

30 April 2014

## Alara Resources

**AUQ A\$0.09/share**

### March quarter highlights strong progress

**BUY**

AUQ has completed a busy March quarter with several milestones achieved including (i) an agreement to move from 50% to 60% of Khnaiguiyah (ii) completion of the amended shareholders agreement (iii) progression of Khnaiguiyah into the financing stage (iv) completion of an independent peer review on the Khnaiguiyah DFS (v) heavy media separation breakthrough at Oman and (vi) completion of the options analysis study at Oman. Significant upside at Khnaiguiyah exists via identified capex/opex savings and heavy media separation (HMS) testwork which is now underway. AUQ target completion of financing for Khnaiguiyah by year end with construction to commence Q1 2015. We maintain our BUY recommendation with NPV of A\$0.54/share.

#### Khnaiguiyah upside

- Capex savings of up to US\$40M identified.
- Opex savings of up to US\$20M identified.
- Possible opportunity for a coarser grind size.
- Heavy Media Separation (HMS) may potentially increase feed grade by 70-90% - testwork underway.

#### Khnaiguiyah DFS (April 2013) - recap

- EBITDA of A\$100Mpa (first 7 years).
- Free cashflow (after payback of capex) of A\$467M.
- Capex – US\$257M based on a fixed price (EPC).
- Three year capital payback with a 13 year mine life.
- First production estimated Q1 2017.
- Production – 80-90ktpa Zn, 5.8ktpa Cu (years 1-7).
- Cash costs – US46c/lb (years 1-7) after copper credits.

#### Road map ahead - Khnaiguiyah

- Submit the finance application to the SIDF.
- SIDF may advance up to 75% of total capex.
- SIDF decision expected within 6-8 months.
- Secure concentrate offtake agreements.
- Secure non-SIDF funding - supplier/offtake partners.
- Complete DFS review – capex/opex savings identified.
- Complete HMS testwork – strong upside to feed grade.
- Finalise the EPC tender and contract.
- Hire a project director and recruit the owners' team.

#### Oman (70-75%)

- HMS successfully increased copper grade from 0.9-1.0% Cu to 1.8-2.0% Cu.
- Options analysis study undergoing final review.
- Scoping study re-activated – completion this quarter.
- Resources comprise 11Mt @ 0.9% Cu (0.5% cut-off).

#### Company Data

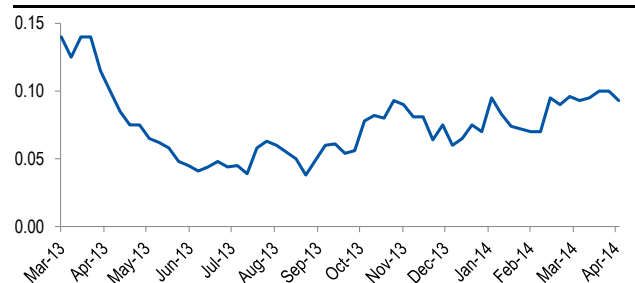
Shares – ordinary	308.7M
Options (\$0.10-0.70/share – out of the money)	36.8M
Market Cap	\$28.7M
12 month low/high	\$0.04 / \$0.14
Average monthly turnover	\$0.8M
Average monthly volume	11.5M

#### Financial Summary (fully diluted/normalised)

Year end June	2013A	2014F	2015F	2016F	2017F
Revenue (\$M)	0.0	0.0	0.0	22.8	152.2
Costs (\$M)	6.9	6.3	6.7	19.0	84.4
EBITDA (\$M)	(6.9)	(6.3)	(6.7)	3.9	67.8
NPAT (\$M)	(6.7)	(6.5)	(11.1)	(8.0)	34.6
EPS (¢ps)	(2.9)	(2.1)	(3.6)	(2.6)	11.2
EPS Growth (%)	na	na	na	na	>100
PER (x)	na	na	na	na	0.8
Cashflow (\$M)	(3.6)	(6.5)	(11.1)	(6.0)	57.2
CFPS (¢ps)	(1.5)	(2.1)	(3.6)	(1.9)	18.5
PCFPS (x)	na	na	na	na	0.5
Enterprise Value (\$M)	6	35	163	243	188
EV / EBITDA (x)	na	na	na	62.7	2.8

Substantial Shareholders (FPO)	Shares (M)	(%)
Acorn	26.6	11.0%
Northcape	21.8	9.0%
Antares	17.2	7.1%

#### AUQ (A\$/share) – performance over one year



This report must be read with the disclosure and disclaimer on the final page of this document.

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## Analysis

### ALARA RESOURCES (AUQ) 30-Apr-14

Year End 30 June	A\$	2013A	2014F	2015F	2016F	2017F
<b>PROFIT &amp; LOSS</b>						
Sales Revenue	\$M	0.0	0.0	0.0	22.8	152.2
Other Income	\$M	0.0	0.0	0.0	0.0	0.0
Operating Costs	\$M	3.9	6.3	6.7	19.0	84.4
Exploration	\$M	3.1	0.0	0.0	0.0	0.0
Other	\$M	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>\$M</b>	<b>(6.9)</b>	<b>(6.3)</b>	<b>(6.7)</b>	<b>3.9</b>	<b>67.8</b>
Dep. & Amort.	\$M	0.0	0.0	0.0	2.0	17.8
<b>EBIT</b>	<b>\$M</b>	<b>(6.9)</b>	<b>(6.3)</b>	<b>(6.7)</b>	<b>1.8</b>	<b>50.0</b>
Net Interest	\$M	(0.2)	0.2	4.4	9.9	10.6
<b>Pre-Tax Profit</b>	<b>\$M</b>	<b>(6.7)</b>	<b>(6.5)</b>	<b>(11.1)</b>	<b>(8.0)</b>	<b>39.4</b>
Tax	\$M	0.0	0.0	0.0	0.0	4.7
Minorities	\$M	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>\$M</b>	<b>(6.7)</b>	<b>(6.5)</b>	<b>(11.1)</b>	<b>(8.0)</b>	<b>34.6</b>
Abnormal	\$M	(0.2)	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>\$M</b>	<b>(6.9)</b>	<b>(6.5)</b>	<b>(11.1)</b>	<b>(8.0)</b>	<b>34.6</b>
Dividends	\$M	0.0	0.0	0.0	0.0	0.0
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0
<b>Retained Earnings</b>	<b>\$M</b>	<b>(29.3)</b>	<b>(35.8)</b>	<b>(46.9)</b>	<b>(54.9)</b>	<b>(20.3)</b>
<b>CASH FLOW</b>						
Revenue	\$M	0.0	0.0	0.0	22.8	152.2
Costs	\$M	(3.9)	(6.3)	(6.7)	(19.0)	(84.4)
Net Interest	\$M	0.3	(0.2)	(4.4)	(9.9)	(10.6)
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0
<b>Gross Cash Flow</b>	<b>\$M</b>	<b>(3.6)</b>	<b>(6.5)</b>	<b>(11.1)</b>	<b>(6.0)</b>	<b>57.2</b>
Net Capex	\$M	(10.3)	(2.0)	(118.6)	(74.0)	(2.5)
Exploration	\$M	0.0	0.0	0.0	0.0	0.0
Dividends	\$M	0.0	0.0	0.0	0.0	0.0
Other	\$M	0.0	(6.4)	1.3	0.0	0.0
<b>Free Cashflow</b>	<b>\$M</b>	<b>(13.9)</b>	<b>(14.9)</b>	<b>(128.4)</b>	<b>(79.9)</b>	<b>54.7</b>
Equity Issues	\$M	7.5	0.0	0.0	0.0	0.0
Net Borrowings	\$M	0.0	10.0	140.0	85.0	(50.0)
Net Investments	\$M	0.0	4.4	0.0	0.0	0.0
<b>Surplus Cash Flow</b>	<b>\$M</b>	<b>(6.4)</b>	<b>(0.5)</b>	<b>11.6</b>	<b>5.1</b>	<b>4.7</b>
<b>BALANCE SHEET</b>						
Cash	\$M	4.5	3.9	15.5	20.6	25.3
Other Current	\$M	1.3	0.0	0.0	0.4	1.5
<b>Total Current</b>	<b>\$M</b>	<b>5.8</b>	<b>3.9</b>	<b>15.5</b>	<b>21.0</b>	<b>26.8</b>
Fixed Assets	\$M	29.5	31.5	150.2	222.1	206.8
Exploration	\$M	0.0	0.0	0.0	0.0	0.0
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0
Other	\$M	5.7	12.1	10.8	10.8	10.8
<b>Total NC Assets</b>	<b>\$M</b>	<b>35.3</b>	<b>43.6</b>	<b>161.0</b>	<b>232.9</b>	<b>217.5</b>
<b>TOTAL ASSETS</b>	<b>\$M</b>	<b>41.0</b>	<b>47.6</b>	<b>176.5</b>	<b>253.9</b>	<b>244.4</b>
Total Debt	\$M	0.0	10.0	150.0	235.0	185.0
Current Liab	\$M	1.8	1.8	1.8	1.8	6.5
Non Current Liab	\$M	1.8	4.9	4.9	5.3	6.4
<b>TOTAL LIAB</b>	<b>\$M</b>	<b>3.6</b>	<b>16.6</b>	<b>156.6</b>	<b>242.1</b>	<b>197.9</b>
<b>NET ASSETS</b>	<b>\$M</b>	<b>37.5</b>	<b>30.9</b>	<b>19.9</b>	<b>11.8</b>	<b>46.5</b>
<b>SH/HLDRS FUNDS</b>	<b>\$M</b>	<b>37.5</b>	<b>30.9</b>	<b>19.9</b>	<b>11.8</b>	<b>46.5</b>
<b>RATIO ANALYSIS</b>						
EPS	¢	(2.9)	(2.1)	(3.6)	(2.6)	11.2
PER	x	na	na	na	na	0.8
EPS Growth	%	na	na	na	na	>100
EBITDA per share	¢	(3.0)	(2.0)	(2.2)	1.3	22.0
EBITDA Multiple	x	(1.5)	(4.5)	(4.3)	7.4	0.4
EV/EBITDA	x	(0.9)	(5.5)	(24.2)	62.7	2.8
CFPS	¢	(1.5)	(2.1)	(3.6)	(1.9)	18.5
PCFR	x	na	na	na	na	0.5
DPS	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	100	100	100
Payout Ratio	%	0%	0%	0%	0%	0%
Gearing D/E	%	na	20	677	1,813	344
Interest Cover	x	30.7	na	na	0.2	4.7
EBITDA Margin	%	na	na	na	17.0	44.6
EBIT Margin	%	na	na	na	8.1	32.8
Return On Assets	%	(16.9)	(13.3)	(3.8)	0.7	20.5
Return On Equity	%	(17.9)	(21.1)	(55.8)	(67.9)	74.5
Eff Tax rate	%	0	0	0	0	12
<b>OTHER DATA</b>						
Share Price	\$/sh.	0.05	0.09	0.09	0.09	0.09
Number of shares	M	231	309	309	309	309
Market Capitalisation	\$M	10	29	29	29	29
EV	\$M	6	35	163	243	188

Share Price	(\$)	0.09				
Iss. Shares	(M)	308.7				
Iss. Options (unlisted)	(M)	36.8 Ex @ \$0.10-\$0.70				
Equity	(M)	308.7				
Mkt Cap.	(\$M)	28.7				
RESERVES / RESOURCES						
Reserves						
Tonnes	Mt	29.99	29.99	29.99	29.59	27.42
Copper	%	0.24	0.24	0.24	0.24	0.23
Zinc	%	3.30	3.30	3.30	3.29	3.17
Resources						
Tonnes	Mt	38.10	38.10	38.10	37.70	35.53
Copper	%	0.27	0.27	0.27	0.27	0.26
Zinc	%	2.98	2.72	2.72	2.70	2.58
PRODUCTION (100%)						
Khnaiguiyah						
Tonnes	Mt	0.00	0.00	0.00	0.40	2.17
Copper	%	0.00	0.00	0.00	0.35	0.40
Zinc	%	0.00	0.00	0.00	4.00	4.80
Metal in concentrate (pre-charges)						
Cu in concentrate	T	0	0	0	1,246	7,812
Zn in concentrate	T	0	0	0	14,560	95,827
ATTRIBUTABLE REVENUE (post smelter charges)						
Project						
Khnaiguiyah	A\$M	0.0	0.0	0.0	22.8	152.2
Other	A\$M	0.0	0.0	0.0	0.0	0.0
Total	A\$M	0.0	0.0	0.0	22.8	152.2
Commodity						
Copper	A\$M	0.0	0.0	0.0	5.2	31.8
Zinc	A\$M	0.0	0.0	0.0	17.6	120.4
Other	A\$M	0.0	0.0	0.0	0.0	0.0
Total	A\$M	0.0	0.0	0.0	22.8	152.2
ATTRIBUTABLE COSTS (includes treatment charges)						
Khnaiguiyah	A\$M	3.4	3.3	3.7	15.5	80.4
Corporate and Other	A\$M	0.4	3.0	3.0	3.5	4.0
Total	A\$M	3.9	6.3	6.7	19.0	84.4
Cash Costs (pre credits)	US\$/lb	0.00	0.00	0.00	0.81	0.63
Cash Costs (after credits)	US\$/lb	0.00	0.00	0.00	0.54	0.38
Cash Costs (all-in)	US\$/lb	0.00	0.00	0.00	0.83	0.44
ATTRIBUTABLE CAPEX						
Khnaiguiyah	A\$M	8.8	2.0	118.6	74.0	2.5
Other	A\$M	1.5	0.0	0.0	0.0	0.0
Total	A\$M	10.3	2.0	118.6	74.0	2.5
ATTRIBUTABLE DEPRECIATION & AMORTISATION						
Khnaiguiyah	A\$M	0.0	0.0	0.0	2.0	17.8
Other	A\$M	0.0	0.0	0.0	0.0	0.0
Total	A\$M	0.0	0.0	0.0	2.0	17.8
HEDGING						
Copper hedged	t	0	0	0	0	0
Currency hedged	A\$/US\$	0	0	0	0	0
Hedged price	US\$/lb	0	0	0	0	0
Hedged price	A\$/lb	0	0	0	0	0
Sales hedged	%	0%	0%	0%	0%	0%
Ave.price deliv.-Cu	US\$/lb	3.47	3.19	3.08	2.88	2.75
Ave.price deliv.-Cu	A\$/lb	3.39	3.53	3.47	3.34	3.24
Zinc hedged	t	0	0	0	0	0
Currency hedged	A\$/US\$	0	0	0	0	0
Hedged price	US\$/lb	0	0	0	0	0
Hedged price	A\$/lb	0	0	0	0	0
Sales hedged	%	0%	0%	0%	0%	0%
Ave.price deliv.-Zn	US\$/lb	0.87	0.90	0.95	0.93	0.95
Ave.price deliv.-Zn	A\$/lb	0.85	0.99	1.07	1.08	1.12
ASSUMPTIONS						
Exchange Rate	A\$/US\$	1.02	0.90	0.89	0.86	0.85
Zinc	US\$/lb	0.87	0.90	0.95	0.93	0.95
Lead	US\$/lb	0.97	0.95	0.95	0.95	0.95
Copper	US\$/lb	3.47	3.19	3.08	2.88	2.75
Gold	US\$/oz	1595	1308	1300	1263	1250
Silver	US\$/oz	28.82	20.66	20.00	20.00	20.00
90 day Bank Bills	%	3.15	2.62	2.55	2.63	2.88
10 Yr Bond rate	%	3.29	4.02	3.75	3.38	3.38
Int. Rate Charged	%	4.29	5.02	4.75	4.38	4.38
VALUATION						
Khnaiguiyah - Saudi					A\$M	A\$ps
					193.1	\$0.63
Washihi - Oman					7.5	\$0.02
Exploration					5.0	\$0.02
Corporate and Other					(32.0)	\$ (0.10)
Net Cash (Debt)					(6.1)	-\$0.02
Total					167.5	\$0.54

Source: Petra Capital

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