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Sovereign's low-risk Malingunde

Legislative changes relevant to the natural resources sector have jeopardised the viability of some mining projects in Tanzania.

While many ASX companies come to grips with a change in ownership, taxes and the royalty regime in Tanzania, Malawi-focused Sovereign Metals Ltd is spying the opportunity to be the must-have stock in the small-scale African graphite space.

"Some of the Tanzanian projects were ahead of us and this has given us a chance to catch up," Sovereign managing director Julian Stephens told **Paydirt**.

"It is a natural opportunity for Sovereign because the East Africa players – smaller scale projects – are our direct peers. The finance-ability, fundability of these Tanzanian projects is now thrown into question. What debt funder wants to provide funding in a jurisdiction where contracts can be renegotiated and there is no arbitration?"

A rare combination of low capex and opex requirements at Malingunde has elevated Sovereign's standing in the graphite development space

Despite the circumstances in Tanzania and the impact on companies there, numbers from the Malingunde scoping study released in June warranted attention for Sovereign in its own right.

Malingunde, 20km from Malawi's capital Lilongwe, is currently the largest saprolite-hosted deposit in the world.

The scoping study, conducted by Amec Foster Wheeler plc, indicated potential for Malingunde to produce 44,000 tpa flake graphite at an average operating cost of $US301/t over 17 years.

Capital cost of $US29 million to build the project was estimated to be paid back in two years.

An underutilised railway line is in close proximity to Malingunde and the soft nature of the saprolite ore means processing costs are kept at a minimum.

"The scoping study exceeded our expectations on the upside," Stephens said.

"We are right at the bottom of the operating cost curve; it is simple mining, free dig, and simple processing. There is no crushing or grinding required and we are not reliant on niche or optimistic pricing."

In some respects Sovereign is going against the grain with its strategy, choosing to supply traditional industrial markets, which still drive 80% of graphite demand.

"The battery story is sexy, but it is yet to materialise," Stephens said.

Having such low operating costs and factoring in a basket price of about $US900/t, Sovereign has the ability to produce graphite concentrate for the industrial sector, whereas few of its small scale competitors can.

However, the company has not discounted participating in the battery market at some stage.

"Almost all graphite peers are hosted in hard rock, we have a substantial advantage and we are in the top three of the product suite of the competition. Mining will be no deeper than 25m, shallow, long open pits. We can mine lower grades later on but we are also finding more high-grade also.

"A lot of our peers can't enter the traditional space because of operating costs. We are not waiting for the battery market and we have no plans to build any spherical plants or anything like that. There is a unique opportunity for Sovereign to enter existing, high-volume traditional markets."

Unlike the hard rock, coarse graphite deposits, which can often stick out at surface for easier identification, it has taken time for Sovereign to find the saprolite material at Malingunde.

However, having had such success at Malingunde, Stephens is confident Sovereign has developed the knack of exploring for saprolite deposits.

Stephens said there are plenty of lower grade tonnes to exploit at Malingunde after the initial 17-year mine life, while there is close to 4,000sq km of ground also to be explored.

"We have six other saprolite prospects and there are many more. It took a few years to know how to find them and using various databases we now know how to find them," he said.

Sovereign will continue to explore, however, marketing Malingunde and accelerating project development is also on the cards.

At the time of print, Sovereign was approaching the UK market to gauge interest in Malingunde, while baseline environmental studies as part of the feasibility study had started.

"We are happy with the flow sheet, but we will do more met testing to produce a concentrate to show potential off-takers," Stephens said.

"We have high-quality concentrate at the lowest cost; we don't need large volumes or optimistic price assumptions to generate cash. The upside is the future battery market, but we should be able to get to existing industrial markets pretty easily."

– Mark Andrews