

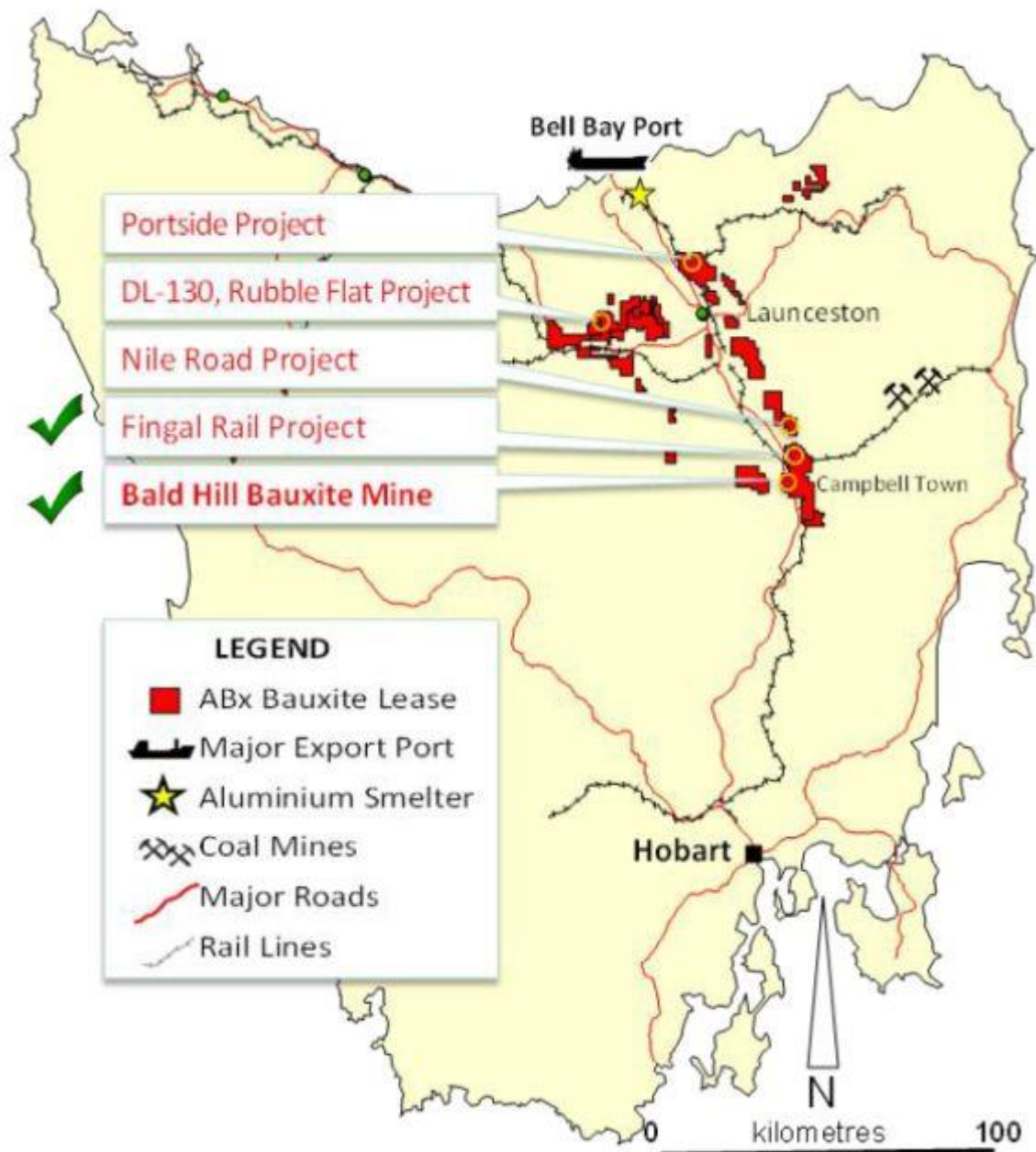
## Fat Prophets

### Australian Bauxite

5/10/2016

### Regular revenue is the right recipe

The flow of sales has been a problem for Australian Bauxite, with the company as a consequence having to halt production at its Bald Hill operations in Tasmania from time-to-time. The quality of the bauxite is however delivering opportunities for the company to broaden its customer base, and improving the potential for regular sales. Meanwhile, the Fingal Rail bauxite resource has had a nice little upgrade. The following figure shows the location of the company's Tasmanian assets:



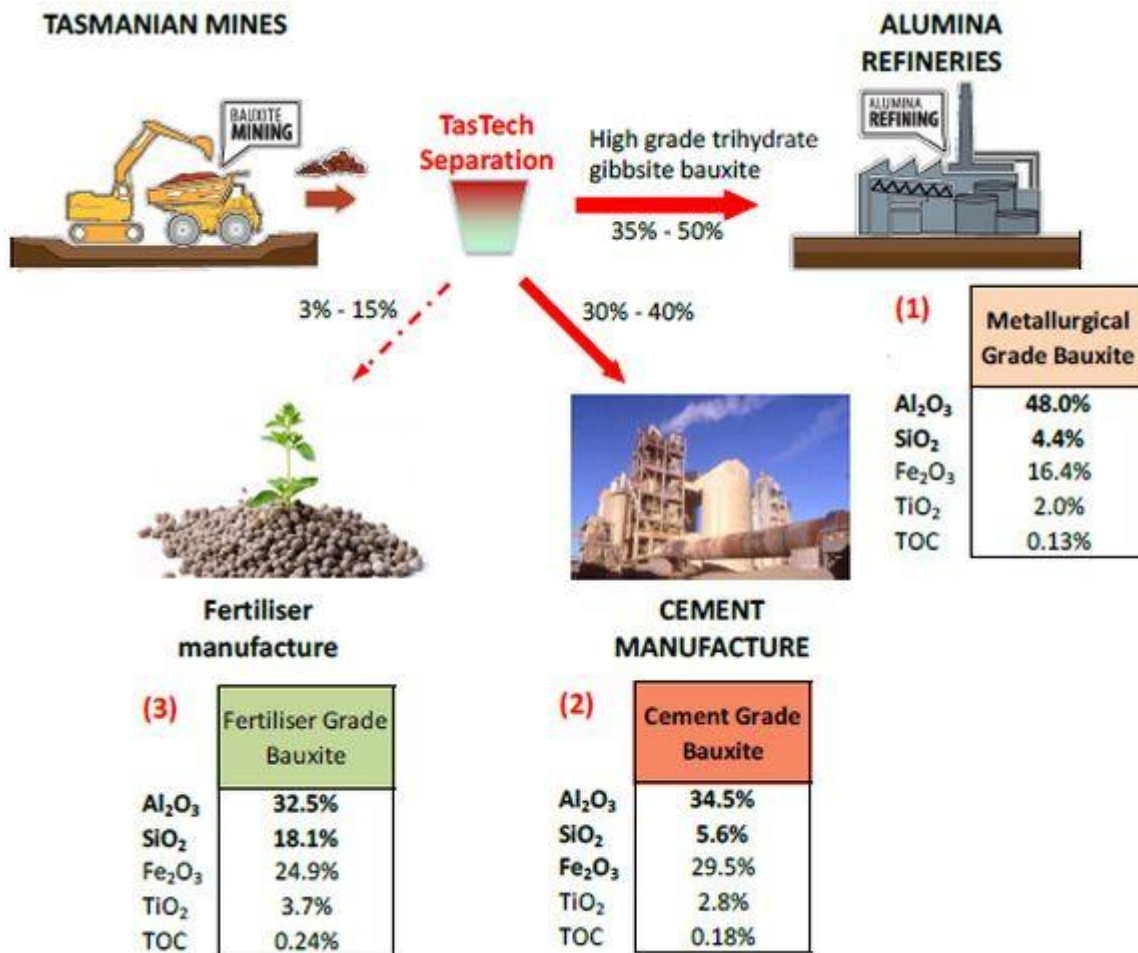
Source: Australian Bauxite

**The company has reported a second shipment of 35,913 tonnes of bauxite and the largest load to date.** The shipment brought with it the reopening of the Bald Hill mine ahead a schedule to meet a third shipment for delivery during the current spring period. The shipment was made to a cement manufacturer, with the quality of the bauxite meeting the specific requirements of the customer. Chunky cash flows have been the primary reason for the company curtailing its operations. **Regular shipments should alleviate the early cash strain.**

The larger and what would be normal shipment of bauxite at around 36,000 tonnes, does provide us with considerable comfort that the logistics have the capacity to deliver. **Pleasingly, the company has indicated in all its communiques that “the sale price is satisfactorily profitable.”**

**Australian Bauxite has indicated that new customers in the cement industry are in negotiations for potential sales.**

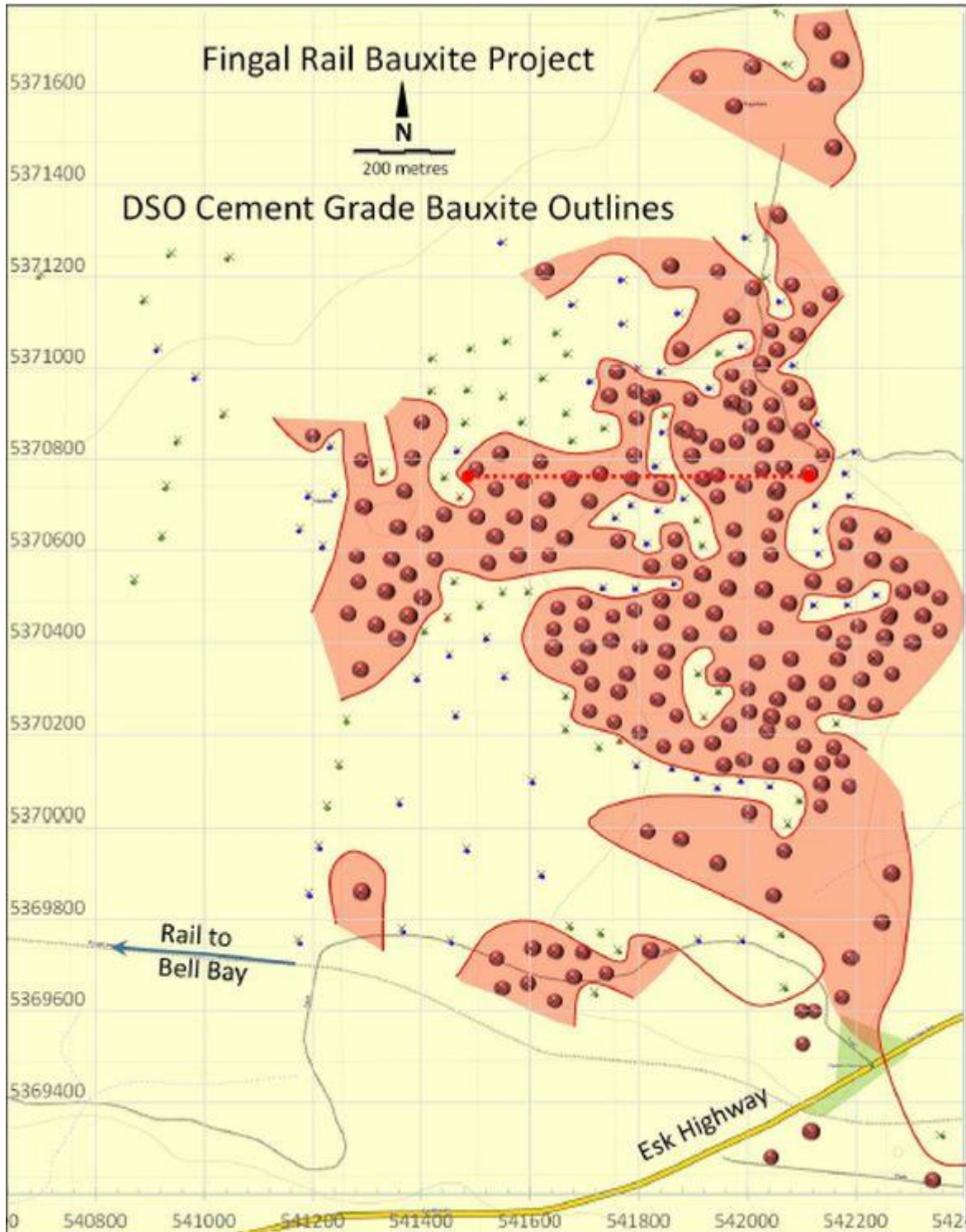
Continuing sales will allow the company to further fund the development of its Tasmanian bauxite deposits to suit a broader customer base. The following figure shows a simple view of the research the company has undertaken to broaden the customer base away from the traditional alumina refineries only (Al<sub>2</sub>O<sub>3</sub> – Aluminium oxide, SiO<sub>2</sub> – silicon dioxide, Fe<sub>2</sub>O<sub>3</sub> – iron oxide, TiO<sub>2</sub> – titanium dioxide, TOC – total organic carbon):



Source: Australian Bauxite

As a direct result of its research efforts, the company has found that bauxite prices going into the cement manufacturing sector are more buoyant than those paid by the alumina refineries, which are higher again than those paid by the fertiliser sector.

With the Bald Hill mine now back in operation, and likely to remain permanently so, the timing of the Fingal Rail resource upgrade is exemplary. The following figure shows an aerial schematic of the Fingal Rail deposit and drill hole locations:



Source: Australian Bauxite

The maiden resource for Fingal Rail stood at 1.18 million tonnes of bauxite. As a result of the company's infill and resource definition drilling the resource has increased to 6.3 million tonnes of bauxite, a fivefold increase. The upgrade of the Fingal Rail resource brings the total resource in Tasmania to 12 million tonnes and Australia-wide to 124 million tonnes.

**The Fingal Rail resource upgrade improves the investment dynamic of the Tasmania operation, as the site is readily serviced by the same workforce, mining equipment and infrastructure logistics.**

Within the Fingal Rail resource, the company has defined direct shipping ore cement grade bauxite totalling 4.6 million tonnes and metallurgical grade to 1.7 million tonnes. **The company has indicated that on securing additional long-term sales contracts, it will expedite the development of the Fingal Rail deposit into a second mine.**

For its first half result to 30 June 2016, Australian Bauxite reported its first meaningful revenue of A\$2.6 million within total revenue of A\$4.0 million. On this revenue, the company printed a profit of A\$534,340 compared to a loss of A\$975,219 from a year earlier. We expect with the addition of bauxite sales in the second half of 2016, the company will report a significant improvement in its financial position. At 30 June 2016, Australian Bauxite was debt free and held cash of A\$667,228.



Turning to the charts, near-term support is located at the 50-day moving average (red) of \$0.20. It is important that the bulls defend this level, otherwise, a deeper pullback down towards the next support level of \$0.16 (200-day moving average – green) could potentially be on the cards. If this was to occur, we would view this type of price action as corrective, as it forms part of a longer term uptrend. In addition,

broader term momentum is favoured to the upside as backed by the bullish moving average crossover (50-day moving average crosses above the 200-day moving average) which has been in place since early August.

With mining at Bald Hill now occurring on a likely more regular basis, the efforts to achieve regular sales through a diverse customer base is bearing fruit. The company has also continued to develop its Tasmanian base with an upgrade to the resource at Fingal Rail. We believe the quality of the bauxite hosted in the company's Tasmanian portfolio is such that when constant operations are achieved, a rapid transit to developing the remainder of the sites will ensue.

**We are of the view that news regarding the recommencement of operations at Bald Hill and regular shipping should act as a positive share price catalyst.**



With reference to the weekly chart, a series of higher lows and higher highs are characteristics of an uptrend. In addition, short-term momentum is favoured to the upside as the share price of Australian Bauxite trades above the 50-day moving average (red) of \$0.19. Over the medium-term, a continuation of the current advance towards the next band of resistance located between \$0.25 and \$0.27 could potentially be on the cards. This is made up of the August high (horizontal thin-red line) and the 61.8% Fibonacci retracement.

Additionally, the replication of the Bald Hill approach to mining across Fingal Rail will, we believe, add further upward impetus to the share price. While a return to potentially successful exploration activities adds blue sky appeal to the share price, especially across the company's Tasmanian base. Moreover, the significant bauxite resources the company also owns along the East Coast of Australia will deliver long life opportunities and blue sky potential.

## **Consequently, we have upgraded our recommendation on Australian Bauxite from a hold to a buy for Members with no exposure to the stock.**

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### **Australian Bauxite**

Australian Bauxite is different from other bauxite wannabes inasmuch that its projects are below the Tropic of Capricorn. As other explorers were focused on the metals of the day like gold and copper, Australian Bauxite's chief geologist was carefully picking the eyes out of the East Australian Bauxite Province. This was not a fast process but one that took several years of detailed exploration. The company's tenements cover over more than 6,500 square kilometres. This is a large area and the target is combined resources of over 200 million tonnes. The business plan is to begin marketing bauxite in Asia, and then expand the business to supply alumina refineries in Gladstone, Queensland, and possibly create state-significant projects in the bauxite-alumina industry.

**Market Capitalisation: \$29.14m**