

Austral Resources Australia Ltd

Copper producer flying under the radar

February 2022

Recommendation: BUY

- **Located in Mt Isa district; one of the few copper producers listed on the ASX**
- **Production from the Mt Kelly SX-EW plant increasing to 10,000tpa**
- **Aggressive exploration across large, prospective tenement package**

ASX: AR1

Share Price: \$0.20

Target Price: \$0.45

M/Cap.: \$89.1M

Valuation: \$0.45/share

Valuation: \$218M

Shares (M): 445

Monthly T/over: \$1.2M



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Petra Capital Pty Ltd

Contents

Analysis.....	4
Executive Summary.....	5
Established copper producer gets a new lease of life.....	5
Step change in Mt Kelly output..... plus significant spare capacity.....	5
New Anthill Mine to provide feed for next four years..... with LOM upside.....	5
Other exciting avenues for LOM and production upside.....	5
Target price of A\$0.45/sh underpinned by NPV ₁₀ valuation for Anthill.....	5
Valuation and target price.....	6
Key valuation assumptions.....	6
Sensitivity to LOM expansion.....	7
Peer comparison.....	7
Queensland - based copper producer.....	8
Mt Kelly SX-EW plant: producing copper cathode since 2007.....	8
SX/EW process.....	9
Refurbishment of the Mt Kelly plant remains on track.....	9
Anthill open pit Mine – feed ore for 2022-2025 copper production.....	12
Exploration upside and LOM opportunities.....	13
Board of Directors and CEO.....	15

Figure 1: Top 20 Shareholders (November 2021)

	Name	Amount	%
1	YELLOW GEAR PTY LTD <SUPER SNAKE A/C>	235,100,000	52.79
2	SPARTA AG	15,900,000	3.57
3	G HARVEY NOMINEES PTY LTD <HARVEY 1995 DT A/C>	15,000,000	3.37
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	13,245,477	2.97
5	2INVEST AG	10,600,000	2.38
6	MR JOHN KAMARA	8,153,033	1.83
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,602,952	1.71
8	KAMJOH PTY LTD	6,859,110	1.54
9	KAMJOH PTY LIMITED	6,475,000	1.45
10	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	5,280,000	1.19
11	MR DANIEL JAUNCEY <MS MAGGIE JAUNCEY A/C>	5,000,000	1.12
11	MR DANIEL JAUNCEY <MS LUCY JAUNCEY A/C>	5,000,000	1.12
12	MS RENEE JAUNCEY	3,750,000	0.84
12	AGILIS PTY LTD <THE AGILIS A/C>	3,750,000	0.84
13	MR WIL JAUNCEY	3,605,000	0.81
14	PORTCULLIS HOUSE PTY LTD	3,300,000	0.74
15	MR JACOB ALAN BURGOYNE	2,691,309	0.60
16	MR ENG HOCK LIM	2,500,000	0.56
17	MR ANTONY DAVID MCCONVILLE & MRS SONYA JANE MCCONVILLE	2,125,000	0.48
18	MR GEOFF BARNES	1,580,000	0.35
19	PATRAS CAPITAL LIMITED	1,500,000	0.34
19	KEMBLA NO 20 PTY LTD <CAA A/C>	1,500,000	0.34
19	SAYERS INVESTMENTS (ACT) PTY LIMITED	1,500,000	0.34
20	SYROS SECURITIES PTY LTD <THE SYROS A/C>	1,450,000	0.33
	Total	363,466,881	81.61

Source: Company

February 2022

Austral Resources Aust. (AR1)

BUY

Share Price: A\$0.20

Copper producer flying under the radar

Target Price: A\$0.45

Located in the world class Mt Isa-Cloncurry copper district in Queensland, recently listed (Nov.'21) Austral Resource Australia (AR1) is one of only a handful of copper producers on the ASX. AR1 currently operates Australia's only economically viable Solvent Extraction Electrowinning (SX-EW) plant, where it processes remnant ore to produce ~150t per month of LME-grade copper cathode. A step-change in production is scheduled from mid-CY22 as oxide ore from AR1's new Anthill Mine lifts output to 10ktpa Cu over a four-year period. We see this mine life improving significantly as AR1 converts more of its large resource base into reserves and undertakes aggressive regional exploration over a large and under-explored tenement package. With 30ktpa Cu output capacity in the Mt Kelly SX-EW plant, we see strong potential to grow copper production for minimal additional capex following drilling success. AR1 offers investors direct exposure to today's buoyant Cu price, as well as strong organic growth potential. We initiate with a BUY & A\$0.45/sh PT.

Mt Kelly – Australia's only operating SX-EW plant

- Mt Kelly is fully permitted and operational since 2007
- A fully integrated copper oxide processing operation, comprising a crushing, agglomeration, conveying and stacking circuit, heap leach pads, and a SX-EW plant that produces LME-grade copper cathode (99.99% Cu metal); 30ktpa copper cathode capacity.
- Estimated replacement value of +A\$160m.

Anthill Mine to deliver first ore in Jun. Q'22

- Open cut mine located 45km from Mt Kelly with a JORC oxide Ore Reserve of ~5Mt @ 0.94% Cu for 47.5kt Cu.

Fully funded with production upside and growth

- Mt Kelly nameplate capacity of 30ktpa Cu offers potential for significant upside relative to the current Anthill plan of 10ktpa over 4yrs.
- Current production plan is fully funded, with minimal capex needed to utilise spare plant capacity in the future.
- The 5Mt inventory represents only 8% of AR1's 60Mt global Resource (100% on granted mining licences) within a prospective 1,940km² tenement package, with a high chance of resource to reserve conversation and exploration success; drilling to start in Jun. Q'22.
- Each year of mine life at 10ktpa adds \$0.04/sh to NPV.

Target price of A\$0.45/sh with significant upside

- We value AR1 at A\$0.45/sh assuming Anthill production starts in Jun. Q'22 at a rate of 10ktpa at LOM C1 costs of A\$7,200/t (A\$3.27/lb). Spot NPV of A\$0.65/sh.

Key Dates Ahead

- Jun. Q'22 – maiden Anthill Cu cathode production.
- Jun. Q'22 – drill results from Anthill exploration.

Company Data

Shares – incl. restricted (M)	445
Dilution (M)	35
Total (fully diluted) (M)	480
Market capitalisation (\$M)	89.1
12 month low/high (\$)	0.15/ 0.22
Average monthly turnover (\$M)	1.2
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

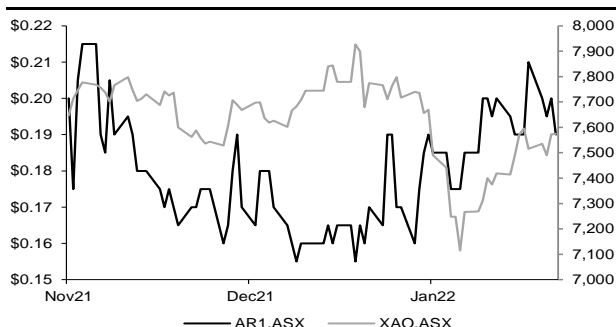
Year End December	FY21F	FY22F	FY23F	FY24F	FY25F
Revenue (\$M)	36.0	102.3	125.2	117.4	109.6
Costs (\$M)	-34.0	-73.5	-83.9	-83.6	-73.4
EBITDA (\$M)	2.0	28.9	41.4	33.8	36.2
NPAT (\$M)	236.0*	19.0	26.7	21.0	22.2
EPS (¢ps)	0.2	4.0	5.6	4.4	4.6
EPS growth (%)	na	>100%	41%	-21%	6%
PER (x)	80	5.1	3.6	4.6	4.3
Op. Cashflow (\$M)	-42.7	15.6	28.8	25.2	27.0
OCFPS (¢ps)	-10.5	3.2	6.0	5.2	5.6
POCFPS (x)	na	6	3	4	3.6
EV (\$M)	102.2	99.3	81.8	64.9	43.8
EV / EBITDA (x)	51.1	3.4	2.0	1.9	1.2
Payout ratio (%)	na	na	na	na	na
Dividends (¢ps)	0	0	0	0	0
Yield (%)	na	na	na	na	na
Franking (%)	na	na	na	na	na

* FY21F NPAT assumes a reversal of a non-cash intercompany loan

Board

Director	Position	Executive
Phillip Thomas	Chairman	No
Dan Jauncey	Director	Yes
Jeffrey Innes	Director	No
Michael Hansel	Director	No

AR1 – performance (since listing in Nov. 2021)



Analysis

Austral Resources Australia

Year End December

Share price (A\$)	0.20	
Issued shares (m)	445	(includes 204.6m restricted shares)
Market Cap (A\$m)	89.1	
Options/Rights (m)	35	
Dilution	0	
Fully diluted no. of Shares (m)	480	

P&L Statement (A\$m)	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
Revenue	25.0	36.0	102.3	125.2	117.4	109.6
Costs	(43.1)	(34.0)	(73.5)	(83.9)	(83.6)	(73.4)
EBITDA	(18.1)	2.0	28.9	41.4	33.8	36.2
D&A	(0.1)	(1.0)	(2.0)	(3.0)	(4.0)	(5.0)
Operating profit	(18.1)	1.0	26.9	38.4	29.8	31.2
NOI	0.0	235.0	0.0	0.0	0.0	0.0
EBIT	(18.1)	236.0	26.9	38.4	29.8	31.2
Interest income	0.3	0.0	0.3	0.3	0.4	0.6
Interest expense	(4.7)	0.0	0.0	(0.5)	(0.2)	0.0
Tax expense	0.0	0.0	(8.1)	(11.4)	(9.0)	(9.5)
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(22.5)	236.0	19.0	26.7	21.0	22.2

Note: FY21F (noncash) NOI assumes a reversal of a grandfather inter-company loan

EPS - Underlying (A\$)	(7.0)	0.2	4.0	5.6	4.4	4.6
DPS - Declared (A\$)	0.0	0.0	0.0	0.0	0.0	0.0
Avg. shares (m)	323	405	480	480	480	480
YE shares (m)	323	480	480	480	480	480

Cash Flow (A\$m)	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
EBITDA	(18.1)	2.0	28.9	41.4	33.8	36.2
Invest. In WC	11.2	(44.7)	(5.1)	(1.1)	0.4	0.4
Tax expense	0.0	0.0	(8.1)	(11.4)	(9.0)	(9.5)
Operating Cash Flow	(6.8)	(42.7)	15.6	28.8	25.2	27.0
Capex	0.0	(2.5)	(3.0)	(1.0)	(1.0)	(1.5)
Exploration	(0.5)	(0.5)	(10.0)	(10.0)	(7.5)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.5)	(3.0)	(13.0)	(11.0)	(8.5)	(6.5)
Net interest	(4.4)	0.0	0.3	(0.3)	0.2	0.6
Debt	11.7	(207.0)	(3.0)	(10.0)	(10.0)	(5.0)
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	0.0	30.0	0.0	0.0	0.0	0.0
Financing Cash Flow	7.3	(177.0)	(2.7)	(10.3)	(9.8)	(4.4)
Non-operating/Other	(0.1)	235.5	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	0.3	12.7	(0.1)	7.5	6.9	16

Balance Sheet (A\$m)	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
Cash & Equivalents	0.6	13.3	13.2	20.7	27.6	43.7
Receivables	0.0	0.7	7.2	8.8	8.2	7.7
Inventories	10.3	6.5	18.4	22.5	21.1	19.7
Other Current Assets	34.2	27.5	27.5	27.5	27.5	27.5
PPE and Exploration	0.5	2.5	13.5	21.5	26.0	27.5
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	45.7	50.6	79.8	101.1	110.5	126.2
Payables & Other	63.8	9.2	22.5	27.0	25.5	23.9
Short Term Debt	235.0	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	28.0	25.0	15.0	5.0	0.0
Other Liabilities	32.5	33.0	33.0	33.0	33.0	33.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities incl NCI	331.3	70.2	80.5	75.0	63.5	56.9
Equity	(285.6)	(19.6)	(0.7)	26.0	47.1	69.3
Total Liabilities & Equity	45.7	50.6	79.8	101.1	110.5	126.2

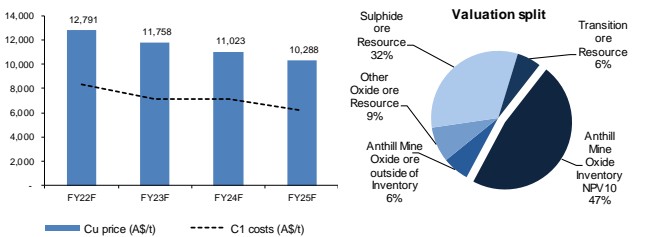
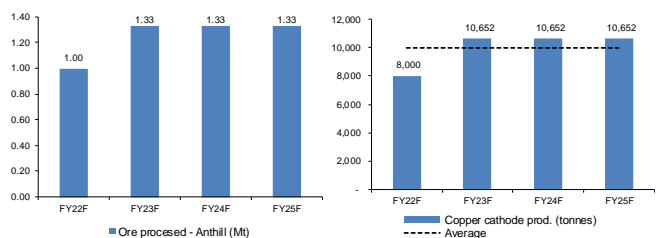
Ratios	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
P/E (x)	na	80.1	5.1	3.6	4.6	4.3
ROE (%)	na	na	na	210%	58%	38%
Debt/Equity	na	na	na	58%	11%	0.0%

Commodity prices	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
LME Copper (US\$/lb)	2.72	4.22	4.25	4.00	3.75	3.50
Copper (US\$/t)	5,997	9,303	9,370	8,818	8,267	7,716
AUD:USD	0.70	0.75	0.73	0.75	0.75	0.75
Copper (A\$/t)	8,628	12,372	12,791	11,758	11,023	10,288

Costs (A\$/t Cu cathode)	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
C1 (A\$/t)	-	-	8,336	7,150	7,150	6,214
AISC (A\$/t)	-	-	8,809	7,585	7,558	6,594

Production (Anthill)	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F
Ore processed (Anthill) (Mt)	-	-	1.00	1.33	1.33	1.33
Grade (% Cu)	-	-	0.94%	0.94%	0.94%	0.94%
Recovery (%)	-	-	85.2%	85.2%	85.2%	85.2%
Copper cathode produced (t)	-	-	8,000	10,652	10,652	10,652

Resources (April 2021)	Mt (ore)	Cu %	Cu (tonnes)
Oxide - Anthill	8.90	0.73%	64,970
Oxide - Other	7.83	0.43%	33,737
Transition - total	17.25	0.67%	115,575
Sulphide - total	26.50	0.80%	212,000
Global Resource	60.48	0.70%	426,282



Valuation	(A\$m)	(A\$/ps)
Anthill Mine Oxide Inventory NPV10	100	0.21
Anthill Mine Oxide ore outside of inventory	14	0.03
Anthill Mine Oxide Resource	114	0.24
Other Oxide ore Resource	18	0.04
Sulphide ore Resource	68	0.14
Transition ore Resource	12	0.03
Total Resource	212	0.44
Exploration upside	27	0.06
Investments	0	0.00
Corporate costs	(10)	(0.02)
Enterprise value	230	0.48
Net cash (debt) (FY22F)	(12)	(0.02)
Equity value	218	0.45

Source: Petra Capital

Executive Summary

Established copper producer gets a new lease of life

Austral Resources Australia (AR1) operates the Mt Kelly Solvent Extraction Electrowinning (SX-EW) plant north of Mt Isa in northwest Queensland. Mt Kelly (previously known as Lady Annie) is currently the only operating SX-EW plant in Australia and has produced over 125,000t of LME A grade copper cathode (99.99% Cu) since operations started in 2007. Mt Kelly is currently producing ~150t per month of copper cathode from processing low grade remnant ore, but this is scheduled to change dramatically in Jun. Q'22 when processing of oxide ore commences from the recently commissioned Anthill Mine.

Step change in Mt Kelly output.....plus significant spare capacity

Ahead of Anthill ore deliveries, sections of the Mt Kelly plant are currently being refurbished to meet targeted copper cathode output of up to 1,000t per month; the crushing, agglomeration and stacking system is being upgraded with new conveyor rubber, rollers and safety equipment, while the SX-EW plant is being restocked for critical spares. Following the recent IPO funding (A\$30m) and prepayment facility from Glencore (A\$21m), AR1 is well funded to meet the relatively modest costs of this refurbishment work and also undertake an aggressive exploration program.

While the current production plan is for 10ktpa of copper cathode, the Mt Kelly plant has a significantly higher nameplate processing capacity of 30ktpa; this bodes well for exciting low-capex production growth. AR1's number one near-term strategic objective is to source additional ore outside of Anthill's current Reserve in order to increase production tonnage and/or extend the mine life.

Another value-driver for SX-EW operators is that copper cathode is sold at the LME copper price - unlike copper concentrate produced from conventional copper sulphide operations which is subject to treating and refining charges. Indeed, AR1 indicates that the premium physical condition of its cathode sheets (no bubbles / "dog-ears") could attract an LME premium from 100% offtake customer Glencore.

New Anthill Mine to provide feed for next four years.....with LOM upside

Anthill is strategically located by bitumen road some 45km south of Mt Kelly. It is a new, fully permitted open cut mine, with a JORC Ore Reserve of nearly 48,000t of contained copper in oxide ore. Mining commenced early this year, with mining, drilling and blasting contracted out to Thiess, Roc-Drill, and Orica respectively. The current LOM plan is for 5Mt of ore to be mined and delivered to Mt Kelly over a four-year period, with targeted total copper cathode production of ~40,000t. However, we note that the Anthill Reserve is contained within a significantly larger Resource. In the current buoyant copper price environment, we see potential for open pit cutbacks and significant mine inventory expansions. In addition, AR1 has identified near-mine extensions to the Anthill mineralisation; a comprehensive in-mine and near-mine drilling program at Anthill will commence after the March quarter wet-season.

Other exciting avenues for LOM and production upside

Within AR1's extensive (1,940km²) tenement package, target generation work has defined numerous opportunities, with six prospects shortlisted for drilling in the near term. In addition, we note that the bulk of AR1's global Resource of 426kt Cu is either sulphide or transition ore - which cannot, as yet, be processed at Mt Kelly. ARI is actively investigating the potential for this ore to be brought into a production schedule using US-based breakthroughs in heap-leaching low-grade copper sulphide ores. Success here could unlock an additional +20Mt of ore and lead to material production/LOM upside.

Target price of A\$0.45/sh underpinned by NPV₁₀ valuation for Anthill

Underpinned by a NPV₁₀ valuation of A\$100m for four years of production from the Anthill Mine, we calculate AR1's equity value at A\$218m (equivalent to A\$0.45 per share). A peer comparison supports our view that AR1 offers value, with AR1 currently trading at A\$0.09/lb of Cueq Resource, significantly below the broader copper peer group average of A\$0.17/lb and the higher-rated producer average of A\$0.61/lb. AR1 is well funded, and we do not assume any additional debt or equity funding is required. Risks include (i) mine development at Anthill and operational risk at the Mt Kelly SX-EW plant (ii) exploration success in establishing mine inventories beyond the current four-year LOM, (iii) cost inflation (iv) commodity price (Cu) and FX volatility and (v) the regulatory environment.



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