

Hot Chili Limited

Developing the Costa Fuego copper-gold region in Chile

Hot Chili Limited (ASX:HCH) is a copper explorer with an advanced portfolio of low altitude, porphyry copper-gold projects in the Costa Fuego district of northern Chile. The company listed in 2010 on the ASX and has spent the past 12 years acquiring, developing and proving up the resources at its Productora, San Antonio, Cortadera and Valentina projects in Costa Fuego as well as securing access to water, power and mining infrastructure surface rights which will hasten the development approvals process. In that time, Hot Chili has increased its indicated resource by 1,500% to 3.41Mt Cu Eq. The company has announced its preliminary economic assessment (PEA) which estimates a post-tax Net Present Value (NPV) of US\$1.1bn using a copper price of US\$3.85/lb and a gold price of US\$1,750/oz. The PEA contemplates a 16-year mine life for open pit and underground operations with 112ktpa CuEq average production a year. Separately, the company has announced that it has executed a binding US\$15m investment agreement with Osisko Gold Royalties for a 1.0% net smelter return (NSR) royalty on copper and a 3% NSR royalty on gold. Hot Chili intends to use the royalty proceeds to advance the Costa Fuego pre-feasibility studies and resource growth drilling programmes. The investment by Osisko along with the 9% shareholding by Glencore underscores Costa Fuego’s potential as a near-term new copper supply.

Project description

Hot Chili owns one of the largest, low risk, undeveloped copper resources with 2.85Mt Cu (in 725Mt) indicated and 0.6Mt Cu (in 202Mt) inferred in Chile, a “low risk” jurisdiction. Costa Fuego encompasses three deposits, Cortadera, Productora and San Antonio and one satellite project Valentina with easy access to infrastructure on the Chilean coast and located 600km north of Santiago. Cortadera (100% owned by Hot Chili) has a measured and indicated resource of 471Mt at 0.46% Cu Eq, including contained metal of 1.7Mt of Cu, 1.8Moz of Au and 32kt of Mo. Productora (80% owned by HCH) has a measured and indicated resource of 253Mt at 0.49% Cu Eq including 1.0Mt of Cu, 0.7Moz Au and 35kt of Mo. San Antonio (90% option) has an inferred resource of 4.2Mt at 1.2% CU Eq. The high-grade Valentina prospect has had first pass drilling completed and is awaiting permits to undertake follow-up drilling.

PEA confirms a base-case IRR of 21%, post-tax NPV of US\$1.1bn

Hot Chili has just released its Preliminary Economic Assessment (PEA) which delivers a base case post NPV of US\$1.1bn and an IRR of 21% using an 8% discount rate and copper price of US\$3.85/lb and gold price of US\$1,750/oz. The PEA estimates that for every \$0.10/lb increase above the US\$3.85/lb copper price, another US\$100m is added to the post tax NPV. Based on the metrics used in the PEA, Costa Fuego is estimated to have the capacity to deliver average annual revenue of US\$845m and average annual EBITRDA of US\$445m for a 3.5 year pay-back. The US\$15m binding investment agreement with Osisko is expected to fully fund the company’s next 12-to-18-month growth and development plan including the pre-feasibility study and additional resource drilling programme.

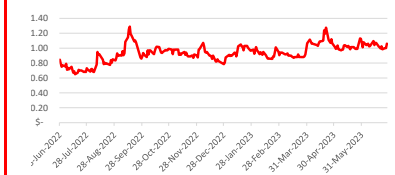
Seeking to fill the copper supply gap

Costa Fuego delivers the advantage of being a low-altitude, no arsenic, infrastructure- and permit-ready project at a time when other copper regions face challenges in securing government approvals. Glencore estimates that the global refined copper deficit will be more than 50Mt a year by 2030. That supply gap is expect to widen by 2050 as the world approaches net-zero targets.

Share Details

ASX code	HCH
Share price (28-Jun)	\$1.06
Market capitalisation	\$126.7M
Number of shares	119.5M
Options & performance rights	15.9M
Net cash at 31-Mar-2023	\$7.4M

Share Price Performance (12 months)



Upside Case

- Secures commitment for the remaining 40% of production not taken by Glencore
- Drilling programme extends current mineral resource
- Faster shift to Net Zero accelerates demand for copper

Downside Case

- Current drilling programme fails to extend the Mineral Resource
- Copper price collapses changing the project’s economics
- Company becomes a target for takeover activity before shareholders secure sufficient ROI

Catalysts

- Expansion of mineral resource following current drilling programme
- Pre-Feasibility Study release in 2024

Comparative Companies (Australia & NZ)

CBY, CAE, CYM, KCC, MAG, NWC

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FINANCIAL SERVICES GUIDE

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