

Trevali Mining Corp.

(TV-T: C\$0.49)

BUY, High Risk, Top Pick

Dundee target: C\$1.00

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Record Low Costs At Santander Lead To Q1 Earnings Beat

TV-T	New	Last	
Rating	--	BUY	
Target Price	--	\$1.00	
Risk	--	High	
Projected return	106.2% ▼	132.6%	
NAV/share	\$1.16 ▼	\$1.33	
Target/NAV multiple	0.9x ▲	0.8x	
Share Data			
Current price		\$0.49	
52-week high/low	H-\$1.19	L-\$0.25	
Market Cap (MM)		\$190	
EV (MM)		\$247	
Shares Outstanding - Basic		391.1 MM	
Shares Outstanding - FD		401.0 MM	
Avg. Trading Volume - One month		2.9 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		0.42x	
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	\$0.14
P/E	NM	8.4x	3.5x
EBITDA	\$12.0	\$63.7	\$82.6
EV/EBITDA	20.57x	3.89x	2.99x
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.

Q1 earnings beat on lower costs. TV announced Q1/16 earnings yesterday after market close. We calculate EBITDA of roughly \$7.2M, above our estimate of \$4.8M. Headline EPS was breakeven, in-line with our estimate. Production results from Santander were pre-released - the beat is mainly due to lower costs. Cash costs per tonne milled came in at US\$32.22/tonne in Q1 (DCM \$40/tonne), well below 2016 guidance of US\$40-\$43/tonne and down 34% YoY. The reduced costs were a result of cost optimization and operational efficiencies, as well as renegotiations of key consumable contracts (fuel, power) for the mine and mill. The lower benchmark smelting and refining charges have not yet been reflected in Santander's costs in Q1, meaning there is potential for further upside. We are extremely impressed with TV's operating performance at Santander in Q1. **Bottom Line: We are maintaining our BUY, Top Pick rating with a \$1.00 target based on a 7.0x 2016E EV/EBITDA multiple.**

Cash cost guidance lowered. As a result of TV's impressive cost reduction efforts in Q1, TV has lowered their cash cost guidance to US\$35-\$38/tonne milled for the remainder of the year (from US\$40-\$43/tonne). We have adjusted our estimates accordingly - we are modelling cash costs of US\$36.50/tonne milled (prev est US\$40/tonne). Production guidance was reiterated, calling for 52-55Mlbs of payable zinc (DCM 53Mlbs), 22-25Mlbs of payable lead (DCM 26Mlbs) and 800-1,000koz of payable silver (DCM 922koz).

Caribou update - continuing to work on recoveries. Ramp up continues to progress well in New Brunswick, with the metallurgical team focusing on bringing zinc recoveries up to the PEA levels. Zinc recoveries were 74% in April, up from 71% over Q1. TV determined that zinc recoveries are adversely affected by the calcium content in the plant process water - i.e. higher calcium content leads to lower zinc recoveries. The plant reagent mix has been adjusted accordingly, and TV was able to get recoveries up to 80.9% Zn. We are maintaining our forecast commercial production date of end of June 2016.

Balance sheet - no surprises. TV ended Q1 with working capital of \$21M, including total cash (cash + restricted) of \$27M. From a liquidity perspective, we believe TV has enough cash to see Caribou through to commercial production and cover their liabilities in 2016 (see page 3). We believe their balance sheet puts them in a good position to capture strong zinc markets in the back half of 2016.

Changes to our estimates:

NAV	(C\$/sh)	EPS (\$/sh)	2016	2017	EBITDA (\$mm)	2016	2017
New	\$1.16	New	\$0.06	\$0.14	New	\$63.7	\$82.6
Old	\$1.33	Old	\$0.06	\$0.14	Old	\$60.1	\$82.6
change	(13.1%)	change	0.0%	(1.5%)	change	6.0%	0.0%

Sources: Dundee Capital Markets

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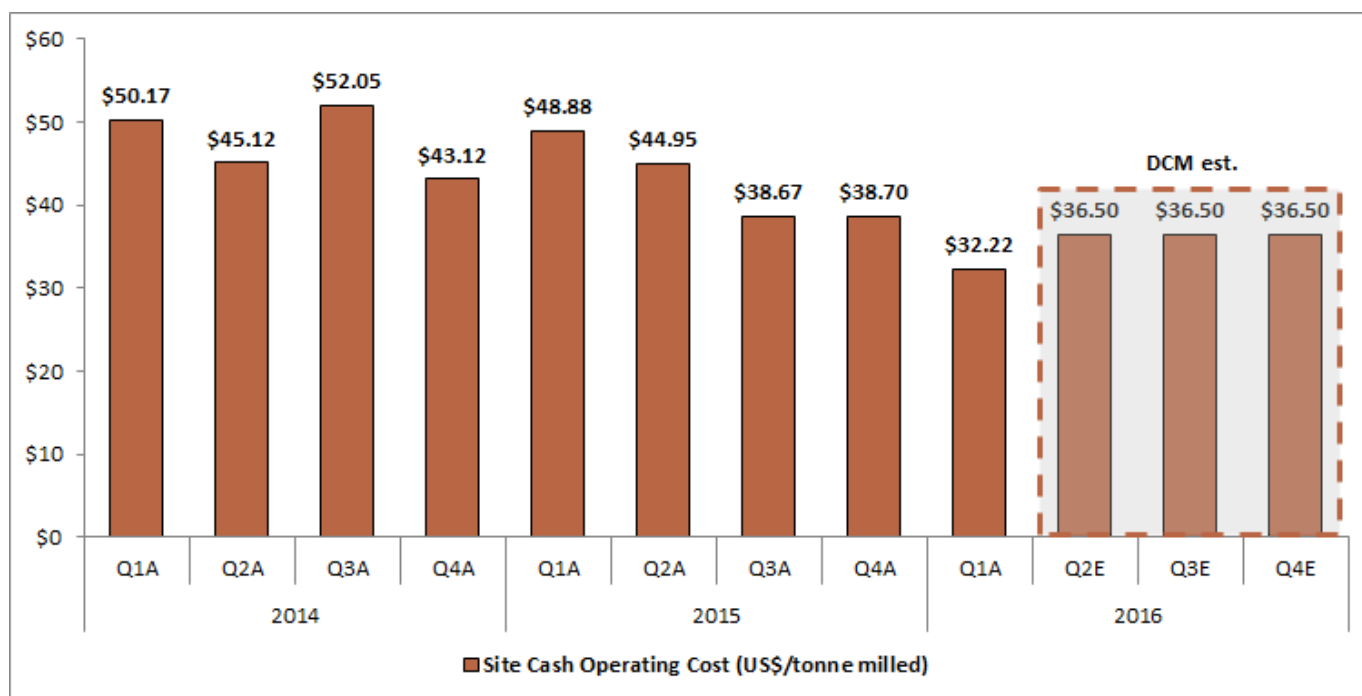
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TV Q1 earnings beat on lower costs

TV Q1/16 Results		Dundee	Actual	%Δ
Financial	Revenue (\$M)	\$25.7	\$27.0	5%
	EPS	\$0.00	\$0.00	NA
	EBITDA (\$M)	\$4.8	\$7.2	51%
Costs	Cash Cost Per Tonne Milled (\$/tonne)	\$40.00	\$32.22	(19%)
	Realized Zn Price (\$/lb)	\$0.76	\$0.82	8%
Production (pre-released)	Payable Zn Produced (Mlbs)	13.7	13.7	0%
	Payable Pb Produced (Mlbs)	6.4	6.4	0%
	Payable Ag Produced (koz)	221	221	0%

Sources: Company Documents, DCM

Santander site operating costs: 2016 guidance for US\$35-38 per tonne milled

Sources: Company Documents, DCM

Caribou April commissioning update

TV continues to work with their metallurgical team and partner Glencore (GLEN-LON, Not Rated) to optimize metallurgical performance and bring zinc recoveries up to PEA levels. Several modifications were completed in April, focusing on the primary grind and zinc circuits, including:

- Improved vortex finders on three of five cyclones
- Zinc bank splitter box improvements
- Steady smaller 3/4 inch charge media supply - currently converting Ball Mill 1 charge
- Zinc Cleaner density trials are ongoing

TV determined that zinc recoveries are adversely affected by the calcium content in the plant process water - i.e. higher calcium content leads to lower zinc recoveries. The plant reagent mix has been adjusted accordingly, and TV was able to get recoveries up to 80.9% Zn.

Mining activities and underground production is steady, with production of 1,952 tpd at average grades of 6.0% Zn, 3.0% Pb and 2.7 oz/ton Ag. We are maintaining our forecast commercial production date of June 2016.

Caribou Production Performance

		Caribou Production Performance				
		Q3-2015	Q4-2015	Q1-2016	April 2016	PEA Values
Tonnes Mined	tonnes	114,386	165,797	191,005	58,564	
Tonnes Milled	tonnes	203,401	165,605	200,670	60,032	
Mill Throughput Rate	tonnes-per-day (TPD)	2,210	2,020	2,675	2,636	3,000
Avg. Head Grades						
Zinc	%	4.80%	5.90%	5.9%	6.1%	6.5%
Lead	%	1.80%	2.20%	2.6%	3.0%	2.4%
Silver	oz/ton	1.60	1.90	2.03	2.7	2.5
Avg. Recoveries						
Zinc	%	61%	71%	71%	74%	84%
Lead	%	41%	57%	58%	57%	65%
Silver	%	21%	29%	38%	32%	37.5%
Concentrate Production						
Zinc	DMT	12,464	14,616	17,732	5,832	
Lead	DMT	4,240	5,230	7,586	2,634	
Concentrate Grade						
Zinc	%	48.8%	47.6%	47.8%	46.4%	50%
Silver	oz/ton	3.9	4.4	4.0	5.3	
Lead	%	35.7%	39.8%	39.3%	39.6%	45%
Silver	oz/ton	16.10	17.70	20.27	19.5	

Sources: Company Documents, Dundee Capital Markets

Liquidity Analysis

2016 (Spot Commodity Prices)

Estimated sources of cash		Estimated uses of cash		Liquidity or cash avail.
Cash & Cash Equivalent (31-Mar-2016)	\$22	Interest Payments	\$7.5	
		Current Portion of Long-Term Debt	\$4.6 *	
		Capex	\$19 *	
Total cash and credit facility	\$22	Total capex & debt	\$31	(\$9)
Operating CF 2016E	\$27 *	Dividend (2016)	\$0	
Total sources of cash	\$49	Total uses of cash	\$31	\$18

*Our estimates.

Sources: Company Documents, DCM

Based on TV's current cash position and projected operating cash flow through the remainder of 2016, we believe TV has substantial liquidity to cover their liabilities and capital expenditure programs for the year. We believe they are in good financial position to continue focusing on ramping up Caribou and capture improving zinc fundamentals in the final half of the year.

Using consensus estimates in 2016E, TV is trading at a 5.6x EV/EBITDA (vs peers at 10.3x)

Copper & Zinc		▼																
Name	Ticker	Commod	Exch. Curr.	Price 9-May	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																		
Atico Mining Corporation	ATY-CAN	Cu, Au	CAD	\$0.39	\$28	\$37	2.5x	2.7x	2.4x	na	nmf	nmf	2.2x	2.9x	2.5x	\$1	4%	JG
OZ Minerals Limited	OZL-AU	Cu, Au, Ag	AUD	\$5.66	\$1,257	\$856	2.5x	3.0x	3.1x	13.3x	22.7x	19.6x	3.9x	4.2x	4.8x	(\$498)	(40%)	--
Nevsun Resources Ltd.	NSU-CAN	Cu, Au, Zn	CAD	\$4.19	\$645	\$374	3.0x	3.7x	4.9x	29.4x	nmf	nmf	6.0x	10.4x	14.4x	(\$426)	(66%)	JG
Capstone Mining Corp.	CS-CAN	Cu, Ag, Au	CAD	\$0.70	\$209	\$598	9.5x	4.6x	5.5x	nmf	nmf	nmf	3.4x	1.9x	2.5x	\$200	96%	JG
Sandfire Resources NL	SFR-AU	Cu, Zn, Pb	AUD	\$5.54	\$638	\$648	4.2x	5.1x	4.5x	12.5x	16.5x	12.4x	3.9x	6.3x	5.2x	\$1	0%	--
HudBay Minerals Inc.	HBM-CAN	Cu, Zn, Au	CAD	\$4.78	\$866	\$2,106	8.7x	5.5x	4.8x	nmf	nmf	16.6x	3.9x	2.9x	2.9x	\$1,193	138%	JG
Tiger Resources Limited	TGS-AU	Cu	AUD	\$0.05	\$63	\$205	8.4x	5.6x	4.2x	nmf	26.9x	13.8x	nmf	2.5x	2.0x	\$157	248%	--
Trevali Mining Corporation	TV-CAN	Zn, Pb, Ag	CAD	\$0.50	\$151	\$226	19.6x	5.6x	3.0x	nmf	12.4x	3.9x	8.9x	4.0x	2.1x	\$64	43%	JG
Imperial Metals Corporation	III-CAN	Cu, Au, Mo	CAD	\$4.89	\$308	\$978	nmf	6.1x	6.8x	nmf	6.5x	5.4x	nmf	3.2x	2.9x	\$613	199%	--
Thompson Creek Metals Co.	TCM-CAN	Cu, Au, Mo	CAD	\$0.48	\$81	\$812	6.1x	7.0x	5.3x	nmf	nmf	nmf	1.6x	2.3x	1.2x	\$742	911%	JG
Antofagasta plc	ANTO-LON	Cu, Au, Mo	GBP	\$4.17	\$5,914	\$8,811	9.9x	8.3x	7.1x	nmf	nmf	nmf	12.2x	7.2x	6.4x	\$1,136	19%	--
Copper Mountain Mining Corporation	CUM-CAN	Cu, Au	CAD	\$0.48	\$43	\$380	15.5x	11.2x	7.6x	nmf	nmf	4.4x	2.1x	1.5x	1.0x	\$252	580%	JG
KAZ Minerals PLC	KAZ-LON	Cu, Zn, Au	GBP	\$1.50	\$967	\$3,223	16.0x	12.6x	6.5x	nmf	29.5x	8.8x	nmf	11.4x	3.6x	\$2,861	296%	--
Turquoise Hill Resources Ltd.	TRQ-CA	Cu, Au	CAD	\$3.39	\$5,257	\$3,072	4.7x	12.8x	nmf	15.4x	nmf	nmf	8.2x	23.2x	nmf	(\$612)	(12%)	--
Southern Copper Corporation	SCCO-USA	Cu, Mo, Ag	USD	\$27.52	\$21,292	\$26,619	13.7x	13.6x	11.9x	29.6x	nmf	25.2x	nmf	18.1x	23.1x	\$5,766	27%	--
Taseko Mines Limited	TKO-CAN	Cu, Au, Mo	CAD	\$0.69	\$118	\$325	11.4x	27.9x	10.5x	nmf	nmf	nmf	4.1x	6.0x	2.8x	\$232	197%	JG
Sierra Metals, Inc.	SMT-CAN	Cu, Zn, Ag	CAD	\$1.32	\$165	\$242	na	na	na	nmf	na	na	na	na	na	na	na	--
Katanga Mining Limited	KAT-CAN	Cu, Co	CAD	\$0.15	\$220	\$4,050	na	na	na	na	na	na	na	na	na	na	na	--
Producers Average					\$2,124	\$2,976	9.0x	8.5x	5.9x	20.0x	19.1x	12.2x	5.0x	6.8x	5.2x		165.0%	
Mid-Cap Average (CS, CUM, HBM, TCM, TKO, TV)					\$245	\$741	11.8x	10.3x	6.1x	NA	12.4x	8.3x	4.0x	3.1x	2.1x		327.2%	

Source: DCM, FactSet

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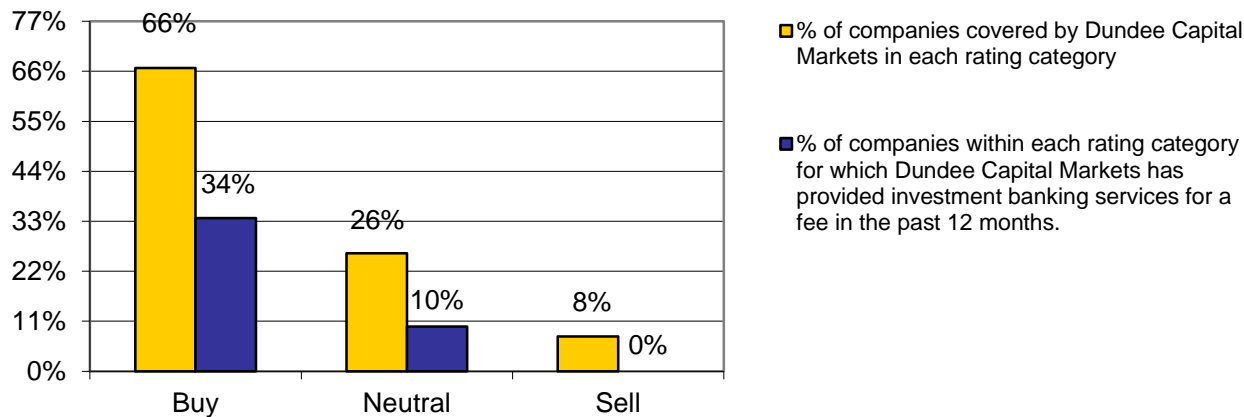
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