

Arizona Sonoran Copper Company

Base Metals - Developer/Explorer

Rating SPECULATIVE BUY	Price Target C\$4.50
ASCU-TSX	Price C\$1.43

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Hudbay joins the party

What's new? This morning, ASCU announced a C\$19.9m investment from Hudbay Minerals (HBM-TSX: C\$12.69 | BUY, C\$17.00 target).

Transaction terms:

- HBM will subscribe for 11,852,064 common shares of ASCU, at C\$1.68 per common share via a private placement.
 - In addition to the 2.12% of ASCU that HBM already owned, on a pro forma basis HBM will own 9.9% of ASCU.
 - The C\$1.68/sh price implies a 15% premium to the 5-day VWAP.
- In connection with the private placement, HBM and ASCU will enter into an investor rights agreement, pursuant to which HBM will have certain customary rights and obligations, substantially similar to those granted to certain other shareholders (which we assume means Tembo Capital and Rio Tinto).
- Closing is expected on January 30.
- Proceeds of the private placement are to be allocated to drilling, exploration, technical studies, and advancement of ASCU's Cactus copper project.

Our take: Very positive. We see this investment by HBM as another validation of the Cactus project by a larger mining company. In addition to being another potential source of capital on a go-forward basis, we understand HBM will have an 'observer' role on the Cactus Technical Committee—given HBM's experience with its Copper World project south of Cactus as well as its general operating prowess, we believe its input will be valuable to Cactus as it progresses. We also view this transaction as a potential re-rating catalyst for ASCU as the financial markets become more comfortable with the technical merits of Cactus; as of yesterday's close, ASCU traded at just 0.17x NAV, vs. the peer group average of 0.43x.

Finally, given the quality of Cactus, the strategic value of copper, and the dearth of quality copper projects (particularly in safer jurisdictions), we see a non-zero probability of an interloper for the entire company prior to this transaction closing.

Valuation: We reiterate our SPEC BUY rating and C\$4.50/sh target price on ASCU. Our target price remains based on 0.5x NAV, measured as at October 1, 2025.

Market Data

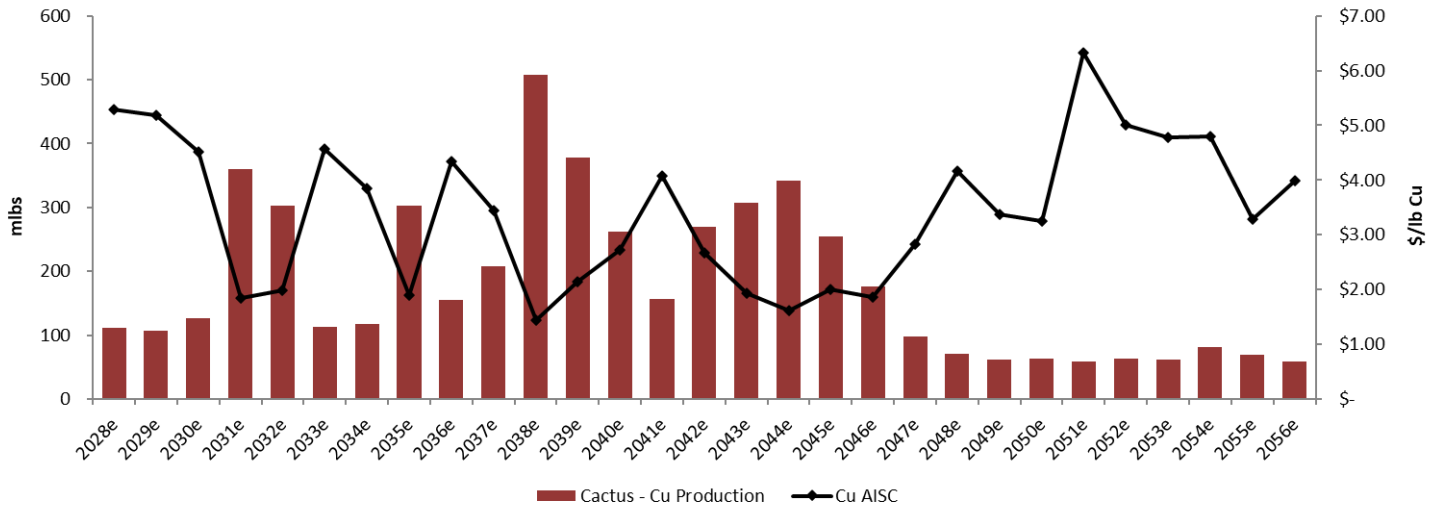
52-Week Range (C\$) :	0.98 - 1.78
Avg Daily Vol (000s) :	124.90
Shares Out. (M) :	135.5
Market Cap (C\$M) :	193.8
Dividend /Shr (US\$) :	0.00
Dividend Yield (%) :	0.0



Source: FactSet
Priced as of close of business 8 January 2025

ASCU is a TSX-listed copper developer focused on advancing the past-producing Cactus (formerly Sacaton) mine in Pinal County, AZ. The company completed its IPO on November 16, 2021.

Figure 1: Cactus Cu production and cash cost profile



Source: Canaccord Genuity estimates

Figure 6: ASCU NAV - as at October 1, 2024

	US\$ mms		C\$ mms	C\$/sh	%
		Disc. Rate			
Cactus	1,416	9.5%	1,931	\$6.68	100%
Other				\$0.00	
Total Asset Level Cash Flows	1,416		1,931	\$6.68	100%
Cactus + Parks Salyer - in-situ	0		0	\$0.00	
Cash + Future Equity	472		643	\$2.23	
Working Capital (ex. Cash and Debt)	-10		-13	(\$0.05)	
Total Debt	0		0	\$0.00	
Corporate SG&A	-54	8.0%	-74	(\$0.26)	
Exploration expenditures	0	8.0%	0	\$0.00	
Corporate tax adjustment	0	8.0%	0	\$0.00	
Provisions	0		0	\$0.00	
Other			0	\$0.00	
Net Asset Value	1,823		2,488	\$8.61	
Net Asset Value per share	\$6.31		\$8.61		

Source: Canaccord Genuity estimates

Appendix: Important Disclosures

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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: January 09, 2025, 09:33 ET

Date and time of production: January 09, 2025, 09:33 ET

Target Price / Valuation Methodology:

Hudbay Minerals - HBM

Our target price is based on an equal weighting of 4.0x ntm EBITDA and 0.70x NAV, measured as at Oct 1, 2025.

Arizona Sonoran Copper Company - ASCU

Our target is based on 0.50x NAV, measured as at October 1, 2025.

Risks to achieving Target Price / Valuation:

Arizona Sonoran Copper Company - ASCU

ASCU is a single-asset pre-production company and, as such, is exposed to a number of risks. Key among these are project risks (geology, metallurgy), construction and funding risks, and permitting risks. Given that Cactus is a brownfield site, these are relatively lower than typical greenfield projects. That said, we note significant inflation in the US construction industry; our capex estimate is above that in the company's latest PEA on the asset.

Project development risk

Like all development projects, Cactus is subject to several risks as the project progresses towards first production. These include engineering, permitting and construction risks, as well as risks to current capital and operating cost estimates. Being a brownfield site, we believe these risks are relatively lower than those of greenfield projects; that said, we note severe inflation in the US construction industry.

Financing risk

ASCU currently has no revenue and relies on external sources of funding to move the project as well as exploration efforts forward. We make no assurance that funding options will be available on the terms we currently assume.

Exploration risk

With incremental resources already reflected in our valuation on an in-situ basis, a significant upside in ASCU's share price is predicated on near-mine and regional exploration success. Exploration efforts are currently at a very early stage.

Commodity price risk

Our estimates and valuation for ASCU are sensitive to the price of copper; we estimate a 30% change in NAV for a 10% change in the copper price. We are constructive on the copper price going forward.

Hudbay Minerals - HBM

There are risks associated with HudBay's share price achieving our target price and our financial forecasts. Metals prices may not match our forecasts and exchange rate fluctuations may impact company earnings. Further, there are operating risks involved in all mining operations. Technical, environmental, regulatory and political risks can all impact financial estimates and valuations.

Distribution of Ratings:

Global Stock Ratings (as of 01/09/25)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	625	67.13%	27.04%
Hold	131	14.07%	9.92%
Sell	14	1.50%	7.14%
Speculative Buy	153	16.43%	52.94%
	931*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate returns greater than 10% during the next 12 months.

HOLD: The stock is expected to generate returns from -10% to 10% during the next 12 months.

SELL: The stock is expected to generate returns less than -10% during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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*As of January 1, 2024, the Ratings History Chart will reflect the new Canaccord Genuity Ratings System as defined above.

Risk Qualifier

SPECULATIVE: The stock bears significantly above-average risk and volatility. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the Global Stock Ratings table)

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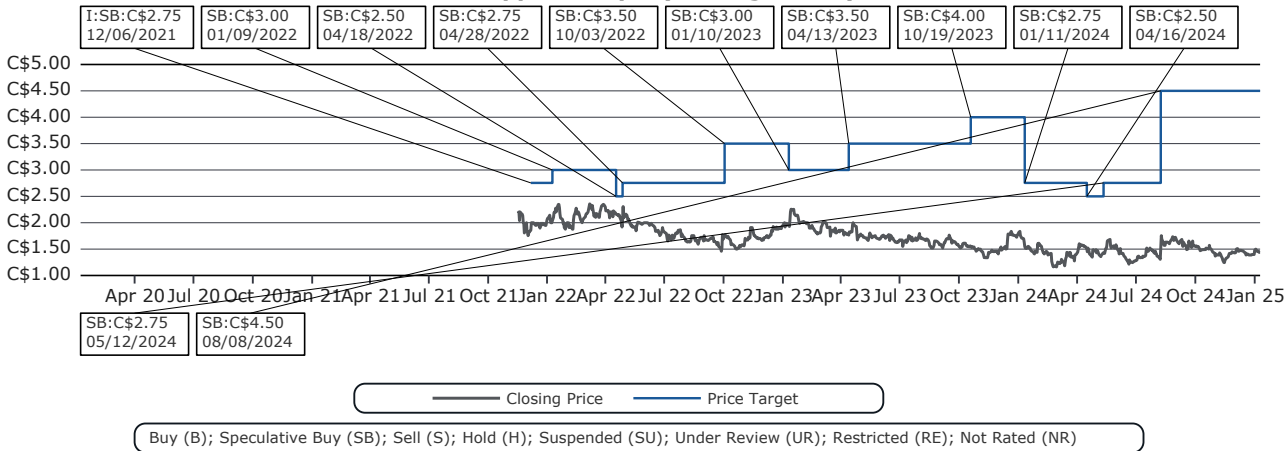
Arizona Sonoran Copper Company and Hudbay Minerals currently are, or in the past 12 months were, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided investment banking services to Arizona Sonoran Copper Company and Hudbay Minerals.

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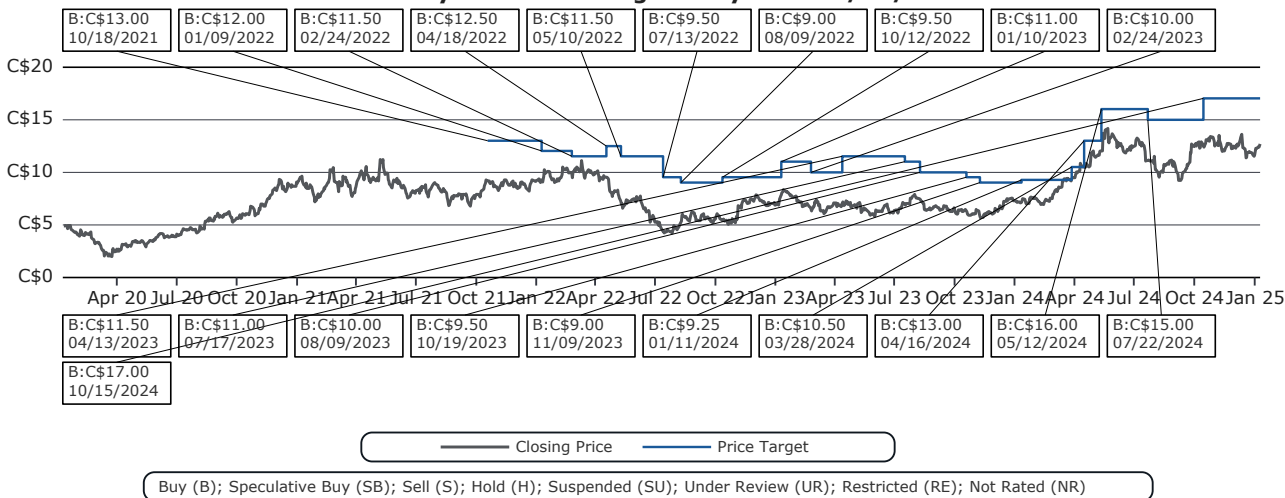
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An analyst has visited the material operations of Arizona Sonoran Copper Company. Partial payment was received for the related travel costs.

Arizona Sonoran Copper Company Rating History as of 01/08/2025



Hudbay Minerals Rating History as of 01/08/2025



Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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