

# Nouveau Monde – A Corner of the Graphite Triangle

We guess it's just the way of the world that the markets don't seem to be able to "walk and chew gum at the same time". As Lithium has grown in furore, its fellow traveler graphite has been somewhat eclipsed and investors have definitely forgotten that there is a relationship between the two as graphite is a big(ger) component in Lithium Ion batteries. With up to 150kg of graphite required for the LiB in an electric vehicle, new sources of graphite are in demand, specifically in North America where there is currently limited supply. Admittedly the price of graphite is lower than Lithium's but that does not change the fact that graphite is a key part of the mix.

Like all things related to the mining space, trends come and go, and graphite lit up part of the darkest period of the mining slump for a brief while. There was the usual large inflow of players and then the gradual fade back to reality. The impetus for the initial rush was the lack of Western production of graphite, which was virtually nil. Two to three years on (depending on when you date the resurgence in graphite interest) the number of mines to have made it to production is almost negligible and the West is as much if not more dependent upon Chinese supply as before.

The fleeting nature of the graphite boomlet meant that many companies managed to raise a bit of money and a few companies managed to raise a lot, but the roll call of those still around and still with cash on the balance sheet is much reduced. Fortunately for those that survived the down times we are now seeing a revival in mining financing that is spilling out of first mover sub-sectors (like Lithium and Gold) into other metals/minerals now.

It is therefore worth looking at one of the survivors in the

graphite space and highlight what it is doing, so a review of Nouveau Monde (TSXV:NOU)(OTC:NMGRF)(FRANKFURT:NM9) seems timely.

Our first encounter with this company was in October 2013 when we met with the CEO, Eric Desautelliers on their London roadshow. The thing that struck us most was the quality of the share register, because when it comes down to it a quality shareholder base will more likely be around for the long-term than a mass of flippers or hedge funds. Currently the institutional base of Nouveau Monde consists of four of the major Quebec-based institutions with around 30% of the shares. As those in the mining space know the *Quebecois* look after their own and if the management is serious and the project is in the best interests of the province then the wagons are circled and support given through the down-times. This has proved to be the case with this company as the base is heavyweight indeed, with the names being:

- Desjardins – Largest association of credit unions in North America
- SIDEX – Major Québec Government fund to invest in Québec mineral exploration companies
- Fonds de Solidarite – FTQ – Québec's largest central labor body
- SODEMEX – Québec-based mining investment fund

We would note again that these are NOT the type of institutions that invest in concept stories with no interest in moving to eventual production. The thing that clearly excites the local institutions is that Nouveau's Matawinie project has the potential to take up the slack when North America's only existing producing site, the Lac-des-Îles mine of Imerys, shuts down around 2020. This promises to keep Quebec in contention as the go-to place for this mineral in North America., Moreover we suspect they also want to be in the picture for industrial spin-off benefits such as battery plants which would make sense in view of the province's

endowment with Lithium and the likelihood of two major mines (one being Nemaska's) being functional before the decades end.

The rundown of Imerys's Lac-des-Îles mine is no secret as the company has disclosed that it is nearly depleted, with enough ore through 2020, with output varying between 20,000 to 25,000 tons per year, representing 95% to 100% of North American supply. At the risk of seeming like a body-snatcher, Nouveau Monde is plotting on moving into the space to be left with the soon-defunct Imerys operation and is designing its operation to produce 50,000 tons per year to enable the capacity to deliver large quantities, so effectively doubling North American supply.



This map above is what we like to call the Graphite Triangle. Unlike the Bermuda Triangle where things mysteriously disappear, the Graphite Triangle is where real projects in the graphite space appear. Matawinie's proximity to Imerys' processing plant on the outskirts of Montreal is patently obvious and with it the transport links to take the product to other North American locations or to Europe. This then begs the question as to whether Nouveau Monde might end up as a target for Imerys to plug their production pipeline's "leak" post-2020?

## **Conclusion**

With the stragglers in the Graphite space likely to be repurposed for other metals/minerals in the resurgent mining space the serious players will have a less crowded stage on which to perform... and it shall be all about performance. Nouveau in on the cusp of the DFS process which shall then lead into the funding and mine-build. It is fortunate that the sentiment amongst investors has turned to the better thus potentially making the funding task easier than it would have been over the last two years. With a capex of \$122mn it is

neither the cheapest mine to build nor is it the largest capex we have seen in the graphite space. With an NPV of over \$400mn, it shows the type of strong multiple of NPV over capex that we like to see, and that makes it worthwhile for a project to “get out of bed in the morning”.

The old real estate adage “Position, Position, Position” comes to mind when sorting the most likely winners from the also-rans. Nouveau definitely has itself well positioned in the Graphite Triangle of Quebec and that has brought it the support of major institutions with a vested interest in seeing the mining of graphite continue and expand in the province. Beyond that it ticks most of the boxes that Imerys would need to tick in hunting for a replacement for its current capacity in North America.