

ANALYST: PETER KOPETZ

Australian Bauxite (ABZ)

GOULBURN-TARALGA UP 50% TO 37.9MT, GLOBAL RESOURCES AT 98.7MT

31st May 2012

GOULBURN-TARALGA JORC RESOURCES

Recommendation
Spec Buy

Fair Value
\$1.02c

Consensus Valuation
\$n/a

Key Ratios

Investment Data	
Share Price (\$)	0.44
Ord Shares (m)	100.6
Market Cap (\$m)	43.3
EV (\$m)	40.8
EV (\$m) (diluted)	46.1
Options (m)	9.9
(Net Debt) /Cash	2.5
12m Low/High (\$)	0.34/0.80

Source: Morningstar

Management

Ian levy	MD
John Dawkins	Chair
Peter Meers	D Chair
Jacob Rebek	Ex. Dir.
Wei Huang	NE Dir.
Ken Boundy	NE Dir.

Substantial Shareholders

Hudson Resources	45.4%
State One Capital	8.7%

DSO Bauxite Resources				Sieved at 0.26mm											
Resource category	Tonnes millions	Bauxite Thickness	DSO Thickness	Al ₂ O ₃ Avl % 143°	Rx SiO ₂ %	Avl/Rx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %	Yield	Overburden	Internal Waste
Inferred	9.9	4.6 m	3.1 m	35.2	1.9	18.3	40.4	5.7	7.1	24.6	4.1	22.2	54%	0.1 m	0.2 m
Indicated	10.2	6.4 m	3.7 m	36.1	1.9	18.8	41.3	5.3	7.8	25.9	4.0	22.9	55%	0.7 m	0.4 m
TOTAL	20.1	5.6 m	3.4 m	35.7	1.9	18.5	40.8	5.5	7.4	25.3	4.0	22.6	55%	0.5 m	0.3 m

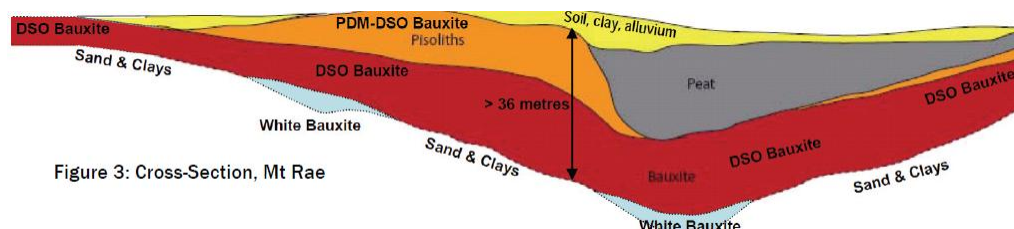
PDM-DSO Bauxite Resources				Sieved at 0.26mm											
Resource category	Tonnes millions	Bauxite Thickness	PDM-DSO Thickness	Al ₂ O ₃ Avl % 143°	Rx SiO ₂ %	Avl/Rx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %	Yield	Overburden	Internal Waste
Inferred	7.6	4.8 m	2.5 m	22.1	1.3	16.8	37.0	6.0	6.1	38.4	3.5	13.3	72%	0.2 m	0.1 m
Indicated	10.3	6.5 m	3.1 m	22.4	1.1	19.8	37.6	3.9	9.5	40.4	3.7	13.5	71%	0.7 m	0.4 m
TOTAL	17.8	5.8 m	2.8 m	22.3	1.2	18.4	37.3	4.8	7.7	39.6	3.6	13.4	72%	0.5 m	0.3 m

Note: DSO Bauxite of DSO grades is recoverable from the PDM-DSO Bauxite Resources. Metallurgical testwork indicates that approximately 80% to 85% of the PDM-DSO Bauxite is DSO grade bauxite. The remainder is dense, hard, magnetic spinel nodules easily recovered by gravity and sold at refractory grade prices.

Total Bauxite Resources				Sieved at 0.26mm											
Resource category	Tonnes millions	Bauxite Thickness	DSO Thickness	PDM-DSO Thickness	Rx SiO ₂ %	Avl/Rx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %	Yield	Overburden	Internal Waste
Inferred	17.5	4.6 m	3.1 m	2.5 m	1.7	17.6	38.9	5.8	6.7	30.6	3.9	18.3	62%	0.2 m	0.2 m
Indicated	20.4	6.3 m	3.7 m	3.1 m	1.5	19.3	39.4	4.6	8.5	33.2	3.8	18.2	63%	0.7 m	0.4 m
TOTAL	37.9	5.6 m	3.4 m	2.8 m	1.6	18.5	39.2	5.2	7.6	32.0	3.8	18.3	63%	0.4 m	0.3 m

Source: ABZ

- The latest JORC figures out of Goulburn-Taralga are impressive, with total resources increasing by 50% to 37.9Mt at Taralga only. We expect small satellite deposits of up to 5Mt (individually) at Wingello, Windellama and Bungonia to add further tonnes over time and we estimate that ABZ's tonnes in the region should comfortably exceed 50Mt (less than two-thirds drilled in identified bauxite areas) which should be sufficient for at least a 10 year mining operation.
- The Taralga bauxite is relatively high quality with excellent attributes in thickness and A/S ratios and very high in available alumina and low in reactive silica. The two key points to take away from the update are the deposits lie almost at surface (just 0.4m overburden) which will aid mining costs, and high Avl/Rx ratio on the back of really low reactive silica content (1.6% Rx SiO₂).
- The Taralga bauxite is categorised into two separate products, DSO (direct shipping) and PDM-DSO (pisolithic) bauxite. The DSO (20.1Mt) accounts for some 53% of total bauxite with the rest (17.8Mt) needing simple processing. Of the 17.8Mt of PDM-DSO, we estimate that once processed, 70% will be recovered as DSO with the rest making up refractory bauxite and sold separately. Overall we estimate that DSO bauxite will make up ~85% of total bauxite produced.
- Certain bauxite zones at Taralga (Mt Rae) have displayed extraordinary thicknesses in which 36m of continuous bauxite was encountered (ended within bauxite so will be even thicker). This area needs to be fully drill tested as extensions have been identified and our back-of-the-envelope calculations show that 1Mt could easily be identified in small thick areas resulting in a much smaller mining footprint.



Source: ABZ

ABZ VALUATION - CPS

	Resource *	Valuation	Comments
Goulburn-Taralga	37.9Mt	72c	NPV @ 10% (ABZ 65%)
Binjour	16.8Mt	8c	50c/tonne
Inverell	38Mt	17c	50c/tonne
Guyra	6Mt	3c	50c/tonne
Cash & Corporate	\$2.5M	2c	
Total		102c	

* In the above table we have used the resource figures reported to date. These numbers should be considered to be very conservative given that all of the drilling campaigns are still in their early stages, especially with regards to Inverell. We believe that a reasonable resource target for the four projects mentioned above is above 200Mt, i.e. more than double the resource reported to date. Of particular relevance, we believe that the Binjour deposit in Queensland, with its extremely high grades, will ultimately be viewed as the flagship project of the group, with a valuation of more than 10 times the 8c per share as detailed above.

- We have adjusted our valuation on the back of rejigging our Goulburn-Taralga assumptions. Our NPV is \$100M (ABZ 65%) or 72c per share and drops from 96c per share on a more conservative approach to mining in early years (1.2Mtpa) before ramping up to ~3.0Mtpa and other slight adjustments. Our Inverell valuation has gained slightly on the back of a small resource increase but that was offset by drop in cash reserves. As a result, the fair value remains above \$1.00 per share (\$1.02 versus \$1.26 previously).

PFS PREVIEW

- We have reviewed our model numbers before the eagerly anticipated PFS release and made some slight adjustments. Biggest changes see a more conservative approach to production in the early years with a slower ramp up to ~3.0 Mtpa. As per the latest released update by ABZ on the PFS, our Taralga mining scenario sees a 1.2 Mtpa operation over the first 2-3 years before gradually ramping up to ~3mtpa. The capex stays relatively unchanged but is now split into 2 stages. We have left our long term costs intact at \$30/t but reduced our forex assumptions lower to AUDUSD \$0.90. Our bauxite pricing assumptions are based on a gradual increase in price on the back of Indonesian bauxite mining issues (supply/demand), quality of ABZ's bauxite and an evident increase in demand for quality bauxite by alumina refinery rich, bauxite ore poor customers.

Key Figures – Goulburn-Taralga (ABZ 65%)

Production	1.2Mtpa increasing to 3Mtpa
Mine Life	11 Years
Capex	~\$75M
Costs	\$30/t
Bauxite Price (FOB)	US\$58/t (LT)
AUDUSD	\$0.90
Debt/Equity	70/30
First Production	FY 2015
Product Mix	DSO 85 / Refractory 15

ABZ'S GLOBAL RESOURCES

Code	Project	Tonnes (Mt's)	Ave. Thick. (m)	O/burden (m)	Total			Avl	SiO ₂	A/S Ratio	Fe ₂ O ₃ (%)	TiO ₂ (%)	LOI (%)	Yield (%)
					Al ₂ O ₃ (%)	SiO ₂ (%)	A/S Ratio	Al ₂ O ₃ (%)	Rx (%)					
ABZ	Binjour	16.8	4.5	9.3	44.2	3.5	12.7	39	3.1	12.7	23.4	3.7	24.6	61
	Binjour (HG)	9.3	3.7	10.2	47.3	2.7	17.4	43.2	2.7	15.9	19.6	3.6	26.2	61
	Inverell	38	4.8	2.4	40.2	4.7	8.5	31.6	4.1	7.7	27.3	4.2	22.4	61
	Taralga (DSO)	20.1	5.6	0.5	40.8	5.5	7.4	35.7	1.9	18.5	25.3	4.0	22.6	55
	Taralga (PDM)	17.8	5.8	0.5	37.3	4.8	7.7	22.3	1.2	18.4	39.6	3.6	13.4	72
	Guyra	6	5.3	4	42.5	3.0	14.3	36.5	2.3	15.8	26.9	3.7	24.5	59
	Total	98.7	5.1	2.9	40.6	4.6	9.2	34.5	2.8	13.2	28.4	3.9	21.3	62

Source: State One

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The author of this note has a small holding in ABZ. State One is a major shareholder of ABZ with 8.7%.