial

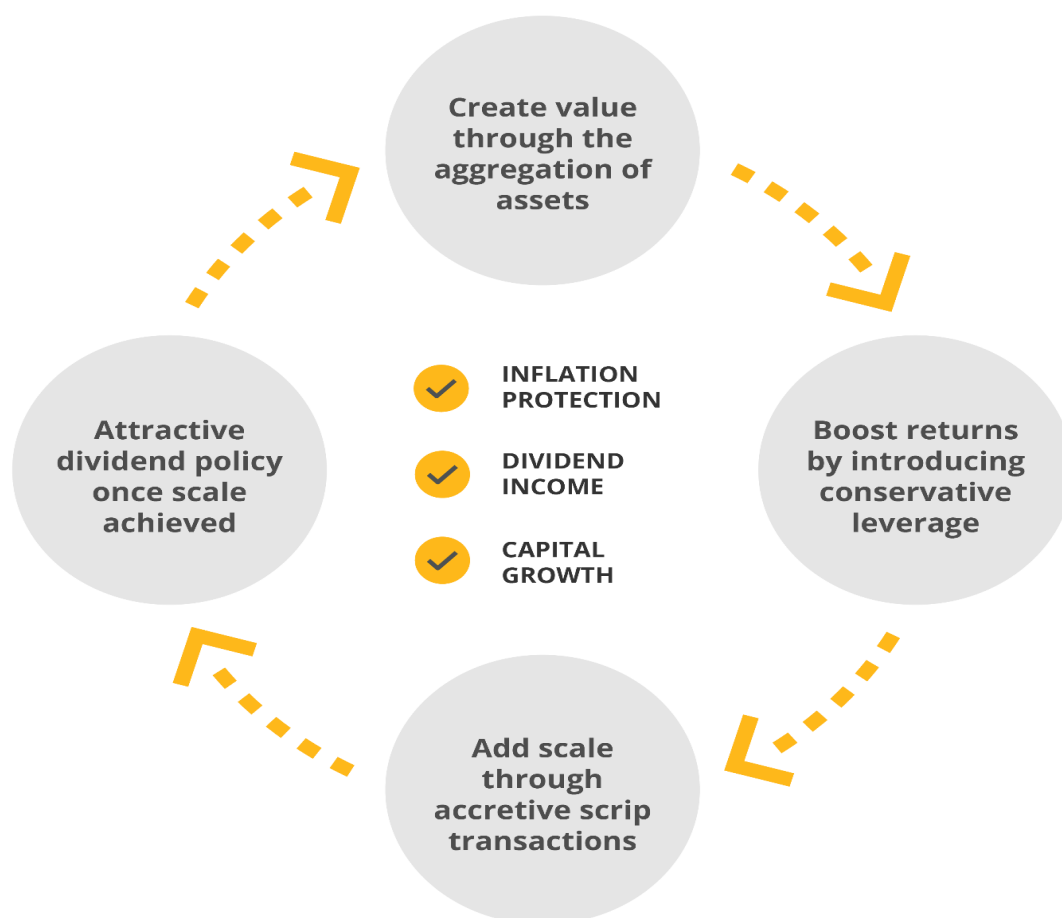
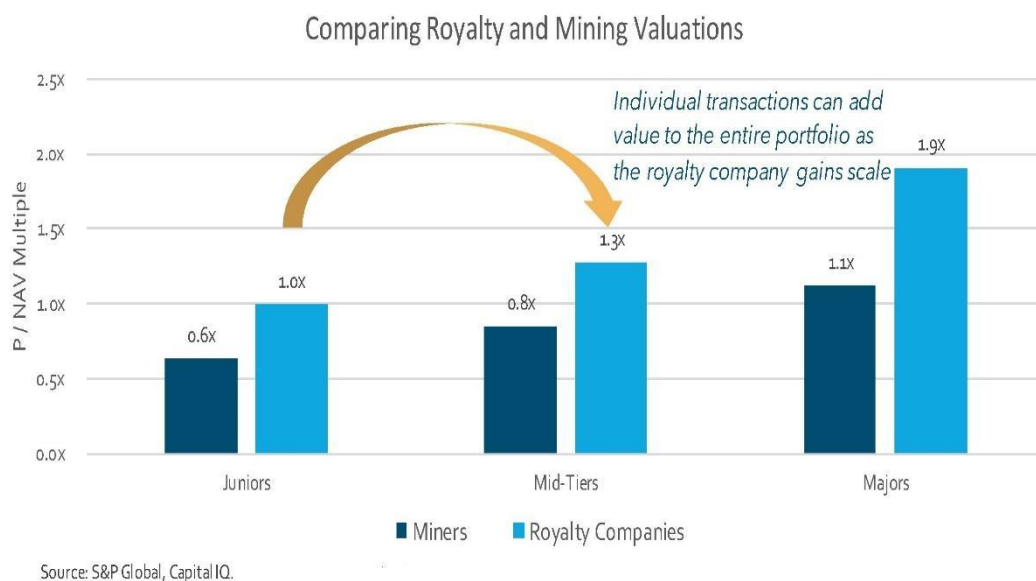


Source: S&P Global, Total Global Mining Revenue (2019)

It's not the only differentiator. Whereas most competitors have portfolios focused on North and South America, Trident acquires royalties in resource industry-friendly jurisdictions worldwide; and targets small-to-mid size transactions which are often ignored by large players.

Deals are focused on acquiring assets held by natural sellers such as closed-end funds; prospect generators; junior and mid-tier miners holding royalties as non-core assets; and counterparties looking to monetise packages of royalties which are undervalued by the market. Importantly, by maintaining a low-overhead business model capable of supporting a larger scale business, the portfolio can be built up without a commensurate increase in operating costs.

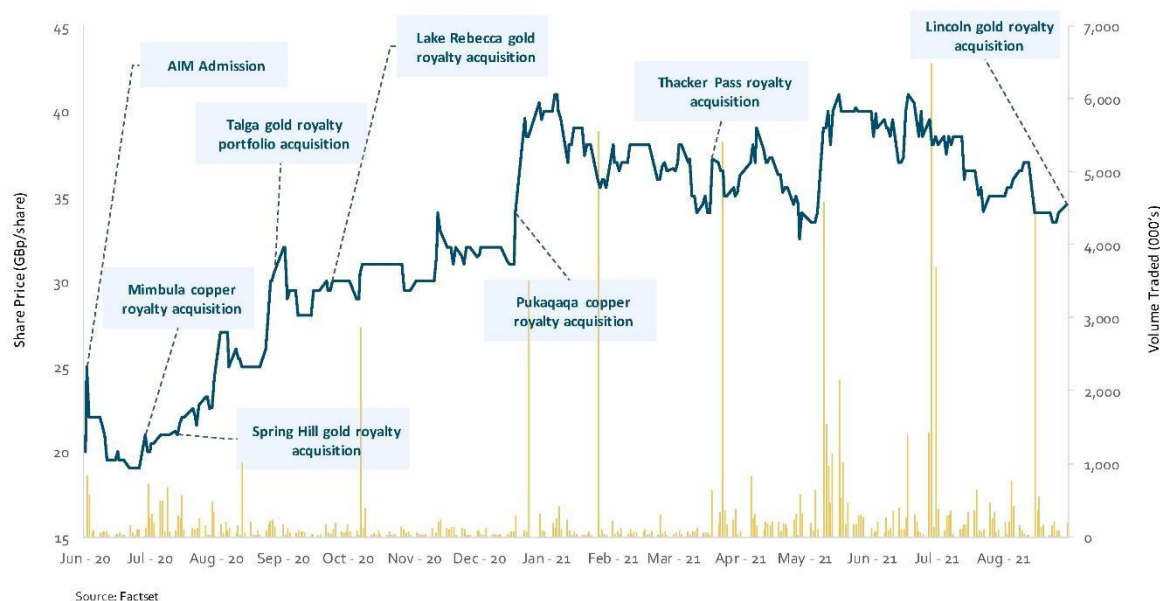
The other benefit of investing in junior royalty companies is that Trident's shareholders gain exposure to uplift in valuation from both accretive deals and portfolio re-ratings that result from the added scale created. Whereas junior royalty companies generally trade at parity with book value, mid-tier players enjoy a 30 per cent premium, rising to 90 per cent for the largest royalty companies.



Trident starting to attract investor interest

Having raised £4m (at 20p a share) when listing on the London Stock Exchange main board in October 2018, Trident has made rapid progress building a diversified royalty portfolio since chief executive Adam Davidson joined the company in the autumn of 2019.

Building scale and shareholder value since AIM listing in June '20



The progress has not gone unnoticed as Trident successfully placed £16m (at 20p a share) of new equity for portfolio investments when the company moved its listing to Aim in June 2020 (with a secondary listing in Frankfurt) and raised a further £20.7m (at 34p) through a placing and primary bid offer in March 2021. The last fundraise was used to finance an incredibly well-timed and astute \$28m (£20.3m) investment in the Thacker Pass Lithium Project. It has already proved its worth (see section below).

In June 2021, Paul Smith, former head of strategy for mining giant Glencore, joined the company as chair and immediately subscribed for 2.5m new Trident shares at 40p. Smith also has the option to subscribe for a further £1m of shares at the same price by 17 June 2022. During his time at Glencore, the group successfully completed numerous large scale corporate and capital markets transactions, most notably the \$90bn merger with Xstrata. His experience and contacts will be valuable as Trident scales up its portfolio. Indeed, within a few weeks of his joining the company, Trident entered into a \$10m secured loan facility with a syndicate managed by Tribeca Investment Partners, including the CNL Sprott Strategic Asset Fund and Paul Smith. Trident also granted options to the lenders to subscribe for 3.5m shares in Trident at 51.66p per share, a near 40 per cent premium to the current share price.

Other directors have been buying shares, too. In August 2021, non-executive director Albert Gourley purchased 500,000 shares (at 36.5p and 37p) to lift his stake to 6.33m shares, or 3.5 per cent of the shares in issue. In the same month, Bacchus Capital Advisers Limited (a company controlled by Peter Bacchus, a non-executive director of Trident) purchased 175,000 shares at 34p. Smith has also made further on-market purchases totalling 0.8m shares in addition to his 2.5m initial share purchase.

Trident's portfolio provides long life exposure to large-scale projects in commodities, positioned to benefit from global macro drivers & protect against inflation



Creating a valuable portfolio

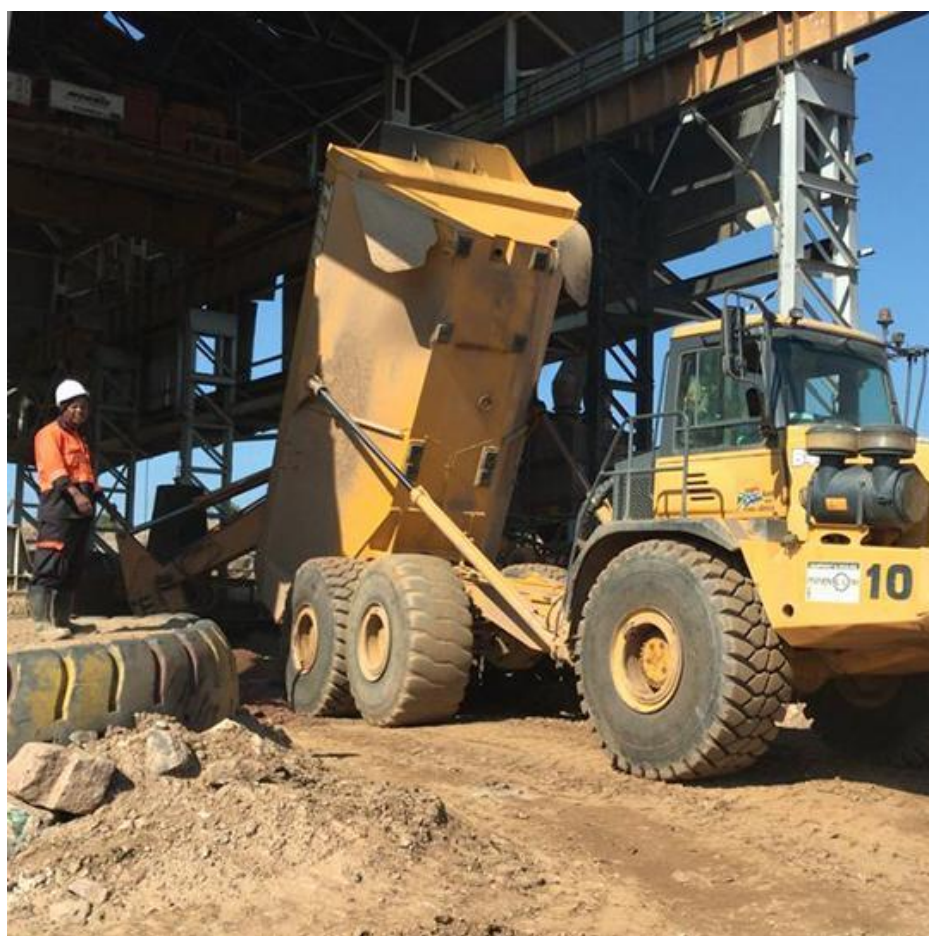
Within weeks after the shares were listed on Aim in June 2020, Trident secured its second royalty agreement, paying \$5m for a staged gross revenue royalty (GRR) over production from the operating Mimbula copper mine and associated stockpiles located in Zambia's prolific Copperbelt Province. Through this royalty, Trident is entitled to royalty payments on production extending in perpetuity.

The initial GRR of 1.25 per cent falls to 0.3 per cent once Trident has been paid back its \$5m investment in full, and decreases to 0.2 per cent once the royalty has been paid on 575,000 tonnes of copper cathode or other finished copper product sold. The asset is currently

ramping-up production, having sold its first London Metal Exchange registered Grade A copper with a 99.99 per cent purity in June 2020.

The Mimbula Mine has a large, well-defined [JORC](#) (2012) compliant Total Mineral Resource of 84m tonnes of ore grading 0.95 per cent copper for a total of 798,000 tonnes of contained copper at a 0.3 per cent cut-off and significant exploration upside potential. The operator, private development and exploration mining company Moxico Resources, completed a \$73m equity raise in June 2021 to fast track the project to an annual production run-rate of 30,000 tonnes by the end of 2022.

At current copper prices, Moxico's long-term production profile is expected to exceed that required for the minimum payment schedule signed with Trident which stipulates quarterly minimum royalty payments of \$375,000 starting this year, ramping up to \$0.5m per quarter in 2022, and \$0.75m in 2023.



The Mimbula Copper Royalty provides exposure to a material copper asset just as the global copper market is forecast to enter supply deficit.

The Mimbula Mine royalty represented Trident's second cash generative royalty, building on the \$4m acquisition of a 1.5 per cent free on board revenue royalty over part of the Koolyanobbing Iron Ore Operation in Western Australia. The royalty covers part of the Deception Pit at Koolyanobbing which is owned and operated by **Mineral Resources (ASX: MIN)**. It contains JORC (2012) compliant reserves of 9.3m tonnes and resource (inclusive of reserves) of 19.5m tonnes at 59.9 per cent iron ore. Material from Koolyanobbing is transported by rail south to Esperance Port where it is loaded for export.

Trident's directors estimate that up to 75 per cent of the Deception Pit may contain mineralisation over which payment would be made under the Koolyanobbing royalty. Mineral Resources acquired the asset from Cliffs Natural Resources in 2018 and it has since almost doubled production. The royalty provides Trident with attractive exposure to a significant and growing iron ore asset, operated by an innovative operator with a strong balance sheet in a world-class jurisdiction. It also provides material cashflow to add scale and diversification to Trident's royalty portfolio. In 2020, Trident received \$1.67m in royalty payments, a hefty return on the cash invested.



Mineral Resources acquired the Koolyanobbing asset from Cliffs Natural Resources in 2018 and has since materially increased production.

Diversifying the royalty portfolio was an early objective for the board. So, in the summer of 2020, Trident announced its first precious metals royalty through the opportunistic acquisition (completed November 2020) of a royalty which provides a fixed payment of A\$13.30 per ounce of gold produced from the Spring Hill Gold Project in Australia's Northern Territory. Trident structured the A\$1m transaction to minimise full payment of consideration until specific production milestones are achieved, whilst retaining uncapped exposure to the growth of the asset. The fixed payment kicks in when the gold price is above A\$1,500 per ounce, or 37 per cent below the current spot price.

Spring Hill is located within the highly prospective Pine Creek region in Australia's Northern Territory, which has historically produced over 3m ounces of gold across multiple deposits and contains more than 10m ounces of undeveloped resources. Gold contained at Spring Hill is freely leachable through conventional processing methods and contains a material proportion of gravity recoverable gold, so benefits from low capital cost gravity concentration and leaching techniques.

Spring Hill has a JORC (2012) compliant open pit Inferred Mineral Resource Estimate of 8.79m tonnes grading 1.26g/t Au at January 2017, which indicates 355,000 ounces of contained gold at 0.5g/tonne Au cut-off. In addition, Spring Hill has an exploration target of 119,000 to 734,000 ounces supported by mineralisation open at depth and along strike. The project is strategically well located within 30km of an existing gold processing plant which successfully processed Spring Hill material in 2017.

The deals have continued to flow this year, including the largest transaction to date, the \$28m acquisition of a 60 per cent interest in an existing gross revenue royalty over the Thacker Pass Lithium open mine project in Nevada, one of the largest known lithium deposits in North America. The vendor was Orion Mine Finance Fund, a fund managed by Orion Resource Partners, a global alternative investment management firm with \$8.3bn assets under management. Thacker Pass is operated by **Lithium Americas Corp (NYSE: TSX: LAC)**, a well-funded Can\$4bn market capitalisation mining group (the head office is in Vancouver and it is also listed in Toronto).

Trident offers a leveraged play on the Lithium battery market

At the time of Trident's royalty purchase in March 2021, Thacker Pass contained Canadian Institute of Mining Metallurgy (CIM) compliant mineral reserves of 3.1m tonnes Lithium Carbonate Equivalent (LCE), making it the largest lithium reserve in the U.S.A, and one with an estimated mine life of 46 years based on LCE proven and probable reserves. However, the Mineral Resource Estimate (MRE) was almost 6m tonnes LCE, so offering resource upside to provide further reserve conversion to extend the mine life or support production expansion.



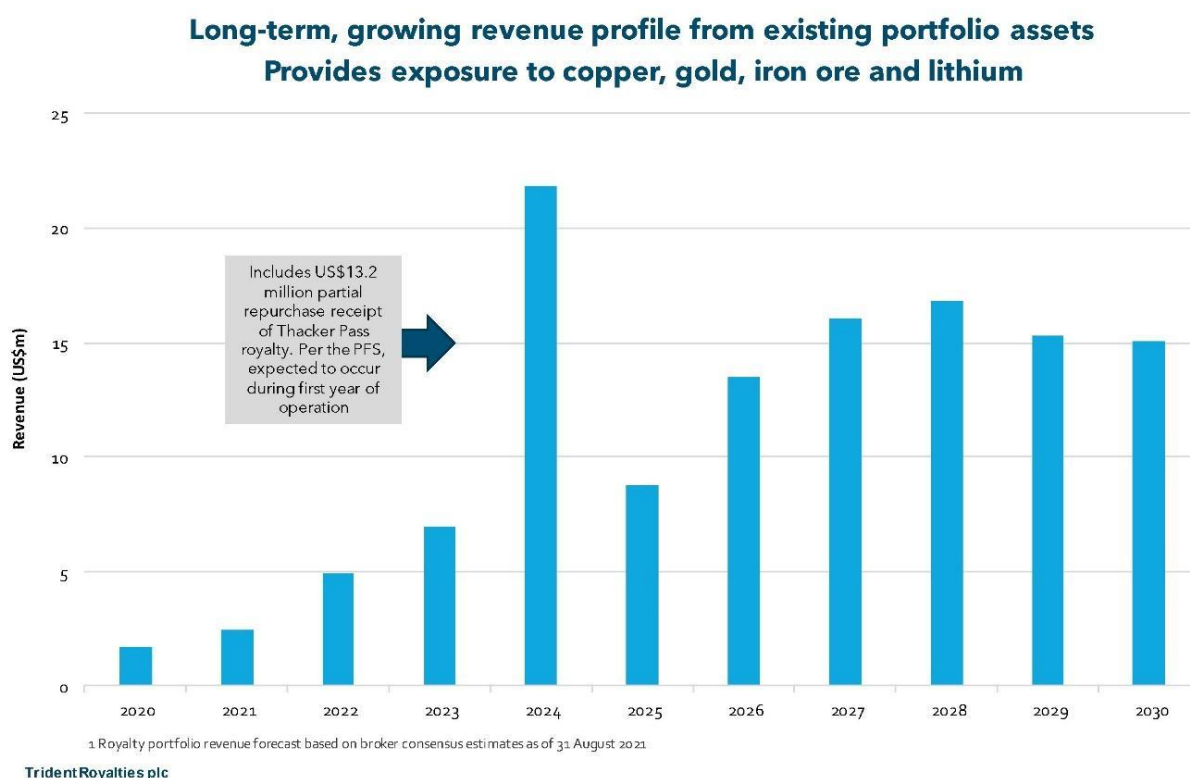
Trident acquired a royalty interest over the Thacker Pass Lithium Project, one of the largest known lithium resources in North America.

It was an incredibly well-timed purchase. That's because Lithium Americas has recently released a significant update to the MRE which more than doubles the size of the Measured and Indicated Resource to 13.7m tonnes LCE, of which 8.2m tonnes is classified as Measured (up from 3.8m tonnes) and 5.5m tonnes Indicated (up from 2.2m tonnes).

Phase 1 capacity of the project has been increased from 30,000 to 40,000 tonnes of LCE annual output with Phase 2 (starting 3.5 years later), providing an additional 40,000 tonnes (up from 30,000 tonnes). The permitting process is on track and Lithium Americas is developing an integrated pilot plant that should be operational in the first half of 2022.

These are material developments for Trident which holds a 60 per cent share of the 8 per cent gross revenue royalty (GRR) on all mining products generated from the Thacker Pass Project, reducing to 4 per cent (so 2.4 per cent share for Trident) after royalties of \$22m have been repaid. Lithium Americas has the right to reduce the GRR to 1.75 per cent (1.05 per cent attributable to Trident) by making a buy-back payment of \$22m (\$13.2m to Trident) at any time. The 2018 Thacker Pass Prefeasibility Study (PFS) assumed the buy-back would be made in the first year of the operation (2024), so Trident had already factored that it would receive the 1.05 per cent attributable royalty as can be seen in the group revenue estimates below.

TRIDENT PORTFOLIO – FORECAST REVENUE¹



The massive resource upgrade has added material value to Trident's royalty without the company making any additional capital expenditure. Based on the original PFS parameters and assuming the buyback is exercised before the commencement of production, the anticipated Phase 1 steady-state royalty revenue attributable to Trident was originally expected to be \$3.8m per annum, increasing to \$7.6m per annum at Phase 2.

However, under the revised production profile targets announced (but retaining the PFS LCE price of \$12,000 per tonne), Phase 1 royalty revenue attributable to Trident increases to \$5m per annum, with Phase 2 royalty revenue increasing to \$10m per annum. But even that fails to recognise the true value of the royalty as the current LCE price is almost \$30,000 per tonne, having risen 336 per cent since the start of this year driven by insatiable demand for the battery metal.

Continued below...

Sensitivity of Trident's Thacker Pass royalty net present value to LCE price (8 per cent discount rate)

LCE Price (US\$/t)	6,000	8,000	10,000	12,000	14,000	16,000	18,000	20,000	22,000	24,000
Pre-tax NPV ₈ (US\$m)	55.3	70.2	85.1	100.0	115.0	129.9	144.8	159.8	174.7	189.6
Post-tax NPV ₈ (US\$m)	46.3	58.1	69.9	81.7	93.5	105.3	117.0	128.8	140.6	152.4
NPV ₈ /share (GBp)	18.2	22.8	27.5	32.1	36.7	41.4	46.0	50.6	55.3	59.9
Post-tax IRR	12.8%	15.2%	17.3%	19.2%	20.9%	22.4%	23.9%	25.2%	26.5%	27.7%

Source: Tamesis Estimates

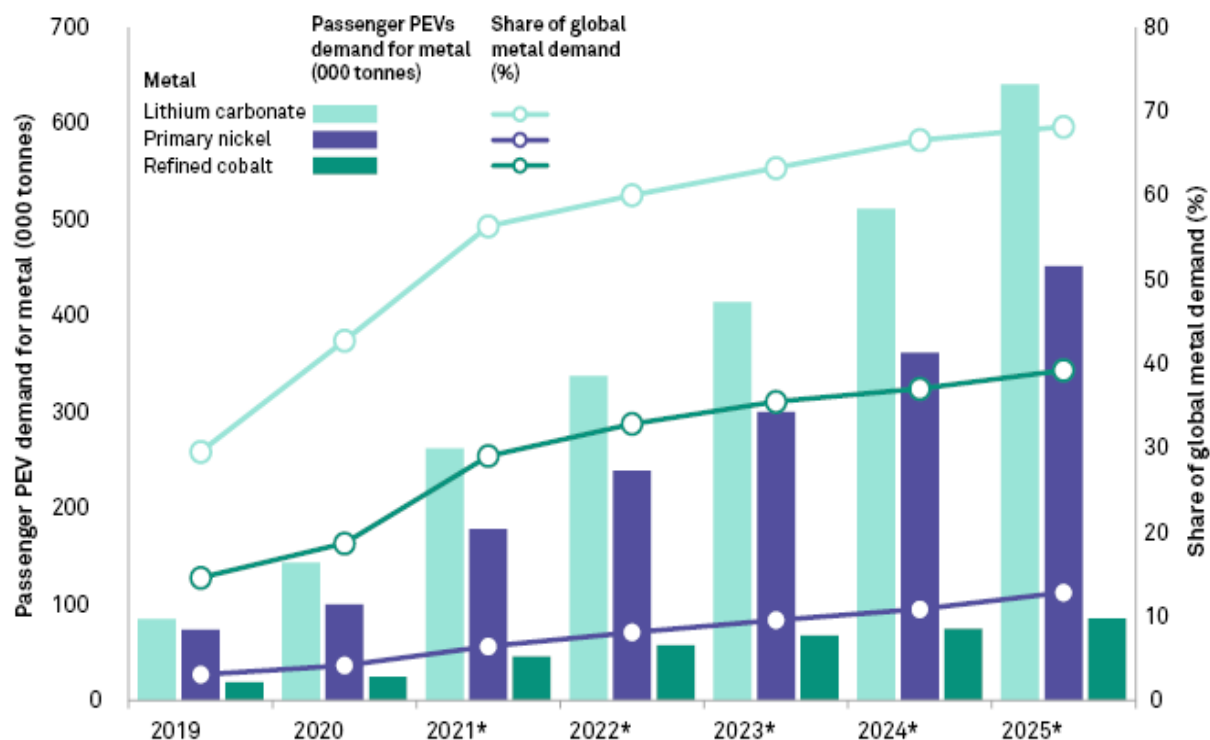
Trident's house broker Tamesis Partners has reworked the numbers to account for the doubling of the Measured and Indicated Resource which not only doubles the mineable inventory from the 2018 PFS to 5.2m tonnes LCE, but lengthens the mine's life by 50 per cent to 68 years. On this basis, Trident's royalty has a post-tax net present value of \$152m (£110m) at a long-term LCE price of \$24,000 per tonne (spot value \$29,800 per tonne) after applying an 8 per cent discount rate to the new Phase 1 and Phase 2 royalty streams. That's a huge increase on the \$28m Trident paid for the royalty in March 2021, and only reflects part of the increase in the LCE price since then, thus offering further scope for valuation upgrades.

The quadrupling of the lithium price this year means that the Thacker Pass royalty could be worth 60p a share, or 62 per cent more than Trident's current share price. This means that effectively all its other royalties and cash pile is in the price for free. Importantly, the massive gap between the \$28m balance sheet value of the Thacker Pass royalty (held at cost in the 2021 interim accounts) and Tamesis' \$152m net present value (post the resource upgrade and factoring the surge in the price of lithium) is supported by fundamentals.

For instance, S&P Global Market Intelligence estimates that 341,439 tonnes of LCE could be devoted to all battery applications in 2021, increasing by 136 per cent to 807,399 tonnes in 2025. By 2024, investment bank UBS estimates that the market will move into deficit and by 2030 demand will exceed supply by 2.1m tonnes. This not only highlights the importance of new sources of LCE, but the strategic value of Thacker Pass to the US car industry.

Continued below...

Passenger plug-in EVs to dominate global lithium, cobalt and nickel demand



Data compiled Sept. 16, 2021.

Lithium and cobalt data as of Aug. 20, 2021. Nickel data as of Aug. 24, 2021.

* Data reflected are forecasts.

Plug-in electric vehicles, or PEVs, include battery electric vehicles and plug-in hybrid electric vehicles.

Historical figures draw in part on the work of International Nickel Study Group and World Bureau of Metal Statistics.

Source: S&P Global Market Intelligence

Trident's Lake Rebecca gold royalty

In October 2020, Trident paid A\$8m for an existing 1.5 per cent net smelter gold royalty over the tenement covering the entirety of the Lake Rebecca Gold Project in Western Australia. The royalty covers the Cleo, Duke, Duchess and Rebecca deposits, a high-quality resource stage asset which has potential for fast-track development within a world-class mining jurisdiction.

The operator, Australian Stock Exchange listed **Apollo Consolidated (ASX:AOP)**, has been aggressively pursuing the development of Lake Rebecca. This is following the publication of a conservative open-pit shell constrained 1.035 million ounce JORC (2012) compliant maiden Mineral Resource Estimate in February 2020 which highlighted significant resource upgrade and expansion potential.

The project is located within the Eastern Goldfields Province of the Yilgarn Craton in Western Australia, upon the highly prospective Laverton Tectonic Zone. Notable mines positioned in the area include the 4m ounce AngloGold Ashanti Sunrise Dam project, Gold Fields Ltd Granny

Smith/Wallaby mines (more than 8m ounces) and Saracen Minerals Carosue Dam Operations deposits (in excess of 4.6m ounces).

In April 2021, Apollo released a further JORC compliant Mineral Resource Estimate update which increased the Indicated Mineral Resource to 1.105m ounces of gold, and the operator has been carrying out further drilling to generate significant gold intersections whilst technical evaluation studies progress.

Apollo's progress has attracted the attention of Australian Stock Exchange listed **Ramelius Resources (ASX:RMS)**, a well-capitalised (net cash of A\$234m) mid-tier A\$1.3bn market capitalisation company with substantial existing producing gold projects in Western Australia. In fact, Ramelius has recently announced a recommended A\$166m cash and shares offer for Apollo and identified a pathway to make the Lake Rebecca Gold Project a cornerstone producing asset within its own portfolio, producing at least 100,000 ounces per annum over a 10-year mine life. Apollo has also received a competing offer from 19.99 per cent shareholder Gold Road Resources (ASX:GOR), a A\$1.2bn market capitalisation natural resources company.

Based on the April 2021 Mineral Resource Estimate, Tamesis had been modelling an achievable 90,000 ounces operation over 10 years commencing in 2023 and generating pre-tax royalty receipts of US\$2.2m at a US\$1,750 per oz gold price (spot price \$1,800 per oz). This translates to a net present value of \$12.9m (£9.3m) for the royalty based on an 8 per cent discount rate.

To put that valuation into perspective, it's more than double the \$5.6m that Trident paid for the royalty only 12 months ago and equates to 14 per cent of Trident's current market capitalisation. Clearly, Apollo's recommended takeover by Ramelius is positive for scaling up the project, thus further underpinning the sharp ramp up forecast in Trident's royalty revenues in the coming years.

Western Australia package of gold royalties

Trident also owns a package of gold royalties in Western Australia, the most advanced of which is the Warrawoona Gold Project, in which the company holds a 1.5 per cent Net Smelter Royalty (NSR). The fully permitted project has commenced construction and is on track to become one of Western Australia's next gold mines. Project operator Calidus Resources is targeting first production in the first quarter of 2022. Warrawoona forms part of a package of gold royalties which cover three more projects in the Pilbara and Yilgarn regions of Western Australia, and include Talga Talga, Bullfinch and Mosquito Creek.

The Talga Talga Gold Royalty was acquired in March 2021 for A\$800,000. Toronto Stock Exchange listed mining group **Novo Resources (TOR:NOV)**, the operator, has recently reported promising shallow drill intersections from the first phase of an inaugural drilling programme targeting shear related lode gold mineralisation within a 3km long target corridor. Novo

highlights potential for Talga Talga material to be trucked to its Nullagine Project for processing, providing a potential near-term avenue to cash flow from the royalty.

Torque Metals (ASX:TOR), the operator of the Bullfinch Gold Project over which Trident holds a one per cent NSR, has successfully completed an equity raise with part of the raised funds to be utilised at Bullfinch. The owner of Mosquito Creek, Nimble Resources Pty, successfully entered a joint venture agreement with Calidus at the start of this year.

Admittedly, these exploration projects currently only have modest valuations, but they clearly highlight Trident's acquisition strategy of holding highly accretive early-stage assets alongside its cash generative royalties.

Trident's copper bottomed Peruvian adventure

Trident's directors made another astute purchase at the tail end of 2020 when the company purchased a portfolio of three existing royalties over the Pukaqaqa Copper Project in Peru. Pukaqaqa is majority-owned and operated by **Nexa Resources (NYSE: NEXA)**, a \$1.5bn market capitalisation New York Stock Exchange and Toronto Stock Exchange listed South America-focused mid-tier producer. Nexa has five operating base metals mines and three operating smelters in Peru and Brazil.

Pukaqaqa is a cornerstone project within Nexa's growth pipeline, comprising 34 concessions covering 11,125 hectares located in the Huancavelica region of Peru, an established mining district. The project's 2017 CIM compliant Mineral Resource Estimate includes a Measured and Indicated Resource of 1.26m tonnes of contained copper, with an additional Inferred Resource of 136,340 tonnes contained copper.

The most recent technical report envisages an open-pit mining operation to feed a 30,000 tonne-per-day processing plant to produce copper and molybdenum concentrates over a 19-year mine life. There is potential to expand both the mine life and output significantly. Nexa has spent over \$16m advancing the project in recent years, a significant sum relative to commensurate junior-led projects.

Trident acquired the royalty for \$3m, a bargain basement price given that the company is entitled to \$8m of additional transaction consideration milestones, half of which is due when production commences and the balance upon the second year of production. Moreover, one of the three Net Smelter Royalties acquired has a sliding scale whereby Trident's royalty rate doubles to 2 per cent if the quarterly average reference copper price exceeds \$3 per pound (lb).

To put this into perspective, the copper price has surged by 48 per cent to \$4.43 per lb this year. Importantly, the copper price looks well supported by multiple factors including incremental global demand from clean energy and electrification, the resurgent North

American economy, and end market demand resulting from \$30 trillion (trn) of fiscal stimulus programmes that have been unleashed to revive global economies in response to the Covid-19 pandemic. These programmes all have one common factor: they are all copper-intensive.

Admittedly, first production from Pukaqaqa could still be five years away, but Trident has already added considerable value to the royalty. Based on a 30,000 tonne-per-day processing plant producing 35,000 tonnes of copper per annum, then at a long-term copper price of \$3.60 per lb, Trident's royalties would be around \$10.8m in the first two years of operation and \$6.8m thereafter. Taking a conservative approach, Trident would still receive long-term pre-tax receipts of \$3.2m on a copper price of \$2.72/lb.

Tamesis has an unrisks net present valuation of \$33.9m (£24.5m) for Trident's three Pukaqaqa royalties based on a long-term copper price of \$3.04/lb and after applying an 8 per cent discount rate. It doesn't seem unreasonable given the projected cash royalty receipts the mines will generate over a 19-year life. To put the valuation into perspective, it equates to more than a third of Trident's market capitalisation.

Lincoln Gold Mine: A Californian dream deal

At the end of August 2021, Trident made the \$2.5m purchase of a NSR over the Lincoln Gold Project in California which will enable privately owned operator, Seduli Sutter Operations Corp, to restart a previous underground operation. It's the eighth acquisition since the inception of Trident's royalty strategy in June 2020 and is yet another smart looking deal.

Trident secured a near-term cash-generative royalty over a low-cost, high-grade asset which has an existing Mineral Resource Estimate of over 286,000 gold ounces at an average grade of 9.3 grams per metric tonne. Seduli Sutter is targeting 20,000 plus ounces of gold per year to generate over \$0.5m per year in pre-tax royalty revenue for Trident, increasing to over \$2m per year when the second stage commences (80,000 plus ounces per year).

At a gold price of \$1,800 per oz, the NSR should generate cumulative cash receipts of \$3.2m by 2024 after which the royalty rate drops back and the company can expect a steady royalty rate of \$1.1m per annum in the absence of further production expansion. The security package includes land holdings valued at \$1.9m, thus protecting downside risk and supporting prospects for a high return on capital invested.

Based on a mine life of seven years, a gold price of \$1,800 per oz, and applying a discount rate of 8 per cent, the royalty has a post-tax net present value of \$4.6m, or almost double Trident's investment cost. The implication being that Trident has bought a royalty at a near 50 per cent discount to net present value. Moreover, with a payback period of only three years, the investment should generate an impressive internal rate of return (IRR) of 29.3 per cent.

Lincoln Gold Mine valuation sensitivity to mine life and discount rate

		Post-tax NPV (\$m)							
		Mine life (years)							
		5	6	7	8	9	10	11	12
Discount rate	5%	3.9	4.5	5.2	5.8	6.4	7.0	7.5	8.0
	6%	3.7	4.4	5.0	5.6	6.1	6.6	7.1	7.6
	7%	3.6	4.2	4.8	5.3	5.9	6.3	6.8	7.2
	8%	3.5	4.1	4.6	5.1	5.6	6.0	6.4	6.8
	9%	3.4	4.0	4.5	5.0	5.4	5.8	6.1	6.5
	10%	3.3	3.9	4.3	4.8	5.2	5.5	5.9	6.2

Source: Tamesis estimates

Major shareholders

Trident Royalties significant shareholders

Shareholder	Percentage
LIM Asia Special Situations Master Fund	14.71%
Ponderosa Investments (WA)	8.94%
Regal Funds Management	5.97%
Amati Global Investors	7.00%
Tribeca Investment Partners	4.66%
Orion Mine Finance (Master) Fund I LP	3.82%
Al Gourley (non-executive)	3.50%
Paul Smith (chairman)	1.84%
Total	50.44%

Source: Trident Royalties annual report, London Stock Exchange regulatory filings.

Trinity's top nine shareholders control 50 per cent of the 180.7m shares in issue, but the shares can be readily traded within the official bid-offer spread with bargains as large as 100,000 shares passing through the market. Tribeca Investment Partners, Amati Global Investors and Orion Mine Finance are all well regarded fund managers in the natural resource space.

Management team

As noted, the board's chairman **Paul Smith** has extensive experience at mining giant Glencore. He also served as chief executive of Katanga Mining Limited, Glencore's subsidiary, from 2019 until it de-listed in 2020. Additionally, Smith represented Glencore as a non-executive director of platinum mining group Lonmin and Glencore Agriculture. Prior to joining Glencore, he was an analyst and fund manager at Marshall Wace Asset Management.

Trident's chief executive **Adam Davidson** has over a decade of experience in the natural resources sector, most recently with Resource Capital Funds, a leading mining-focused private equity firm. He began his career with global investment management firm T. Rowe Price and subsequently held positions with BMO Capital Markets in Metals & Mining Equity Research and with Orica Mining Services in Strategic Planning.

Martin Page, chief financial officer (CFO), has over 10 years' experience in the natural resources sector, most recently at Toro Gold Limited, a private equity backed West African gold producer which was sold to Resolute Mining in July 2019 for \$300m. He was previously CFO at Curzon Resources, a private natural resources investment firm, and Head of Finance at Amara Mining, a West African gold operator.

The company has three non-executive directors: Albert Gourley; Helen Pein; and Peter Bacchus.

Albert Gourley is the London Managing Partner of Fasken Martineau, an international law firm, where his practise focuses on finance and asset transactions in the natural resource industry. He has served as a director of several listed mining and mineral exploration groups.

Helen Pein has had a career spanning more than 30 years as an economic geologist in the natural resource sector. She is currently a director of Pan Iberia and founder member of Panex Resources Pty, a private company focusing on finding and developing global mining projects.

Peter Bacchus is currently chairman and chief executive of Bacchus Capital, an independent investment banking boutique with expertise in the natural resources sector. He has over 25 years' experience as a global M&A adviser within the natural resources sector. He currently sits on the boards of **Gold Fields Limited**, **Kenmare Resources** and **Galaxy Resources Limited**.

The directors control around 10m shares between them, so have sizeable interests.

Valuation methodology

Taking account of the step up in near-term royalty receipts from the producing royalties – Koolyanobbing (iron ore), Mimbula (copper) and Lincoln (gold) – and commencement of LCE production from the Thacker Pass lithium mine in 2024, Trident is set to deliver a material increase in revenue in the coming years.

Tamesis are predicting revenue of \$2m in 2021, \$5.2m in 2022, \$6.8m in 2023 and a chunky \$22.6m in 2024. The last year includes the anticipated \$13.2m royalty payment from Thacker Pass when production commences.

In turn, Trident's pre-tax profit could surge to \$18.3m by 2024 and maintain healthy returns thereafter when Pukaqaqa comes on stream. These forecasts have scope for uplifts given that they have embedded long-term input prices for copper and lithium well below current spot rates. In addition, post the half-year end \$2.5m investment in the Lincoln Gold royalty, Trident still retains a healthy balance sheet with net cash of \$5.5m in addition to the \$10m new debt facility. Successful deployment of these funds should support further earnings upgrades. Bearing this in mind, the board has a pipeline of nine mining companies seeking investment (battery metals, industrial metals, nickel, zinc and gold).

The most appropriate way of valuing the shares is not on a multiple of earnings – clearly the £66m market capitalisation company is lowly rated on five times 2024 earnings per share (EPS) estimates of 9.5c – but on a sum-of-the-parts methodology.

Trident Royalties sum-of-the-parts portfolio valuation

Royalty company	Net asset value	Fully diluted net asset value per share
Koolyanobbing	\$7.6m	3.0p
Mimbula	\$7.8m	3.1p
Spring Hill	\$1.2m	0.5p
Western Australian Package	\$1.0m	0.4p
Lake Rebecca	\$12.9m	5.1p
Pukaqaqa	\$33.9m	13.4p
Thacker Pass	\$152.4m	60.1p
Lincoln	\$4.8m	1.9p

Portfolio fair value	\$221.6m	87.4p
Uncommitted cash	\$15.0m	5.9p
Option exercise	\$1.3m	0.5p
Debt	-\$10.0m	-3.9p
Central costs	-\$10.0m	-3.9p
Unrisked NAV	\$217.9m	85.9p

Source: Trident Royalties 2021 interim accounts, Tamesis net present value estimates for portfolio companies (September and October 2021). Fully diluted shares in issue of 184.4m includes all shares subject to option plans.

On this basis, the shares have a blue-sky unrisked net asset value (NAV) of \$218m (85.9p a share), around 70 per cent of which is attributable to the Thacker Pass Lithium Project. This is materially higher than Trident's last balance sheet NAV of \$56.4m (22.5p a share) at 30 June 2021. Of course, there is execution risk in all the royalty projects and first production at Pukaqqa and Thacker Pass is not scheduled until 2024 and 2026, respectively. There is also a risk of commodity prices falling below the level embedded in the valuations, albeit the case for long-term high lithium and copper prices remains incredibly strong.

However, even after applying a 30 per cent share price discount to the unrisked valuation in our table above, there is still 62 per cent potential share price upside on offer to our 60p target price. Furthermore, as more projects start generating revenue it will de-risk the investment case, so the huge gap between Trinity's current share price and our unrisked valuation should narrow markedly. The directors' lead is well worth following. **Buy.**

Risk assessment

Royalty acquisitions. The growth and viability of Trident is dependent on its ability to successfully identify and acquire royalties. The availability of potential royalties will depend on the state of the world economy, general business conditions, commodity prices, mining sector appetite, alternative sources of finance and financial markets generally. To maintain the deal flow of attractive investments the board targets the whole of the natural resources sector

(except for thermal coal), so has a wider number of investment options available compared to many precious metal peers.

Competition. Trident competes with funds and other royalty or stream companies for investments. Some of its competitors are substantially larger and have considerably greater financial resources. Rivals may also have a lower cost of capital and access to funding sources that allows them to make offers higher than Trident is willing to pay. To mitigate these risks, management targets investments that are often overlooked by other royalty companies which are either solely focused on precious metals or are looking for larger investments. Specifically, Trident targets small/medium-sized operators that are looking for funding or early exits in the case of secondary royalties.

Investment decisions. Prior to making or proposing any royalty acquisition or financing, the company's investment committee will undertake legal, financial and commercial due diligence on potential transactions to a level considered reasonable and appropriate. However, these efforts may not reveal all material facts or circumstances which could have an adverse effect upon the value of the royalty. Any due diligence process involves subjective analysis and there can be no assurance that due diligence will reveal all material issues related to a potential royalty transaction or asset owner.

To mitigate these risks, the board has strict investment criteria that avoids overly competitive bidding, or a transaction for transactions sake approach. The executive team consists of a highly experienced and professional team that has demonstrated a track record of successful investments, has considerable technical, financial and tax expertise, and uses professional third party consultants when appropriate. The directors constructively challenge the executive team on the due diligence process.

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