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AUSTRALIAN BAUXITE (ABZ)

\$0.47c

Update 24 Oct 2011

Recommendation

Speculative Buy

Valuation

Valuation: \$1.20c

Net Cash: \$6.0M

Global Resources: 84.0Mt

12m Performance



Source: Aegis

Financials

Share Price	\$0.50c
Ord. Shares	100.6M
Market Cap	\$50.3M
Enterprise Value	\$44.3M
Options	9.9M
E/V Diluted	\$49.3M
(Net Debt)/Cash	\$6.0M
12m Low/High	30c/89c

Risks

Market Risk	Medium
Liquidity Risk	High
Infrastructure Risk	Low
Country Risk	Low

Directors

Ian Levy	Man. Director
Jacob Rebek	Exec. Director
Peter Meers	Non-Ex Chair.
Vincent Tan	Non-Ex Director
Wei Huang	Non-Ex Director

Major Shareholders

Hudson Resources	55.3%
State One Capital	7.4%
Macquarie Funds	2.7%
Soul Pattinson	1.9%
Top 20 Sharehold.	77.2%

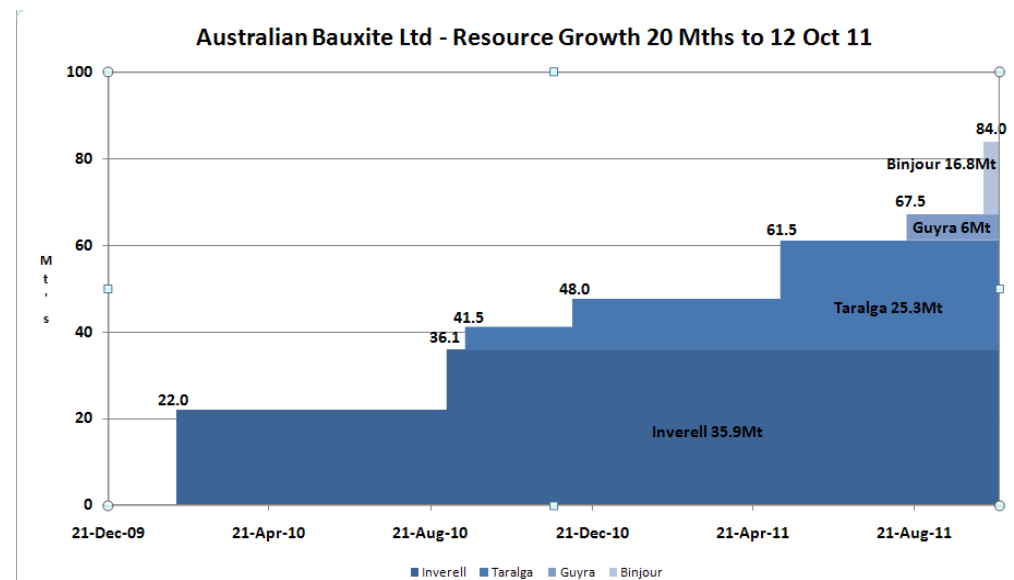
Recent Key Points

- At Binjour, QLD: a maiden JORC resource of 16.8Mt, comprising 39% Avail Al₂O₃ and 3.1% Reactive SiO₂, with an A/S ratio of 12.7 (high grade).
- At Guyra, NSW: a maiden JORC resource of 6Mt, comprising 36.5% Avail Al₂O₃ and 2.3% Reactive SiO₂, with an A/S ratio of 15.8 (in close proximity to Inverell).
- A MOU signed with Marubeni Corp of Japan (a significant & highly respected participant in the global aluminium industry) to jointly conduct a PFS in relation to the Goulburn-Taralga Project, NSW.
- In its short life, ABZ has already assembled 3 significant projects, with a global resource of 84.1 Mt, & the prospect for more to come. While Taralga-Goulburn is the most advanced & on track to be developed first, given straightforward transport options, Binjour could trump the lot through sheer quality and a rapidly growing resource.

Valuation Breakdown

Goulburn-Taralga	\$0.83	(NPV@10% after tax)
Production	3Mtpa	
Capex	\$60M	
Product Mix	DSO 40%; bauxite 40%; refractory bauxite 15%; fines 5%	
Debt/Equity	50/50	
Bauxite FOB	\$40/t	
AUD/USD	\$1.00	
Opex	\$30/t DSO/Upgraded bauxite	
Life of Mine	10 years	
Binjour	\$0.11	*
Resources	16.8Mt x 0.70c/t	
**Mine	Est. of a potential 2-3Mtpa op suggest NPV~\$1.00/share	
Inverell	\$0.18	*
Resources	36Mt x 0.50c/t	
Guyra	\$0.03	*
Resources	6Mt x 0.50c/t	
Cash & Corporate	\$0.05	
Total	\$1.20 ps	*(simple value / resource tonne - conservative)

Resource Progress



Source: ABZ

Binjour Project

Binjour's maiden resource has really surprised us on the upside as our expectations were between 5-10Mt. The 16.8Mt comprises the highest grade Avail Al₂O₃ we've seen to date, at 39%, and well above its peers shown in Table 1 (see Page 7). At these grades & displaying favourable mineral characteristics, we expect that Binjour will soon emerge as ABZ's flagship project.

Bauxite Resources				Sieved at 0.26mm									
Resource category	Tonnes millions	Thick-ness	Over-burden	Al ₂ O ₃ Avl %	Rx SiO ₂ %	Avl/Rx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %	Yield %
Inferred	6.8	3.7 m	8.1 m	37.7	3.7	10.3	43.4	4.1	10.5	24.2	3.6	24.1	61%
Indicated	10.0	5.3 m	10.6 m	39.9	2.7	14.9	44.7	3.0	14.8	22.8	3.8	25.0	60%
TOTAL	16.8 Mt	4.5 m	9.3 m	39.0	3.1	12.7	44.2	3.5	12.7	23.4	3.7	24.6	61%

Source: ABZ

What is more impressive is the 9.3Mt high grade core within the 16.8Mt which comprises 43.2% Avail Al₂O₃ and 2.7% Reactive SiO₂ with an **A/S ratio of 15.9**. This is seriously good quality bauxite which will demand a premium and accordingly we have used slightly higher metrics to value Binjour bauxite. The significance of Binjour is growing rapidly; as a comparison against its peers, only bauxite in Guinea and rare bauxite from Brazil is coming in at similar grades and characteristics. Also, with the results of early drilling we now believe there is potential for **Binjour to host well in excess of 50Mt**.

*Binjour bauxite is referred to as **Brown Sugar** by ABZ due to its high quality characteristics*

Bauxite High Grade Core Zone				Sieved at 0.26mm									
Resource category	Tonnes millions	Thick-ness	Over-burden	Al ₂ O ₃ Avl %	Rx SiO ₂ %	Avl/Rx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %	Yield %
Inferred	4.2	2.9 m	9.3 m	42.1	3.6	11.6	46.9	3.6	13.0	19.5	3.6	25.8	59%
Indicated	5.1	4.4 m	11 m	44.1	2.0	22.1	47.6	2.0	23.8	19.6	3.6	26.6	63%
TOTAL	9.3 Mt	3.7 m	10.2 m	43.2	2.7	15.9	47.3	2.7	17.4	19.6	3.6	26.2	61%

Source: ABZ

Swains Plateau drilling results have proven that at this stage Binjour has the best quality bauxite found to date within ABZ's vast Eastern States assets. 89 holes in 4 locations intersected bauxite with some holes in particular showing incredibly high quality characteristics such as hole BJ122 which was 6m in width, with 47.1% Avail Al₂O₃ and 0.5% Reactive SiO₂. The AS ratio for this hole was a remarkable 96.3, bearing in mind over 10 is considered very good quality. There are other similar drill holes on the Binjour property which is exciting especially as we believe there are significant tonnages in the area. The reported 89 holes averaged 3.5m in width with 38.5% Avail Al₂O₃ and 2.7% Reactive SiO₂. Other bauxite occurrences will be tested at Binjour later this year.

	From m	To m	Length m	Yield % wt	Leach 143degC Analyses			Total Analyses for Sieved at 0.26mm					
					Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Rx ratio	Al ₂ O ₃ %	SiO ₂ %	A/S ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %
Average all 89 bauxite holes	8.7	12.3	3.5	60%	38.5	2.7	14.2	43.5	3.1	14.0	24.6	3.7	24.4
Strip ratio (waste/bauxite)			2.51										
Best 45 holes (Swains Plateau)	9.6	14.1	4.5	61%	41.4	2.3	18.1	45.8	2.6	17.4	21.7	3.6	25.6
Strip ratio (waste/bauxite)			2.15										

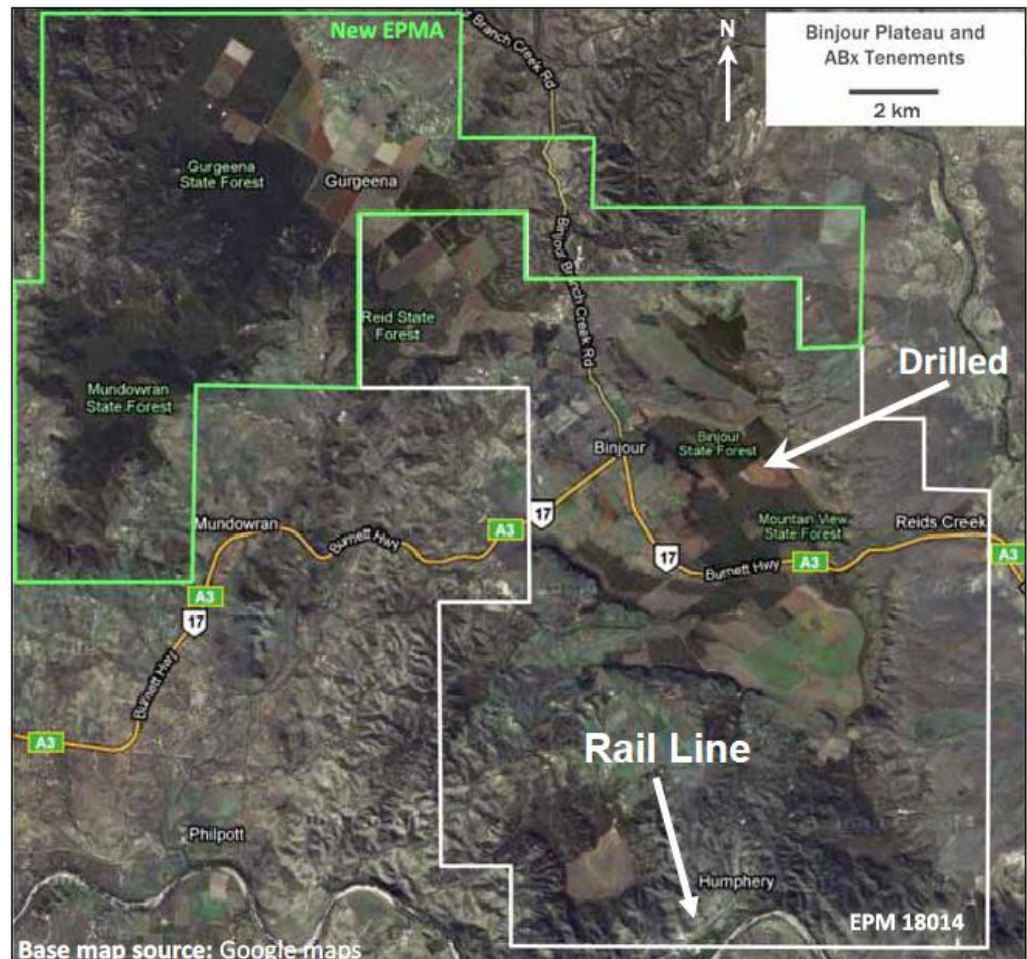
Source: ABZ

We see a high demand for Binjour bauxite due to its inherent blending (sweetener) quality characteristics. One only has to look at the nearby (~300km away) refineries in the Gladstone area, Yarwun and Queensland Alumina Ltd (QAL) operated by Rio Tinto which processes boehmitic, high reactive silica Weipa bauxite to get an idea of the beneficial properties of Binjour bauxite. Blending with the right product permits lower processing temperatures and better product recovery, and hence reduced operating costs.

We note that Binjour will require a reasonably large tonnage to support an upgrade of transport infrastructure in the area. We expect a resource of 30-50Mt is needed to justify development, although ABZ is expecting funding support from the QLD government, as well as other companies seeking to develop mining projects in the region. We envisage a similar sized operation at Binjour as Goulburn-Taralga at 3Mtpa of which the majority will most likely end up as sweetener blend feed at the Yarwun refinery.

A disused rail line sits at the southern end of the Binjour lease which has low tonnage capacity unless significantly upgraded. ABZ has begun studies and discussions with the QLD government to determine the best and cost-effective transport solution. We are confident that Binjour will be developed at some point, possibly using cash flow from the Goulburn project (Taralga) – if not earlier – which has planned production in 2014.

There is a possibility of a much larger Binjour resource than we are estimating if a white gelatinous-clay substance can be removed from bauxite (possibly washing) which is good quality but currently rendered sub-grade due to the presence of the gelatinous-clay. We have also noted that a potential exists for various smaller deposits at Binjour to form larger contiguous bauxite deposits with further drilling.



Source: ABZ

Guyra – Inverell Project

Maiden Guyra resource of 6Mt comprises of very good quality bauxite (suitable for sweetening) with low impurities. Guyra’s bauxite is similar in quality to Taralga (DSO bauxite) and superior to Inverell based on A/S ratios, grades and impurities. A/S ratios suggest that Guyra is yet another province in which ABZ has a possible export project on its hands. Our Guyra expectations, sees the export of bauxite through the port of Newcastle, using existing rail infrastructure which is found in close proximity to bauxite deposits. Guyra has the potential to host over 30Mt of superior quality bauxite.

Resource category	Tonnes millions	Thick-ness	Over-burden	Sieved at 0.26mm									Yield %
				Al ₂ O ₃ Avl %	Rx SiO ₂ %	Avl/Rx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %	
Inferred	2.3	4.2 m	3.4 m	35.0	2.8	12.5	41.4	3.6	11.6	26.2	3.3	24.6	56%
Indicated	3.8	5.9 m	4.4 m	37.4	2.0	18.3	43.1	2.6	16.3	27.3	3.9	24.5	61%
TOTAL	6.0 Mt	5.3 m	4.0 m	36.5	2.3	15.8	42.5	3.0	14.3	26.9	3.7	24.5	59%

Source: ABZ

ABZ has been quick to recognise and secure potential extensions to Guyra bauxite deposits by applying for additional tenements. The tenement applications are contiguous and appear similar geologically to EL 7361, which hosts the Guyra resource.

Guyra is seen as being part of a possible regional mining hub which includes Inverell, Pindaroi & Guyra. The location of Guyra/Inverell is not ideal in terms of distance from port (Newcastle) but it is situated adjacent to the Guyra-Armidale standard gauge rail line which connects to the Port of Newcastle from Werris Creek on a heavy duty rail line. The Guyra rail line is in good order although it is not currently utilised. The key to this project is negotiating a similar freight rate to local coal operators as transportation costs will form a large component of the overall operating costs. With a distance of ~350km from Newcastle ABZ can save ~\$5m pa if costs are closer to 3.5c per km/t than 5c on exporting 1Mt.

Goulburn-Taralga Project

We have revisited our Goulburn-Taralga model and have come up with an alternative development scenario (plus we have accounted for possible dilution to 65%) which is increasingly becoming a possibility on the back of recent drilling results and what we know about the Goulburn-Taralga region. The alternative model sees 4 products being sold; DSO bauxite; upgraded bauxite; refractory bauxite; and hematite fines. Under this scenario capex sees the biggest increase but is well offset by additional cashflows from additional products. **NPV increases to ~\$124M or 83c per share.** Our assumptions we believe are conservative and we see a substantial upside from a possible lower AUD and higher bauxite prices. An increase in bauxite prices by \$10/t has a positive impact on the NPV by almost \$60M.

ABZ Cash Burn

ABZ’s cash burn for the June quarter was \$1.5M and we are expecting it to accelerate over the next 6-12 months on the back of intense drilling campaigns, further resource updates and current ongoing pre-feasibility studies for Taralga. At the current cash burn rate, we expect ABZ to raise fresh capital sometime in the 1st half of 2012. At the completion of the PFS which is due early next year, a refunding of past exploration costs at Taralga is expected from Marubeni if 35% JV option is exercised. ABZ has not disclosed the amount spent but we estimate a payment of \$2.5-\$3m could apply. Under this scenario, a capital raising could be postponed.

MOU with Marubeni Corp

ABZ & Marubeni Corp have signed a MoU to jointly conduct a PFS at Goulburn-Taralga. Under the terms of the agreement, Marubeni will contribute 35% toward the PFS which is estimated at \$1.5M. At the completion of the study, Marubeni has the right to acquire a 35% JV interest in the Goulburn-Taralga project (please note project level only) and contribute its 35% share of BFS and development costs. This is a **win win for both parties** as ABZ derisks the project with a respected backer in its corner who provides credibility, financial clout and most importantly someone to market and sell its product, although ABZ could elect to market its 65% of the production. Marubeni will also help in arranging finance which could see ABZ financing most of the development via non-recourse project debt.

Upon completion of the PFS and exercising its option in taking up its 35% interest in Taralga-Goulburn, we estimate Marubeni's contribution to the JV to be ~\$8.5M consisting of ~\$0.5M PFS costs, ~\$3M in past exploration costs and \$5M pre-payment of BFS study costs with future Marubeni expenditures of ~\$21M capex of which we estimate to be \$60M.

Further benefits from the JV include Marubeni to arrange a soft loan for ABZ for their portion in development costs which is estimated to be ~\$40M. ABZ is also expected to receive a modest management fee as a percentage of costs during BFS, development and beyond.

We believe that ABZ and Marubeni are an excellent match. ABZ has a number of developing projects across its extensive tenements, as well as geological expertise and Australian operational experience. Marubeni has a global trading network and skills to locate appropriate customers for ABZ's specialty bauxite products, as well substantial capital backing.

It should be noted that the MOU does not prevent ABZ from dealing with any other parties on its other projects or even on Goulburn-Taralga, although there is an obligation to advise them if there are deals in the offing.

We are confident that Marubeni will take up its 35% equity stake in Goulburn-Taralga project. Being ABZ's first project, Goulburn-Taralga needs to be developed to demonstrate that there is room for niche independent bauxite players in an industry dominated by majors.

Marubeni as stated on their website has been focusing on acquisitions and equity participations of various metals and mineral resource assets. In the aluminium sector, Marubeni is involved in the downstream projects (Aluminium smelters) but is looking to commit and get involved with the upstream (bauxite) projects. This JV relationship with ABZ is a 3rd party endorsement of ABZ's business strategy since 2009.

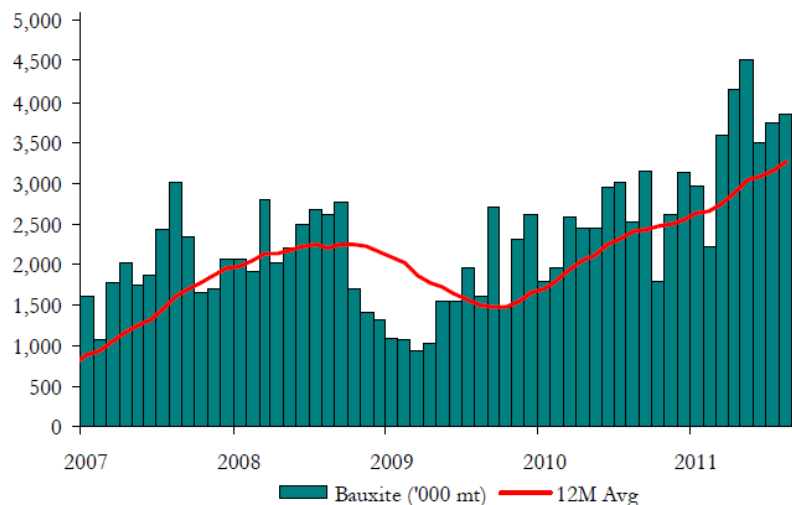
Bauxite Market

Current bauxite market trends are positive with Chinese imports up 2.9% month on month for August 2011. The driving force behind increasing imports is growing Chinese domestic alumina production from increasing capacity amongst a few major refineries and increasing inventories even as domestic bauxite supplies increase. Australian CIF prices reached \$55/t in August this year and looking to head higher on the back of greater demand, falling grades and increasing mining costs.

Chinese Bauxite Imports August 2011

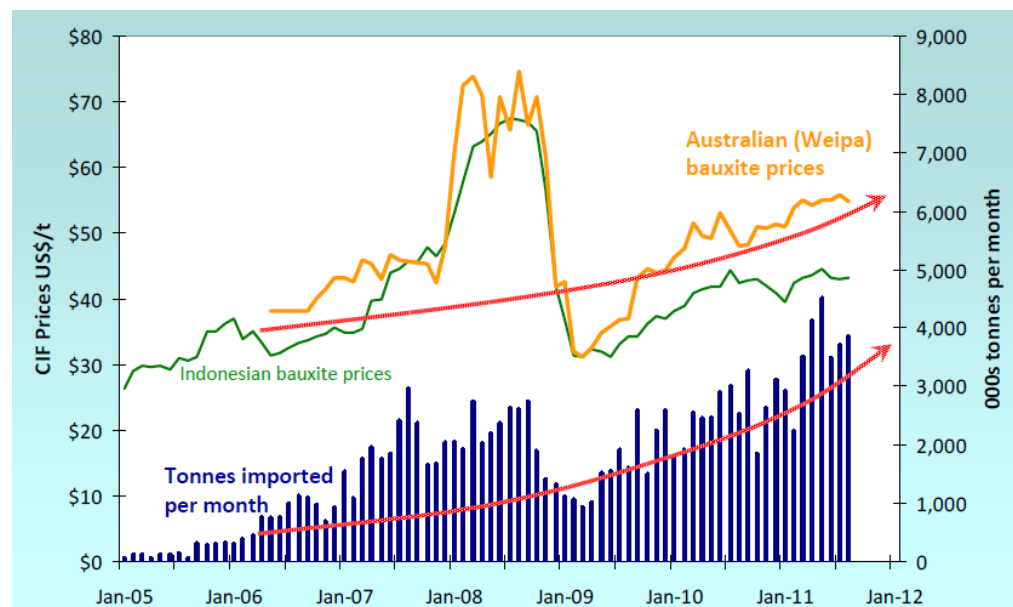
China August Bauxite Imports Up 2.9% MoM at 3,852M mt

MBCNY Research, CNIA



Source: MBC

Bauxite pricing is categorised in Indonesian and Australian (Weipa) prices with Australian bauxite obtaining a premium due to reasonable quality and supply consistency over a prolonged period. We anticipate ABZ's bauxite (most notably Binjour) to receive possibly further premium on top of the Weipa bauxite prices but in order to achieve this ABZ needs to demonstrate consistent quality assurance.



Source: ABZ

ABZ vs Peers Comparison

Code	Project	Resources (Mt's)	Ownership (%)	Ave. Thickness	Total Al ₂ O ₃ (%)	SiO ₂ (%)	A/S Ratio	Avl Al ₂ O ₃ (%)	SiO ₂ Rx (%)	A/S Ratio	Fe ₂ O ₃ (%)	LOI (%)	Yield (%)
ABZ	Inverell	35.9	100		37.1	5.4	6.9	36.6	4.2	9.2	25.7	21.4	67.5
	Taralga (DSO)	10.1	100	4.3m	40.5	4.3	9.4	35	2.3	15.5	27.6	22.6	54
	Taralga (Pisolite)	10.1	100	3.4m	36	4.6	7.9	20.6	1.5	14.2	42.9	12.2	69
	Taralga (Quartz)	2.2	100	2.7m	36.8	20	1.8	30.8	2.1	14.5	19.7	19	54
	Taralga (Qtz/Pisol)	3	100	3.4m	32.9	19.3	1.7	19.8	2.6	7.6	31.4	12.5	59
	Guyra	6	100	5.3m	42.5	3	14.2	36.5	2.3	15.9	26.9	24.5	59
	Binjour	16.8	100	4.5m	44.2	3.5	12.7	39	3.1	12.7	23.4	24.6	61
	Binjour (HG)	9.3	100	3.7m	47.3	2.7	17.4	43.2	2.7	15.9	19.6	26.2	61
Total		84.0											
ALU	Koumbia	129.8	100		48.4	2.8	17.3						
	Koba	566.1	100		43	2.8	15.3						
Total		695.9											
BAU	Juturna	8.2	30		40.2			29.9	3.9	7.7			
	Vallonia	1.5	30		36.6			28.0	3.9	7.2			
	Aurora	11.4	30	2.2m	42.7			31.9	3.4	9.4			
	Rusina	3.7	30	1.7m	40.3			29.1	5.3	5.5			
	Minerva	2.2	30		38.7			28.9	3.9	7.4			
	Cardea	6.4	30		41.8			29.3	4.3	6.8			
Total		33.4											
CBX	Pisolite Hills	87.3			53.1	12.4	4.3	41.5	7.5	5.5	6.8	25.2	65.9
FBX	Bonasika	13.4	100		57.7	8.9	6.5				1.2	29.2	
IRM	C. Bindoon	17.5	100		38.3			31.6	6.6	4.8			17.2
	C. Wandoo	44.2	100		43			30.4	3.1	9.8			19.9
	New Norcia	19	100		41.7			29.8	5.7	5.2			19.5
	Area 459 (His)	8.7	100		42.7			29.1	3.9	7.5			19.4
Total		89.4											
ORD	LSI	19.6	25	5.6m				32.6	2.5	13			
	Yuqida	110	17	4.9m				31.5	3.3	9.5			
Total		129.6											

 Table 1: ABZ vs. Peers comparison (ABZ 30% cut-off Al₂O₃)

Source: State One

About Marubeni Group

- One of the largest General Trading Companies in Japan by turnover, founded in 1858
- Publicly listed on the Tokyo, Nagoya and Osaka Stock Exchanges (8002.T), with a market capitalisation of US\$ 12.5 Billion at 31 March 2011.
- Global trader of a wide range of commodities, it conducts business investment, development and management on a global basis with 119 offices in 69 countries
- In the field of industrial services, Marubeni combines engineering functions and risk management capabilities in various fields such as Renewable Energy, Power and Water Projects, Oil and Gas, Metals and Mineral Resources, Pulp & Paper, Transportation Infrastructure, and Food materials & products.
- Marubeni is a 22.5% owner of Portland Aluminium Smelter, located in Portland in South West Victoria and also owns 8% interest in Boyne Smelters (Line 3), which is located in Boyne Island in Queensland, Australia's largest aluminium smelter. In addition, Marubeni is also a 6.67% owner of Alouette Aluminium Smelter, located in Canada, North America's largest aluminium smelter.

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