

**ANALYSTS:**

..... Peter Kopetz  
 ..... Alan Hill

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**Recommendation**

**Speculative Buy –  
 25c**

**Valuation**

**A\$1.34c**

**Consensus Valuation**

**\$n/a**

**Key Ratios**

Investment Data	
Share Price (\$)	0.27
Ord Shares (m)	107.2
Market Cap (\$m)	28.9
EV (\$m)	26.9
EV (\$m) (diluted)	26.9
Options (m)	0.3
(Net Debt) /Cash	2.0
12m Low/High (\$)	0.25/0.55

Source: State One

**Management**

I. Levy Managing Dir.  
 J. Dawkins Chairman  
 J. Rebek Exec Director  
 W. Huang Non/Ex Director  
 K. Boundy Non/Ex Director

**Substantial Shareholders**

Hudson Resources 43.06%  
 State One Capital 8.7%

**Australian Bauxite Limited (ABZ)**

**Tasmanian project alone justifies ABZ's current market cap.**

- **ABZ's Tasmanian project is shaping up as a near term money spinner which could transform ABZ in as little as 18 months.**
- **Support is expected from a Tasmanian Govt. keen to offset the impact of the ongoing collapse of the wood industry, including the Gunns Ltd timber business, previously a major source of State employment.**
- **ABZ management expects production as soon as the 3<sup>rd</sup> qtr 2014, with the potential to earn annual pre-tax cash profit of as much as \$34M.**
- **The Tasmanian project has the potential to generate an NPV after tax of \$88.8M, which equates to ~\$0.83/per share, based on the current capital structure.**

**OTHER POINTS ON TASMANIA**

- Tasmania offers plenty of advantages for those in the right location, with world class deep-water port facilities, excellent infrastructure (roads & rail) and advantageous geology. Notwithstanding Tasmania's long mining history, resistance to mining in some locations is a challenge which can be overcome by careful area selection. The bauxite occurrences in Tasmania are bountiful but ABZ has only selected areas that are free of socio-environmental issues such as pine plantations.
- ABZ has especially avoided areas where resistance is evident.
- Both CEO Ian Levy and other staff members have been successful in developing mines in Tasmania in the recent past (2005-2008).
- The 5.7 Mt maiden resource in Tasmania, through the drilling of 377 holes into not more than 10% of the identified bauxite deposits, is just the start.
- In our after tax NPV calculation of \$88.8M for Tasmania, we have assumed a total mineable DSO resource of 20Mtpa to be mined over 8 years.
- Management foresees production commencing as soon as 3<sup>rd</sup> Qtr 2014;
- Initial deposits within 70 km of Bell Bay port & balance are within 120 km;
- Harbour facilities to panamax size vessels (+60,000 tonnes) are available and a self-loading barge is expected to be available in 2014 if needed;
- FOB cost is expected at A\$27/t initially, increasing to A\$30 /t, in two steps
- Tasmanian bauxite displays high quality characteristics with the maiden 5.7Mt deposit yielding 37.6% available alumina and 3.2% reactive silica. The ratio of available alumina to reactive silica of 11.9 (over 10 being excellent quality) demonstrates the attractiveness of Tasmanian bauxite.

Tasmanian Bauxite Resources			Sieved at 0.26mm												
Resource category	Tonnes millions	Bauxite Thick-ness	Al <sub>2</sub> O <sub>3</sub> Avl %	Al <sub>2</sub> O <sub>3</sub> Avl %	Rx SiO <sub>2</sub> %	Avl/Rx Ratio	Al <sub>2</sub> O <sub>3</sub> %	SiO <sub>2</sub> %	A/S Ratio	Fe <sub>2</sub> O <sub>3</sub> %	TiO <sub>2</sub> %	LOI %	Yield %	Over-burden m	Internal Waste m
Inferred	5.7 Mt	3.8 m	39.5	37.6	3.2	11.9	44.1	4.3	10.4	22.8	3.1	25.0	55%	1.5 m	0.1 m
<b>TOTAL</b>	<b>5.7 Mt</b>	<b>3.8 m</b>	<b>39.5</b>	<b>37.6</b>	<b>3.2</b>	<b>11.9</b>	<b>44.1</b>	<b>4.3</b>	<b>10.4</b>	<b>22.8</b>	<b>3.1</b>	<b>25.0</b>	<b>55%</b>	<b>1.5 m</b>	<b>0.1 m</b>

Source: ABZ

- The elevated Fe content, because it is in the form of haematite, brings with it scope for boosting Al<sub>2</sub>O<sub>3</sub> recovery, through removal of reactive silica and also the scope to produce iron as a saleable by-product in China.
- We view the Tasmanian bauxite as being an attractive feedstock for refineries in China, India and also potentially at Gladstone in Qld, if the local ocean freight challenges continue to improve.
- ABZ is confident that it can produce the consistent mix of product required to secure demand from these markets.
- For all of the above reasons, ABZ is expected to readily secure the necessary funding to secure the necessary \$10m of debt funding to get Tasmania into production.

### INDICATIVE NPV VALUATION OF ABZ'S TASMANIAN PROJECT

FY Ending June		2014	2015	2016	2017	2018	2019	2020	2021
Sales Tonnes	MTPA	0.8	1.6	2.6	3.0	3.0	3.0	3.0	3.0
CIF Price (Shandong, China)	\$US / t	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0
Ocean Freight	\$US / t	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
FOB PRICE	\$US / t	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Exchange Rate	\$US/A\$	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
FOB PRICE	A\$ / t	41.90	41.90	41.90	41.90	41.90	41.90	41.90	41.90
FOB COST	A\$ / t	27.0	27.0	27.0	28.5	28.5	28.5	30.0	30.0
CAPITAL / CONTINGENCY	A\$ M	6.8	5.0	3.0	2.0	2.0	2.0	2.0	2.0
FOB PROFIT	A\$ M	8.2	9.9	11.9	11.4	11.4	11.4	9.9	9.9
CASH PROFIT PRE-TAX	A\$ M	6.5	15.8	31.0	34.2	34.2	34.2	29.7	29.7
Tax	A\$ M		-4.8	-9.3	-10.3	-10.3	-10.3	-8.9	-8.9
After Tax	A\$ M	6.5	11.1	21.7	24.0	24.0	24.0	20.8	20.8
NPV	10%	\$96.5	M						
	12%	\$88.8	M						

Please Note – The CIF price assumed is based upon the proclaimed mid 2014 increase in taxes on Indonesian bauxite exports to 50% of FOB value.

### INDICATIVE VALUATION OF ABZ: \$1.34 per share

Project	Resource	Valuation	Valuation Basis
Tasmania	5.7 Mt	\$ 88.8 M	NPV @ 12% (100% ABZ)
Goulburn-Taralga	37.9 Mt	\$ 19.0 M	\$0.50 / tonne
Binjour	24.5Mt	\$ 24.5 M	\$1.00 / tonne
Inverell	38.0 Mt	\$ 10.8 M	30c / tonne
Guyra	6.0 Mt	\$ 6.0 M	\$1.00 / tonne
Toondoon	2.5 Mt	\$ 2.5 M	\$1.00 / tonne
Cash & Corporate	-	\$ 2.1 M	
<b>Total</b>		<b>\$143.7 M</b>	

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