What are investors missing when it comes to Allegiance Coal?

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The volatile market hasn't helped junior explorers and fund managers are staying away from the small end of town.

Resources expert Gavin Wendt says the battery metals "hype" seems to be detracting from the juniors that are actually doing the work and advancing towards production. Juniors like Allegiance Coal (ASX:AHQ).

"It seems to be the companies that are more advanced that have got a resource and are going about things methodically without a lot of hype. They seem to be the ones that are lacking the love," he told *Stockhead*.

The fact that Allegiance Coal is flying well under the radar with investors is not just to do with the negative sentiment around coal, according to Mr Wendt.

"A lot of coal companies are making a lot of money at the moment. Margins are very strong, coal prices are high, whether you're talking about thermal or metallurgical coal," Mr Wendt explained.

"Companies like Whitehaven (ASX:WHC) etc are all doing really well and in previous markets that would have flowed through to the juniors that were hoping to get into production, but that's not happening at the moment.

"Fund managers, if they're invested in the producers, they're happy with that. There doesn't seem to be the appetite to look further down the food chain for something else that's smaller; that's in the evolutionary sort of stage."

The coking coal price has leapt nearly 42 per cent since the start of the current financial year to reach $US195.25 per tonne, according to S&P Global Platts. It's at its highest point since March, when it punched through the $US200-per-tonne mark.

The International Energy Agency released its World Energy Outlook this week and it shows a growing international metallurgical coal market, especially in Asia.

Metallurgical coal is a low-ash, low-sulphur and low-phosphorus coal that can be used to produce high-grade coking coal, an essential part of the steelmaking process.

Allegiance is developing the Tenas metallurgical coal project in northwest British Columbia, Canada.

The company announced earlier in November that it had signed on one of the largest trading houses in Japan, Itochu, as its joint venture partner.

The partnership with Itochu alone is worth $35m to Allegiance, or 6.8c per share. That doesn't take into account the company's other coal projects.

But Allegiance's share price is trading at 5.5c, valuing the entire company around $28m.

The company plans to sell Tenas metallurgical coal into the global seaborne market, targeting Asian customers.

Due to the potential for supply disruptions out of Australia, the world's largest exporter, Asian steelmakers have sought diversity of supply.

China is the largest consumer of metallurgical coal, sucking up more than 60 per cent of global production, followed by India (10 per cent), Russia (6 per cent), Japan (5 per cent) and South Korea (4 per cent).

Part of the reason Allegiance isn't seeing its share price appreciate, according to Mr Wendt, is investor perception that Canada is a tough jurisdiction.

"Because they're Canadian that presents some challenges to an Aussie investor," he said.

"There's a perception that Canada is a hard place to do business, it's a hard place to get approvals."

Coal mines getting the green light

But that isn’t the case, with five coal mines permitted in the last eight years and another five, including Allegiance’s Tenas project, either getting ready to start the permitting process or already going through it.

British Columbia is the third largest metallurgical coal exporter behind Australia and the US.

Canadian giant Teck Resources, which has had three mines permitted in the last five years, is the second largest exporter after BHP.

Allegiance is working towards the completion of a definitive feasibility study (DFS) on a 750,000-tonne-per-annum operation that is due to be released in the first quarter next year.

“That will provide firm numbers for the story and that will trigger the approvals process,” Mr Wendt said.

“The other thing with the DFS too is that will start the negotiations around project funding with regards to Itochu.

“So I think there’s going to be some major catalysts next year that will hopefully take things to the next level and bring more value into the stock.”

Allegiance is fully funded through to the completion of permitting and Itochu has the capacity to fund the company through to production.

An earlier study forecast the project, which has a 126-million-tonne resource, would have an initial cost of $US70m and a cash cost $US55 per tonne – which Allegiance says makes it “almost the lowest cost producer on the seaborne met coal cost curve”.