

BLUE OCEAN EQUITIES

AUSTRALIAN BAUXITE LTD (ABX)

Share Price : \$0.30 Shares on Issue : 140 m Market Cap. : \$43 m Cash \$4.5m

While we recognise the market cap at this stage may be a little small for some, we expect this company's market cap to comfortably eclipse A\$100m within ~12 months.

Key Points :

- Bauxite prices are rising as China scours the planet for new supplies of low temperature, trihydrate bauxite
- ABX has a granted mining lease and has started development of its first mine first shipment end April
- Funding in place to build production to 2mtpa over 2 years
- Expect positive cash flow in CY2015 with potential to generate \$40m EBITDA pa by 2017
- We estimate ABX shares worth at least \$1.00, 230% upside

Substantial bauxite resources

- **ABX has bauxite resources in several locations in Eastern Australia located near existing ports and infrastructure** : in Northern Tasmania, near Bundaberg in Queensland, Goulburn area NSW and New England NSW. ABX holds over 5000 sq km of exploration licences in three states.
- Bauxite is the primary ore used to make alumina the feedstock for aluminium smelting.
- All the ABX deposits are low temperature gibbsite bauxite (trihydrate), which is in strong demand from many Chinese alumina refineries who need this type.
- Bauxite prices have been strengthening since Indonesia applied export restrictions in 2012 and 2014. China looking to diversify supplies. Rio exports from Weipa have increased but their bauxite is monohydrate boehmite type and not suitable for a lot of Chinese alumina refineries.

First project in Tasmania starting development

- **The first project has granted mining lease in Tasmania** near Campbell Town and is in development now. First shipment should leave by the end of April.
- Very low capex due to availability of nearby underutilized rail port 100 km away at Bell Bay. The port can handle ships up to 50-60,000t . Company estimates are for only \$6m startup capital including working capital.
- **Project funded by international commodity house Noble Group providing a \$6m facility** plus \$2m for expansion and is providing marketing and supply chain management.
- Current resource 5.3 million tonnes(published 2012) but expect an updated resource estimate in next month or two. We have visited sites and can see potentially 15-20mt in several deposits and still open. Other sites with identified bauxite still to be drilled. Bauxite occurs as a flat layer at or near surface typically 4-5 metres thick.
- **Mining is very simple extracting bauxite from shallow pits** using contract excavators and trucks, and a mobile screening plant to screen out clay fines.
- Production in CY 2015 should be around 400kt rising to 1.0mt in CY 2016 and nudging 2.0mt in CY 2017.

- Bauxite specifications : screened lump product (-100 mm +5 mm), Total Al₂O₃ +40%, Reactive silica +/-3.5%, low moisture (+/-10%)
- Low operating costs \$A35/t initially falling to \$A30/t at 2mtpa. Bauxite prices expected around \$US62/t CIF China (recent price similar Indian bauxite \$US 63/t) less \$US 19/t shipping costs = \$US 43/t FOB Bell Bay, ie \$A55/t FOB at \$A/\$US 0.78. So operating margin should be around \$A 20-25/t.
- Preliminary modelling suggests project **EBITDA 2015 \$4.0 m, 2016 \$22.0 m, 2017 \$44.0 m, 2018 \$50 m**. Project after tax NPV at 10% disc roughly \$130 m assuming only a 7 year operating life.

Future Growth opportunity

- **ABXs best future project is the Binjour deposit in Queensland**, some 120 km inland from Bundaberg. However it will require significant capex, circa \$100-120 m as it will need a substantial haulroad to be constructed and loading facility at the port. However at 4-5mtpa would have a rapid payback and strong IRR, possibly generating EBITDA around \$80-140m pa post ramp up.
- Binjour has published resources of 24.5mt but is open and we believe the potential size is above 50mt and could be as much as 100mt.
- **Binjour should support a long term 4-5mtpa operation**. This project has attracted strong interest from Chinese alumina refiners and the nearby RIO alumina refinery at Gladstone should be keen to secure some low temperature bauxite as a sweetener. RIO bauxite from Weipa is higher in Al₂O₃ but consists of high temperature boehmite (monohydrate) bauxite.
- In the longer term the Goulburn project in NSW with resources in several deposits totalling 38mt, offers another low capex startup. Potentially \$20-30 m capex could start a 1-2mtpa operation at Goulburn South, but would need up to \$90m to develop a larger longer term operation at Goulburn north. Port upgrades at Port Kembla for 3rd party users should be available from 2017.

Valuation

- **Based essentially on the Tasmanian operation we value ABX at around \$1.00 / share.**
- The upside case assuming Binjour is developed even if ABXs equity in the project is reduced by bringing in a partner to provide funding, could see value rise towards \$3.00/share.

Disclosure : The author of this report Rex Adams has a beneficial interest in 997,728 shares in Australian Bauxite Ltd.

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Source : Company

Mining Underway

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Project Locations

Source : Company

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