Elon Musk's NEXT DISRUPTION 2018

How to Make a Fortune in the Electric Vehicle Boom Without Selling a Single Car

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NEXT DISRUPTION

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The dogs didn't cost much. They were strays, purchased for 25 cents each. That made the executions cheap.

After securing the dogs, legendary inventor Thomas Edison and his workers would gather reporters, rig the dogs to wires or metal plates, and turn on the electricity. Electrocution was almost immediate.

It was the 1880s, and Edison believed that the gruesome spectacles would make a powerful point: His rival George Westinghouse's method of delivering electricity to homes and businesses – alternating current (AC) – was too dangerous. Edison used AC to electrocute the dogs. If it could kill dogs quickly and easily, it could do the same to people.

It was in Edison's best interest to convince people that Westinghouse's alternating current method (created by genius inventor Nikola Tesla) was dangerous. Edison had his own competing method, called direct current (DC), to sell. It was the dawn of the electric age. The world was just starting to transition from candles to lightbulbs, and the potential of the American market was incredible.

But who would capture it? Edison and direct current? Or Westinghouse and alternating current? The winner of this war – now called The War of Currents – would dominate the American electricity market, acquire great power, and make a huge fortune. It's one of the greatest industrial wars in American history.

With Thomas Edison, George Westinghouse, and Nikola Tesla in the mix, the War of Currents was fought by some of history's greatest technological and business minds. To put it in a modern-day context, it would be like Elon Musk and Steve Jobs (when he was alive) fighting viciously in the press and in the courts over the same market.

In addition to frying dogs in front of reporters, Edison and his people were involved in America's first use of the electric chair. They ensured alternating current – delivered via a Westinghouse generator – was used in the August 6, 1890 electrocution of axe murderer William Kemmler. Edison used Kemmler like he used the dogs. He wanted the public to associate his rival's technology with death. Edison and his staff even publicly referred to electrocution as getting "Westinghoused."

In the end, Westinghouse and Tesla won the War of Currents. Tesla's was a superior technology. It was safe and effective. It was also cheaper to install and maintain than direct current. To this day, alternating current powers homes around the world.

After the War of Currents, the electrification of the world went on to become a pivotal phase in human history. It fundamentally changed the way people work and live. It made indoor lighting, televisions, radios, dishwashers, iPhones, and computers possible.

It also consumed tremendous amounts of copper.

Copper naturally occurs as an extremely ductile, malleable metal with very high thermal and electrical conductivity. This is a fancy way of saying it is an extraordinarily useful element. Copper has been used for than 5,000 years to make tools and weapons. Just as human history has a Stone Age, it also has a Copper Age.

In modern times, copper is widely used in plumbing and construction. But it played – and continues to play – a key role in the story of

electricity, because it's the preferred metal for making electrical wires and electric motors. You could say the age of electricity is also the new copper age.

In the 125 years since the War of Currents, the world has worked its way to annually consuming 50 billion pounds of copper. Over the past 20 years, annual demand has doubled… increasing at a rate of 3.14% per year.

However, I believe copper consumption is about to change in a big way. I believe that over the next 25 years, widespread adoption of electric vehicles will result in at least another doubling of annual copper demand and create a huge bull market in copper mining companies.

In this report, I'll explain why electric cars are about to boom in popularity. I'll also detail my favorite ways to profit from the coming bull market in copper.

A Historic Battle Begins

In December 2016, General Motors began selling one of the most important cars in its 108-year history, the Chevy Bolt.

In addition to being significant for the iconic American automaker, the introduction of the Bolt was a landmark event in the history of electric cars. The Bolt was the world's first low-priced, mass-market car with a range of more than 200 miles.

For a long time, electric carmakers have seen this feature – the ability to run 200 miles before requiring a recharge – as critical to the "revolution": the widespread adoption of clean, emission-free electric cars.

A driving range greater than 200 miles is critical because of something called "range anxiety." Range anxiety is the fear drivers get from knowing the battery in their electric car could run out of charge… and leave them stranded far away from a charging station. As electric vehicles have grown in popularity over the past decade, the term has become an obsession in the auto industry.

In fact, you could say the race among electric carmakers like GM, Tesla, and Nissan is the race to become the world champion of overcoming range anxiety. A big breakthrough in treating this "disorder" would be worth hundreds of billions of dollars. It would set the winner up to dominate the future of cars.

Although electric cars have come a long way over the past decade, they are still light years behind internal combustion engines when it comes to fueling infrastructure. Batteries drain quickly and they must be recharged. Most gasoline-powered cars enjoy ranges of over 300 miles, while for years, affordable electric cars had limited ranges of less than 100 miles. (Tesla's famous Model 3 has a range greater than 200 miles, but it's also out of the average buyer's price range.)

A limited number of miles per battery charge is a big deal because regular gas stations are much, much more common in most places than charging stations. In most areas, the guy leaving his driveway in an electric car has a lot less options for refueling than the guy driving a Chevy Suburban.

You might want to do your part to save the Earth, but if doing that means constantly worrying about getting stranded with a low battery, you'll probably choose the gas guzzler.

This aspect of owning electric cars is the biggest obstacle to their widespread adoption. Most folks choose not to deal with "range anxiety," so electric cars command only a tiny percentage of the U.S. auto market.

However, some of the world's smartest people are working on overcoming this obstacle. They have access to billions of dollars in capital to further research and development. After all, they know that a big breakthrough in EV technology will put them in a position to dominate the future of the car industry… while enjoying all the power and profit that will come with that position.

While many companies are battling to become the king of electric vehicles, the face of the EV revolution is the brilliant innovator Elon Musk.

Musk has achieved fame and fortune through a career of disrupting established industries. He disrupted payment processing with his company Pay Pal. He has disrupted commercial space travel with his company Space X. He has disrupted the car industry with Tesla's electric cars. Now, Musk and his fellow electric automakers are set to disrupt the copper industry.

With the Bolt, GM won an early battle. But with Tesla, Nissan, BMW, and others entering the fray, this war – which will go down as one of history's greatest business wars – is far from over.

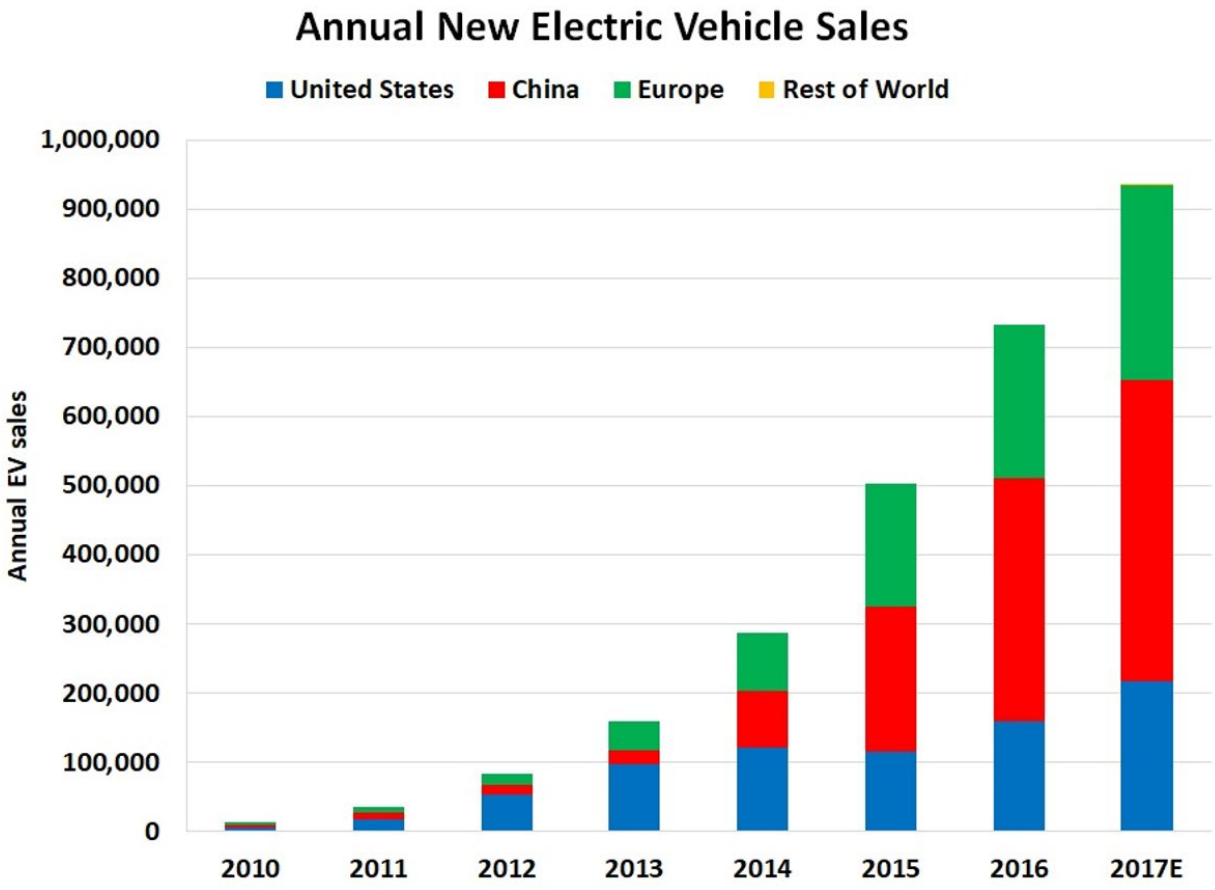
Electric Vehicles: On the Cusp of a Super Boom

In addition to earning a spot in automotive history, the Chevy Bolt is getting great press. It was named the 2017 Motor Trend Car of the Year. The popular car reviewer said, "The groundbreaking Chevrolet Bolt EV is the car of tomorrow. Today."

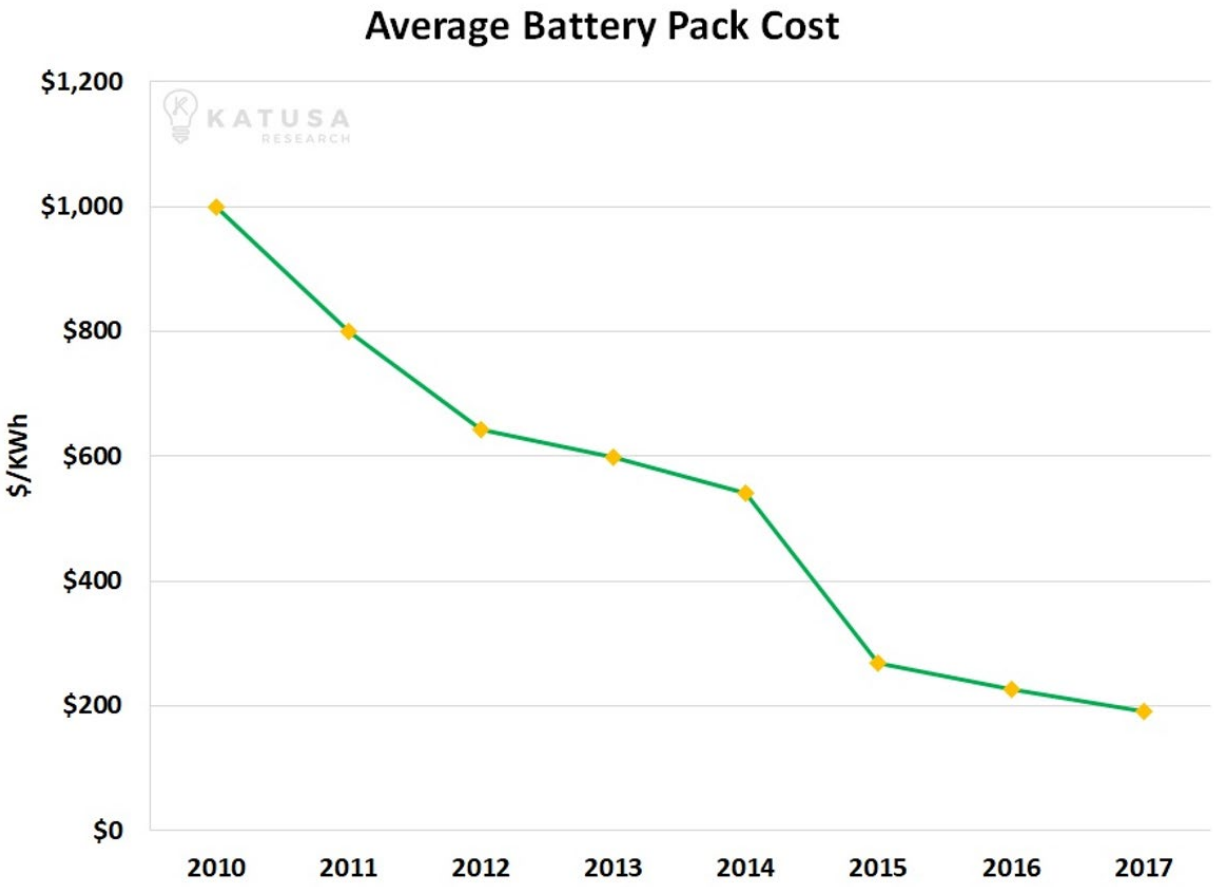
Another electric car to win a recent Motor Trend Car of the Year award is the Tesla Model S. Motor Trend said the Model S was a "truly remarkable automobile."

Because of favorable press and climate change concerns, sales of electric cars are starting to boom... and they'll continue to boom in the future.

Just 10 years ago, there were virtually no electric cars on the road. In 2017, an estimated 1 million new electric vehicles will be sold. This science experiment is now the real deal, and it is changing the car consumer mindset. Below is a chart that shows the enormous increase in global EV sales since 2010.

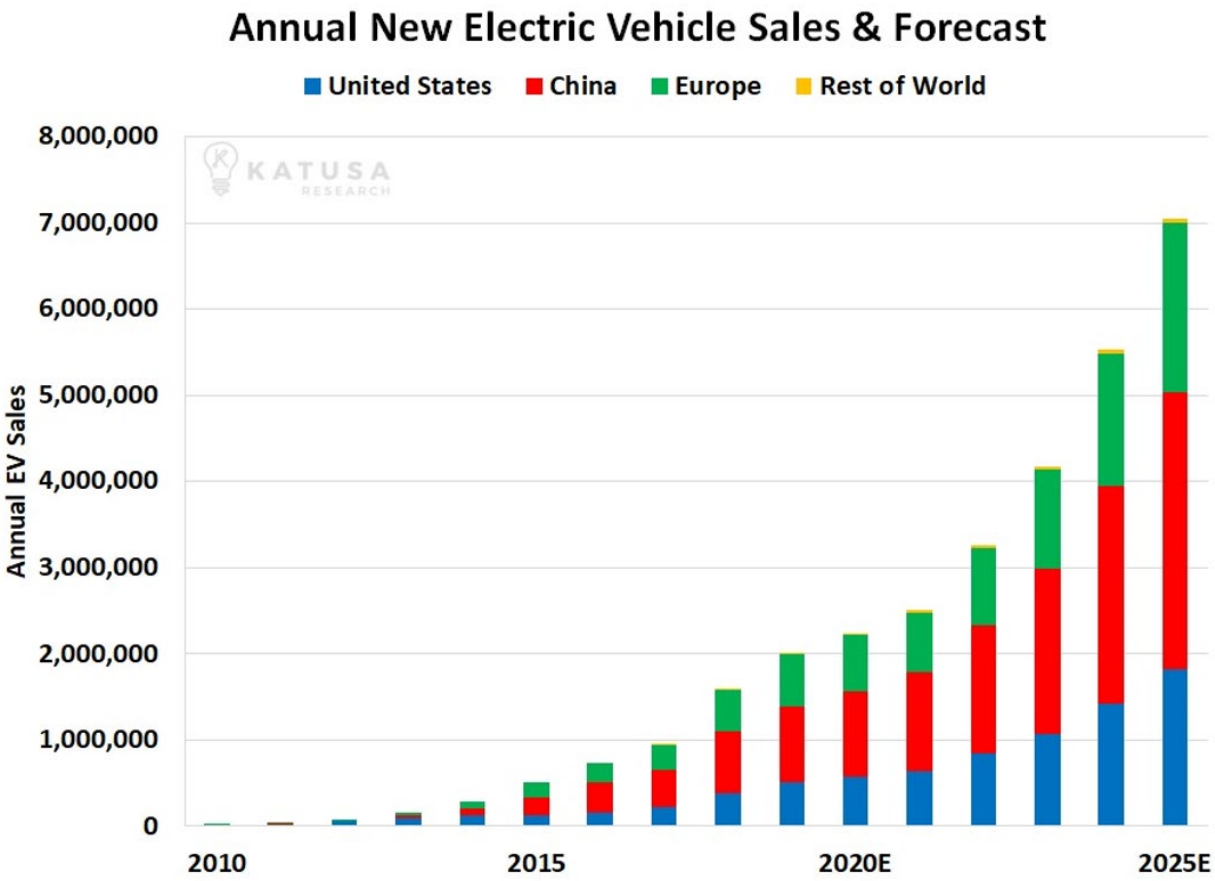


A driving factor in building affordable electric vehicles is a decrease in the cost of car batteries. Since 2008, the cost of an electric car battery has declined by 80%. Below is a chart that shows this dramatic decline:

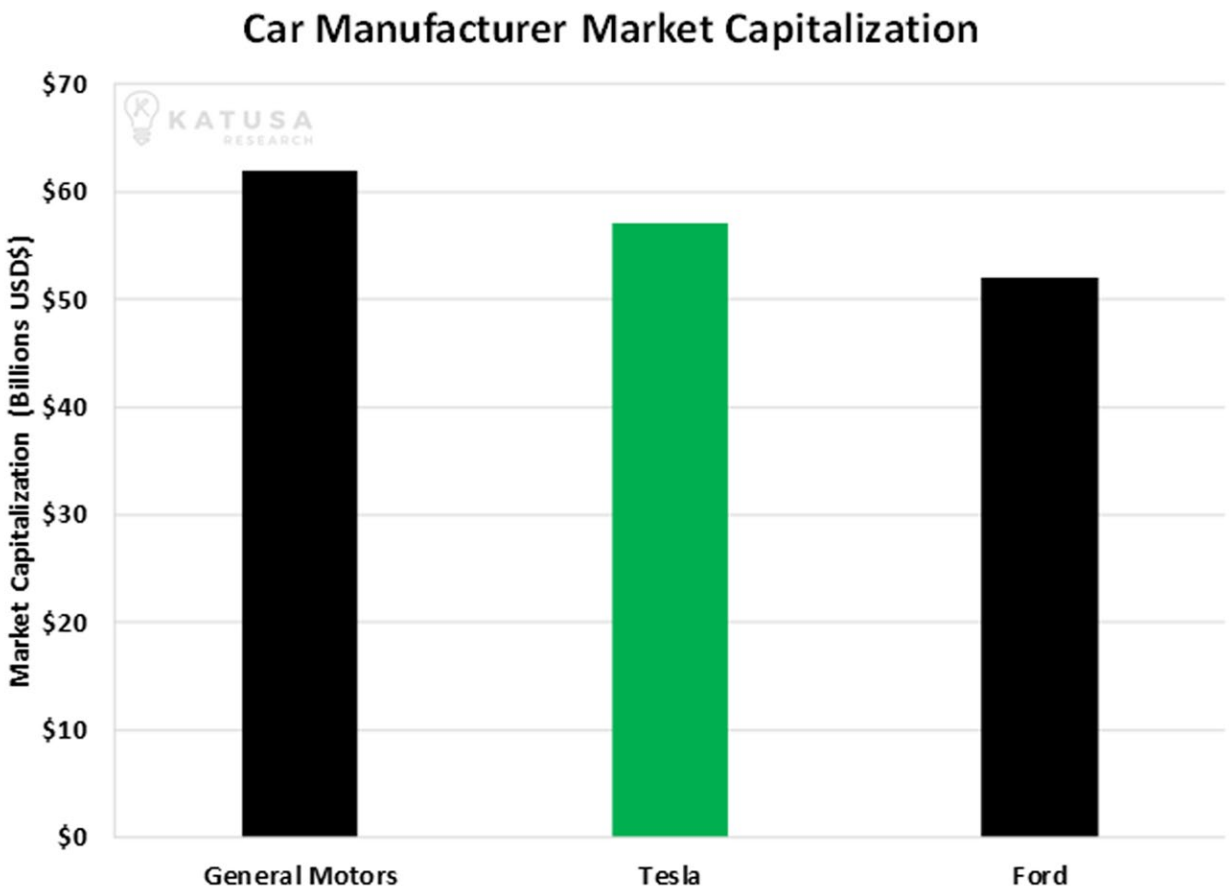


The International Energy Agency has set a target of 12.9 million electric vehicles on the road in major markets by 2020 and 100 million by 2040.

According to Bloomberg's New Energy Finance group, by 2025, over 5 million electric vehicles will be sold each year. This is a giant 887% increase over 2016's level. Below is a chart that shows the Katusa Research electric vehicle annual sales forecast.



The seismic shift from gasoline-powered cars to electric vehicles is a generational change. Despite GM's early win with the Bolt, Elon Musk and Tesla remain the poster children of EVs. In fact, Tesla is now comparable by market capitalization to GM and Ford… while selling a fraction of the number of cars of GM or Ford.



How China and Volkswagen Will Change the Rules of the Electric Car Game

In mid-September 2017, as the media focused on hurricanes and Donald Trump's immigration policies, two massive stories flew under the market's radar.

First, China announced plans to ban the sale of fossil-fuel-powered cars and trucks. No date was given, but China is making it clear that EVs are the future of the world's largest car market (which is 35% larger than the U.S. market). China is desperate to clean up its infamous air pollution. Emission-free electric vehicles will play a huge role in those efforts.

Secondly, Volkswagen, the world's largest car company, announced it plans to design electric versions of all 300 of its models. To achieve this, Volkswagen plans to invest over $70 billion into new infrastructure. It's going to be a huge shift undertaken by one of the world's largest, most powerful manufacturing companies.

The news from China (the world's largest car market) and Volkswagen (the world's largest carmaker) tell me that mass EV adoption will occur faster than most people believe it will.

I believe a big reason the rate of EV adoption will take so many people by surprise is because they don't understand how technological progress is now occurring at an exponential rate. This rate of change is far faster than the "linear change" most people are used to.

Exponential progress is happening now because of the stunning increases in the power and speed of computers. Computing power is the foundation on which our world of technological progress rests. It's what makes the Internet, your iPhone, your Facebook account, Tesla cars, Wi-Fi, and thousands of other things possible.

After decades of refining and improving computer technology, progress in the field is accelerating. Our computers are getting much faster, much more powerful, much smaller, and much cheaper. The kind of economic shifts that used to take 20 years to play out are now taking just five years to play out… and catching many people off guard. This trend is affecting all industries, no matter how "old school" they are.

Back to China and Volkswagen…

Of course, China's new policy will have measurable and direct effects in China. Of course, Volkswagen's new policy will have measurable and direct effects in the company. But just as importantly, these policies will have massive indirect effects across the entire world.

These decisions mean more and more money will be invested into EV research and development. I'm talking about tens of billions of dollars over the short term and hundreds of billions of dollars over the long term (over 10 years).

More money and more minds will go to work on making EVs better, cheaper, and more reliable. More new ideas will be developed and tested. Many will fail, but some will be world-changing breakthroughs. These breakthroughs will be developed at a faster rate than ever before. The world's largest car market and the world's largest carmaker want it that way.

The enormous amount of money and energy devoted to EVs will drive production costs lower. Lower EV production costs will mean cheaper EV sticker prices and increased competitiveness with fossil-fuel-powered vehicles.

Increased competitiveness means more people buying electric vehicles sooner. More EV sales will signal to automakers that they should invest even more money into research and development. Even better technology will be developed and production costs will go even lower. It will become a self-reinforcing virtuous cycle.

The Safe, Sure Route to EV Profits

Over the coming years, many people will make bets on who will win the great EV race.

Will it be Elon Musk and Tesla?

Will it be GM? BMW? Audi?

Nissan? Toyota?

Will it be an upstart we haven't heard of yet?

Picking technology winners is a very tough game. It's a constantly changing landscape. Technological innovation is accelerating at an incredible pace. Today's dominant force is tomorrow's loser.

Rather than bet on individual car companies, I'd much rather sell them all copper.

Demand for this critical EV ingredient is set to boom.

Copper 101

Copper is a vital element used in nearly everything around you. It's used for plumbing in houses and factories. Since copper is also a wonderful conductor of electricity, it is used in power lines, electric motors, wiring, cars, and appliances.

This aspect – copper's excellent electrical conductivity – makes it a critical part of the EV revolution.

Electric vehicles require three times more copper than conventional international combustion engine vehicles. On average, a car with an internal combustion engine uses 55 pounds of copper. A hybrid uses about 110 pounds, and an EV uses 165 pounds of copper.

Some basic math shows that the coming electric car boom will create a super boom in copper demand.

In 2016, the world consumed 50 billion pounds of copper. Keep this number – 50 billion – in mind. We'll come back to it later.

In 2016, 158,614 EVs were sold in the U.S. EVs made up 1.6% of the total U.S. car market.

It is expected that by 2021, EVs will make up 4% of total U.S. vehicle sales. The consensus from independent analysts, including the brain trust at Bloomberg, is that by 2030, the adoption of EVs in the U.S. will be 34%.

What does that mean for copper demand?

First, we have to make some assumptions to calculate the net effect on copper demand.

Let's assume a conservative adoption rate by 2030 is just 20%, not the accepted 34%.

An EV adoption rate of 20% means there would be 3.6 million EVs sold in the U.S. in 2030.

Let's assume EV technology becomes much more efficient and the amount of copper needed per car decreases from 165 pounds to 100 pounds by 2030. Using these assumptions, we find that the U.S. automobile sector alone will conservatively consume 1.1 billion pounds of copper in 2030. The EV sector will consume 360 million pounds of that total (33%).

That is a lot of copper. Using my conservative metric, new EVs alone will increase U.S. annual copper consumption by just under 9%.

Now let's look at China.

China is the world's largest vehicle market. In 2016, 282,000 EVs were sold in China, 77% more than the number sold in the U.S. This is where the numbers get mind-boggling.

In 2016, 28 million vehicles were sold in China. EVs were just 1% of the Chinese market.

The Chinese government is planning for 4% EV adoption by 2021, which would mean 1.12 million EVs will be sold in China in less than five years.

Again, using our conservative estimate of 100 pounds of copper per EV, in 2021 China's EV market will consume 112 million pounds of copper, on top of the 1.35 billion the rest of the Chinese vehicle market will consume.

The Chinese government plans on mandating specific quotas of EVs its automakers must follow.

China has stated it wants 7 million EVs (or 20% of its 35 million vehicle market) sold by 2025. This is very aggressive; a more conservative number would be 7 million by 2030. That means the total consumption of copper in the Chinese vehicle market will be 2.1 billion pounds, of which 700 million pounds will be just EVs.

With EVs in the U.S. consuming an additional 360 million pounds of copper over current demand and EVs in China consuming an additional 700 million pounds of copper over current demand, we get 1.06 billion pounds per year in extra demand. In a 50-billion-pound annual market, that's a 2.1% increase in demand.

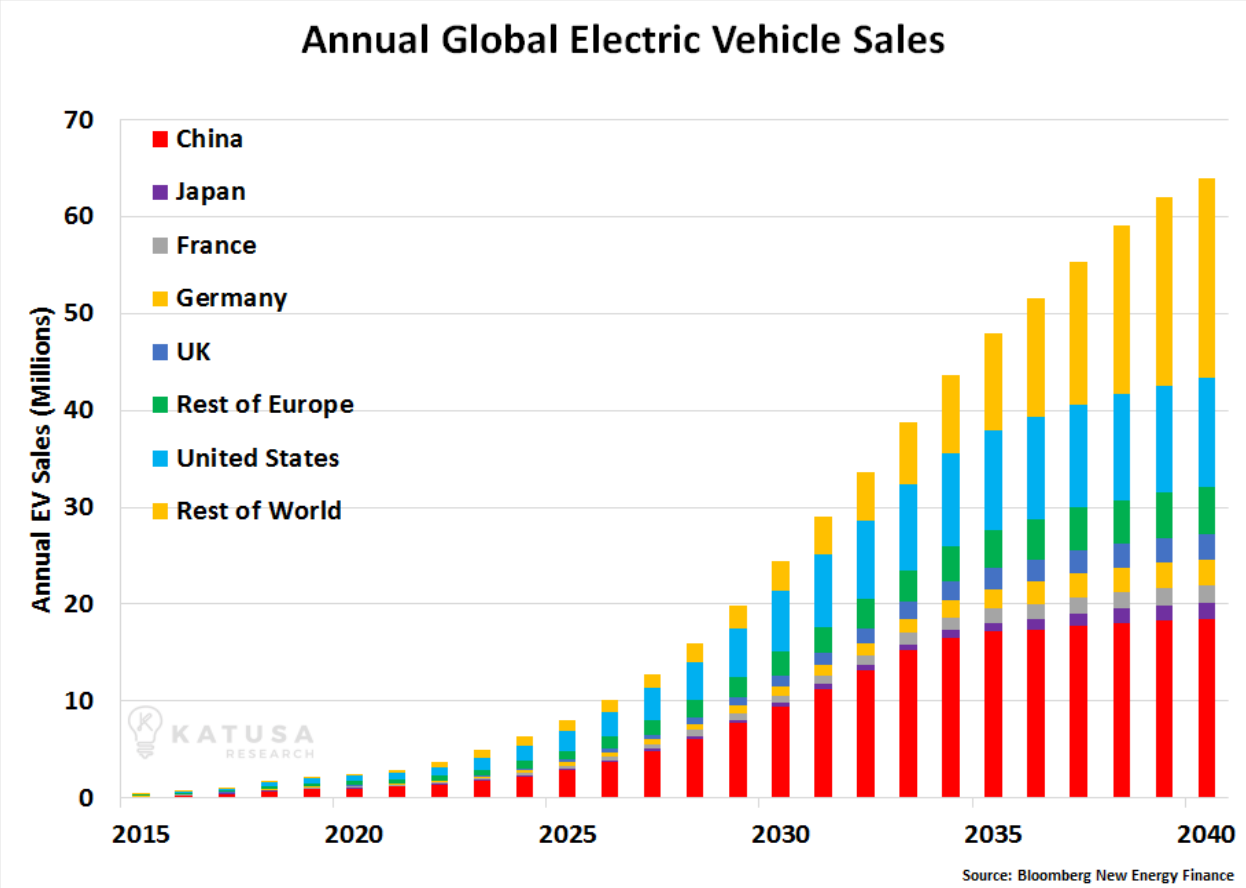
While 2.1% may not sound like a lot, let's put it into perspective. An annual demand increase of 1.06 billion pounds is more copper than Rio Tinto produced in 2016. Rio Tinto is the 9th largest copper producer in the world. To put it another way, there are only four copper mines in the world that annually produce more than 1.06 billion pounds of copper.

I think you get the picture with just the U.S. and China. The rest of the world will follow.

Several pages ago, we showed you our EV sales forecast through 2025. You'll recall that we project incredible growth from today to 2025.

Looking further into the future, some are even more bullish on EV growth.

The chart below published by Bloomberg New Energy Finance shows that by 2040, the global EV market could get to over 60 million vehicles sold that year alone. I underestimated the use of copper in EVs on purpose.



The fact is, scientifically speaking, for the EVs to become even more efficient, they would use more copper per vehicle, not less. That's an interesting topic for another day, but it comes down to efficiency.

I also haven't mentioned the amount of "plug in" infrastructure that will be required to meet EV demand. All those EVs need special charging

stations. China is heavily investing in new electricity grids; the U.S., under President Trump, plans major infrastructure projects that will all create new demand for copper.

And green energy uses multiple times the amount of copper per unit of energy compared to that of coal and natural gas.

Another major new source of demand for copper will be the smart home. Smart homes use over twice as much copper as traditional homes. Installing solar roofs and all the other features that include the electrification of a smart home will double the use of copper in a house.

I expect EVs will be the driving force behind global copper demand increasing at 4.5% per year for the next 25 years. **While this might not seem like much, it's actually enormous demand growth for a mature market. It translates into a nearly three-fold increase in global demand over the next 25 years.**

I Believe I'm Right, But I Hope Robert Friedland is Right

Robert Friedland says the price of copper will be so high in the future that you'll need a telescope to see it.

If he's right, shareholders in the right copper stocks stand to make a fortune.

But is Robert right with his forecast?

Or… is mining giant Glencore right?

Or am I right?

If you're not familiar with Robert Friedland, you should be. He's one of the world's richest, most successful mining entrepreneurs. His first mega mining score was Diamond Fields.

Friedland's team discovered Voisey's Bay, a world-class nickel deposit. The discovery made Diamond Fields' shares go from $0.25 per share to over $160 per share, a more than 63,000% gain. This single deal made Friedland a billionaire at a young age.

Friedland made another huge score with Ivanhoe Mines, which discovered and developed the giant Oyu Tolgoi copper-gold deposit in Mongolia. The share price of Ivanhoe Mines went to a high of $28 per share in January 2011 from a price under $1 just a decade earlier.

These days, Friedland is looking to make his next big score with "Ivanhoe Mines 2.0," his company that owns three world-class projects, with a heavy emphasis on copper.

Friedland is an incredible salesman and presenter. In recent years, he has wowed audiences with claims that the price of copper will skyrocket over the next decade. A big driver of this copper bull market, says Friedland, will be EVs.

By now, you realize that I believe EVs are very bullish for long-term copper consumption. Thanks to incredible advances in technology, massive investments by large carmakers, and huge government support, electric vehicles (EVs) are poised to go mainstream.

But just how mainstream will EVs go? And how much copper will EVs consume?

Below, I'll go over EV copper consumption forecasts from Friedland… commodity giants BHP and Glencore… and your independent source of investment research and ideas, Katusa Research.

To compile data on these forecasts, I've combed through public data and public statements… and modelled their assumptions to 2040.

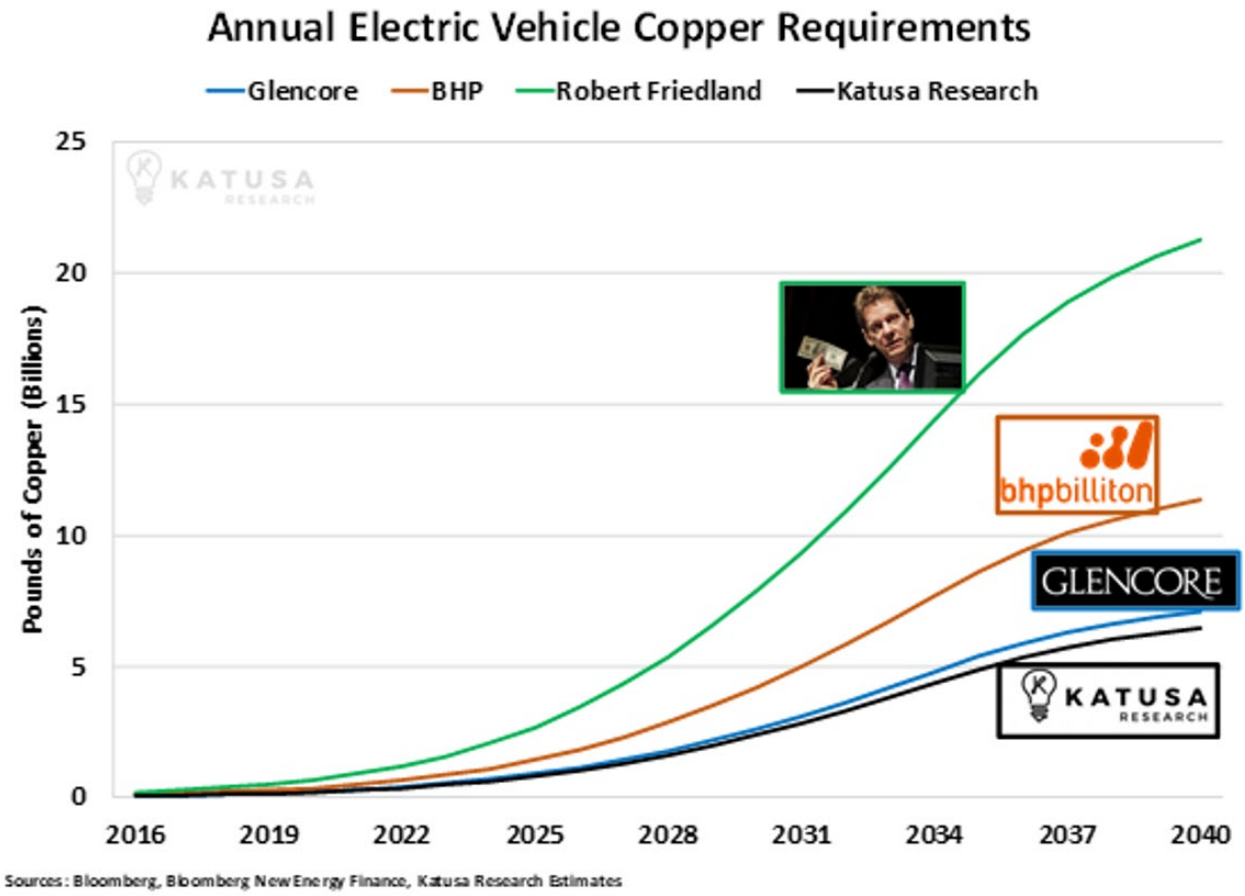
To make such a forecast, you need two inputs. The first one is how much copper, on average, each EV will consume in the future. The second input is how many EV cars will be on the road in the future.

Robert Friedland has stated that EVs will require 330 pounds of copper per vehicle. BHP, the world's largest mining company, claims future EVs will require 176 pounds per EV. Glencore claims 110 pounds, and Katusa Research is estimating 100 pounds per EV.

For the second input – how many EVs will be on the road – I'm using Bloomberg New Energy Finance's EV outlook, which is the industry's accepted forecast.

The Bloomberg folks forecast EVs will have a 2% share of the global vehicle market by 2020, a 24% share by 2030, and a 54% share by 2040. A market share of 54% by 2040 may sound high, but I believe that adoption rate is very realistic.

Using the inputs described above, I created the chart below. It shows how much copper the EV market will need each year based on the assumptions made by Friedland, BHP, Glencore, and yours truly.



You'll note that my forecast is very similar to Glencore's. I'm glad to see this. Glencore is one of the smartest natural resource companies in the world. Its managers are smart and tough and they have a lot of skin in the game.

You'll note that BHP's annual EV copper demand forecast by 2040 is 76% higher than mine. Robert Friedland's forecast is an incredible 230% higher than mine. If Robert Friedland is correct, over 20 billion pounds of copper will be required in 2040 to meet just the copper demand for EVs. That is equivalent to about 40% of today's total copper production and demand.

Before I ran the numbers, I would have guessed Friedland would be the highest. Friedland is a world-class promoter. He wants to drum up interest in his copper company. Naturally, he's going to create and promote an extremely bullish scenario.

I'm not here to sell you a copper company. I'm just showing you what the numbers tell me. And granted, I always like to be conservative in my forecasts to give me and my readers a margin of safety.

But here is the point: Even if my conservative forecast is right, copper is going much higher over the long term. I'm forecasting that in just 12 years, EVs will consume 1.3 billion pounds per year. This demand is greater than half the annual production of Escondida, the world's largest and most productive copper mine. But as I'll show you in a moment, the world can't supply that much copper at prices below $3.50 per pound. It will require at least $4 copper.

Now, if we use BHP's projections, copper will probably go north of $5/pound.

And if Friedland is right, we will see copper north of $8/pound.

Friedland is a force of nature. He is smart, rich, aggressive, and abrasive. I have seen him go into Mongolia and make billions while having everyone doubt him the whole time. He has done the same in the Congo. You don't want to bet against Robert Friedland.

Although I'm openly doubting Friedland's copper demand projections, I'm not betting against him. ***I believe I'm right, but I hope Robert is right.***

The World Needs a Lot of Copper, but It Won't Get It for $3 Per Pound

If we believe annual copper demand is set to double over the next 25 years, the next question we have to ask is, "Can the copper mining industry supply that much?"

The answer is "Yes, but not with copper at $3 per pound."

We'll get into the data below, but in preview, the world's largest, most important copper mines – the ones that set the global copper price – are in decline. They have been in operation for decades, and their richest parts have been tapped. To use an analogy, most of the world's big copper mines are like former all-star ball players in their late 30s and early 40s. They were great in their prime, but their ability to produce is steadily decreasing.

Existing mines still have plenty of copper ore, but it is less plentiful and it's of lower quality (lower grade). In other words, it will cost more to mine each pound of copper mined in the future.

There are also some large undeveloped copper deposits in the world that can and will be put into production, but the shovels won't start digging unless copper is substantially higher than current levels.

Surging demand. Limited supply. It's a recipe for higher prices. Here are the details.

Ore Grades Are Declining

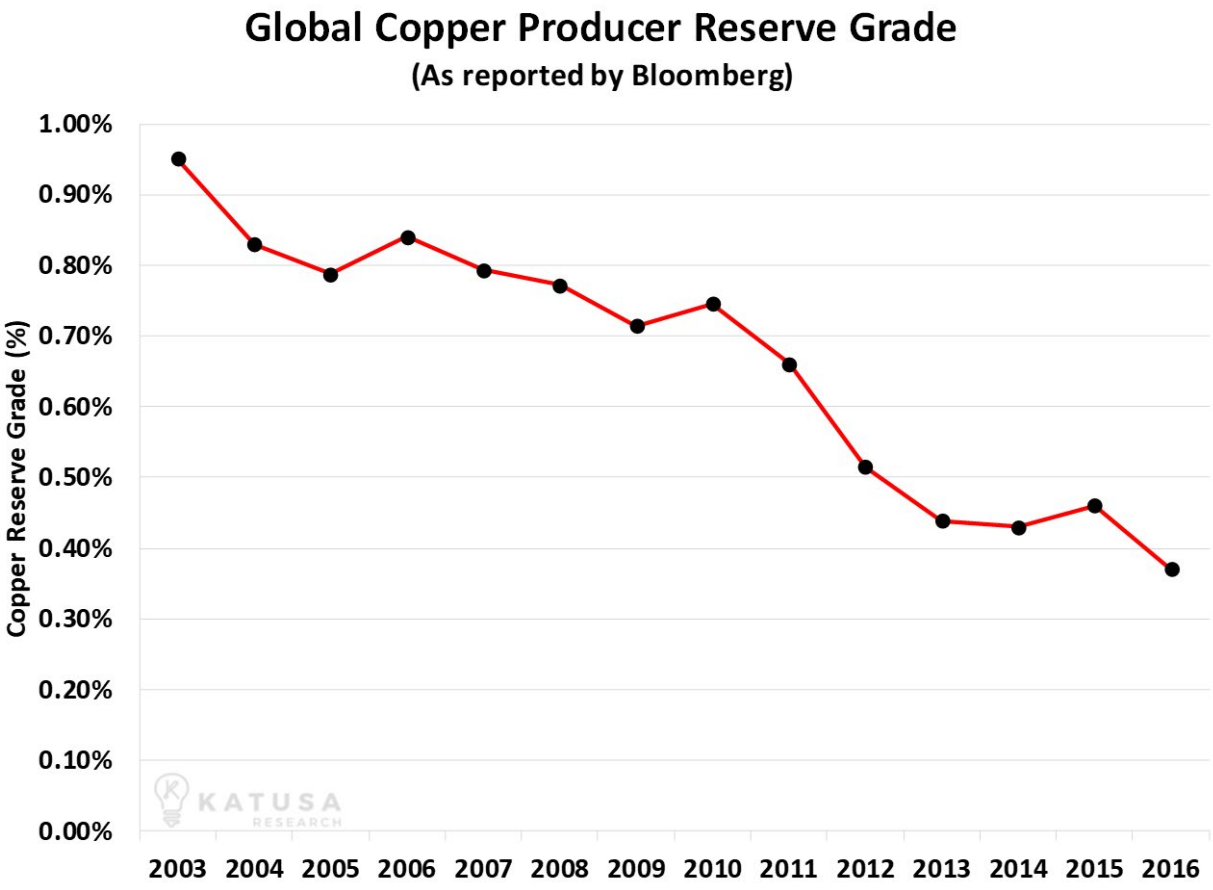
Currently, 178 producing copper mines supply 83% of the world's copper. The remaining 17% of mined copper comes from secondary production where the main metal produced is not copper.

More than half of this mine production – 68% – occurs in mining-friendly or relatively mining-friendly countries. I often call these countries "non AK-47 countries." In these places you normally don't see random people walking around cities with AK-47 machine guns. I count the U.S., Canada, Australia, all of Europe, Chile, Peru, and Brazil in this group.

About 32% of copper mine production occurs in AK-47 countries. These are places where it isn't uncommon to see people walking around with AK-47s. The countries are known for not having great respect for contracts and property rights (and often human rights). They are not the kinds of places I'd take my family for a vacation. In my book, copper-producing AK-47 parts of the world are Russia, Congo, Iran, Mongolia, Saudi Arabia, and Kazakhstan.

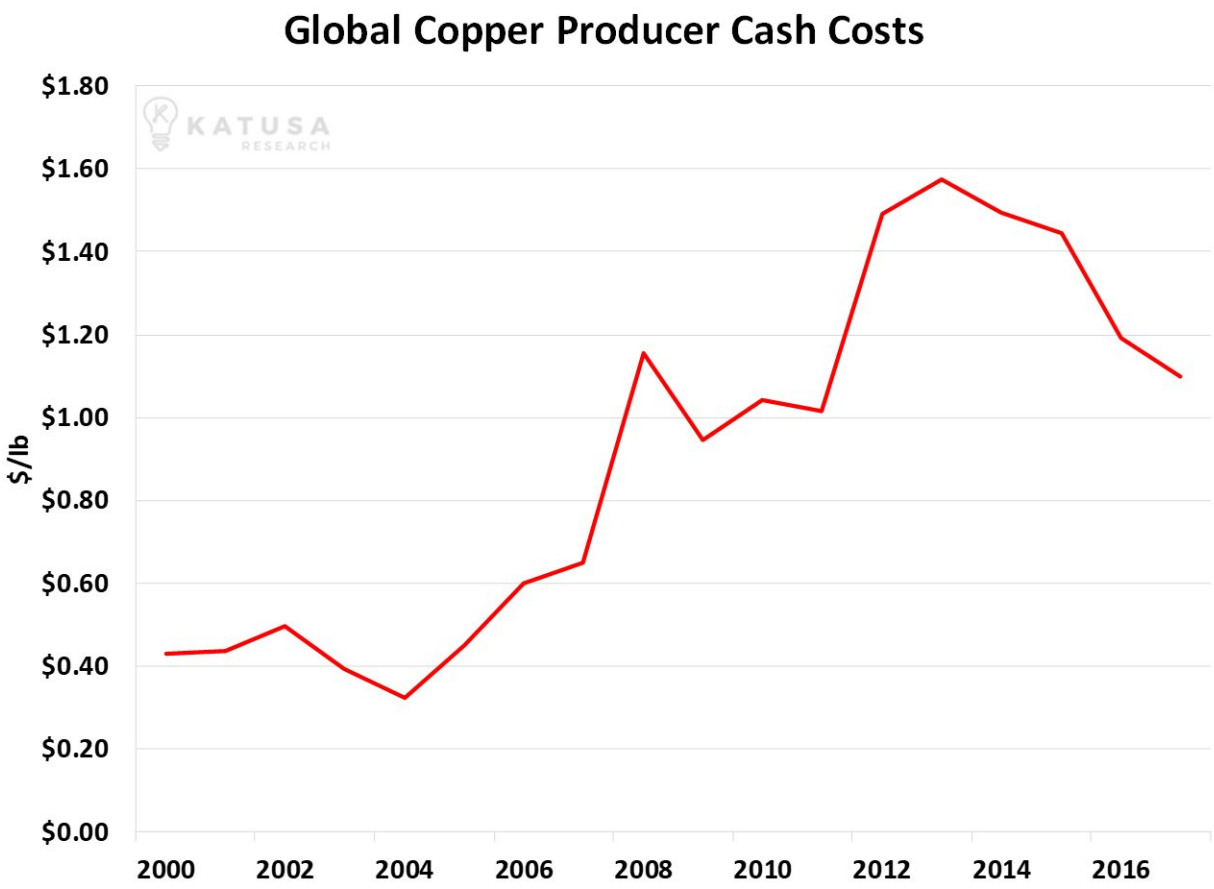
One of the best measures of a mine's quality and potential profitability is a metric called "ore grade." It measures how much metal a miner gets for every tonne of rock and dirt it digs up. The lower a mine's grade, the more digging and processing its operator must do to produce copper. This results in higher costs.

The chart below shows the average annual reserve grade of the world's global copper producers. This group is made up of large miners you've likely heard of. Companies like BHP Billiton, Freeport-McMoRan, Antofagasta and First Quantum. As you can see, the average grade has declined 60% over the last 14 years. It's an irreversible trend.



Increasing Production Costs

Declining grades are pushing production costs higher and higher. Below is a chart that shows the cash costs of production for the same group of global copper producers.

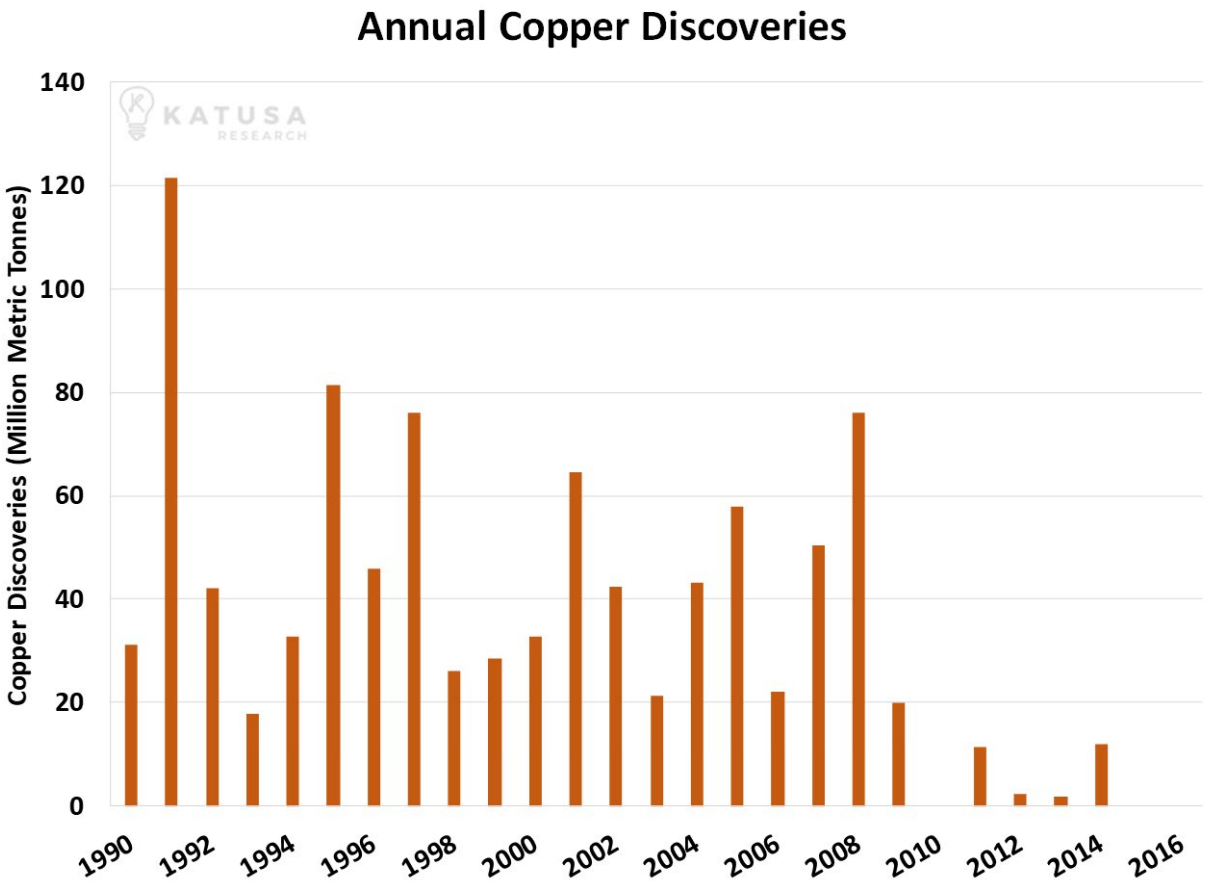


A Lack of Big Discoveries

In addition to falling grades and rising costs, the copper industry simply isn't finding as many large new deposits as it used to. Mankind has been digging into the earth in search of copper for thousands of years. We've found most of the really good stuff.

Over the last 10 years, over $300 billion dollars has been invested globally in the exploration, development, and production of copper. And only a handful of new mines have been put into production.

The chart below shows how large copper discoveries have declined over the past 25 years.



Governments and Poor Infrastructure Constrict Supply Growth

In addition to the challenges above, the copper industry faces huge challenges from governments and poor infrastructure. These two factors often work hand in glove to increase production costs and slow down or stop new projects.

Operating a big open pit copper mine requires enormous amounts of electricity. It powers electric shovels and trucks. It powers the mills that crush the rock. It powers lights. Depending on the operation, electricity can be anywhere from 15-30% of the cost per pound of copper produced.

During the downturn of the last few years, electrical grids in many parts of the world that have advanced promising copper deposits (that should be soon in production) have not increased electrical capacity that can meet the demand from the copper mines. A general rule of thumb is for 100 million pounds of open pit copper, a mine needs 65 MW of electrical capacity (an enormous amount of electricity). This is enough electricity to power 65,000 homes.

As the project gets bigger, the ratio improves by 15% for every additional 100 million pounds.

Many of the expected large copper projects that the market expects will come online shortly in Africa cannot tap into the existing electricity grid because there is simply no excess electrical capacity.

As a result, the potential copper mine will have to make up for the lack of electricity from the grid with their own, higher-cost sources of electricity, whether by installing diesel generators or by building their own power plants. In other words, the price of copper under $4 per pound doesn't justify the infrastructure capex.

Also, expect certain countries in the third world to use access to the existing electrical grid as additional leverage for a piece of the profits at higher copper prices.

For example, in 2017, large copper producer First Quantum Metals was told by the Zambian government that the amount of electricity supplied to its copper operations would be reduced.

The Zambian government used electricity as leverage for a bigger piece of the project's profits. But at the end of the day, this will result in a higher cost of production, because the company will either have to pay higher prices for electricity or install supplemental power sources at a much higher cost.

Another example of a government making life difficult for miners is the Freeport McMoRan/Indonesia story. Freeport is one of the world's largest, most powerful miners. Its Grasberg operation in Indonesia is one of the world's most productive mines. In 2017, Freeport was forced by the Indonesian government to reduce its stake in the operation from 91% to 49%. This was a huge setback for one of the world's biggest miners. Freeport invested $12 billion into Grasberg to own 91% of it. Now it only owns 49%. To make things worse, Indonesia stated that if Freeport doesn't invest another $10 billion within 10 years, it will lose its remaining 49% interest.

You can argue all you want about what is right and wrong when it comes to governments appropriating assets, but the result is still the same. When governments seize assets, it drives up costs.

Where Recycling Comes In

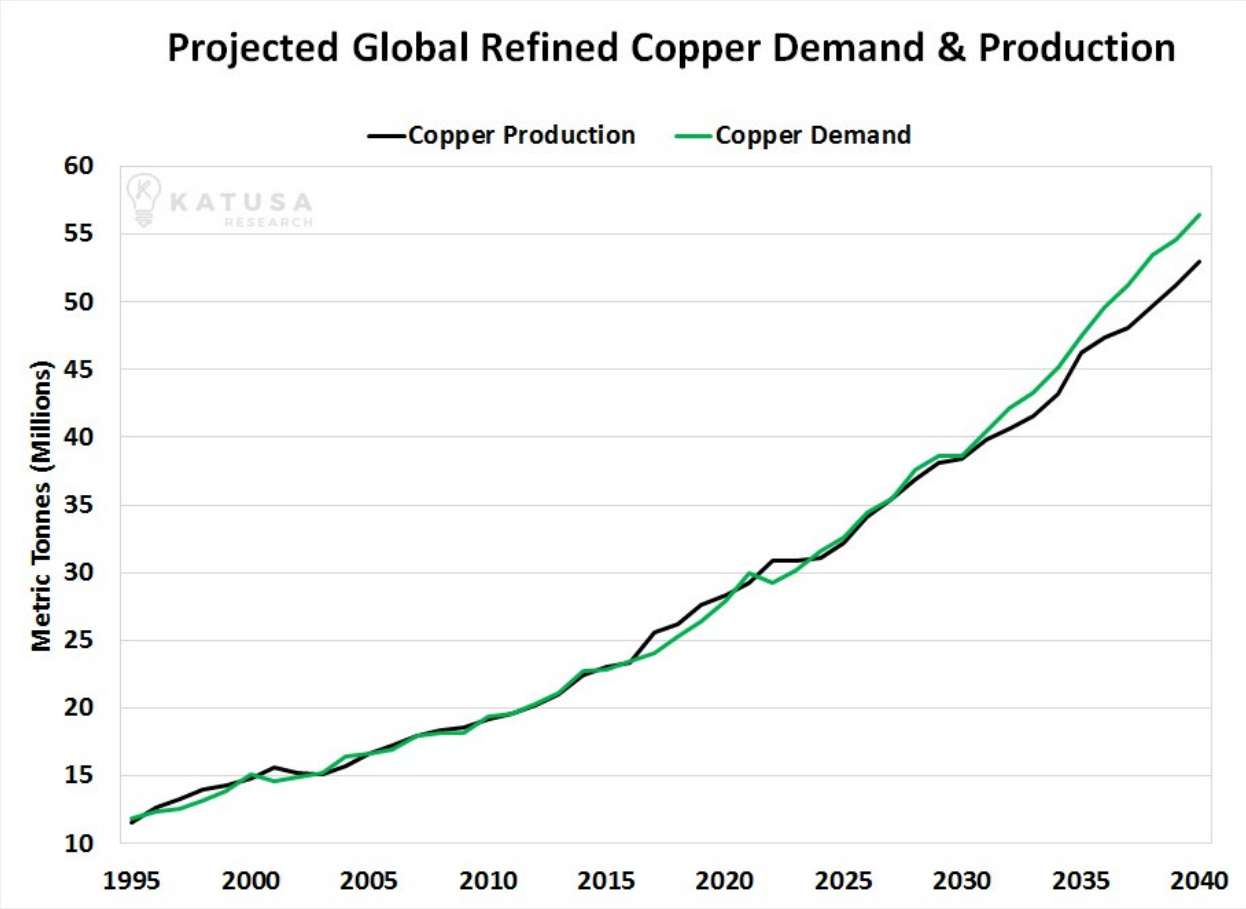
Copper is recyclable. Generally, it is not burned up like oil or natural gas. When analyzing the copper market, you must always factor in recycling.

I believe recycling will meet some of copper's future demand, but even at $4.50 per pound, recycling met less than 20% of the demand. Recycling copper is a high-cost solution. Also, there are new restrictions on recycling copper in China that will increase the cost of recycling. There will be no flood of recycled copper to halt a sustained rise from the current price around $3 per pound to over $4 per pound.

WHAT THE COPPER MARKET WILL LOOK LIKE IN THE FUTURE

Historically, global copper production has increased at an average rate of 3.42% per year.

To model what the supply/demand situation will look like in the future, I have run the numbers using annual demand growth of just 3.75% and annual supply growth of 3.5% (a little higher than its long-term average rate of growth). The chart below shows those projections out to 2040. You can see that production will barely keep up with demand until 2030, and then fall behind.

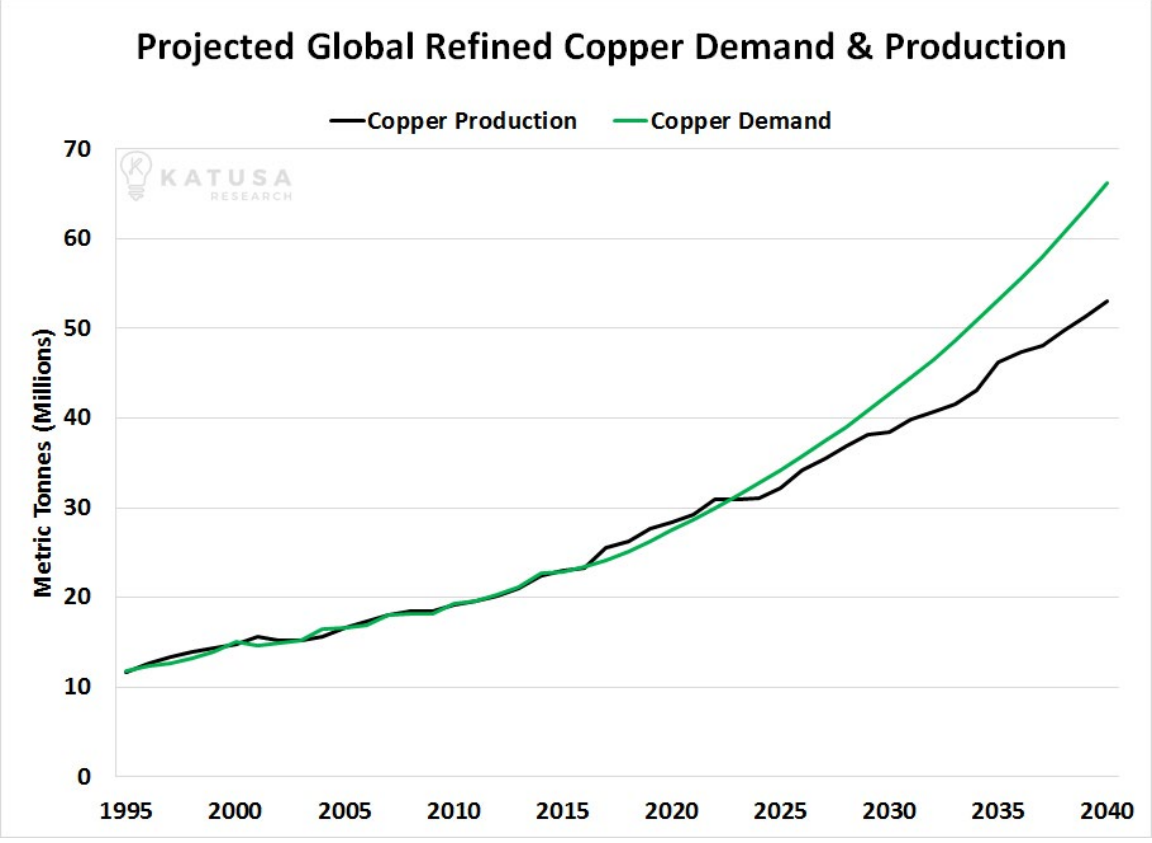


Again, the chart above was produced using conservative numbers. I believe in that conservative scenario, copper will reach $5 per pound over the next decade.

But it's the next scenario that could make copper the world's hottest commodity over the next decade.

As I mentioned earlier, I believe global demand growth could average 4.5% per year over the next 25 years.

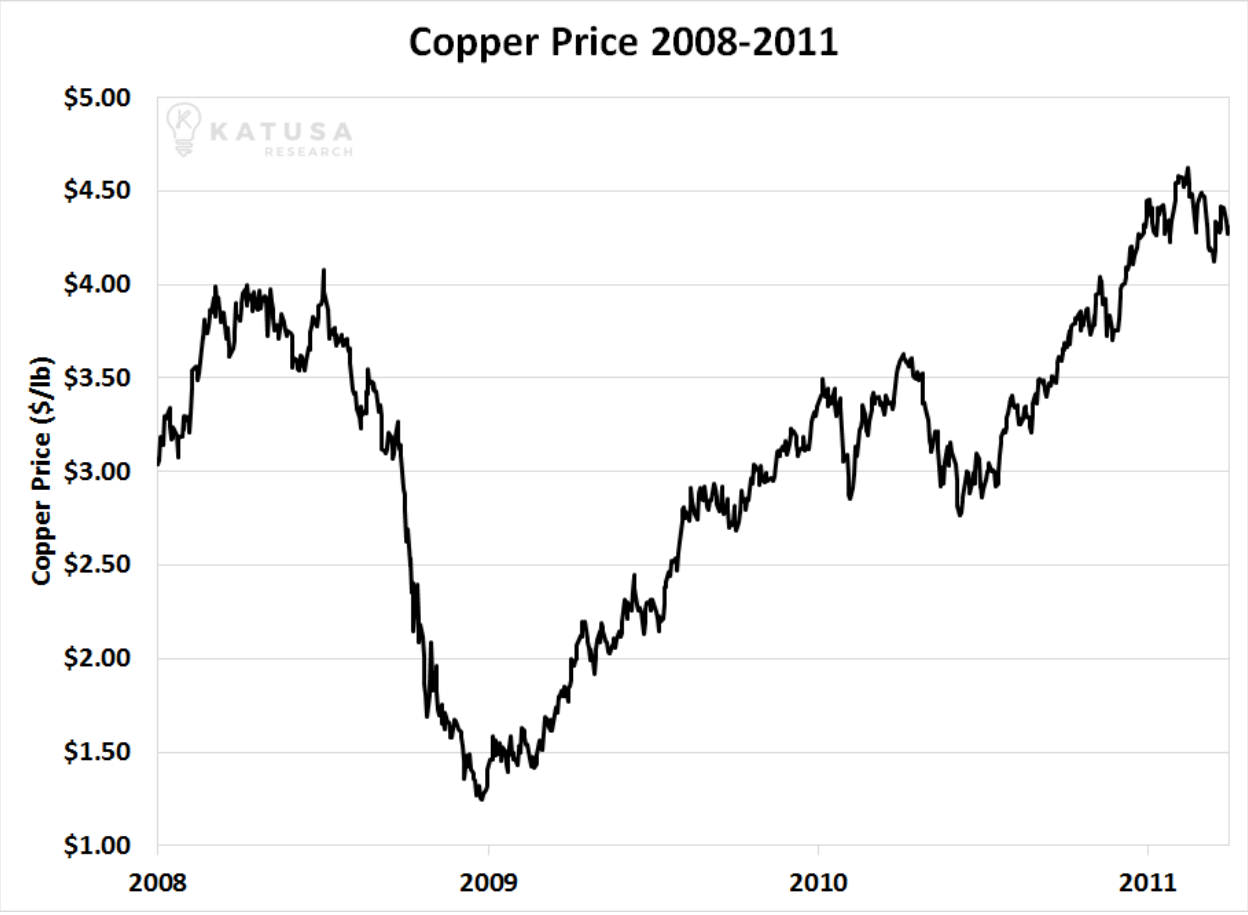
If this happens, copper will be treated as a precious metal. There just is not enough copper in the world that can be economically mined under $5 per pound to meet global demand. The major takeaway is that the tight copper market is going to become very tight over the next 60 months, after which copper demand growth will significantly outpace available production. I believe this will result in an incredible bull market for copper.



A RECENT HISTORY OF COPPER PRICES

Like all natural resources, copper goes through huge booms and busts. That's why we say resources are "cyclical." If you get in early before the booms and avoid the busts, you can make a lot of money in natural resources.

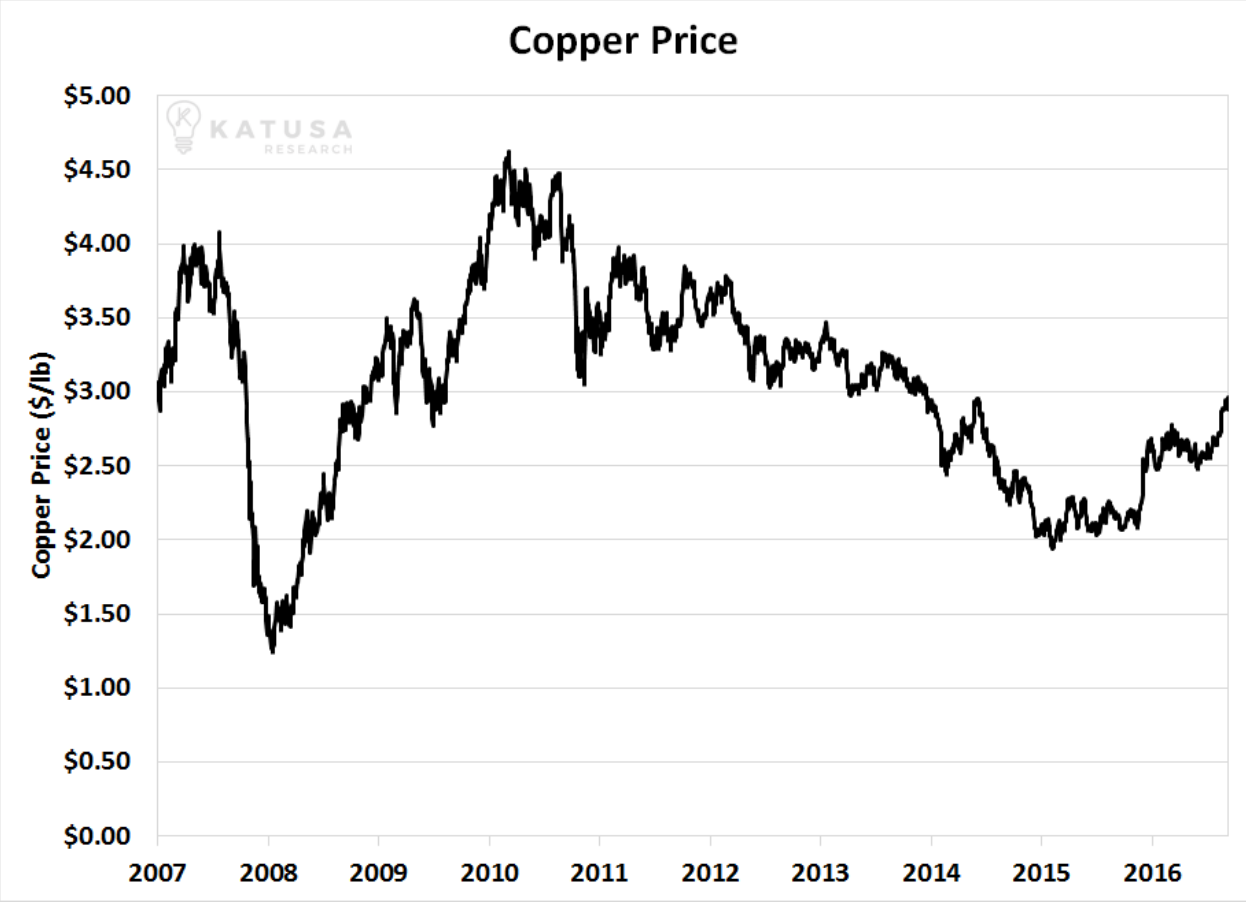
As you can see from the chart below, copper experienced a huge bust during the 2008 financial crisis. Investors were terrified the next depression was around the corner… which would mean a lot less copper consumption.



But as we know, there was no depression. Central banks stepped in and created enormous amounts of credit…so much that asset prices soared

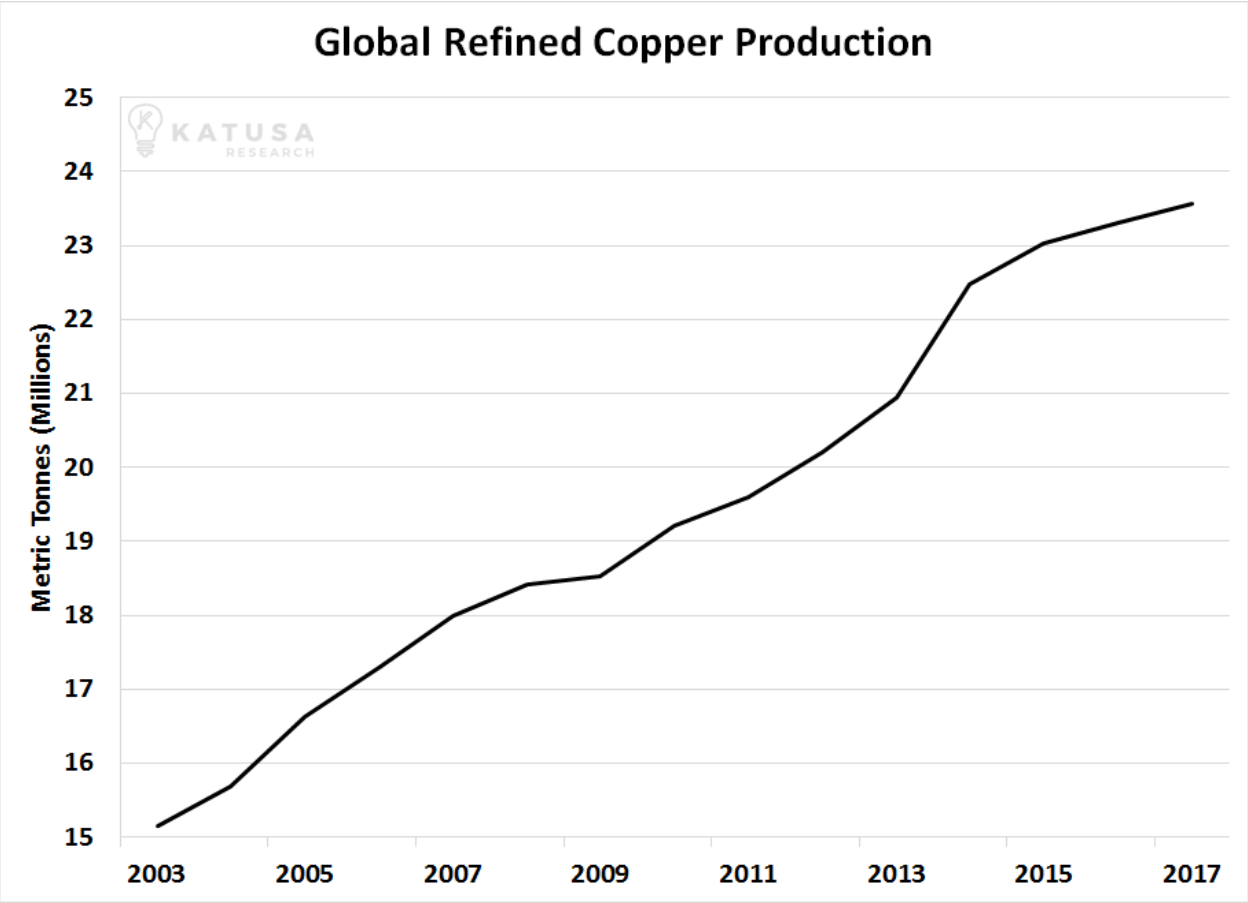
off their 2009 bottoms. Copper was no exception. Because they are leveraged plays on the copper price, copper miners soared. Some copper miners, such as Copper Mountain, Taseko Resources, First Quantum, and Hudbay Minerals increased in value by over 1,000% in the years following the crisis.

From 2011 to 2016, however, it was all downhill for the copper market. Global economic growth has been sluggish… and copper plummeted from $4.50 per pound to $2 per pound, a decline of more than 50%. You can see this bear market in the long-term chart below:



Given the big decline in prices from 2011 to 2015, you might think copper producers would have curtailed production. That's not the case.

As you can see in this chart of global copper production, miners have increased production. But those same producers will soon hit a wall, as I will explain shortly.



The producers did whatever they could to keep their operations alive, including "high grading" their mines. High grading occurs when a miner extracts the highest-grade ore in a mine in response to low prices. It's a near-term solution with a negative long-term effect on the ore body.

Nothing is worse in mining than high grading your deposit during a period of low commodity prices. This is because when the market turns around and prices are higher, you are left with a high strip ratio and low-grade ore. Basically, you're left with the warm beer at the bottom of the bottle.

This means that mines which have high graded their productions will get smacked in the face with higher production costs.

These factors are additional reasons the copper industry won't be able to supply the world with the copper it will demand with prices under $4 per pound.

SUMMING UP THE SUPPLY/DEMAND SITUATION

Katusa Research believes the EV boom will create a very strong demand "tailwind" for copper. Again, we believe annual copper demand growth could be 4.5% for the next 25 years.

For reference, the world's largest copper mine, Escondida, produces 2.18 billion pounds annually. We need to add the equivalent of Escondida's annual production every 2 to 3 years.

Even if we assume zero growth in global copper demand, the world will run out of copper in 22 years by only mining the known reserves of all the mines in production today.

Yes, that math is correct. I double-checked it myself. It's clear just on that basis alone, new mines will have to come into production to replace the depleted mines. But thanks to ore grades falling at major mines and a lack of large new discoveries, the copper industry cannot meet that demand with copper at $3 per pound. The price must increase to at least $4 – and probably to $5 to spur new production. Get ready for a long, strong bull market in copper and copper stocks.

THE KATUSA COPPER STRATEGY:
BUY THE WORLD'S BEST PROJECTS THAT AREN'T OWNED BY MAJORS

In a strong copper price environment, investors can buy almost any copper stock and do well. The old saying here is "In a bull market, even turkeys can fly."

However, by focusing on truly world-class projects in mining-friendly and politically stable jurisdictions that are not owned by major mining companies, we get the best balance of safety and upside.

I can't emphasize "mining-friendly" and "politically stable" jurisdictions enough. It's critical to keep our investment dollars away from dictators, communists, and power-mad lunatics.

Do you think the producing or undeveloped projects in Congo, Russia, or Iran are safe? Ask Freeport where it wants to build its next mine. I can assure you it won't be in a politically unstable nation. Freeport had enough money to hire the toughest, best lawyers and negotiators in the world. It got crushed by the Indonesian government. Lawyers and contracts are no match for guns and tanks.

It's hard enough to make money in resources. Don't make it 10 times harder by trying to do business in places where murder and theft are daily occurrences in business and government. Coming out ahead in a negotiation won't do you any good if goons are waiting outside to shoot you.

Majors such as Freeport will look to develop world-class copper mines in politically stable jurisdictions.

But before you invest, you need to know about the biggest secrets in the copper sector that nobody wants to talk about.

YOUR EDGE IN THE MARKET: WHAT MOST PEOPLE DON'T KNOW ABOUT COPPER PROJECTS

There are some big secrets when it comes to what majors look for in world-class projects.

Let's start with something called "clean concentrate."

Copper concentrate is what a miner sends to a smelter after the rock that hosts the copper is crushed and ground and the copper is extracted and concentrated. The smelter turns that copper concentrate (which is usually anywhere between 22.5-30% copper) into the copper we use in buildings and manufacturing.

When a copper producer sends its concentrate to a smelter, it can contain nasty stuff like mercury, arsenic, and antimony. When copper concentrate has high levels of these "nasties," it is called "dirty" concentrate.

Not only does a producer get "penalized" for dirty concentrate (meaning it gets less per pound of copper than it does for "clean concentrate"), some smelters flat out refuse dirty concentrates when there is an excess supply of it.

The global smelters are in high demand for "clean concentrate."

You probably didn't know this... but for years, smelters have been dealing with this secret by "blending" the dirty concentrate with clean concentrate.

Ironically, mines in Chile (the world's largest copper-producing country) such as the giant Escondida mine are showing higher nasties compared

to when they first started many years ago. Many of the large copper-producing mines will go through the same thing.

The Asian smelters who are now dealing with a high supply of dirty concentrate can dictate smelting fees, which means the dirty concentrate producers are getting slaughtered. This means that BHP, Rio Tinto, MMG, and Freeport are all dealing with this very dirty secret.

Nobody is talking about this, but they will be soon.

This is a small nuance that can have huge effects on a copper investment. A company can have a lot of copper in the ground, but dirty concentrate production can kill it – and your investment.

To sum up, I am very bullish on top-tier, world-class copper deposits that have the following qualities: Low-cost production, clean concentrate, and are located in safe jurisdictions. It's by owning assets with those qualities that safe, large capital gains will be made. It's by owning those assets that copper investors can make a fortune in the electric vehicle boom – without selling a single car.

★ ★ ★

INVESTMENT RECOMMENDATIONS

Historically, when copper prices rally, copper stocks go wild. And you want to position the speculative corner of your portfolio into some of the best ways to bet on this mega-trend.

Armed with all the details and forecasts of copper demand in the electric vehicle revolution, let's get right into what I'm buying.

Elon Musks's Next Disruption Pick

Nevsun Resources

(NSU.TO or NSU:US)

Poised for Massive Share Price Gains During the EV Revolution

Back in 2006 and 2007, I spent a lot of time in an area of southeastern Europe known as the Balkans.

In 2006, I set up a mining company in Kosovo (the second officially registered company of its kind in the young country), and shortly after I bought a large waterfront parcel of land in Croatia.

I spent a lot of time in Serbia, another Balkan country. The Bor mining district in Serbia is an incredibly famous mining region that dates back centuries. In fact, copper mining in Europe started in the Balkans in pre-Roman times, and the largest copper mine in the world pre-1950 was the Bor mine in Serbia. I hired a team of geologists that could read the local language, Cyrillic Serbian, and we went to all of the old mining towns to conduct due diligence.

There was very little competition, so I thought I had a chance of finding the next big mine in Europe.

A mining entrepreneur named Miles Thompson was one of the few also on the chase. Because of our common belief that there was another major deposit hiding within the terrain of Serbia near the giant Bor copper/gold mine, Miles and I quickly became very close friends.

Back then, Miles was the Chairman, President, & CEO of a small junior mining company exploring in Serbia called Reservoir Capital.

Ironically, we came close to a deal for me to sell the assets I had accumulated in Kosovo to Reservoir Capital in return for an equity share in the company. If the deal was to happen, Miles wanted me to join the board of directors of Reservoir Capital, but the optics of a company having assets in both Serbia and Kosovo at the time didn't appeal to a company exploring in Serbia. I was also hesitant because of my corporate responsibilities at Copper Mountain Mining Corporation and Cuadrilla Resources. I felt I would be stretched too thin to take on an additional strategic role. We both decided it would be easier if I sold the Kosovo company to another interested party, which I did.

However, Miles and I bonded over time, and are still close friends to this day.

Along with a few others, I financed Miles' Reservoir in the early years for two reasons: I liked Miles, and I believed Serbia had more elephant-sized deposits.

In the summer of 2009, Miles spent two weeks at my waterfront property in Croatia. During that time, Doug Casey and a few other well-known resource financiers joined us and stayed at my place. We had a few investment bankers, brokers, and executives swing through my place during that time.

While at my place, Miles received a phone call from his largest shareholder. He was asked to sell the copper/gold exploration assets in

Serbia. His board and largest shareholder wanted the company to focus on run-of-river green energy in the Balkans.

Miles and I both thought that there was far more value in the exploration of copper/gold assets than in the run-of-river green energy projects. Nevertheless, we spent literally a week calling everyone I knew in my Rolodex, pitching the merits of the exploration assets in Serbia.

Out of hundreds of calls – only one serious meeting resulted. The meeting ended as a complete waste of time.

After a week of phone calls and email negotiations, Miles and I flew back to Vancouver to meet the only group that was interested – a contact of mine. They offered to buy out the mineral exploration assets from Reservoir Capital, but they wanted Miles and I to raise the money in their shell company, and the new money would be 1/3 of the company.

The valuation? CAD$1,000,000 for 100% of the mineral package in Reservoir Capital.

Miles and I looked at one another and said no way.

We actually discussed doing it ourselves privately, but at the time both of us were fully invested in the markets and had very little cash. Not to mention it would look sketchy if Miles was buying assets from his own company at fire sale prices.

Miles refused the marching orders from his largest shareholder and his board, and everyone should be thankful he did.

In October of 2011, Miles spun out the Serbian mineral exploration portfolio into Reservoir Minerals. Every shareholder of Reservoir Capital received shares of Reservoir Minerals as a dividend.

Shortly after, Miles was able to attract Freeport McMoRan, arguably the

world's best copper producer, to farm into the mining assets in Serbia.

In the summer of 2012, Reservoir Capital hit pay dirt in a big way. The following exploration drill programs have demonstrated some of the best copper grades I have ever seen in my life, such as 43 meters of copper grading 13.74% and 11.28g/t gold, which works out to 20% CuEq. It made the high-grade copper mines in the Congo look like low-grade moose pasture.

The exploration assets in Serbia were valued at CAD$1 million in 2009, and by 2016 the project was valued at CAD$0.5 billion. That is a 49,900% gain. It's one of the greatest case studies I've ever seen firsthand of how you can make massive returns in the natural resource sector.

Over the next few years, the company continued to hit incredible drill holes with high-grade copper mineralization. In 2016, the company became the target of a bidding war between Nevsun and Lundin Mining.

It was one of the few times that the legendary Lundin family has lost a takeover attempt.

Nevsun emerged as the buyer of Reservoir Minerals.

But now, I believe Nevsun is the target of a buyer. I believe Lundin Mining will buy out Nevsun.

Let me tell you why.

First off, Lundin Mining is flush with cash, with over USD$1 billion from its recent sale of its interests in the Tenke Fungarume copper mine.

Second, few people know that the Lundin family actually owns a mill from a previous mining operation in Spain, which would be ideal for the Timok project in Serbia that Nevsun owns (more on this asset in a moment).

The Lundins have a long, successful track record of working with Freeport, which also sold its interest in Tenke Fungarume at the same time as the Lundins, and is Nevsun's partner in Serbia.

My contacts in Serbia have told me that Nevsun management has struggled with trying to advance the discussions regarding the concession agreements on the project. I think it is the Serbian government's way of trying to assess the new ownership of the project since Nevsun purchased the asset from Reservoir Minerals, which has had a strong presence in Serbia since 2007. The Balkans are different than the rest of Europe. I've done business in every region of the Balkans. It's a different mindset. It's a frustrating place to do business if you don't know how to navigate the Balkan way.

The government of Serbia is very well aware of what this project means to the region with respect to jobs and putting Serbia in a positive light internationally. That said, the lawyers the government has representing the Serbian interests are intelligent, and they will outsmart any consultant who has no previous experience in the Balkans. This is where I think Nevsun has done a poor job thus far.

I know the Lundin family very well personally. They would thrive in Serbia. And the Serbs wouldn't mess around with someone like Lukas Lundin.

Another little-known fact: Lukas Lundin was a major investor in Serbia in the early- to mid-2000s with Bill Rand, a long-time family business associate and advisor. I know this because in 2004, Bill Rand asked me to visit their assets and report back on my findings. The Lundins know how to do business in Serbia.

But there is a big "but" to this thesis. I do not believe the Lundins will go into Eritrea, which is the country where Nevsun's producing mine (called Bisha) is. Therefore, I believe we have some time on this speculation.

Why? Because the banker that puts this deal together will need to do a three-way deal. The Lundins will buy out Nevsun while instantly selling off the Eritrean mine.

Why would the Lundins not want the Eritrean mine?

Two reasons. First, the mine is just too small for Lundin Mining. The second reason is political. The Bisha mine is the largest foreign mining operation in Eritrea, and I don't think the Lundins would want to bother with all the political backlash that would come from their shareholders going into Eritrea.

But I know of many Chinese mining companies that have zero issues going into Eritrea. In fact, I know of many that would love to have an operation like the Bisha mine.

So what's the speculation?

Nevsun pays a small 1.6% dividend.

I think the market will go sideways to down over the next few months, and this is a company I would like to build a position in during that time. I also believe the company will have to raise money over the next six months to meet its obligations in Serbia. This will also put downward pressure on the share price.

Nevsun Resources (NSU)			**www.nevsun.com**
Price	Share: $2.37	MCap: $716M	As of 01/19/2018
Shares	SO: 302M	FD: 310M	As of 01/19/2018
Warrants	UnEx: N/A	Price: N/A	Exp: N/A
Options	Open: 8.2M	Price: $3.00	Exp: N/A
Cash	$151M	Cash Debt: $0	As of 09/30/2017

Management

Peter Kukielski: Chief Executive Officer – Peter is new to the CEO role at Nevsun. He was brought in because Cliff Davis stepped down. Peter brings over 30 years of international mining experience to Nevsun. Before joining Nevsun, Peter was the CEO of ArcelorMittal, one of the largest steel making and base metal mining companies in the world. At ArcelorMittal, he oversaw 27 operating mines and 3 major development projects. Prior to ArcelorMittal, Peter was the Chief Operating Officer of Teck Resources, one of the world's largest coal and base metal mining companies. I think Peter would be a great fit for Lundin Mining if my theory of Lundin Mining buying out Nevsun is correct.

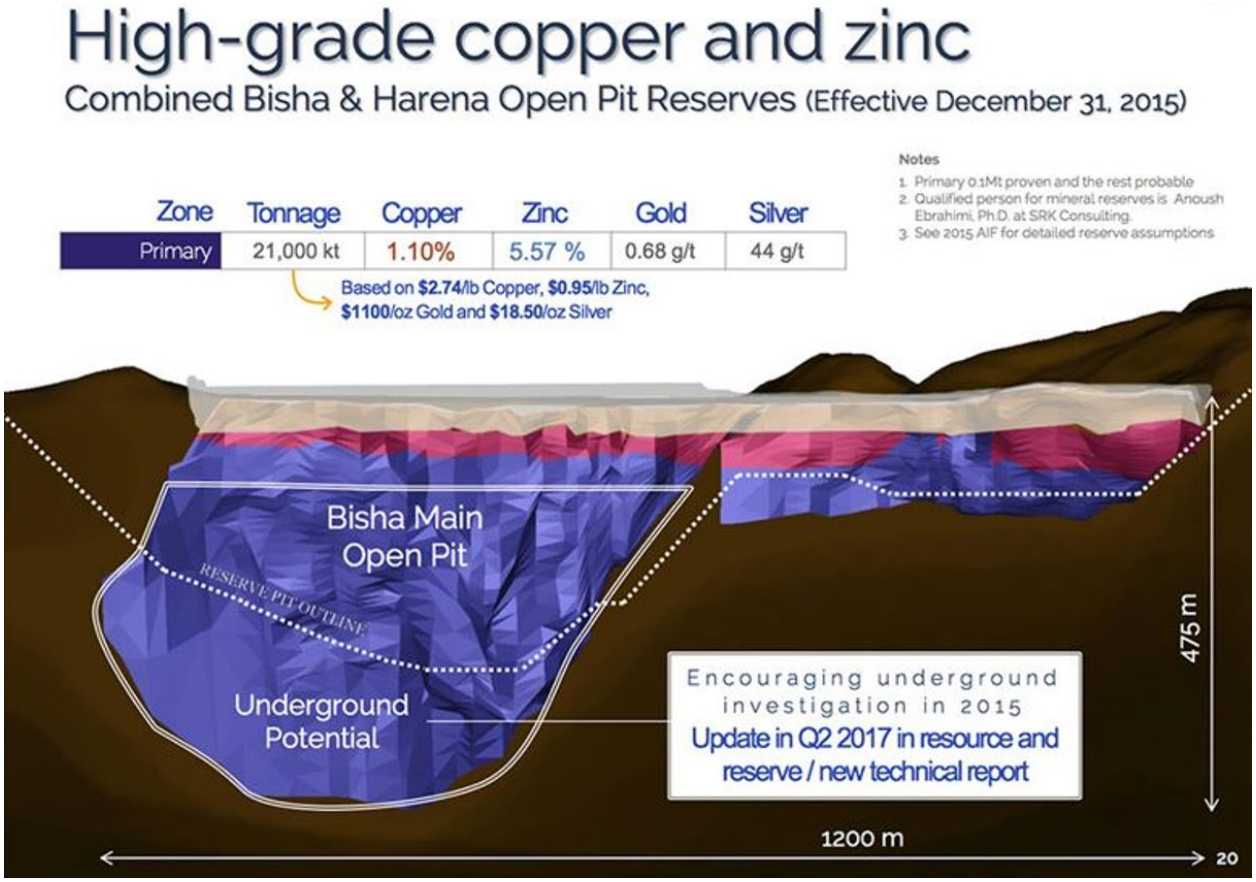
Assets

Nevsun is in a unique position of strength, with a mine in operation and another world-class mine at the development stage.

Nevsun's current operating mine is the Bisha mine, located in Africa, in Eritrea. Political risk is high in Eritrea.

Initially, Bisha operated as a copper/gold mine. As Nevsun mined deeper, the ore transitioned into a zinc/copper deposit. It's a unique deposit in this regard, as there are not many mines in the world which have this type of geological structure. Because of the transitional ore from copper and gold to zinc and copper, the company has had to make modifications to the mill.

Below is a picture of the current geological model, with the portion where Nevsun is planning to mine highlighted in blue.



The Nevsun team has recently completed all the facility updates required to produce zinc and copper. Upon reaching full production mode, Bisha will be the 19th largest zinc mine in the world and will produce nearly 215 million pounds of zinc annually. Bisha is expected to be in production for at least the next 5 years.

The expected supply deficit caused by the closing of a few large zinc mines has resulted in the price of zinc rising 25% in the past year to a current price of $1.55 per pound. Bisha is poised to capitalize on this opportunity.

Timok – A World-Class Development Stage Asset

Located in Serbia, Timok is Nevsun's prized development-stage asset. Nevsun acquired this asset in 2016 when it purchased Reservoir Minerals in a transaction worth over $350 million.

Timok is a very high-grade gold and copper project located in the historic Bor Mining District in Serbia. The Bor Mining District has been around for centuries, producing millions of ounces of gold and hundreds of millions of pounds of copper.

The gold and copper at Timok is high-grade. While it is still too early to know what the mine plan of the mine will be, this project is very promising because of the high-grade nature of the deposit.

Timok's initial economics study indicates a mine life of at least 12 years. There is much reason to believe the mine plan will expand due to the ongoing successful drill programs that are finding more high-grade copper and gold.

Political Risk

Eritrea carries a lot of political risk, and Nevsun is being discounted for it. That will not change until a Chinese mining company buys the asset from Nevsun. I believe that will happen.

Serbia is an entirely different type of political risk. I know Serbia well. I have travelled the country many times, I speak the language, and I have personally done business in the country. I think the new president of Nevsun has a lot of challenges ahead of him, but they are manageable challenges. In Serbia, Nevsun won't have to deal with a large anti-mining local community. Serbia is very pro-mining and has been for centuries. In fact, the location of the Timok mine is the heart of mining country in Serbia.

Where I do believe Nevsun will have its challenges is in dealing with the "concession process" in Serbia. The Serbians are very smart. I think Peter and his team will have their hands full with the lawyers working for the Serbian government.

Valuation

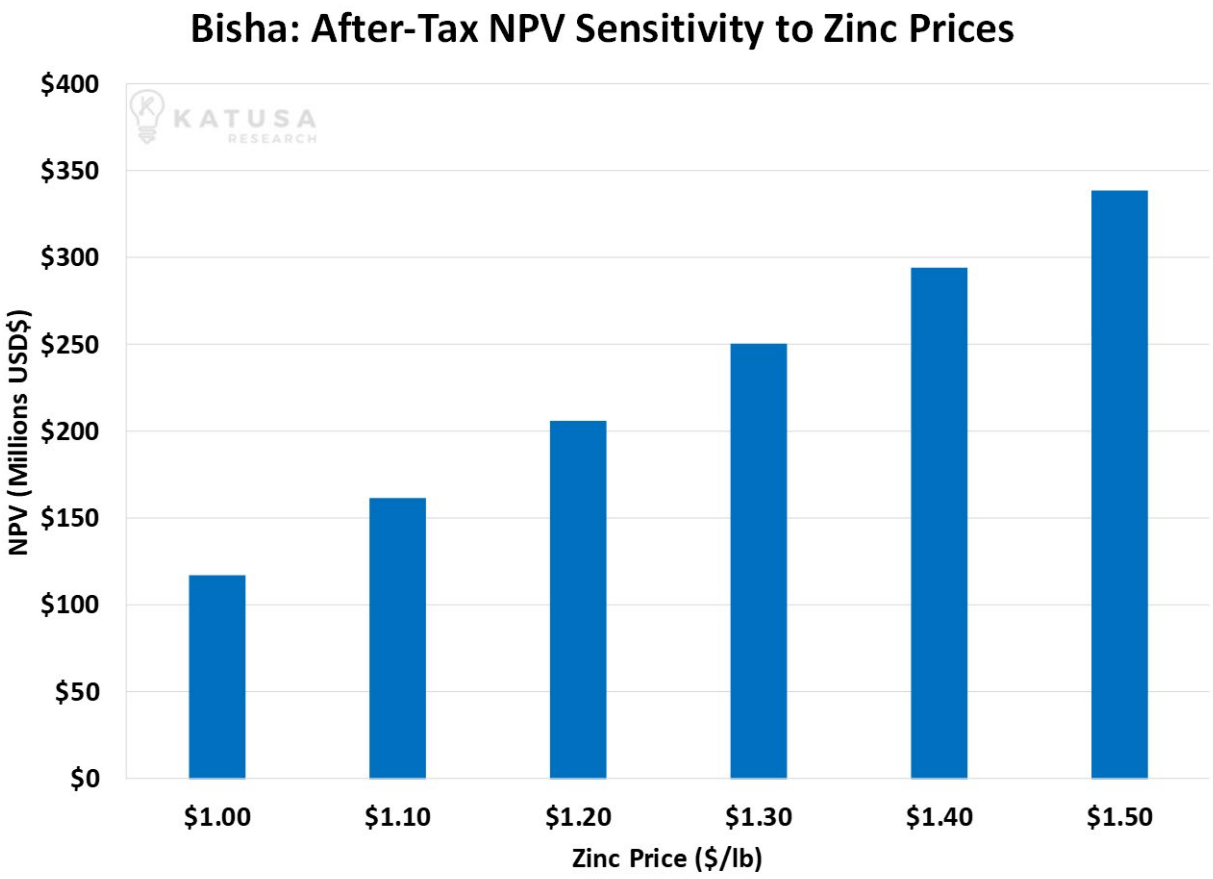
Nevsun is currently undervalued. It has a zinc mine in operation, a top-tier development stage copper/gold project, $151million in cash, and no debt.

In the past, Nevsun traded at a discount to its peer group because of the high political risk of its Eritrean mine. The market gave the company little value on its ability to expand Bisha into a zinc mine or to strategically deploy its significant cash position. At one point, Nevsun had over $450 million in cash. This year, Bisha will produce over 200 million pounds of zinc, making it the 19th largest zinc mine in the world (out of 137 operating zinc mines on our database watch list).

By acquiring the Timok development project in Serbia, Nevsun now has a world-class development stage asset, still has over $151 million in cash, and has no debt. The dividend is modest, and perhaps premature as the company will need more cash for the development of the Timok project.

One way to derive a value for Nevsun is using a sum of parts valuation. This type of valuation models the cash flow generated from each asset. Adding these individual valuations together produces a "sum of the parts," or total value for the company.

Recall that Nevsun's current producing asset is a zinc mine in Eritrea. Below is a chart which models the after-tax value of Bisha at a variety of zinc prices. Additionally, the cash flow model uses a 10% discount rate.



The cash flow model which generated the above results does not give any value to exploration upside. Bisha has the potential to be a district-sized development and has numerous additional targets which could increase the mine life at Bisha. The revised resource estimate due out this year should begin to demonstrate this.

However, because it's in Eritrea, there won't be many European or North American bidders for the asset. If it's anyone, I'd bet it's a mid-tier Chinese mining outfit looking to grow outside of Asia.

So what is Bisha worth to another mining company?

A good buyout comparison is the recent acquisition of two zinc mines by peer zinc producer Trevali Mining. Trevali bought these assets from Glencore for a total transaction value of $400 million. In total, the recently acquired zinc mines will produce 232 million pounds of zinc this year and have reserves of 13.8 billion pounds of zinc. The math works out to about $1.72 per pound of zinc produced, or $.03 per pound of zinc reserves. The table below shows the implied valuation for Bisha based on this transaction.

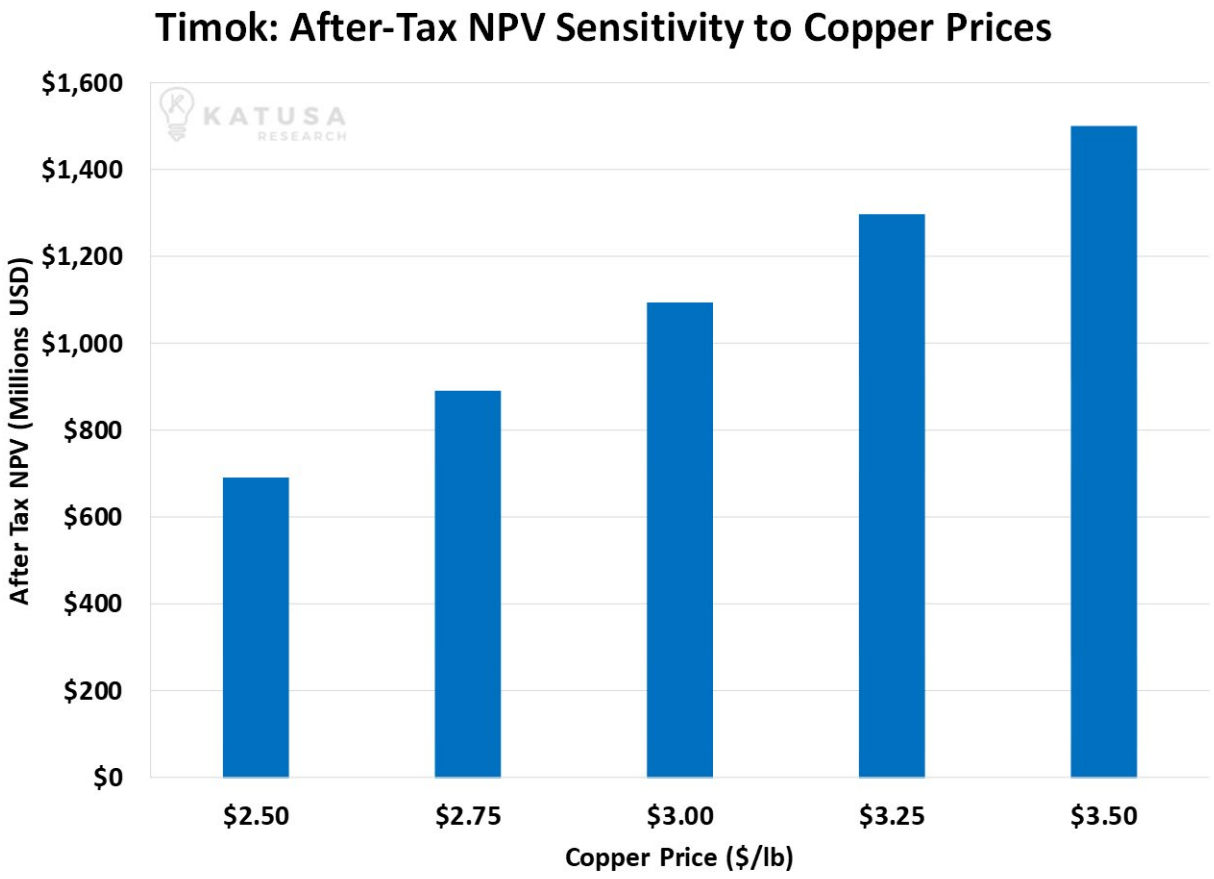
Implied Bisha Value Based on Production	
Traveli Transaction	$400,000,000
Zinc Production in Acquisition (lb)	232,832,000
Implied Production Mutiple ($/lb)	**$1.72**
Bisha Zinc Production (lb)	215,000,000
Implied Bisha Valuation	**$369,365,036**
Implied Bisha Value per Share	$1.22

Implied Bisha Value Based on Reserves	
Transaction Value	$400,000,000
Zinc Reserves in Acquisition (lb)	13,887,459,012
Implied Reserves Mutiple ($/lb)	**$0.029**
Bisha Zinc Reserves (lb)	2,580,854,000
Implied Bisha Valuation	**$74,336,248**
Implied Bisha Value per Share	$0.246

Combining this generates a realistic estimation for what Bisha is worth. The table below shows the blended average of the three valuation techniques.

Valuation Methodology	Discount Cash Flow @ 10%	Production Multiple	Reserve Multiple
Implied Bisha Valuation	$250,277,867	$369,365,036	$74,336,248
Weighted Average	75%	12.5%	12.5%
Bisha Valuation	**$243,171,061**		

Timok, Nevsun's development stage asset, is expected to begin commercial production after 2020. Timok is incredibly robust and is a true gem compared to most of the other development stage assets. It is a multi-million-ounce, high grade copper/gold deposit. The chart below shows the estimated after-tax valuation of Timok at a variety of copper prices using a 10% discount rate.



Combining the value of Timok and Bisha and the current cash along with annual corporate administration costs generates a total value for the company.

Below are tables which provide both the base case and upside case company valuations. The base case scenario uses $2.50/lb copper, $1,200/oz gold and $1.20/lb zinc to model each asset's cash flow. The upside case uses $3.25/lb copper, $1,400/oz gold and $1.50/lb zinc.

Additionally, Timok's NPV is discounted by 40%. This means that in the base case scenario, instead of giving it the full valuation of $689 million, I assign it a value of $413 million. Why do I do that? I do that because a development stage project carries far more risk and will not generate any revenue for several years. This makes my estimates more conservative.

Furthermore, neither valuation implies Bisha is acquired – instead, they imply that it simply produces its expected zinc production based on management's most recent guidance.

BASE CASE		
Assets	**NPV**	**NPV/SHARE**
Bisha Mine	$205,952,108	$0.68
Timok	$413,787,657	$1.37
Corporate Costs	-$68,234,162	-$0.23
Net Cash	$151,000,000	$0.50
Total NAV	**$702,505,604**	**$2.33**
Total NAV (CAD$)	**$878,132,005**	**$2.91**

UPSIDE CASE		
Assets	**NPV**	**NPV/SHARE**
Bisha Mine	$378,556,680	$0.68
Timok	$804,973,338	$1.37
Corporate Costs	-$68,234,162	-$0.23
Net Cash	$151,000,000	$0.50
Total NAV	**$1,266,295,856**	**$4.20**
Total NAV (CAD$)	**$1,582,869,820**	**$5.24**

The share price of Nevsun is currently below USD$2.50.

If we were advisors to Lundin Mining, here is what I would tell Lukas:

Take out Nevsun for a 50% premium at USD$3.50 (CAD$4.50) per share. Give the shareholders of Nevsun the option of taking either cash or shares of Lundin Mining. Lundin Mining has over $1 billion in cash. I would guess about 1/3 of the shareholders would take cash and 2/3 would take Lundin Mining shares.

But – and this is a big but – I would only advise the Lundins to do this if they had a buyer for the Bisha mine at a $150-$200 million valuation, which I think the Lundins could pull off with their contacts in China.

Thus, the actual purchase price of Timok and the whole exploration package within Serbia would be $800M, which is a great purchase price for Lundin shareholders. Recall from the chart above, the after-tax Net Present Value of Timok using a 10% cost of capital, $3 per pound copper and $1,300 per ounce gold is $1.1 billion.

Share Structure and Balance Sheet

Nevsun has one of the cleanest balance sheets in the mining industry. It has no debt, a war chest full of cash, and an industry-leading dividend.

With $151 million in cash, Nevsun has chosen to be strategic with its capital deployment. Rather than increasing the dividend, the money will be reinvested into Timok. I think this is a prudent strategy.

Company Catalysts

Nevsun released its updated Preliminary Economic Assessment (PEA) along with its third quarter financial results on October 26th, 2017. The financial results were solid. At current zinc prices, Nevsun's Bisha mine produces significant cash flow. Zinc recovery rates continue to improve, which means more cash flow for Nevsun.

The big news came from Nevsun's updated preliminary economic assessment on its development stage asset. Nevsun's development stage asset is Timok. It's a world-class copper/gold project in Serbia. The after-tax economics using an 8% discount rate indicates a $1.47 billion Net Present Value, a 50% IRR and 1.4-year payback at $3 per pound copper.

This is exceptional.

Guidance from Nevsun's management indicates that at $2.55 per pound copper, Timok's Net Present Value is still over $1 billion, with a 41% rate of return and a 1.6-year payback. This valuation uses an 8% cost of capital.

The company plans to release a Pre-Feasibility Study (PFS) within the first quarter of 2018. The PFS will provide more in-depth detail on metallurgy, mineral processing, and geology.

Another major catalyst for Nevsun is the price of zinc. Zinc production is likely to remain in deficit for the remainder of 2017 and into 2018. This deficit should keep the price of zinc high, which will increase revenue and cash flow at Bisha.

Nevsun will release its annual 2017 and fourth quarter earnings on Thursday March 1, 2018.

How to Pick up Nevsun Shares on the Cheap

I believe Nevsun shares could remain under pressure because of the lack of significant news flow coming from the company over the coming months, which will allow us to accumulate shares like alligator buyers.

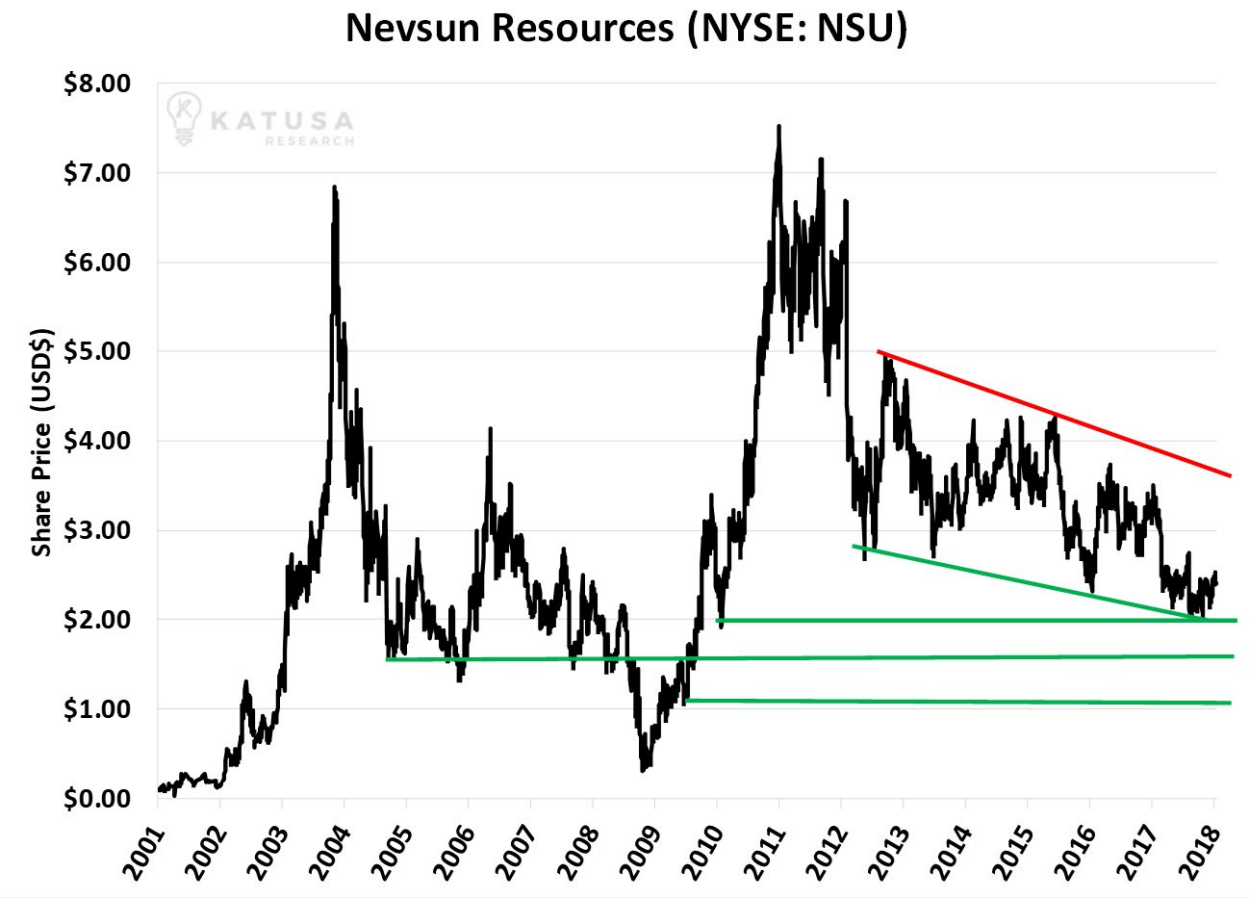
Nevsun just went through a big management change. The new management team cut the mine life of Bisha, the operating mine in Eritrea, in half.

How Low Can We Get Shares of Nevsun?

The base metal markets have performed extremely well over the past few months. Zinc is near a 10-year high at $1.55 per pound. Copper is back above $3 for the first time since 2014. This is important because Nevsun is not operating in a weak commodity price environment. This should provide a bit more of a backbone to the share price. If copper was back down to $2.25 and zinc was at $1 per pound, Nevsun shares would likely be in a tailspin.

That said, I believe Nevsun has not yet hit bottom. I believe the low will be between now and Q1/18, because that is when the pre-feasibility study will be out on Timok. Furthermore, Nevsun's operating mine is a zinc producer. It should be a cash flow machine at current prices. This uplift in cash flow from current zinc prices will show up in the end of year financial statements, which come out in the first quarter of 2018.

Below is a chart of Nevusn's share price since 2001. This gives us a good sense of how range-bound the stock has been over the past few years. You will also see four green horizontal lines on the graph. These are the support points from a technical trading perspective. When you buy stock in tranches, you want to try to accumulate stock near support points like you see at the green lines, while avoiding buying stock up near the red trend line.



Since 2010, the $2.00 per share price has been a support point. Nevsun briefly broke below that over the past couple of months. I believe given the minimal news flow and promotion, Nevsun will continue to trade between $1.60 and $2.40 per share. I realize this is a wide range, but the commodity markets are extremely volatile right now. Being cautious is never a bad thing.

Everyone should channel their inner alligator and begin to stalk Nevsun.

INVESTMENT RECOMMENDATION

Starting Position: BUY 25% of your desired allocation of Nevsun (NSU) under USD$2.30, (NSU.TO) under CAD$3.00

Let's be patient to add to our position over the next six months. I will personally be looking to add to my position if the company moves lower. Below is the strategy I plan on using for my purchases of Nevsun.

And remember… DO NOT CHASE THE STOCK.

Nevsun Resource Tranche Buying System				
	Tranche #1	**Tranche #2**	**Tranche #3**	
Guidance	Buy bellow $2,30 per share	Buy between $1.80-$2.00 per share	Buy between $1.60-$1.80 per share	Retain 25% of capital until release of PFS in Q2 2018
Position Size	25% of total position size	25% of total position size	25% of total position size	

Hypotetical $10,000 Investment

Tranche #1	Purchase initial $2,500 worth of stock below $2.30 per share
Tranche #2	Purchase additional $2,500 worth of stock between $1.80-$2.00 per share
Tranche #3	Purchase additional $2,500 worth of stock between $1.60-$1.80 per share

***Retain $2,500 of capital until Pre-Feasibility Study released in Q2 2018**

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