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# Magnis Resources Ltd (MNS)

## Nachu project de-risking continues

**Recommendation**
**Buy** (unchanged)

**Price**
**\$0.47**
**Target (12 months)**
**\$0.58** (previously \$0.37)

**Risk**
**Speculative**
**Expected Return**

Capital growth **23.4%**

Dividend yield **0%**

Total expected return **23.4%**
**Company Data & Ratios**

Enterprise value **\$148m**

Market cap **\$151m**

Issued capital **323m**

Free float **100%**

Avg. daily val. (52wk) **\$276k**

12 month price range **\$0.13-\$0.58**

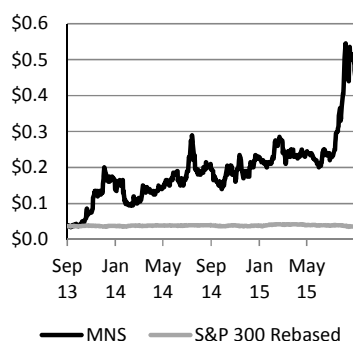
GICS sector

**Materials**

Disclosure: Bell Potter Securities acted as Lead Manager to the March 2015 share placement of \$6.5m and received fees for that service.

**Price Performance**

|                | (1m)  | (3m)   | (12m)  |
|----------------|-------|--------|--------|
| Price (A\$)    | 0.37  | 0.21   | 0.20   |
| Absolute (%)   | 22.97 | 116.67 | 127.50 |
| Rel market (%) | 29.82 | 124.00 | 136.51 |

**Absolute Price**


SOURCE: IRESS

**Key permits received, financing options available**

In the last month MNS has received the two key permits required to allow the commencement of development of the company's 100% owned Nachu Graphite Project in Tanzania. At the end of August MNS was granted its Environmental Certificate and just over two weeks later the Special Mining Licence (SML) was granted by the Ministry of Energy and Minerals (MEM). The SML represents the final key permit for project development. The SML also provides for greater security of tenure over a standard Mining Licence (ML). This also satisfies the final major Condition Precedent for the US\$150m project financing and construction package with offtake partner SINOMA.

**Metallurgical test work adds value**

Metallurgical test work completed during August has highlighted the potential for greater value to be realised from Nachu's product suite. MNS has achieved concentrate grades ranging from 99.0% to 99.2% from a modified flotation process that does not require chemical treatment of the product. This has potential to provide end-users with a high purity concentrate that requires less processing and chemical purification, delivering cost, safety and environmental benefits.

**Investment thesis – Speculative Buy, valuation \$0.58/sh**

MNS provides leverage to an emerging commodity with a solid demand outlook driven by expected growth in lithium-ion batteries. The Nachu project utilises conventional mining and processing technologies and we believe it to be economic at current graphite prices. Recent progress is building a good track-record for management and de-risking the development of the project. This is reflected in our reduced risk weightings and an increase to our NPV-based valuation from \$0.37/sh to \$0.58/sh. Earnings increases of 20% and 30% in FY17 and FY18 are driven by our latest foreign exchange assumptions. We retain our Buy (Speculative) recommendation.

**Earnings Forecast**

| Year end June          | 2015e  | 2016e  | 2017e | 2018e |
|------------------------|--------|--------|-------|-------|
| Sales (A\$m)           | -      | -      | 208   | 294   |
| EBITDA (A\$m)          | (6)    | (7)    | 105   | 150   |
| NPAT (reported) (A\$m) | (4)    | (5)    | 49    | 81    |
| NPAT (adjusted) (A\$m) | (4)    | (5)    | 49    | 81    |
| EPS (adjusted) (cps)   | (1)    | (1)    | 10    | 13    |
| EPS growth (%)         | na     | na     | na    | 36%   |
| PER (x)                | (31.7) | (32.5) | 4.6   | 3.4   |
| FCF Yield (%)          | -5%    | -174%  | 27%   | 33%   |
| EV/EBITDA (x)          | (21.9) | (19.2) | 1.3   | 0.9   |
| Dividend (cps)         | -      | -      | -     | -     |
| Yield (%)              | 0%     | 0%     | 0%    | 0%    |
| Franking (%)           | 0%     | 0%     | 0%    | 0%    |
| ROE (%)                | -71%   | -27%   | 76%   | 58%   |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# De-risking and upgrading Nachu

## Key permits received, investment sentiment positive

In the last month MNS has received the two key permits required to allow the commencement of project development. At the end of August MNS was granted its **Environmental Certificate** by the National Environment Management Council (NEMC) of Tanzania. The certificate is essential for the granting of a Mining Licence in Tanzania and follows the submission of the final Environmental Impact Study (EIS) during the June Quarter 2015.

Following on from the receipt of the Environmental Certificate, a **Special Mining Licence (SML) was granted** by the Ministry of Energy and Minerals (MEM) on September 8<sup>th</sup> 2015. The SML represents the final key permit to allow project development. The SML also provides for greater security of tenure over a standard Mining Licence (ML). In Tanzania, SML's may be granted to projects investing over US\$100m, are valid for up to 25 years (vs 10 years for MLs), can cover larger areas which for MNS is 30km<sup>2</sup> (vs 10km<sup>2</sup> for MLs) and guarantee stable fiscal terms over the life of the project via a separate Mineral Development Agreement (MDA).

That these processes were completed in good time sends a positive signal on the engagement of the NEMC and the MEM with the project and the company. We also view it as a positive signal in relation to Tanzania **trying to attract mining investment** back to the country. We think MNS is well placed to benefit from this, specifically in relation to the negotiation of the MDA which will define the terms of any State free-carry, statutory royalties and applicable corporate tax rates. Negotiation of the MDA is one of the next milestones, though timing is currently unclear. Note however that it is not a prerequisite for commencement of mine development.

## Metallurgical test work highlights potential value add

On the operational front, metallurgical test work completed during August has also highlighted the potential for greater value to be realised from Nachu's product suite.

Jumbo and Super Jumbo flake size categories (>300 µm and >500 µm respectively) attract significant pricing premiums over <300 µm product due to a combination flake size and the high concentrate grades achieved. These categories are sold into a relatively under-supplied segment of the graphite market.

Smaller flake sizes are lower value and the market is well supplied. However, a higher grade concentrate is likely to attract a premium over lower grade concentrates of the same flake size. This has **potential to provide end-users with a high purity concentrate** that requires less processing and chemical purification, delivering cost, safety and environmental benefits.

**Table 1 – Commodity price assumptions**

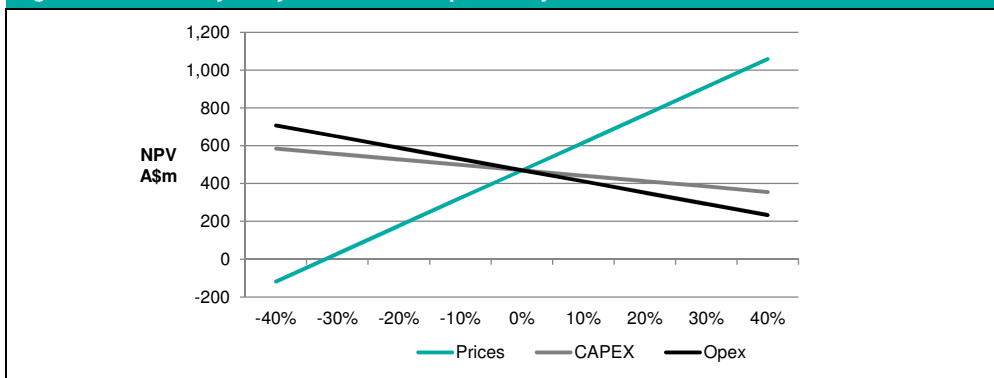
|  |               | BP est.      | Prices as at Jan-15 (China, FOB) | Benchmark Minerals (long term) | MNS forecasts (long term) |
|--|---------------|--------------|----------------------------------|--------------------------------|---------------------------|
| Super Jumbo (97-99% TGC) >500µ, +35 mesh     | US\$/t        | 1,700        | n/a                              | n/a                            | 6,000                     |
| Jumbo (96-98% TGC) >300µ, +50 mesh           | US\$/t        | 1,400        | 1,430                            | 2,440                          | 3,000                     |
| Large (94-97% TGC) 180-300µ, +80, -50 mesh   | US\$/t        | 1,200        | 1,250                            | 1,440                          | 1,400                     |
| Medium (92-96% TGC) 150-180µ, +100, -80 mesh | US\$/t        | 1,000        | 950                              | 1,125                          | 900                       |
| Fine (90-94% TGC) <150µ, -100 mesh           | US\$/t        | 500          | 800                              | 1,075                          | 500                       |
| <b>Weighted average basket price</b>         | <b>US\$/t</b> | <b>1,165</b> | <b>n/a</b>                       | <b>n/a</b>                     | <b>2,119</b>              |

SOURCE: COMPANY DATA, BENCHMARK MINERALS INTELLIGENCE (AS REFERENCED BY SYRAH RESOURCES) AND BELL POTTER ESTIMATES

We currently estimate a weighted average concentrate grade for MNS' <300µm graphite product suite of ~94%. The latest metallurgical test work completed by MNS has achieved **concentrate grades ranging from 99.0% to 99.2%** from a modified flotation process that does not require chemical treatment of the product. Design work indicates that minor reconfiguration of the planned float circuit for Nachu can accommodate the modified process route on an operational scale.

Our current pricing assumptions for the Jumbo and Super Jumbo flake size categories **carry price premiums of 56% and 89%** over our average <300µm flake size price of US\$900/t. We have not included any increase in our valuation but see the potential for premium pricing of a high purity <300µm flake size graphite concentrate. This offers further potential upside from our current from MNS valuation. The table below illustrates that our valuation is most sensitive to our pricing assumptions. Allowing just a **10% increase to our overall price basket derives 31% increase in our project NPV** (un-risked) for Nachu.

Figure 1 – Sensitivity analysis – Nachu Graphite Project un-risked NPV



SOURCE: BELL POTTER RESEARCH ESTIMATES

Table 2 – Sensitivity analysis – Nachu Graphite Project un-risked NPV (A\$m)

| Sensitivity factor (%) | Prices | CAPEX | Opex |
|------------------------|--------|-------|------|
| -40%                   | -118   | 585   | 707  |
| -30%                   | 29     | 556   | 648  |
| -20%                   | 176    | 528   | 589  |
| -10%                   | 323    | 499   | 530  |
| 0%                     | 470    | 470   | 470  |
| 10%                    | 617    | 442   | 411  |
| 20%                    | 764    | 413   | 352  |
| 30%                    | 911    | 384   | 292  |
| 40%                    | 1059   | 356   | 233  |

SOURCE: BELL POTTER ESTIMATES

We also note that recent test work has demonstrated the potential for an increased proportion of production to be recovered to the Super Jumbo size category (up to 11% from 9%). This would come from the Jumbo size category and under our pricing assumptions deliver a **slightly higher basket price of US\$1,171/t**.

Table 3 – Current graphite flake size product splits from Nachu

| Product type             | Proportional split | BPe price (US\$/t) |
|--------------------------|--------------------|--------------------|
| Super Jumbo (97-99% TGC) | 9%                 | 1,700              |
| Jumbo (96-98% TGC)       | 32%                | 1,400              |
| Large (94-97% TGC)       | 32%                | 1,200              |
| Medium (92-96% TGC)      | 9%                 | 1,000              |
| Fine (90-94% TGC)        | 18%                | 500                |
| <b>Total</b>             | <b>100%</b>        | <b>1,165</b>       |

SOURCE: COMPANY DATA AND BELL POTTER ESTIMATES

## Financing options improved

The granting of the SML for the Nachu Graphite Project fulfilled the last major Condition Precedent for the US\$150m debt financing package with offtake partner SINOMA. This is currently based on the project scoped in the December 2014 Pre-Feasibility Study, delivering 200ktpa of graphite concentrate. SINOMA's share of the package covers the funding, engineering, procurement and construction of the Nachu processing plant. Technically, this funding is now available.

In addition to this, MNS has ensured that the standards applied during the permitting process and its application for the Environmental Certificate and its Special Mining Lease meet International Finance Corporation (IFC) guidelines, thus opening the potential to seek a portion of its funding from the World Bank.

MNS will also be seeking an equity funding component (currently assumed at 10%) for the development of Nachu and we factor this into our valuation. Recent share price performance has improved the dilution implied by this and we now factor in a raising at 35cps, up from 22cps. This maintains a discount of ~25% to the current market price.

## Upcoming catalysts

To date MNS has made good progress against its stated objectives. We expect upcoming news flow to focus on:

- Further project optimisations and cost improvements;
- Finalisation of a project financing package;
- Negotiation of fiscal terms under the MDA for the project; and
- Possible asset sales to contribute to development funding.

**Table 4 – Project development timeline**

|                                   | 2014 |    |    | 2015 |    |    |    | 2016 |    |    |
|-----------------------------------|------|----|----|------|----|----|----|------|----|----|
|                                   | Q2   | Q3 | Q4 | Q1   | Q2 | Q3 | Q4 | Q1   | Q2 | Q3 |
| Drilling                          | ✓    | ✓  | ✓  |      |    |    |    |      |    |    |
| Resource Estimate                 | ✓    | ✓  | ✓  |      |    |    |    |      |    |    |
| MOU's for Offtake                 |      | ✓  |    |      |    |    |    |      |    |    |
| Sinosteel & Dalian MOU (100k tpa) |      | ✓  |    |      |    |    |    |      |    |    |
| Metallurgical testwork            | ✓    | ✓  | ✓  | ✓    |    |    |    |      |    |    |
| Maiden JORC Resource              |      |    | ✓  |      |    |    |    |      |    |    |
| Pre-feasibility Study             |      | ✓  | ✓  |      |    |    |    |      |    |    |
| Binding off-take Agreements       |      |    | ✓  | ✓    |    |    |    |      |    |    |
| Environmental Impact Study        |      | ✓  | ✓  | ✓    | ✓  |    |    |      |    |    |
| Detailed Design                   |      |    |    | ✓    | ✓  |    |    |      |    |    |
| Project Finance                   |      |    |    | ✓    | ✓  |    |    |      |    |    |
| Mining Approval                   |      |    |    |      | ✓  |    |    |      |    |    |
| Engineering & Plant construction  |      |    |    |      |    |    |    |      |    |    |
| Production                        |      |    |    |      |    |    |    |      |    |    |

SOURCE: COMPANY PRESENTATION

## Changes to our valuation

We make a number of changes to our high level assumptions to reflect the progress made by MNS and the reduced risk profile of the Nachu Graphite Project following the granting of key permits. We also update our valuation to incorporate our latest AUD:USD foreign exchange rate assumptions. Our graphite price assumptions remain unchanged.

Key changes are summarised below:

- We lower the risk discount applied to our project NPV calculation for the Nachu Graphite Project from 40% to 30%.
- Our DCF discount rate remains unchanged at 12%
- We incorporate our latest foreign exchange rate assumptions
- We lower our project CAPEX contingency margin from 20% to 15%, reflective of lower input costs observed across the mining sector.

# Magnis Resources Limited (MNS)

## Company description

MNS is developing the Nachu graphite project in Tanzania (MNS, 100%) which has potential to produce up to 180ktpa of graphite flake in concentrate over an initial 16 year mine life. The results of MNS's pre-feasibility study highlight the robust economics and viability of the Nachu project. Approximately 87% of MNS's estimated production will consist of higher value large and jumbo sized flake products. MNS has secured offtake for 100% of production through offtake agreements with SINOMA and Sinosteel for 80ktpa and 100ktpa over five and 10 years, respectively. An MoU has also been signed with SINOMA covering project financing, engineering and construction of the Nachu project.

## Investment view – Speculative Buy

MNS provides leverage to an emerging commodity with a solid demand outlook driven by expected growth in lithium-ion batteries. The company's key project is expected to use conventional mining and processing technologies. Under our pricing assumptions, we calculate an un-risked project NPV of \$470m and steady state EBITDA of \$125m. Permitting and definitive feasibility studies are underway for development to potentially commence in 2H CY2015. We believe the project is economic under current graphite prices. MNS is a Speculative investment as it carries permitting, development, price and offtake risks.

## Valuation – risked discounted cash flow of Nachu project

Our MNS risked valuation of \$0.58/sh is based on:

- Discounted cash flow of the Nachu graphite project, based on production rates of 180ktpa of graphite concentrate at total average operating cash costs of around US\$540/t and CAPEX of US\$205m. We have assumed operating cash costs and CAPEX estimates of around 15% higher than those used in the PFS study. We have risked our valuation by 0.7x to account for construction, development and financing risks. We have adopted a WACC of 12%, which is higher than the WACC we would typically apply to Australian based mining projects to account for sovereign risk;
- An allowance for corporate costs;
- A \$27m capital raising at \$0.35/sh in 2H CY2015 to take into account the project's financing dilution. We have assumed a 90%:10% debt:equity split; and
- Bell Potter long term pricing assumptions.

## Risks of investments

- **Government approvals and permitting:** To commence development of the Nachu graphite project, MNS must receive the necessary Tanzanian approvals and obtain all the requisite environmental and mining licenses.
- **Mine and infrastructure development:** Project development is a key risk in terms of time and cost over-runs. Delays and cost over-runs can substantially impact the economic returns of its projects.
- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices FX exchange rates.

- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining). Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments
- **Sovereign risks:** Tanzania is considered to have a higher sovereign risk than Australia and MNS will be subject to these risks. Tanzania was granted independence in 1961 and is the 4<sup>th</sup> largest African gold producer. MNS has a high level of government and local community support and has been operating in Tanzania since 2005.

# Magnis Resources Ltd

as at 11 September 2015

Recommendation

Buy, Speculative

Price

\$0.47

Target (12 months)

\$0.58

Table 5 - Financial summary

| PROFIT AND LOSS                     |              |            |            |              |             |              | FINANCIAL RATIOS  |           |            |            |            |             |            |
|-------------------------------------|--------------|------------|------------|--------------|-------------|--------------|---|-----------|------------|------------|------------|-------------|------------|
| Year ending June                    | Unit         | 2014a      | 2015e      | 2016e        | 2017e       | 2018e        | Year ending June  | Unit      | 2014a      | 2015e      | 2016e      | 2017e       | 2018e      |
| Revenue                             | \$m          | 0          | -          | -            | 208         | 294          | VALUATION   |           |            |            |            |             |            |
| Expense                             | \$m          | (5)        | (6)        | (7)          | (103)       | (144)        | NPAT  | \$m       | (5)        | (4)        | (5)        | 49          | 81         |
| <b>EBITDA</b>                       | <b>\$m</b>   | <b>(5)</b> | <b>(6)</b> | <b>(7)</b>   | <b>105</b>  | <b>150</b>   | Reported EPS  | c/sh      | (2)        | (1)        | (1)        | 10          | 13         |
| Depreciation                        | \$m          | (0)        | (0)        | (0)          | (13)        | (18)         | EPS growth  | %         | na         | na         | na         | na          | 36%        |
| EBIT                                | \$m          | (5)        | (6)        | (7)          | 92          | 132          | PER   | x         | -25.9x     | -32.7x     | -33.5x     | 4.8x        | 3.5x       |
| Net interest expense                | \$m          | 0          | 0          | 0            | (22)        | (17)         | DPS   | c/sh      | -          | -          | -          | -           | -          |
| <b>PBT</b>                          | <b>\$m</b>   | <b>(5)</b> | <b>(6)</b> | <b>(7)</b>   | <b>70</b>   | <b>115</b>   | Franking  | %         | 0%         | 0%         | 0%         | 0%          | 0%         |
| Tax expense                         | \$m          | -          | 2          | 2            | (21)        | (35)         | Yield   | %         | 0%         | 0%         | 0%         | 0%          | 0%         |
| <b>NPAT</b>                         | <b>\$m</b>   | <b>(5)</b> | <b>(4)</b> | <b>(5)</b>   | <b>49</b>   | <b>81</b>    | FCF/share   | c/sh      | (0)        | (0)        | (1)        | 0           | 0          |
| CASH FLOW                           |              |            |            |              |             |              | P/FCFPS   | x         | -30.3x     | -22.1x     | -0.6x      | 3.8x        | 3.1x       |
| Year ending June                    | Unit         | 2014a      | 2015e      | 2016e        | 2017e       | 2018e        | EV/EBITDA   | x         | -28.3x     | -22.6x     | -19.9x     | 1.4x        | 1.0x       |
| OPERATING CASHFLOW                  |              |            |            |              |             |              | EBITDA margin   | %         | n/m        | 0%         | 0%         | 50%         | 51%        |
| Receipts                            | \$m          | -          | 1          | -            | 197         | 289          | EBIT margin   | %         | n/m        | 0%         | 0%         | 44%         | 45%        |
| Payments                            | \$m          | (4)        | (6)        | (6)          | (84)        | (136)        | Return on assets  | %         | -100%      | -57%       | -3%        | 15%         | 21%        |
| Tax                                 | \$m          | -          | -          | -            | (17)        | (35)         | Return on equity  | %         | -140%      | -71%       | -27%       | 76%         | 58%        |
| Net interest                        | \$m          | -          | 0          | 0            | (22)        | (17)         | LIQUIDITY & LEVERAGE                                      |           |            |            |            |             |            |
| Other                               | \$m          | 0          | -          | -            | -           | -            | Net debt (cash)   | \$m       | (5)        | (5)        | 247        | 164         | 75         |
| <b>Operating cash flow</b>          | <b>\$m</b>   | <b>(4)</b> | <b>(4)</b> | <b>(6)</b>   | <b>74</b>   | <b>102</b>   | ND / E  | %         | -95%       | -65%       | 847%       | 166%        | 42%        |
| INVESTING CASHFLOW                  |              |            |            |              |             |              | ND / (ND + E)   | %         | -1762%     | -183%      | 89%        | 62%         | 29%        |
| Capex                               | \$m          | (0)        | (0)        | (269)        | (11)        | (11)         | EBITDA / Interest   | x         | n/m        | n/m        | n/m        | 4.7x        | 8.9x       |
| Exploration & evaluation            | \$m          | -          | (2)        | (2)          | (2)         | (2)          | RESOURCE  |           |            |            |            |             |            |
| Other                               | \$m          | -          | -          | -            | -           | -            | <b>Nachu Graphite project</b>                             |           |            |            |            |             |            |
| <b>Investing cash flow</b>          | <b>\$m</b>   | <b>(0)</b> | <b>(2)</b> | <b>(271)</b> | <b>(13)</b> | <b>(13)</b>  | Measured  |           |            |            | Mt         | %Cg         | Cg         |
| FINANCING CASHFLOW                  |              |            |            |              |             |              | Indicated   |           |            |            | 100        | 5.1%        | 5.1        |
| Share issues/(buy-backs)            | \$m          | 7          | 6          | 26           | 21          | -            | Inferred  |           |            |            | 53         | 5.7%        | 3.0        |
| Debt proceeds/(repayments)          | \$m          | -          | -          | 252          | (20)        | (20)         | <b>Total</b>  |           |            |            | <b>156</b> | <b>5.2%</b> | <b>8.2</b> |
| Dividends                           | \$m          | -          | -          | -            | -           | -            | PROJECT ASSUMPTIONS                                       |           |            |            |            |             |            |
| Other                               | \$m          | -          | -          | -            | -           | -            | <b>Year ending June</b>                                   |           |            |            |            |             |            |
| <b>Financing cash flow</b>          | <b>\$m</b>   | <b>7</b>   | <b>6</b>   | <b>278</b>   | <b>1</b>    | <b>(20)</b>  | Currency  | US\$/A\$  | 2016e      | 2017e      | 2018e      | 2019e       | 2020e      |
| Change in cash                      | \$m          | 3          | (0)        | 1            | 63          | 70           | Super Jumbo (97-99% TGC) >500μ, +35                       | US\$/t    | 0.73       | 0.70       | 0.72       | 0.75        | 0.75       |
| BALANCE SHEET                       |              |            |            |              |             |              | Jumbo (96-98% TGC) >300μ, +50                             | US\$/t    | 1,700      | 1,700      | 1,700      | 1,700       | 1,700      |
| Year ending June                    | Unit         | 2014a      | 2015e      | 2016e        | 2017e       | 2018e        | Large (94-97% TGC) 180-300μ, +80, -50                     | US\$/t    | 1,400      | 1,400      | 1,400      | 1,400       | 1,400      |
| ASSETS                              |              |            |            |              |             |              | Medium (92-96% TGC) 150-180μ, +100, -80                   | US\$/t    | 1,200      | 1,200      | 1,200      | 1,200       | 1,200      |
| Cash & short term investments       | \$m          | 5          | 5          | 6            | 68          | 138          | Fine (90-94% TGC) <150μ, -100                             | US\$/t    | 1,000      | 1,000      | 1,000      | 1,000       | 1,000      |
| Accounts receivable                 | \$m          | 1          | 0          | 0            | 10          | 15           | C1 costs  | US\$/t    | 500        | 500        | 500        | 500         | 500        |
| Property, plant & equipment         | \$m          | 0          | 0          | 270          | 268         | 261          | Project EBITDA  | A\$/m     | 503        | 503        | 503        | 539         | 539        |
| Exploration & evaluation            | \$m          | -          | 2          | 4            | 6           | 8            | Mined / milled  | Mt        | 112        | 158        | 151        | 142         | 142        |
| Other                               | \$m          | 0          | 2          | 4            | 0           | 0            | Grade   | %         | 5.2        | 5.2        | 5.2        | 5.2         | 5.2        |
| <b>Total assets</b>                 | <b>\$m</b>   | <b>6</b>   | <b>9</b>   | <b>283</b>   | <b>352</b>  | <b>421</b>   | Super Jumbo (97-99% TGC)                                  | kt        | 11         | 16         | 16         | 16          | 16         |
| LIABILITIES                         |              |            |            |              |             |              | Jumbo (96-98% TGC)  | kt        | 40         | 58         | 58         | 58          | 58         |
| Accounts payable                    | \$m          | 1          | 1          | 1            | 21          | 29           | Large (94-97% TGC)  | kt        | 40         | 58         | 58         | 58          | 58         |
| Borrowings                          | \$m          | -          | -          | 252          | 232         | 212          | Medium (92-96% TGC)                                       | kt        | 11         | 16         | 16         | 16          | 16         |
| Other                               | \$m          | 0          | 0          | 0            | 0           | 0            | Fine (90-94% TGC)   | kt        | 22         | 32         | 32         | 32          | 32         |
| <b>Total liabilities</b>            | <b>\$m</b>   | <b>1</b>   | <b>2</b>   | <b>254</b>   | <b>253</b>  | <b>242</b>   | <b>Total</b>  | <b>kt</b> | <b>125</b> | <b>180</b> | <b>180</b> | <b>180</b>  | <b>180</b> |
| SHAREHOLDER'S EQUITY                |              |            |            |              |             |              | VALUATION   |           |            |            |            |             |            |
| Share capital                       | \$m          | 63         | 69         | 96           | 117         | 117          | Ordinary shares m   |           |            |            |            |             | 323        |
| Reserves / other                    | \$m          | 5          | 5          | 5            | 5           | 5            | Performance shares and options (MNSO) exercised m         |           |            |            |            |             | 219        |
| Retained earnings                   | \$m          | (63)       | (67)       | (72)         | (24)        | 57           | Shares issued from capital raising                        |           |            |            |            |             | 77         |
| <b>Total equity</b>                 | <b>\$m</b>   | <b>5</b>   | <b>7</b>   | <b>29</b>    | <b>99</b>   | <b>180</b>   | <b>Diluted m</b>  |           |            |            |            |             | <b>400</b> |
| Weighted average shares             | m            | 286        | 299        | 351          | 494         | 599          |   |           |            |            |            |             |            |
| CAPITAL STRUCTURE                   |              |            |            |              |             |              |   |           |            |            | \$m        | \$/sh       |            |
| Shares on issue                     | m            |            |            |              |             | 323          | Nachu graphite project                                    |           |            |            | 470        | 0.77        |            |
| Performance shares and options      | m            |            |            |              |             | 219          | Nachu graphite project (30% risk discount, NPV12)         |           |            |            | 329        | 0.54        |            |
| <b>Total shares on issue</b>        | <b>m</b>     |            |            |              |             | <b>542</b>   | Corporate overheads                                       |           |            |            | (32)       | (0.05)      |            |
| <b>Share price</b>                  | <b>\$/sh</b> |            |            |              |             | <b>0.470</b> | <b>Enterprise value</b>                                   |           |            |            | <b>297</b> | <b>0.49</b> |            |
| Market capitalisation               | \$m          |            |            |              |             | 152          | Cash & options (fully diluted, including capital raising) |           |            |            | 55         | 0.09        |            |
| Net cash                            | \$m          |            |            |              |             | 7            | <b>Equity value (fully diluted)</b>                       |           |            |            | <b>352</b> | <b>0.58</b> |            |
| <b>Enterprise value (undiluted)</b> | <b>\$m</b>   |            |            |              |             | <b>145</b>   |   |           |            |            |            |             |            |

SOURCE: BELL POTTER SECURITIES ESTIMATES



**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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