

SPEC BUY

Current Price \$0.017
Target Price \$0.06

Ticker:	HCH	
Sector:	Materials	
Current Shares on Issue (m):	2,332.7	
Market Cap (\$m):	39.7	
Net Cash est (\$m):	10.0	
Enterprise Value (\$m):	29.7	

52 wk High/Low:	\$0.046	\$0.010
12m Av Daily Vol (m):	6.6	

Directors

Murray Black	Non-Executive Chairman
Christian Easterday	Managing Director
Allan Trench	Non-Executive Director
Michael Anderson	Non-Executive Director
Roberto de Andraca Adriasola	Non-Executive Director
George Nickson	Non-Executive Director

Major Shareholders

Taurus Funds Management	15%
Exploration Capital & Sprott	13%
Black Edward	7%
CAP SA	5%

Reserves (Probable)	Mt	% Cu	Mt
Productora	166.9	0.43	562.9

Resources (Ind and Inf)	Mt	% Cu	Cu cont. Mt
Productora (higher-grade)	236.6	0.48	1.13
Productora (lower-grade)	218.0	0.16	0.34

Cash Flow (A\$m)

	FY17	FY18	FY19
Operating CF	-3.0	-2.2	-2.2
Investing CF	-1.4	-1.6	-3.2
Financing CF	6.4	5.1	3.1
Closing Cash	2.4	3.7	1.4

Figures in A\$ unless otherwise stated

Share Price Graph and Trading Volume (msh)



Please refer to important disclosures at end of the report (from page 7)

Friday, 19 June 2020

Hot Chili Ltd (HCH)

Time to push the boundaries

Analysts: Matthew Keane | Michael Eidne

Quick Read

HCH has recommended drilling at its Cortadera copper-gold porphyry in Chile with the first hole of a seven diamond hole program underway. Hole CRP0042D into the Cuerpo 3 lode was suspended at 616m and has now been re-entered with a planned depth of 1,300m. So far, mineralised porphyry has been observed over 300m with 420m remaining. The initial phase of the current program will look to infill and extend the high-grade core of Cuerpo 3, which contains previous drill intercepts of 0.7-0.9% Cu and 0.2-0.5g/t Au. We expect subsequent drilling to target Cuerpo 2 and Cuerpo 3 North. The Company is also preparing for the commencement of lease mining and processing at its Productora Project (80% HCH) by Chilean government agency Empresa Nacional de Minería (ENAMI).

Event & Impact: Re-commencing exploration - Positive

Entering a high growth phase: Argonaut foresees the next 2-3 phases of drilling will see significant expansion to Cortadera. A maiden resource is due in the coming months, which we estimate could be ~500Mt at 0.65% copper equivalent (CuEq.), including a higher-grade core of ~100Mt at ~1.0% CuEq. For the next phase of growth, we draw an analogy to SolGold's (SOLG) Alpala porphyry deposit in Equator, which started with a Maiden Resource of 1.1Bt in 2018 and rapidly grew to the 3.2Bt by 2020. Both deposits are mineralised from surface and contain a high-grade core. This core commences 400m nearer to surface at Cortadera.

Expanding the high-grade core: Drilling has re-commenced at the HCH's Cortadera Project. Hole CRP0042D has been re-entered and is currently at a ~880m, out of a total planned depth of ~1,300m. Over 300m of mineralised porphyry has already been recorded in the hole. Initial drilling will target gaps within the current high-grade core and both lateral and vertical extensions to known mineralisation.

Could Cuerpo 2 replicate Cuerpo 3? Argonaut is particularly encouraged to see deeper drill holes into the Cuerpo 2 lode. Previous scissor holes defined a higher grade zone commencing from 200-300m below surface. The void below these holes remains untested (see Figure 1 over). Note that the high-grade core in Cuerpo 3 starts from a similar depth (~200m below surface). The biggest upside could come from the potential connection of Cuerpo 2 and 3 at depth.

Cuerpo 3 North: HCH will likely re-enter RC pre-collar holes drilled into the Cuerpo 3 North area, located 500m north of Cuerpo 3. Geophysical and downhole geology/mineralisation show potential for another porphyry system in this zone. We believe Cuerpo 3 North has the potential to nearly double the scale of Cuerpo 3.

Recommendation

Argonaut maintains a SPEC BUY recommendation with a valuation of \$0.06ps (from \$0.07ps). See page 6 for our valuation summary.

Re-commencing exploration

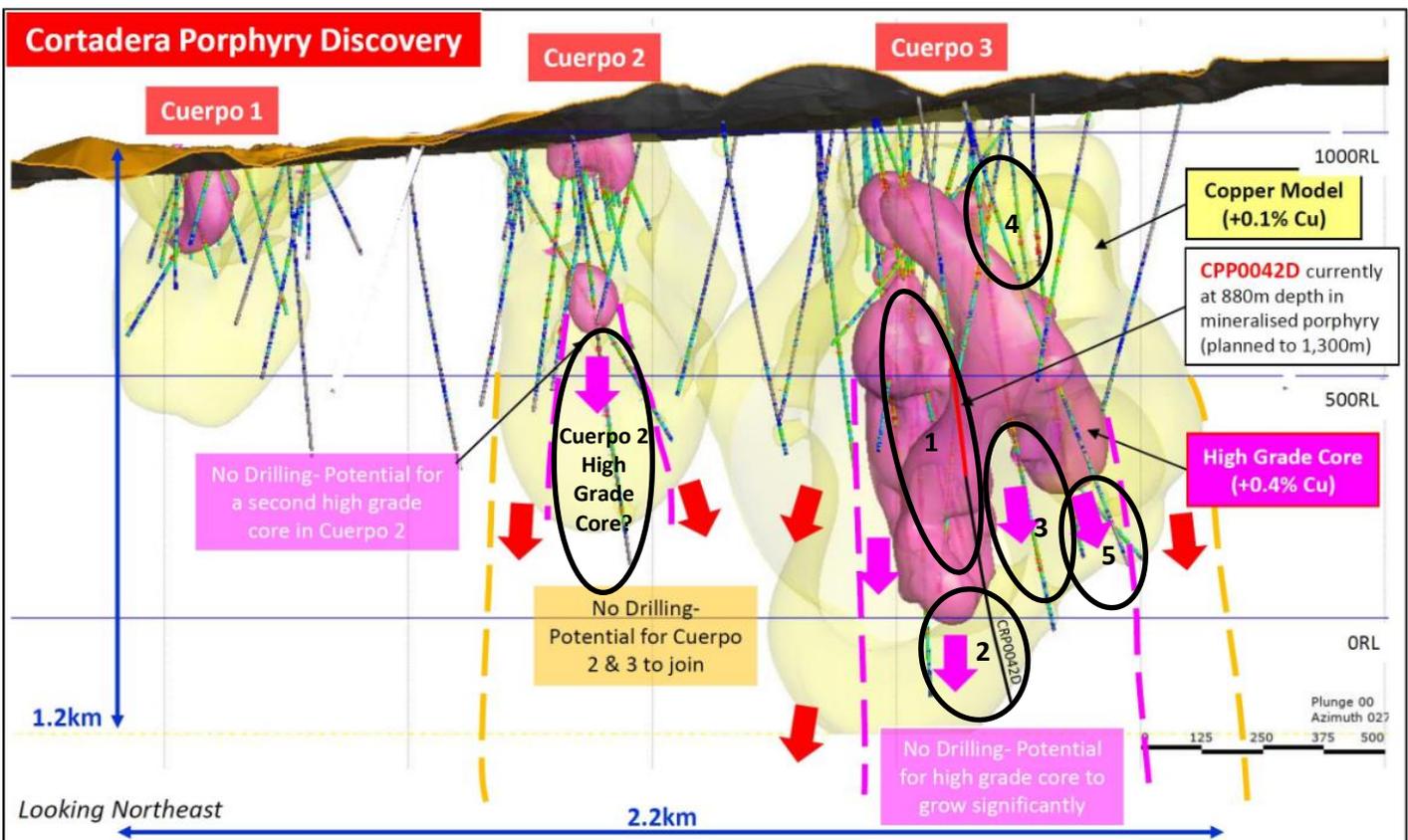
HCH has commenced a 7-hole drill program at its Cortadera Project in Chile. The Company completed a number of RC pre-collars prior to the onset of the COVID-19 outbreak. Drilling will initially target the Cuerpo 3 lode with the first hole underway.

First hole underway at Cuerpo 3

Hole CRP0042D has been re-entered and is currently at a ~880m, out of a total planned depth of ~1,300m. Over 300m of mineralised porphyry has already been recorded in the hole. Initial drilling will target gaps within the current high-grade core and both lateral and vertical extensions to known mineralisation. At present, the Cuerpo 3 copper distribution model shows a high-grade core comprises 2 sub-lodes one to the north and one to the south (displayed in pink in Figure 1 below). There is significant potential to expand the current high-grade core from just 3-4 holes targeting existing data voids in and around these sub-lodes. Argonaut has circled the areas which we believe could have the biggest impact on Figure 1 below. These include:

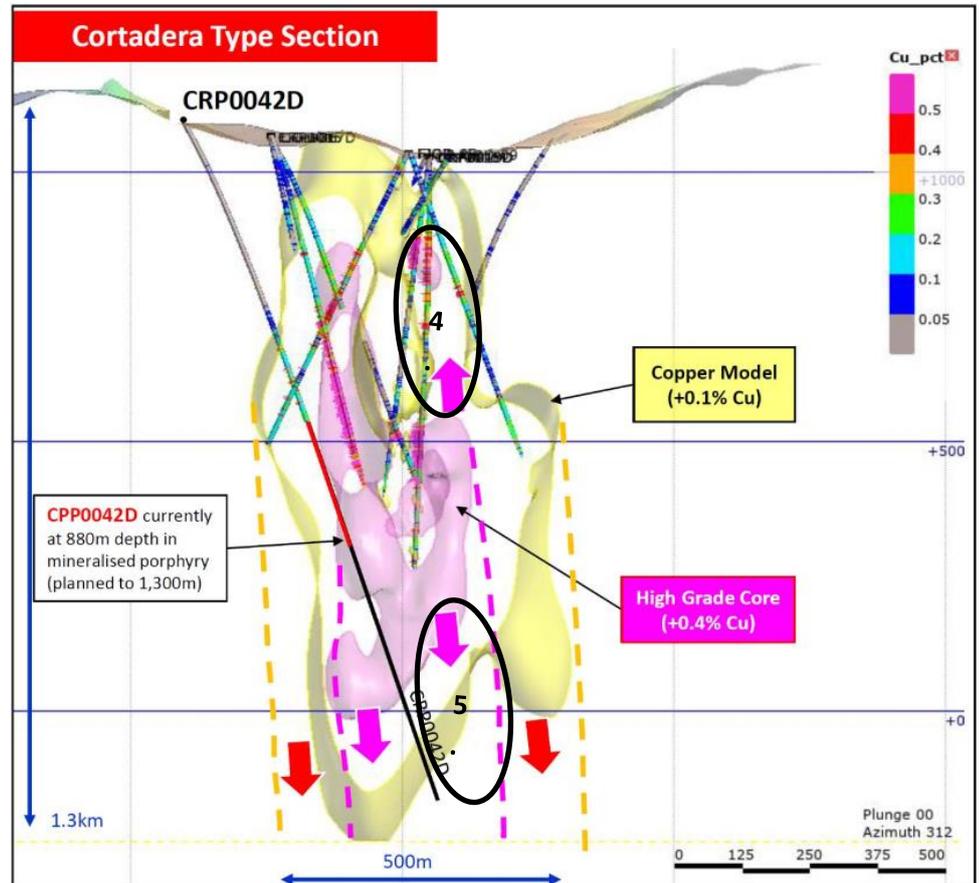
1. Extensions to the southeast (to be tested by hole CRP0042D)
2. Depth extensions to the southeast (also to be tested in hole CRP0042D)
3. In filling the void between the “trouser legs” of the two lobes. (note the hole visible in this area in Figure 1 is projected forward and does not penetrate the void target)
4. Up-dip extensions to the northern lobe (also see Figure 2)
5. Down-dip extensions to the northern lobe (also see Figure 2)

Figure 1. Long section of Cortadera showing the Company’s copper distribution model and areas predicted by Argonaut which could add significant extensions to the high-grade mineralisation (circled in black)



Source: HCH

Figure 2. Section through Cuerpo 3 showing hole CRP0042D (underway) and potential extensions to known mineralisation



Source: HCH

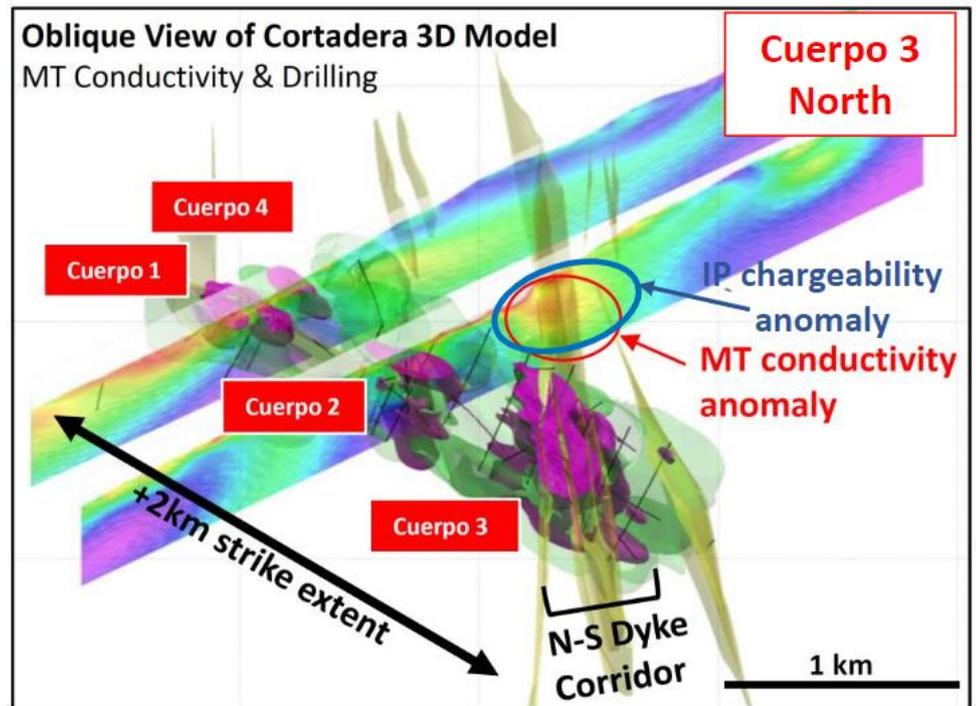
Cuerpo 2 – what lies beneath?

Argonaut is particularly keen to see deeper drill holes into the Cuerpo 2 lode. Previous scissor holes defined a higher-grade zone commencing from 200-300m below surface with one drill interval of 42m @ 0.8% Cu and 0.2g/t Au. The void below the scissor holes remains untested (see Figure 1 above). Note that the high-grade core zone in Cuerpo 3 starts from a similar depth (~200m below surface). Substantial upside could come from the connection of Cuerpo 2 and 3 at depth.

Cuerpo 3 North – big anomaly

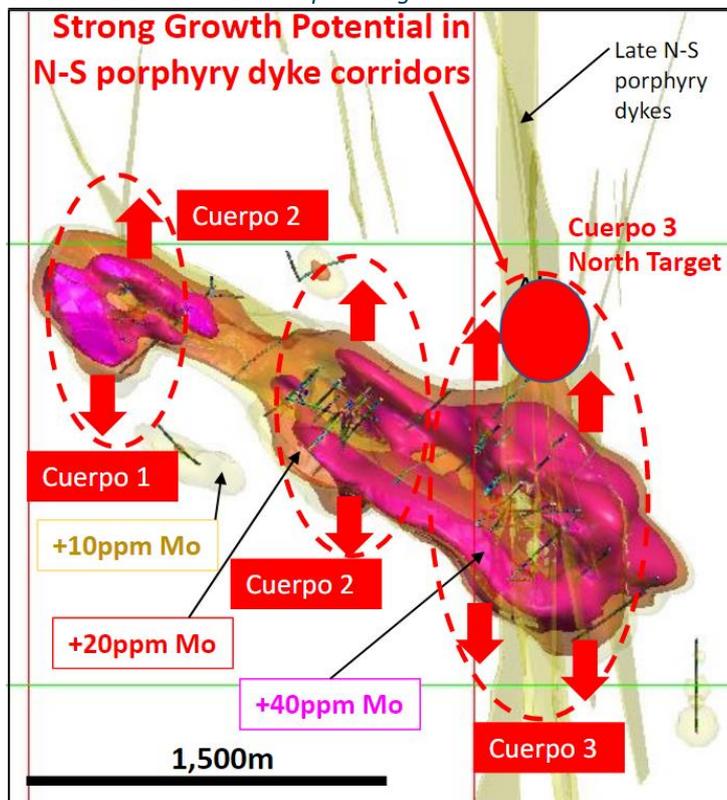
Cuerpo 3 North is a large IP chargeability target located 500m north of Cuerpo 3, situated on an interpreted north-south structure. HCH will likely re-enter one or both of the two RC pre-collars drilled into this target earlier in the year. These holes intercepted prospective skarn alteration with pyrite mineralisation and elevated molybdenum (moly). Moly commonly forms a halo around Cu-Au mineralisation and has shown strong zonation around Cuerpo 1, 2 and 3. Quartz vein concentration (A&B veins) has been noted to increase downhole in the RC pre-collars. This is also a common trend noted in high grade porphyry systems. Cuerpo 3 North has the potential to nearly double the scale of Cuerpo 3.

Figure 3. Cuerpo 3 North IP anomaly located ~500m north of Cuerpo 3



Source: HCH

Figure 4. Molybdenum model for Cortadera showing halo zonation around Cuerpo 1-3 and an extension out to the Cuerpo 3 target



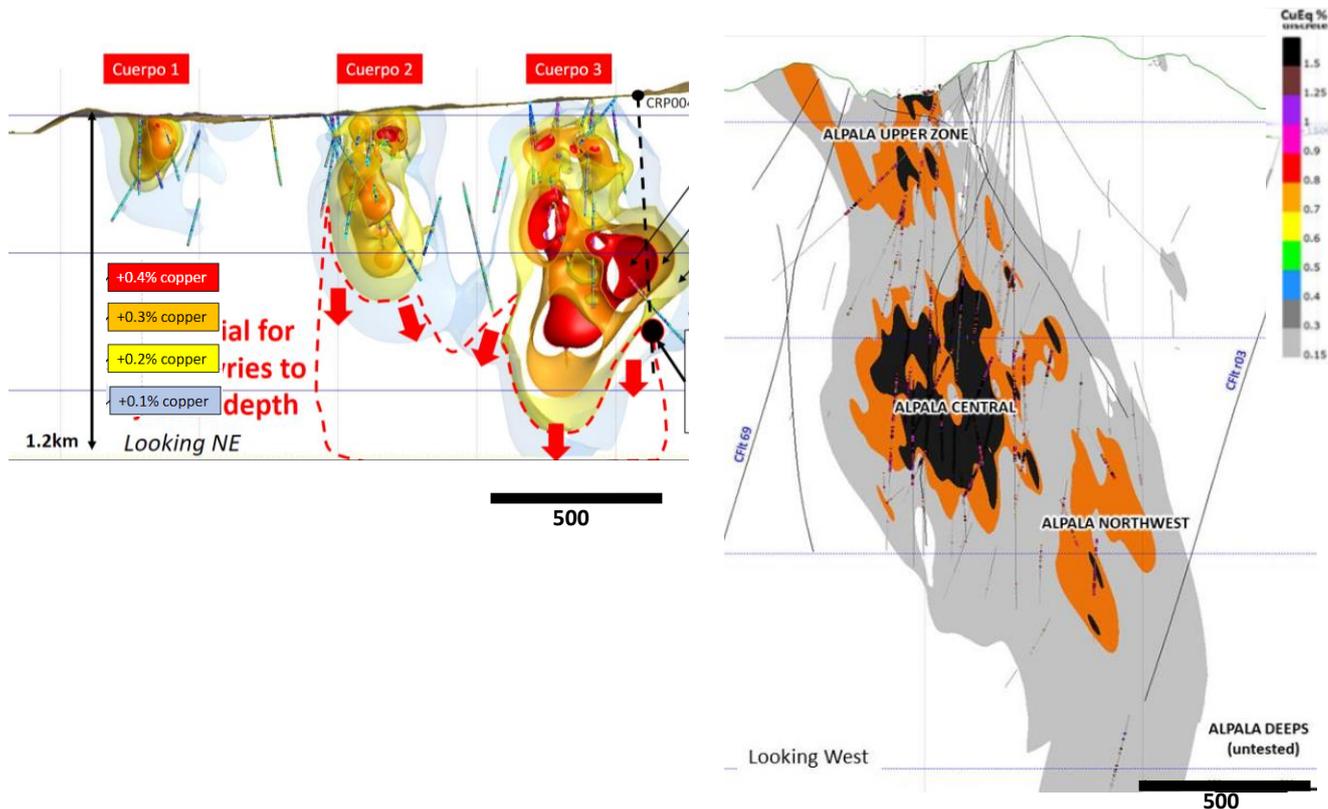
Source: HCH

Growth potential – Alpala analogy

Argonaut believes the next 2-3 phases of drilling will see significant expansion to Cortadera. A maiden resource is due in the coming months, which we estimate could yield ~500Mt at 0.65% copper equivalent (CuEq.), including a higher-grade core of ~100Mt at ~1.0% CuEq. Deep porphyry systems such as Cortadera can add significant tonnes from relatively small step-out drill holes. For example, a 50m step out line to the northeast or southwest of Cuerpo 3 has the potential to add up to 100Mt given the current 750m strike and 1,000m depth extent of known mineralisation.

We draw the analogy to SolGold’s (SOLG) Alpala porphyry deposit, part of the Cascabel Project in Northern Ecuador as an example of rapid growth. The Maiden Resource released in early 2018 was 1.1Bt @ 0.68% Cu Eq with a high-grade core of 120Mt @ 1.8% CuEq. This more than doubled by late 2021 to 2.95Bt @ 0.60% CuEq. The latest resource released April 2020 was significantly larger again with 3.2Bt @ 0.49% CuEq (applying a 0.3% CuEq. cut-off) with a high-grade core of 442Mt @ 1.4% CuEq. We highlight that Alpala’s high grade core is much deeper, starting at ~600m below surface, versus Cuerpo 3’s high grade core which commences at ~200m below surface. The long section comparison to Alpala’s 2020 resource below shows the potential for Cortadera to increase in scale, particularly at depth. SolGold has attracted significant corporate interest with a ~A\$83m investment from BHP in 2018 (14.7%), a multi-stage investment by Newcrest (13.7%) and most recently a A\$155m investment from Franco Nevada for a 1% NSR royalty on Cascabel.

Figure 5. Long section comparison of SolGold’s Alpala 2020 Resource (right) to HCH’s Cortadera copper distribution model (left)



Source: HCH, SOLG (Edited by Argonaut)

Valuation

Argonaut values Cortadera on a fully diluted projected EV/Resource basis. This is based on our initial resource estimate of 500Mt @ 0.50% Cu and 0.20g/t Au containing ~ 3.25Mt CuEq. According to S&P Market Intelligence, the average acquisition cost per in-situ tonne of copper since 2018 was ~US\$215/t contained copper and the average EV/Resource for listed copper developers (non-transactional) was ~A\$180/t of copper equivalent resources. For Cortadera, considering the potential quality and scale of the project yet accounting for the pre-resource early stage of the project, we ascribe an in-situ copper equivalent value of A\$50/t (total value \$163m). For Productora, given the lower grade nature of the project and the limited scale, we ascribe an in-situ copper equivalent value of A\$25/t (total attributable value \$26m). We believe these multiples are very conservative given the EV/Resource for developers and precedent transactions quoted above.

We have ascribed a negative \$39m value for the remaining vendor payments for the Cortadera asset, comprising US\$10m (A\$14.5m), due July 2021, US\$15m (A\$21.7m), due July 2020 and a US\$2m (A\$2.9m) deferral fee. We have converted all the 80,095 outstanding convertible notes (at a face value of \$100 per share) to derive an additional 240 million shares. We have also incorporated full dilution from the recent \$8.9m equity placement and rights issue to derive total diluted shares on issue of 2,573 million.

Table 1. Argonauts sum of parts valuation for HCH

NAV Valuation	Base Case	Value Per Share
Sum of Parts	AUD M	AUD / Share
Cortadera	163.2	0.06
Productora	26.3	0.01
Other Exploration Assets	15.0	0.01
Corporate NPV	(28.3)	(0.01)
Cash	10.0	0.00
Debt	-	-
Vendor Payments	(39.0)	(0.02)
Total	147	0.06

Source: Argonaut

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Important Disclosure

Argonaut participated in the Placement to raise \$8.9M in May 2020 and received fees commensurate with this service. Argonaut currently owns and/or controls 9,350,000 HCH Shares and 6,549,000 Options exercisable at \$0.025 on or before 20 May 2022.

The analyst owns or controls shares in HCH.

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