

Trevali Mining Corp.

(TV-T: C\$0.60)

BUY, High Risk, Top Pick
Dundee target: C\$1.00

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Caribou Update: Zinc Circuit De-Risked. Commercial Production Is Around The Corner.

TV-T	New	Last	
Rating	--	BUY	
Target Price	--	\$1.00	
Risk	--	High	
Projected return	66.7% ▼	106.2%	
NAV/share	--	\$1.16	
Target/NAV multiple	--	0.9x	
Share Data			
Current price		\$0.60	
52-week high/low	H-\$1.01	L-\$0.25	
Market Cap (MM)		\$235	
EV (MM)		\$292	
Shares Outstanding - Basic		391.1 MM	
Shares Outstanding - FD		401.0 MM	
Avg. Trading Volume - One month		1.8 MM	
Net Debt (net cash) (\$M)		\$58	
Dividend per share		\$0.0	
Dividend yield		0.0%	
Operations			
Locations	Canada, Peru		
Main Commodities	Zn, Pb, Ag		
Resource	6.5B lbs Zn		
2015 Production (Payable Zn)	53.5 Mlbs		
Sustaining Capex	\$35M/year		
Avg. Cash Costs (\$/lb ZnEq)	\$0.75		
NAV/share	\$1.16		
P/NAV	0.52x		
Forecast			
Year	2015A	2016E	2017E
Zinc Price (US\$/lb)	\$0.88	\$0.90	\$1.05
Payable Zn Prod (Mlbs)	54.1	144.0	151.6
Revenue (\$M)	\$106.35	\$212.24	\$288.14
EPS	(\$0.05)	\$0.06	\$0.14
P/E	NM	10.3x	4.4x
EBITDA	\$12.0	\$63.7	\$82.6
EV/EBITDA	24.31x	4.59x	3.54x
CF (\$M)	\$18.6	\$41.8	\$68.3
CF/share	\$0.06	\$0.11	\$0.17
Capex (\$M)	\$61.6	\$18.9	\$32.6
FCF (\$M)	(\$43.1)	\$22.9	\$35.7

All figures are in C\$ unless otherwise stated
Source: Factset, DCM, Company Documents

TV: Price/Volume Chart



Sources: Factset

Company Description

Trevali Mining Corporation is a zinc miner in production at its Santander zinc-lead-silver in Peru. In Canada, Trevali owns the Caribou mine and Halfmile/Stratmat polymetallic project in New Brunswick.

Caribou update - significant improvement in zinc recovery. During May and June the metallurgical team at Caribou has remained focused on bringing zinc recoveries up to the PEA levels. Zinc recoveries were 78% in May and 79% in June (MTD), up significantly from 74% in April. Getting zinc recoveries up to PEA design values (>80%) has been TV's primary focus at Caribou, so we consider the progress to be an excellent sign. Mill throughput has also increased significantly since April, and is approaching the PEA design rate of 3,000tpd. TV considers the zinc circuit to now be essentially de-risked - we are maintaining our forecast commercial production date of the end of June 2016.

Caribou Production Performance						
		Q1-2016	April 2016	May 2016	June 2016 (MTD)	PEA Values
Tonnes Mined	tonnes	191,005	58,564	57,103	10,560	
Tonnes Milled	tonnes	200,670	60,032	53,038	13,350	
Mill Throughput Rate	tonnes-per-day (TPD)	2,675	2,636	2,874	2,907	3,000
Avg. Head Grades						
Zinc	%	5.9%	6.1%	5.7%	6.4%	6.5%
Lead	%	2.6%	3.0%	2.6%	3.2%	2.4%
Silver	oz/ton	2.03	2.7	2.3	2.8	2.5
Avg. Recoveries						
Zinc	%	71%	74%	78%	79%	84%
Lead	%	58%	57%	58%	55%	65%
Silver	%	38%	32%	31%	33%	37.5%
Concentrate Production						
Zinc	DMT	17,732	5,832	5,041	1,470	
Lead	DMT	7,586	2,634	1,968	583	
Concentrate Grade						
Zinc	%	47.8%	46.4%	47.2%	46.2%	50%
Silver	oz/ton	4.0	5.3	5.1	4.8	
Lead	%	39.3%	39.6%	40.2%	40.5%	45%
Silver	oz/ton	20.27	19.5	19.9	21	

Sources: Company Documents, Dundee Capital Markets

With zinc circuit de-risked, focus turns to underground operations. TV's main focus at site will now be de-bottlenecking and optimizing underground mining operations. Stope productivity continues to exceed PEA design rates by as much as four times. TV is committed to their goal of ramping up underground production to 2,500 - 2,700 tpd by the end of Q2.

Bottom Line: With Santander performing very well and Caribou commercial production just around the corner in New Brunswick, TV should have two operating zinc mines on line by the time positive zinc S&D fundamentals take hold which we estimate to occur in H2/2016. **We are maintaining our BUY, Top Pick rating and \$1.00/sh target based on a 7.0x 2016E EV/EBITDA multiple**

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Using consensus estimates in 2016E, TV is trading at a 6.4x EV/EBITDA vs peers at 7.0x.

Copper & Zinc																		
Name	Ticker	Commod	Exch. Curr.	Price 7-Jun	Mcap (US\$m)	EV (US\$m)	EV/EBITDA			P/E			P/CFPS			Net Debt		Analyst
							2015	2016	2017	2015	2016	2017	2015	2016	2017	\$mm	% Mcap	
Producers																		
OZ Minerals Limited	OZL-AU	Cu, Au, Ag	AUD	\$5.38	\$1,196	\$794	2.3x	2.8x	2.9x	12.6x	20.3x	18.2x	3.7x	4.1x	4.5x	(\$481)	(40%)	--
Atico Mining Corporation	ATY-CAN	Cu, Au	CAD	\$0.43	\$30	\$41	2.8x	3.1x	2.5x	na	nmf	nmf	2.6x	3.6x	2.7x	na	na	JG
Nevsun Resources Ltd.	NSU-CAN	Cu, Au, Zn	CAD	\$4.44	\$685	\$413	3.3x	4.1x	5.5x	nmf	nmf	nmf	6.3x	10.8x	15.3x	(\$426)	(62%)	JG
Capstone Mining Corp.	CS-CAN	Cu, Ag, Au	CAD	\$0.68	\$203	\$592	9.1x	4.3x	5.4x	nmf	nmf	nmf	3.3x	1.9x	2.5x	\$194	95%	JG
Sandfire Resources NL	SFR-AU	Cu, Zn, Pb	AUD	\$5.40	\$622	\$632	4.1x	5.0x	4.3x	12.2x	16.2x	11.8x	3.8x	6.3x	5.1x	(\$0)	(0%)	--
Tiger Resources Limited	TGS-AU	Cu	AUD	\$0.04	\$55	\$197	8.1x	5.4x	4.1x	nmf	23.6x	12.1x	nmf	2.2x	1.7x	\$157	283%	--
HudBay Minerals Inc.	HBM-CAN	Cu, Zn, Au	CAD	\$5.39	\$979	\$2,218	9.3x	5.7x	5.1x	nmf	nmf	19.1x	4.4x	3.3x	3.3x	\$1,189	121%	JG
Trevall Mining Corporation	TV-CAN	Zn, Pb, Ag	CAD	\$0.59	\$178	\$248	21.5x	6.4x	3.4x	nmf	19.1x	5.4x	10.5x	4.9x	2.8x	\$59	33%	JG
Thompson Creek Metals	TCM-CAN	Cu, Au, Mo	CAD	\$0.46	\$79	\$810	6.0x	6.9x	5.2x	nmf	nmf	nmf	1.5x	2.1x	1.2x	\$741	938%	JG
Imperial Metals Corporation	IMI-CAN	Cu, Au, Mo	CAD	\$5.76	\$364	\$1,047	nmf	7.2x	7.4x	nmf	12.3x	7.5x	nmf	3.7x	3.5x	\$610	168%	--
Antofagasta plc	ANTO-LON	Cu, Au, Mo	GBP	\$4.28	\$6,130	\$9,026	10.1x	8.5x	7.3x	nmf	nmf	nmf	12.7x	7.5x	6.6x	\$1,138	19%	--
Sierra Metals, Inc.	SMT-CAN	Cu, Zn, Ag	CAD	\$1.42	\$178	\$267	10.3x	10.7x	6.2x	nmf	18.3x	6.4x	8.4x	8.4x	5.2x	na	na	--
Copper Mountain Mining	CUM-CAN	Cu, Au	CAD	\$0.50	\$45	\$382	13.6x	11.8x	8.9x	nmf	nmf	4.6x	2.2x	1.5x	1.2x	\$276	609%	JG
KAZ Minerals PLC	KAZ-LON	Cu, Zn, Au	GBP	\$1.48	\$958	\$3,214	15.9x	12.8x	6.4x	nmf	nmf	8.7x	nmf	13.1x	3.5x	\$2,862	299%	--
Southern Copper Corporation	SCCO-USA	Cu, Mo, Ag	USD	\$26.42	\$20,441	\$25,767	13.2x	12.9x	11.6x	28.4x	28.2x	24.4x	nmf	17.3x	22.2x	\$5,818	28%	--
Turquoise Hill Resources	TRQ-CA	Cu, Au	CAD	\$3.81	\$5,918	\$3,733	6.0x	13.5x	nmf	17.3x	nmf	nmf	9.6x	23.3x	nmf	(\$579)	(10%)	--
Katanga Mining Limited	KAT-CAN	Cu, Co	CAD	\$0.16	\$236	\$4,267	na	na	na	na	na	na	na	na	na	na	na	--
Taseko Mines Limited	TKO-CAN	Cu, Au, Mo	CAD	\$0.66	\$113	\$324	10.6x	nmf	7.8x	nmf	nmf	nmf	3.9x	10.2x	2.9x	na	na	JG
Producers Average					\$2,134	\$2,999	9.1x	7.6x	5.9x	17.6x	19.7x	11.8x	5.6x	7.3x	5.3x	177.2%		
Mid-Cap Average (CS, CUM, HBM, TCM, TKO, TV)					\$266	\$762	11.7x	7.0x	6.0x	NA	19.1x	9.7x	4.3x	4.0x	2.3x	359.3%		

Source: DCM, FactSet

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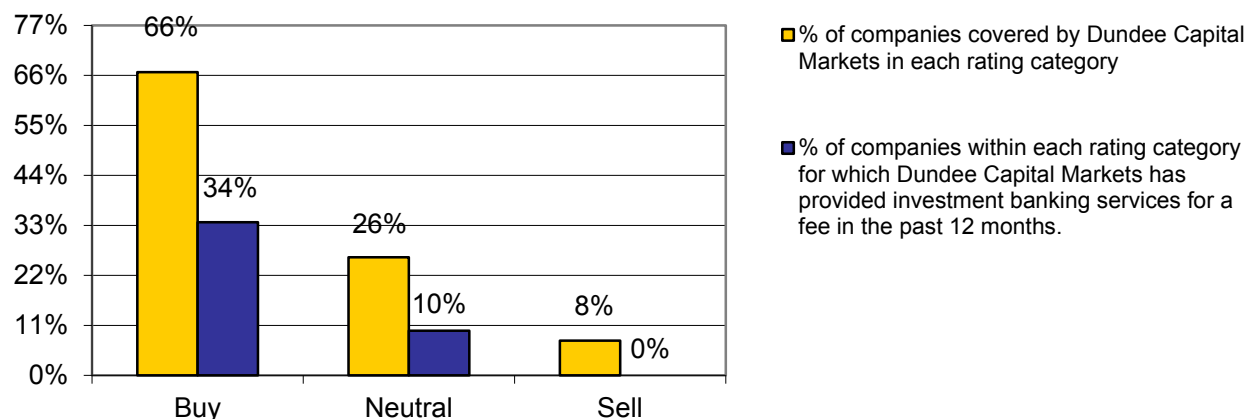
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