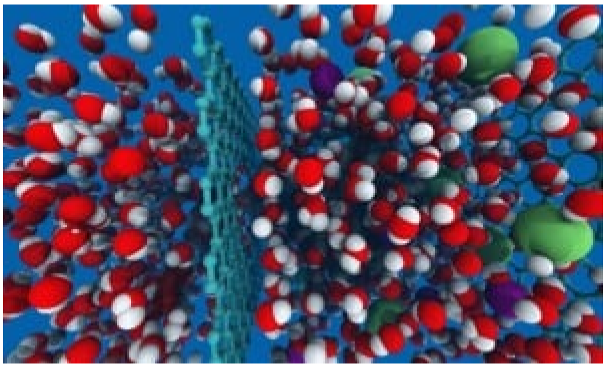
Grigor says Talga and MRL are ‘catalysts for disruption in the graphene sector’



First he singled out Talga, now Warwick Grigor says he has found the other key player in the low cost graphene space.

The Sydney-based resources analyst who runs Far East Capital made headlines in Australian newspapers earlier this year when he proclaimed that he was putting his money where his mouth was and investing a large chunk of his own cash into Talga Resources (ASX:TLG) because of its single-step graphene process.

Now his has picked out another Australian company, MRL Corporation (ASX:MRF) and – again – invested his own money. He says there is room for both in an investor’s portfolio as they are operating in different fields. Talga is looking at a European hub (it is building a pilot plant in Germany and plans to supply European companies from its Swedish project) while MRL (whose deposit is in Sri Lanka) is looking to Asia and Australia as its markets.

As I have said before, Grigor is one of the most experienced Australian analysts of mining companies and, also this year, issued a detailed paper on graphene.

He says MRL is a new player in the graphene space with the ability to use the same single step, low cost graphene recovery technology that Talga “has been holding close to its chest". His client note is advising taking up shares in MRL because of the differences in valuation: Talga's market capitalization is A$54 million while that of MRL is A$12.2 million.

There are other differences: Talga's orebody is much larger and wider, offering long life and technically simple mining conditions. MRL's orebodies are narrow vein and underground with less amenability to drilling out to prove the size of the resource, but this is offset by the lower costs of working in Sri Lanka.

Another difference is the grade, says Grigor. Talga's is around 25% whereas MRL's is over 90%. According to his figure, Talga will need about A$30 million to get into production, MRL less than A$10 million.

He says at this junction Talga is knocking on the door of becoming an institutional-grade stock but has to kick a few more goals to get there, the obvious one being the successful commissioning of the pilot plant. "I don't think there is much risk here, but the box still needs to be ticked," write Grigor. By contrast, at A$10 million, MRL is still a private client stock at present; it is difficult to deploy sizeable sums of money into a company with such small capitalization.

Grigor's second point, arguing that Talga needs to beef up its management team with respect to commercial operations, seems to have been satisfied. Last week Talga signed a non-binding term sheet with Haydale Graphite Industries, based in Britain, which would see the two companies collaborate on the development of finished graphene composite and ink products. [As Roger Bade, at London brokers Whitman Howard noted, "although there is no certainty that this collaboration will come to anything, it could give credibility that both companies – although going along separate routes – are amongst the best graphene plays out there".]

Grigor draws comfort from the fact that his two picks are essentially non-competitive because of their separate regional focus.

“As each of these companies make progress, sentiment will rub off on other players in the sector as the graphene story becomes more credible,” he says. “Both companies will offer the lowest cost, purest forms of graphene available, so they will both be catalysts for disruption in the graphene sector.”