

Altona Mining Ltd (AOH.ASX)

Production record at Outokumpu, Roseby seeks partner.

EVENT:

- March quarterly report released.

DETAILS:

- The recently released March quarterly report highlighted that AOH's operating mine in Finland, Outokumpu, continues to perform strongly producing ~2.5kt Cu and ~2.5koz Au in concentrate for the quarter. This represents a record quarter of production and an annualised rate of ~10ktpa Cu. The key driver for the outperformance was mining the higher grade parts of the Wallaby zone at the Kylylahti underground mine, which measured ~2% Cu.
- AOH is currently seeking to secure a strategic transaction to assist with the development of the ~39ktpa Cu Roseby Project in Queensland. During the quarter, management focussed on reviewing the previously completed DFS in an effort to refine, optimise and improve the metrics. A particular focus is being made to revise pit optimisations for the Little Eva deposit and to investigate the opportunity for an uplift in copper grade at the expense of tonnage, and in turn reducing the plant size and capex.

ANALYSIS:

- Production record at Outokumpu, on track for ~8kt Cu in FY13:** All key metrics for the March quarter were in-line with or exceeded FSB forecasts. Cash costs were US\$1.30/lb, below management guidance for FY13 of US\$1.40/lb-US\$1.60/lb and a function of the higher grades being processed (~2% Cu), throughput (~144kt) and resultant recovery (~92%). Production guidance for FY13 has been lifted to 7.5kt-8.0kt Cu at cash costs of US\$1.40/lb-US\$1.60/lb. YTD copper production totals 6.1kt and we highlight the potential for the company to surprise on the upside by delivering >8kt Cu in FY13, which would be a credit to management. A key focus throughout H2 CY13 is to drill test possible extensions of the deposit at depth and in particular target the lower Wombat zone which is open at depth. Management are also conducting a study into expanding the existing Luikonlahti plant from the current 550ktpa to ~750ktpa to increase output to ~12ktpa Cu.
- Roseby development ready, seeking partner/financier:** AOH's Roseby Project near Mt Isa is development ready, however requires ~\$300m in finance to fund the capex. Given this is an unrealistic proposition for a ~\$100m market cap company, management have sought to engage with strategic partners and/or financiers that may have an interest in investing in the Project. From speaking with management, we understand there to be a number of interested parties that have signed CA's, entered the data room and conducted site visits in recent months. We expect indicative term sheets to be presented in the near term and are hopeful for an outcome by mid 2013.

RECOMMENDATION:

- We retain our BUY recommendation and price target of \$0.45/sh.**
- Any transaction involving Roseby (i.e JV, sell down or asset sale) is the most likely near term catalyst.

Rating	BUY
Previous	BUY
Price Target (A\$)	\$0.45
Previous (A\$)	\$0.45

Share Price (A\$)	\$0.20
52 week low - high (A\$)	0.18 - 0.33
Valuation (A\$/share)	\$0.45
Methodology	DCF/Sum of Parts
Risk	High

Capital Structure	
Shares on Issue (m)	528.9
Market Cap (A\$m)	105.8
Net Debt/(Cash) (A\$m)	-3.4
EV (A\$m)	102.4
Options on issue (m)	1.4
12mth Av Daily Volume ('000)	713

Board and Management	
Kevin Maloney	Non Executive Chairman
Dr Alistair Cowden	Managing Director
Paul Hallam	Non Executive Director
Peter Ingram	Non Executive Director
Steve Scudamore	Non Executive Director

Major Shareholders	
Perpetual	10.4%
L1	9.3%
Kevin Maloney	6.7%
Thomas Roeggla	5.6%
Colonial First State	2.1%
Renaissance	2.0%

Key Metrics				
Year to Dec	2012a	2013e	2014e	2015e
Revenue (A\$m)	0.3	59.0	55.8	246.3
EBITDA (A\$m)	-22.8	24.3	23.5	120.2
NPAT (A\$m)	-25.0	15.4	12.2	48.2
EPS (c)	-4.8	2.9	2.3	9.1
EV / EBITDA (x)	-4.5	4.2	4.4	0.9
Op Cashflow (A\$m)	-22.8	18.3	20.5	79.7
Capex (A\$m)	-30.2	-11.5	-54.7	-204.1
FCF (A\$m)	-53.0	6.8	-34.2	-124.4

Catalysts	
Roseby partner/development decision	mid 2013
Outokumpu expansion	Q3 2013

Share Price Graph



Analyst	
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Altona Mining Ltd (AOH.ASX)

Full Year Ended 30 June

Profit & Loss (\$m)	2012a	2013e	2014e	2015e
Revenue	0.3	59.0	55.8	246.3
Other Revenue	0.0	0.0	0.0	0.0
Revenue	0.3	59.0	55.8	246.3
Operating costs	0.0	24.7	22.3	116.1
Exploration costs	11.1	5.0	5.0	5.0
Corporate costs	10.1	5.0	5.0	5.0
Other	1.9	0.0	0.0	0.0
EBITDA	-22.8	24.3	23.5	120.2
EBITDA margin (%)	nm	41.2	42.1	48.8
D & A	0.2	8.0	8.2	41.1
EBIT	-23.0	16.3	15.3	79.1
Net Interest exp / (income)	2.0	0.9	3.1	7.2
Profit before tax	-25.0	15.4	12.2	71.9
Tax exp / (benefit)	0.0	0.0	0.0	23.7
NPAT reported	-25.0	15.4	12.2	48.2
WA # Shares (m)	518.7	528.9	528.9	528.9
EPS ¢	-4.8	2.9	2.3	9.1

Cash Flow (\$m)	2012a	2013e	2014e	2015e
EBITDA	-22.8	24.3	23.5	120.2
Net Interest exp	-2.0	-0.9	-3.1	-7.2
Tax	0.0	0.0	0.0	-23.7
Δ Working Capital	2.0	-5.1	0.2	-9.5
Other	0.0	0.0	0.0	0.0
Operating Cashflow	-22.8	18.3	20.5	79.7
Capex	-30.2	-11.5	-54.7	-204.1
Net Acquisitions	0.0	0.0	0.0	0.0
Asset Sales	0.0	0.0	70.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-30.2	-11.5	15.3	-204.1
Equity proceeds	0.0	0.0	0.0	0.0
Debt proceeds	20.0	0.0	120.0	0.0
Debt repayment	0.0	0.0	-20.0	-20.0
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	20.0	0.0	100.0	-20.0
Net Cashflow	-33.0	6.8	135.8	-144.4
Free Cashflow	-53.0	6.8	-34.2	-124.4

Balance Sheet (\$m)	2012a	2013e	2014e	2015e
Cash	26.7	33.5	169.4	25.0
Receivables	3.8	4.7	4.5	19.7
Inventories	0.9	7.1	6.7	29.6
PPE	59.7	27.8	74.3	237.3
Exploration	20.6	20.6	20.6	20.6
Other	1.2	35.5	35.5	35.5
Total Assets	112.9	129.2	310.9	367.6
Payables	6.8	8.8	8.4	36.9
Tax liabilities	0.0	0.0	0.0	0.0
Debt	20.0	20.0	120.0	100.0
Other	4.3	3.2	3.2	3.2
Total Liabilities	31.1	32.1	131.6	140.2

Source: Company; FSB estimates

Recommendation: BUY

Price Target \$0.45

Capital Structure	
Shares on Issue (m)	528.9
Market Cap (\$m)	105.8
Net Debt/(Cash) (\$m)	-3.4
EV (\$m)	102.4

Key Metrics	2012a	2013e	2014e	2015e
EV/EBITDA (x)	-4.5	4.2	4.4	0.9

Key Assumptions	2012a	2013e	2014e	2015e
Copper Price (US\$/lb)	\$3.71	\$3.48	\$3.50	\$3.40
Gold Price (US\$/oz)	\$1,550	\$1,570	\$1,500	\$1,450
Zinc Price (US\$/lb)	\$1.00	\$1.08	\$1.10	\$1.05
AUD/USD	1.03	1.05	1.02	0.98

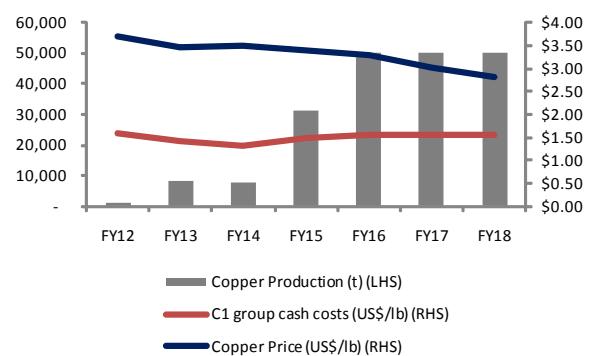
Production Summary	2012a	2013e	2014e	2015e
Cu - Outokumpu (t)	1,181	8,147	7,549	12,009
Cu - Roseby (t)	0	0	0	19,152
Cu - Group (t)	1,181	8,147	7,549	31,161

Au Production (oz)	1,503	7,853	8,006	19,708
Zn Production (t)	299	1,601	1,595	2,175

Group C1 cash costs (US\$/lb) \$1.60 \$1.43 \$1.34 \$1.49

Cu Resource	Mt	Cu %	Cont (kt)
Outokumpu	17.2	0.90%	150
Roseby	260.1	0.58%	1,515
TOTAL	277.3	0.60%	1,665

Valuation Summary	NPV (\$m)	P/NPV	\$/Share
Outokumpu (Finland)	146	1.00	\$0.28
Roseby (Queensland)	284	0.40	\$0.21
Net cash/(debt)	3	1.00	\$0.01
Corporate costs	-25	1.00	-\$0.05
TOTAL	262		\$0.45

Group Production and Cost Profile


PRODUCTION RECORD AT OUTOKUMPU, ON TRACK FOR ~8KT CU IN FY13

Record quarter of production at Outokumpu with an annualised rate of ~10ktpa Cu and costs of US\$1.30/lb driven by higher grades mined at Wallaby zone (~2% Cu).

- The recently released March quarterly report highlighted that AOH’s operating mine in Finland, Outokumpu, continues to perform strongly producing ~2.5kt Cu and ~2.5Koz Au in concentrate for the quarter. This represents a record quarter of production and an annualised rate of ~10ktpa Cu. The key driver for the outperformance was mining the higher grade parts of the Wallaby zone at the Kylylahti underground mine, which measured ~2% Cu.
- All key metrics were in-line with or above FSB forecasts as outlined below. Cash costs were US\$1.30/lb, below management guidance for FY13 of US\$1.40/lb-US\$1.60/lb and a function of the higher grades being processed (~2% Cu), throughput (~144kt) and resultant recovery (~92%).

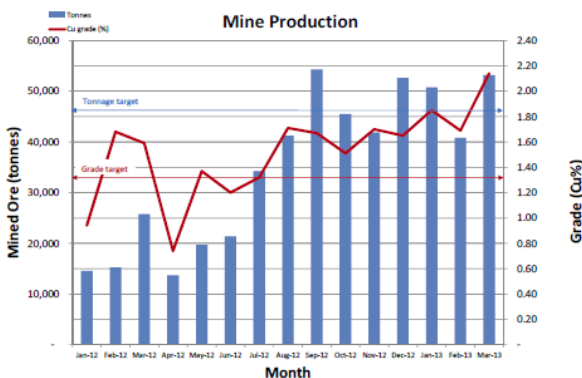
Figure 1: March Quarterly Outokumpu Highlights

	Actual	FSBe
Ore processed (kt)	0.14	0.14
Cu Grade	1.91%	1.69%
Cu Recovery	92%	92%
Conc produced	11,220	8,388
Cu in conc	2,503	1,761
Conc grade	22%	21%
C1 cash cost (US\$/lb)	\$1.30	\$1.42

Source: Altona Mining Ltd, FSB Research

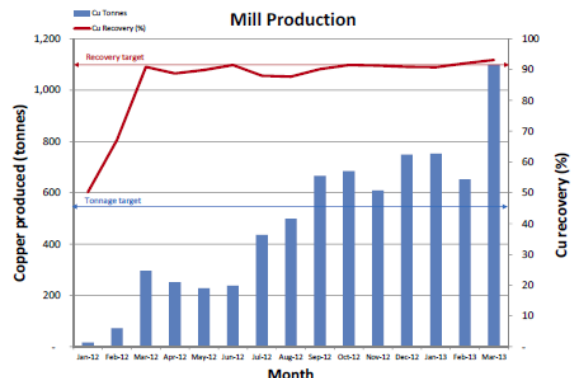
- Production guidance for FY13 has been lifted to 7.5-8.0kt Cu and 7.5-8.0koz Au at cash costs of US\$1.40/lb-US\$1.60/lb. This is the second consecutive increase in guidance by management from originally 5.0-6.0kt Cu (July 2012) and illustrates the strong performance of the mill and the exceeding of expectations in respect of mined head grades. The Luikonlahti plant has comfortably processed a large daily range of ore feed grading from 1%-4% Cu.
- YTD copper production totals 6.1kt and we highlight the potential for the company to surprise on the upside by delivering >8kt Cu in FY13, which would be a credit to management. YTD costs have been US\$1.50/lb. FSB forecast Cu production of 8.1kt and Au production of 7.9koz for FY13 at costs of US\$1.43/lb.

Figure 2: Kylylahti Mine Performance



Source: Altona Mining Ltd, FSB Research

Figure 3: Luikonlahti Mill Performance

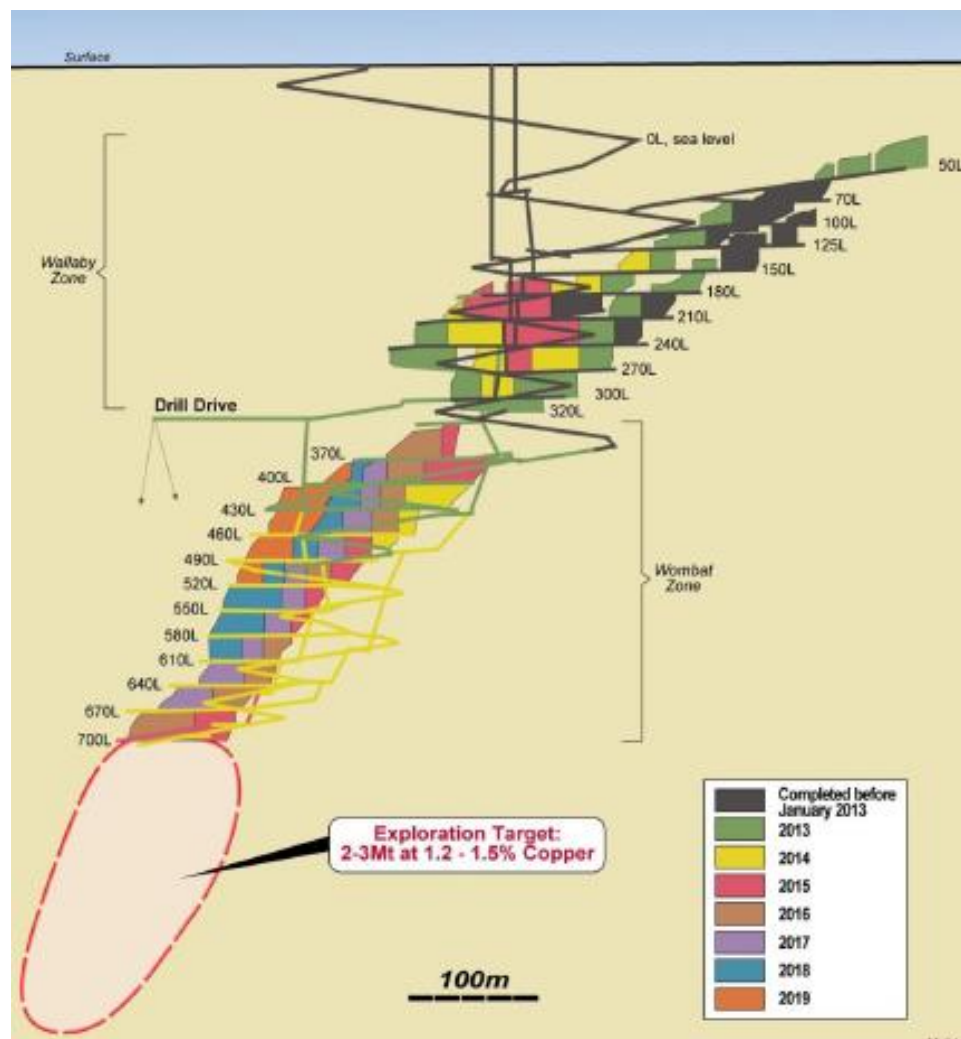


Source: Altona Mining Ltd, FSB Research

Further value potential exists at Outokumpu via the extension of mine life with drilling at depth at Kylylahti and an increase in plant throughput at Luikonlahti to deliver ~12ktpa Cu.

- The decline development is now down to 460m below surface at Kylylahti and a key focus throughout H2 CY13 is to drill test possible extensions of the deposit at depth and in particular target the lower Wombat zone which is open at depth with a previous drill hole intersecting 72m @ 1.8% Cu.
- Drilling is expected to commence in September 2013 and be completed by March 2014. A total of 15 holes are planned to be drilled for ~9,000m targeting depth extensions 200-300m below existing reserves. An exploration target of 2-3Mt @ 1.3%-1.5% Cu has been stated, which would result in significant further value creation, particularly given the existing costs sunk into the project.
- In addition to the mine life extension being sought via the addition of further reserves at depth, management are currently conducting a study into expanding the existing Luikonlahti plant from the current 550ktpa throughout rate to ~750ktpa, to increase output further to ~12ktpa Cu. GR Engineering have been appointed to complete the requisite studies for this upgrade and a detailed costing is expected to be released in Q3 2013. Our expectations are for capex of ~\$7.5m, and we have factored this into our model together with the resultant production increase.

Figure 4: Kylylahti Mine Life Extension Target



Source: Altona Mining Ltd, FSB Research

ROSEBY DEVELOPMENT READY, SEEKING PARTNER/FINANCIER

AOH are currently seeking to secure a strategic transaction to assist with the development of the ~39ktpa Cu Roseby Project in Queensland.

- AOH's Roseby Project near Mt Isa in Queensland is development ready, however requires ~\$300m in finance to fund the capex. Given this is an unrealistic proposition for a ~\$100m market cap company, management have sought to engage with strategic partners and/or financiers that may have an interest in investing in the Project.
- A previous DFS completed in May 2012 (i.e. at the peak of mining cost prices) outlined the following project parameters:
 - Mining reserve inventory of 53Mt @ 0.6% Cu and 0.1g/t Au
 - 7Mtpa throughput at 0.6% Cu and 0.1g/t Au to deliver ~39ktpa Cu and ~17kozpa Au
 - Capex \$320m
 - C1 cash cost US\$1.73/lb
 - Mine life 11 years
 - NPV ~\$250m and IRR 22%
- AOH is currently reviewing the DFS in an effort to refine, optimise and improve the metrics. A particular focus is being made to revise pit optimisations for the Little Eva deposit to investigate the opportunity for an uplift in copper grade at the expense of tonnage, and in turn reducing the plant size and capex.
- From speaking with management, we understand there to be a number of interested parties (both corporates and financiers) that have signed CA's, entered the data room and conducted site visits in recent months. We expect indicative term sheets to be presented in the near term and are hopeful for an outcome by mid 2013. In any case, at the current AOH share price there is very little implied value factored in for Roseby so this would represent additional upside to shareholders.

RECOMMENDATION

- **We retain our BUY recommendation and price target of \$0.45/sh.**
- Any transaction involving Roseby (i.e JV, sell down or asset sale) is the most likely near term catalyst.

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