



FINDING HIDDEN GEMS - Canada Zinc Metals

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FINDING HIDDEN GEMS

As investment advisors, we are always screening the global stock markets for opportunities on behalf of our clients. We define an 'opportunity' as a stock currently undervalued or overlooked by the market for some specific reason, with **upside potential of over 100%**.

Company details

Ticker: CZX CN and M9R GR
Current price: C\$0.34
1 year target: C\$1.5 (341% upside)
Stop loss: C\$0.20 (41% downside)

Shares Out. (M)	167.2
Market Cap. (M)	C\$56.84
Enterprise Val. (M)	C\$55.2
Net Cash / Share	C\$0.036

Description

Canada Zinc Metals Corporation explores for base metals and is taking steps towards development of a zinc mine in northeastern British Columbia, Canada.

In a typical economical cycle, commodities outperform other asset classes at the end of the cycle, and, according to a majority of the economists, we currently are at the late phase of a cycle, therefore the commodity sector should start to outperform from this year.

The most attractive commodities at the moment are, without any doubt, lithium and cobalt, but our feeling is that the stock prices of the respective companies have already factored in a lot of the upside.

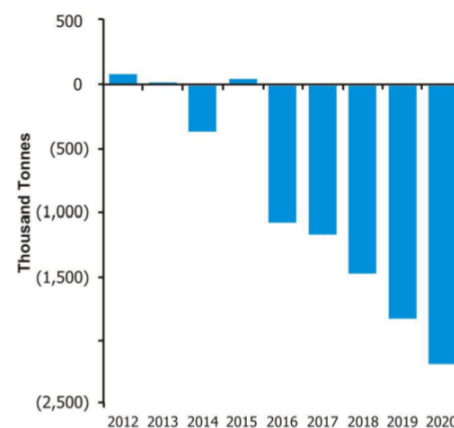
The next very attractive commodity in relation to supply and demand is zinc, because it is in **under supply** phase since 2017 and this is going to persist at least for the next 5 – 6 years.

Teck Resources Ltd (TECK US) and Freeport-McMoran (FCX US) had a nice run, however they are also already discounting a good portion of the future positive surprise.

Many brokers are issuing new IPOs in the Zinc space but the projects are often "old" projects of lesser quality trying to be "re-cycled" in the current

zinc bull market or they are earlier stage exploration with a 8 to 10 years roadmap before reaching production.

Forecast Zinc Refined Balance



Source: Canada Zinc Metals Presentation

The major zinc producers which have not invested in exploration in the last few years, but have now again enough liquidity to invest, and need to grow, have to find new projects which preferably can be in production in maximum the next 3 years.

A recent example is the acquisition by Glencore (GLEN LN) of a big stake in Peru's largest miner: Volcan Compañía Minera SAA.

We therefore started looking for a compelling opportunity in the zinc

space and we found Canada Zinc Metals (CZX CN) as an undervalued zinc company in Canada which has high quality zinc properties which potentially could be in production in the next three years provided that they found the right partnerships with a major zinc producer, which they have succeeded in.

Why the company is so undervalued?

One of the reasons is that Canada Zinc Metals is not covered by any broker, most probably because it has never had the need to raise capital through a broker and therefore there was not a direct interest in covering it. This creates a huge market valuation mismatch, because the company has higher grade than most of its peers, and a much lower valuation. For example, compared to Arizona Mining, Canada Zinc Metals is

valued at only 0.88% of the estimated lifetime pre-tax profit compared to 10.36%.

Additionally, Arizona Mining may potentially start production later.

If Canada Zinc Metals were valued at the average of its peers, the stock should trade between C\$1.18 to C\$3.05.

Having also a better grade quality, it should also trade at even a higher premium.

The CEO, Mr. Peeyush Varshney, have a tremendous track record in project development, and the confirmation of the quality of the projects and management, is that major players in the zinc market are already invested or involved in Canada Zinc Metals: Tongling Nonferrous Metals Group (000630 CH), Korea Zinc (010130 KS), Teck Resources Ltd (TECK US) are all shareholders.

The company has two main projects so far: The flagship Akie Project, owned 100%, and previously operated by Inmet Mining from 1994 to 1996, and the Kechika Regional Project, where Teck and Korea Zinc have exercised their option to acquire 51% interest in three of the highly prospective properties.

For more details, we refer to a very detailed research from Arrowhead and Danny Deadlock; please feel free to contact KTS Capital for copies of the researches.

Canada Zinc Metals' current estimated resources are: 4.7 billion pounds of zinc, 892 million pounds of lead and 11.5 ounces of silver. Considering a 80% recovery, the total value of the project is C\$8.3 billion, compared to the actual market cap, which is C\$53.5 million.

Company	Ticker	Close Price	Annual Low-High	Shares O/S (M)	Market Cap (US\$M)	Cash (US\$M)	EV (US\$M)	P/NAV	M&I+I (Mlbs Zn)	EV/Resource (US\$/lb)	M&I+I (Mlbs ZnEq)	EV/ZnEq Resource (US\$/lb)	M&I+I (Mlbs ZnEq)	EV/ZnEq Resource (US\$/lb)
ZINC – EXPLORATION/DEVELOPMENT														
Arizona Mining	AZ-T	3.34	1.70 - 3.68	305.2	792	83	710	0.81	9,630	7.40	12,728	5.57	20,082	3.53
Tinka Resources	TK-V	0.60	0.19 - 0.78	212.0	99	7	92	0.53	2,446	3.80	–	–	2,718	3.39
Aquila Resources	AQA-T	0.26	0.19 - 0.32	275.4	55	3	52	0.59	224	23.10	1,394	3.70	1,714	3.01
Canada Zinc Metals	CZX-V	0.28	0.22 - 0.48	163.0	35	4	31	–	4,751	0.70	4,154	0.76	5,554	0.57
Zinc One Resources†	Z-V	0.45	0.17 - 0.90	99.4	34	6	29	–	578	5.00	480	6.02	578	5.00
Canadian Zinc	CZN-T	0.17	0.15 - 0.32	266.1	34	4	30	0.25	3,579	0.80	3,540	0.85	6,622	0.45
Adventus Zinc	ADZN-V	0.93	0.57 – 1.15	45.6	33	0	33	–	–	–	–	–	–	–
Ironbark Zinc	IBG-A	0.08	0.06 - 0.13	539.4	32	2	30	0.31	8,394	0.40	6,398	0.47	8,951	0.34
PinePoint Mining	ZINC-V	0.21	0.17 - 0.57	151.2	25	3	22	–	4,638	0.50	3,808	0.57	8,278	0.26
Rathdowney Resources	RTH-V	0.18	0.13 - 0.33	161.7	23	3	20	–	2,975	0.70	–	–	3,580	0.56
Average - Zinc Explorers								0.50		4.69		2.56		1.90
Excluding Max & Min								0.48		2.68		2.29		1.69

Source: Canada Zinc Metals Presentation

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