

# Hot Chili rising in cool breeze

“I see a fair bit of optimism creeping into the people I deal with, my colleagues and even myself, everyone is smiling a bit more and it looks like the sun might break through the clouds, but we will see.”



Hot Chili managing director Christian Easterday

Christian Easterday is bouncing at the moment.

Hot Chili Ltd's managing director is feeling good about the results produced from the PFS at Productora, 600km north of Santiago, and is also buoyed by the rays of light he sees appearing in the resources sector.

"In the last 4-6 weeks, particularly, I see a bit of a spring in everyone's step again," Easterday told **Paydirt** last month.

"I don't know whether that is just because a couple of sectors are performing well and have captured the imagination of investors and created that excitement that we all need, but that value generation which things like lithium are creating is good for us all at the moment."

The exchange rate and Australian-denominated gold price are behind some of the enthusiasm from retail investors at the moment, something Easterday says has been missing in the market for nearly three years.

"You have things like graphite, lithium, Australian gold and Canadian gold, to a lesser extent because of the exchange rate, there are a few areas going well and capturing retail investors' imagination. The juices are flowing again and slowly it will flow through to the institutions. If the price recoveries start to catch on and start affecting other commodities – iron ore has bounced off [10-year] record lows – and actually the space is not looking as dire as it certainly was in the second half of last year and beginning of this year.

"I see a fair bit of optimism creeping

into the people I deal with, my colleagues and even myself, everyone is smiling a bit more and it looks like the sun might break through the clouds, but we will see," he said.

Easterday is certainly in the mix to test the pulse of the resources sector given the recent release of the Productora PFS.

At the time of print, copper was trading at \$US2.16c/lb – significantly lower than the \$US3c/lb Hot Chili used to determine an economic scenario at Productora in the PFS of \$US4.3 billion revenue, post-tax NPV \$US220 million from a pre-production capital cost of \$US725 million, including \$US82 million contingency.

These figures assume production of 66,000 tpa copper and 25,000 ozpa gold (for the first eight years) at C1 cash cost of \$US1.47c/lb, including gold and molybdenum credits.

Capital costs are forecast to be paid back in about four years at a real (including inflation) IRR of 15%.

The PFS, released in early March, included an expanded resource of 1.47mt contained copper and 980,000oz gold. This represented almost a doubling of ore reserves to 166.9mt, containing 720,000t copper and 47,000oz gold.

It is anticipated Productora can be in existence for 12-13 years based on ore reserves, however, should things go according to plan, greater opportunities are ahead for Hot Chili.

Tapping into the porphyry potential has already started with the Alice discovery, which forms part of the overall 1.47mt

copper resource, and Hot Chili is confident at least one of the four large-scale porphyry targets identified will bear fruit.

Ideally, drawing another five years of mine life from Productora and increasing project NPV twofold will boost Hot Chili's profile as one of the globe's emerging large-scale copper developers.

"We think that probably our remaining mine life targeted for the DFS at this stage is another 2-3 years. Is it likely that we would secure that...I think the potential of the porphyries is a game changer if we are successful," Easterday said.

"We have plus-1bt potential on porphyries that have been identified right next to the Central Pit. Are they conceptual? No, but we have discovered Alice already and turned that into a pit. We had just enough time to drill that out and create our first porphyry resource and that looms as the real elephant in the room at Productora. One successful hole changes everything."

Exploration achievements may provide some short-term excitement in the market for investors, however, the question continually asked of Hot Chili is whether Productora stacks up in the current price environment.

Easterday is aware the PFS on Productora was delivered based on a \$US3/lb copper price, which has caused some concern from people finding it hard to fathom how a project costing \$US725 million can be built at today's \$US2.16c/lb copper price.

Therefore, Easterday and his team are embarking on a marketing campaign so

Hot Chili's stance at Productora can be fully understood.

"I think people misconstrue that when a project study is done at \$US3/lb economics and you are dealing with \$US2.20/lb at the moment, it gives people the impression that this project doesn't make any money if you ran it at today's prices," Easterday said.

"At today's price, a third of the cash cost curve doesn't make money. Will it [Productora] be built if you think that long-term copper prices are going to be \$US2.20/lb? No. Will any other mines of any significant scale be built? No.

"It's about context, will there be new mines built, yes. When, is the question, not if, and when the time comes Productora at PFS stage already is right at the top of that list."

Hot Chili is priming Productora for production in 2019/20, by which time the project will be one of the largest of its type on the ASX and copper will be back around the \$US3/lb mark, according to Easterday.

Hot Chili is looking to complete a DFS, including drilling of the porphyry targets, to time in with that rebound.

Easterday estimates the exercises to cost about \$US15 million, with the company already assessing what can be improved from the PFS and is undertaking an interim engineering study ahead of green-lighting a DFS.

Adopting an owner/operator mining scenario utilising its own fleet, opposed to a contract mining model, could decrease costs by \$US0.20/lb, while accessing a second-hand oxide plant and drawing power from a new power line to be built within 1km of the plant are areas where Easterday can tighten the purse strings.

Delivering savings on these items will improve IRR to 18%, double NPV to \$US500-550 million and significantly reduce capital payback.

"What that does overall is move Productora down the cost curve into the second quartile. That means half of the global copper producers are costing more than Productora to produce copper," Easterday said.

"I think that is a really strong place to be at the commencement of a DFS, where our stated intention is to finalise what this project looks like and capture the last phase of mine life."

Hot Chili hopes to complete the DFS within the next 18 months and just how it goes forward with the project will be known in a short while.

Compania Minera del Pacifico S.A. (CMP) had 90 days to review the PFS (released on March 2) and decide what



**A DFS at Productora, which will include drilling and an EIA, is estimated to cost \$US15 million**

position to take at Productora.

CMP is already a 17.5% JV partner in Productora after an infrastructure agreement was struck with Hot Chili 12 months ago.

The agreement provides Productora with access to significant infrastructure and other rights, while it also opens the door to other funding options for Hot Chili, with CMP having an option to increase its stake in the project to 50.1%.

Right now, with a share price of 7c at the time of print and \$US10 million drawn down from a Sprott lending debt facility, Hot Chili can ill-afford to fund significant capital spends.

Given the short timeframe CMP has to digest the PFS, Easterday hopes to continue the partnership, however there is no shortage of interest in Productora.

"The large-scale copper world knows what this project means and we haven't

been surprised by the numerous calls we have fielded from large corporates," he said.

"We are encouraged about where copper prices will be in 2019/20 and if we get this right we could well have navigated perfectly a counter cyclical development that comes on at perfect timing. More importantly, we're at the front of the queue of the next phase of copper mines that will be built in the world.

"Yes, we have to navigate commercially very carefully, we have to fund this very carefully, which means our partner CMP is a very important aspect of this, but we are really encouraged by the amount of inbound interest we are getting from large copper corporates or aspiring copper corporates."

**– Mark Andrews**