



# Australian Bauxite Limited (ABX)

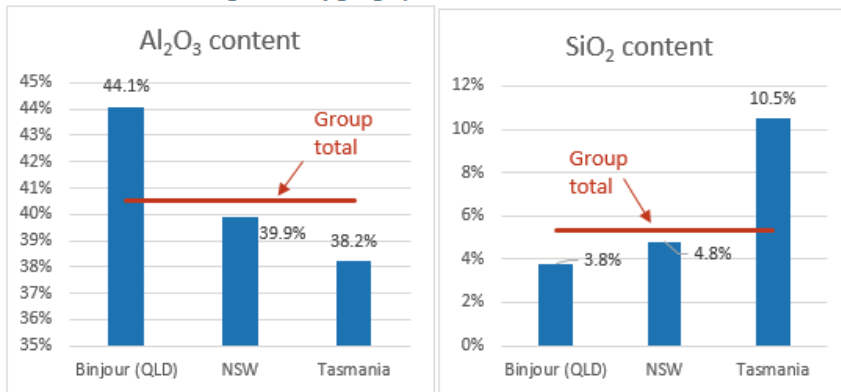
## Binjour Project gaining traction

ABX announced on 8 August 2017 that it had made an application in conjunction with its marketing partner Rawmin, for a Regional Jobs and Investment grant to assist in progressing studies into the commercial feasibility of processing bauxite ore at the group's Binjour deposit at Queensland, road hauling the product 115km to Bundaberg Port, loading at the Port and bulk shipping (65,000t per shipment) to customers in Asia. In the first stage of the study, starting October 2017, ABX is targeting to bulk sample 500-2,000t of bauxite and prepare marketing samples for identified customer(s) to expedite the execution of long-term sales contracts. By the end of June 2018, ABX hopes to have determined the maximum ship size that could operate at the Port using well-established loading techniques.

### State One Stockbroking comments

The Binjour bauxite deposits have the highest aluminium ( $Al_2O_3$ ) and lowest contaminant i.e., silica ( $SiO_2$ ) grades amongst ABX's bauxite portfolio in Tasmania, NSW, and Queensland. The current, already sizeable, Resource of 24.5Mt lends itself to a long-life, multi-million tonne export operation, and has, in addition, the potential for additional Resource extensions.

### ABX bauxite Resource grades - by geographic location



Source: Company, compiled by State One Stockbroking

Our risk-adjusted SOTP/PER-derived target price of A\$0.22ps offers some 35% upside potential. **Recommendation: Speculative Buy (Higher Risk).** Our target price, however, assumes a deep discount (50%) for poor visibility over the timing and quantum of cement-grade bauxite sales from group's existing operations at Tasmania. Improved visibility here has the potential to boost our target price.

In addition, the share price offers significantly increased upside potential if ABX successfully identifies development/sales solutions for the Binjour Project. At present, we attach (only) A\$7m to ABX's Queensland bauxite Resources – equivalent to A\$0.25 per Resource tonne. In contrast, we calculate that Queensland-based peer Metro Mining (ASX:MMI) – which has offtake agreements in place for 60% of its 6Mtpa Bauxite Hills Mine – is currently valued at A\$1.40 per Resource tonne (EV A\$191m, Resource 145Mt). A similar EV/t metric would increase our target price for ABX by +A\$0.20ps. Finally, ABX is investigating the potential of the group's bauxite refining technology to produce a range of high-value products including pure silica and titanium oxide (est. value US\$2,500/t). We believe the share price is highly leveraged to positive news flow (especially on 2017/2018 offtake), and offers an opportunity to average down for investors who may have got in at higher entry points in 2015/16. Risks to our target price and earnings profile include the timing and tonnage of bauxite sales, cash burn (working capital requirements), bauxite price and exchange rate volatility, project development, and operational and capital costs.

16 August 2017

Share Price: A\$0.17

Target Price: A\$0.22

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Resources – Bauxite

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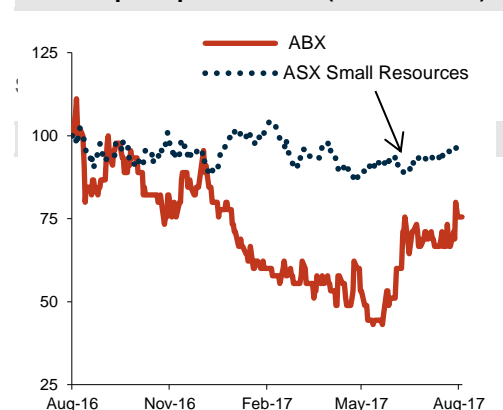
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### Australian Bauxite Limited

ASX Code	ABX
52 week range	A\$0.097-A\$0.25
Market Cap (A\$m)	24
Shares Outstanding (m)	142
Av Daily Turnover (shares)	312k
ASX All Ordinaries	5,758
2017E BV per share (A\$c)	11.7
2017E EPS (A\$c)	0.06
2017E Net Debt/(Cash) (A\$m)	-1.4

### Relative price performance (Source: IRESS)





## Financial Statements

### Australian Bauxite Limited (ABX)

Year ending December

Profit & Loss Statement (A\$m)	CY16A	CY17E	CY18E	CY19E	CY20E
Revenue	2.6	3.0	16	36	68
C1 costs	0	(1.8)	(9.1)	(22)	(44)
Corporate / Other	(4.2)	(1.1)	(1.2)	(1.3)	(1.3)
Royalty	0.0	(0.0)	(0.16)	(0.4)	(0.7)
<b>EBITDA</b>	<b>(1.6)</b>	<b>0.1</b>	<b>5.1</b>	<b>12.0</b>	<b>22.5</b>
Depreciation & Amortisation	(0.0)	0.0	(1.0)	(1.0)	(1.0)
<b>Operating profit</b>	<b>(1.6)</b>	<b>0.1</b>	<b>4.1</b>	<b>11.0</b>	<b>21.5</b>
NOI	1.4	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(0.2)</b>	<b>0.1</b>	<b>4.1</b>	<b>11.0</b>	<b>21.5</b>
Interest income	0.1	0.1	0.0	0.1	0.2
Interest expense	(0.1)	0.0	0.0	0.0	0.0
Tax expense	0.0	(0.0)	(1.3)	(3.3)	(6.5)
<b>Reported NPAT</b>	<b>(0.2)</b>	<b>0.1</b>	<b>2.9</b>	<b>7.8</b>	<b>15.2</b>
<b>Normalised NPAT</b>	<b>(1.2)</b>	<b>0.1</b>	<b>2.9</b>	<b>7.8</b>	<b>15.2</b>
EBITDA margin (%)	na	2%	33%	34%	33%
Operating profit margin (%)	na	2%	27%	31%	32%
EPS Reported (A\$c)	(0.1)	0.06	2.0	5.4	10.5
<b>EPS Normalised (A\$c)</b>	<b>(0.8)</b>	<b>0.06</b>	<b>2.0</b>	<b>5.4</b>	<b>10.5</b>
Dividend payout (%)	na	0%	0%	33%	33%
<b>DPS (A\$c)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.8</b>	<b>3.5</b>
Dil Av no. of shares (m)	143	144	145	145	145
Dil YE no. of shares (m)	144	145	145	145	145

Cash Flow Statement (A\$m)	CY16A	CY17E	CY18E	CY19E	CY20E
EBITDA	(1.6)	0.1	5.1	12.0	22.5
Investment in working capital	(1.2)	(0.0)	(0.6)	0.4	0.6
Tax expense	0.0	(0.0)	(1.3)	(3.3)	(6.5)
<b>Operating Cash Flow</b>	<b>(2.9)</b>	<b>(0.0)</b>	<b>3.3</b>	<b>9.1</b>	<b>16.6</b>
Capex	(1.3)	(0.5)	(2.0)	(2.0)	(2.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(1.3)</b>	<b>(0.5)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>
Net interest received / (paid)	0.0	0.1	0.0	0.1	0.2
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends declared	0.0	0.0	0.0	(2.6)	(5.0)
Equity raised / (repaid)	0.1	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>(2.5)</b>	<b>(4.8)</b>
Non-operating & Other	4.3	0.0	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>0.4</b>	<b>(0.5)</b>	<b>1.3</b>	<b>4.6</b>	<b>9.8</b>

Balance Sheet (A\$m)	CY16A	CY17E	CY18E	CY19E	CY20E
Cash & Deposits	1.8	1.4	2.7	7.3	17.2
Receivables	0.0	0.0	2.2	5.0	9.5
Inventories	0.0	0.0	1.6	3.6	6.8
Other Current Assets	0.0	0.0	0.2	0.4	0.7
PPE and Exploration & Development	16.4	16.9	17.9	18.9	19.9
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
<b>Total Assets</b>	<b>18.4</b>	<b>18.4</b>	<b>24.6</b>	<b>35.3</b>	<b>54.2</b>
Payables and other current Liabilities	1.0	1.0	4.2	9.7	18.4
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.5	0.5	0.5	0.5	0.5
<b>Total Liabilities</b>	<b>1.5</b>	<b>1.5</b>	<b>4.7</b>	<b>10.2</b>	<b>18.9</b>
<b>Total Equity</b>	<b>16.9</b>	<b>17.0</b>	<b>19.9</b>	<b>25.1</b>	<b>35.3</b>
Net Debt (Cash)	(1.8)	(1.4)	(2.7)	(7.3)	(17.2)

Major Shareholders	%	Date
Citicorp Nominees Pty	8.1	
Wsf Pty Ltd	7.5	Feb-17
Washington H Soul Pattinson	4.8	

Source: Company, IRESS, State One Stockbroking forecasts

Bauxite price	CY16A	CY17E	CY18E	CY19E	CY20E
CBIX index (CIF China US\$/dmt)	46	50	55	56	57
ABX received price (FOB US\$/w mt)	37	37	39	37	35
AUD/USD exchange rate	0.74	0.75	0.75	0.75	0.75
ABX received price (FOB A\$/w mt)	49	49	52	50	47

Shipments ('000 wmt)	CY16A	CY17E	CY18E	CY19E	CY20E
Bald Hill Project (Tasmania)	44	62	60	0	0
Fingal Rail Project (Tasmania)	0	0	240	720	720
Nile Road Project (Tasmania)	0	0	0	0	0
Campbell Town n prod. centre (TAS)	44	62	300	720	720
DL-130 / Portside prod. centre (TAS)	0	0	0	0	720
<b>Total</b>	<b>44</b>	<b>62</b>	<b>300</b>	<b>720</b>	<b>1,440</b>

Unit data (A\$/w mt)	CY16A	CY17E	CY18E	CY19E	CY20E
Revenue	49	49	52	50	47
C1 costs	na	29	30	31	30
Corporate/Other	na	18	4	2	1
Royalty	na	0.5	0.5	0.5	0.5
Total Cash Costs (FOB)	na	48	35	33	32

### JORC Resource and Reserve Estimates (100%)\*

	Status	Mt	Al <sub>2</sub> O <sub>3</sub> %	Al <sub>2</sub> O <sub>3</sub> (Mt)
Tasmania	Ind. & Inf.	14.7	38.2%	5.6
Queensland	Ind. & Inf.	28.0	43.6%	12.2
NSW	Ind. & Inf.	81.9	39.9%	32.7
<b>Group</b>	<b>Ind. &amp; Inf.</b>	<b>124.6</b>	<b>40.5%</b>	<b>50.5</b>

\*As at August 2016, Source: Company, compiled by State One Stockbroking

Leverage	CY16A	CY17E	CY18E	CY19E	CY20E
Net Debt/Equity	cash	cash	cash	cash	cash
Net Debt/Total Assets	cash	cash	cash	cash	cash
Net interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	CY16A	CY17E	CY18E	CY19E	CY20E
Normalised PER	-ve	269	8.2	3.1	1.6
Price/OP Cash Flow	na	na	7.2	2.6	1.4
EV (A\$m)	22	22	21	16	7
EV/EBITDA	-13	314	4.1	1.4	0.3
ROE (%)	-1%	1%	15%	31%	43%

SOTP Valuation	NPV (A\$m)	NPVps (A\$)	Ore NPV* (A\$/t)
Tasmanian mine inventory (9.8Mt est.)	56	0.39	5.75
<b>Risk discount (timing, sales, margin) 50%</b>			
Tasmanian mine inventory - risked	28	0.20	
Queensland Resources	7	0.05	
NSW Projects Resources	3	0.02	
<b>Total Bauxite Resource</b>	<b>38</b>	<b>0.27</b>	
Exploration upside	0	0.00	
Enterprise value	38	0.27	
FY17E cash	1.4	0.01	
FY17E debt	0	0.00	
<b>Equity value (NPV)</b>	<b>39.5</b>	<b>0.27</b>	

\* NPV per tonne of ore

Note: State One forecast Tasmanian mine inventory of 9.84Mt is 2% of 14.7Mt Stated Resource

### Weighted Target Price\*

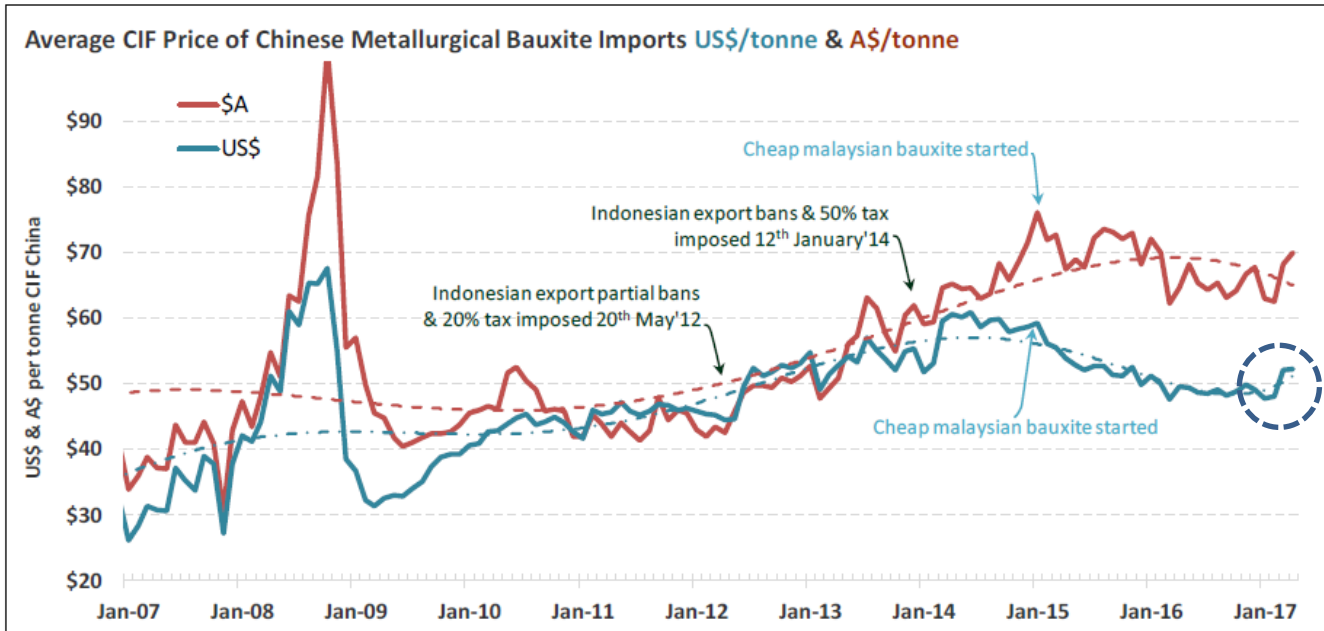
Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Risk-weighted SOTP	0.27	25%	0.22	0.17	35%
EPS/PER	0.21	75%			

EPS/PER- valuation based on 2- year rolling EPS of A\$4.1c (rounded) and PER of 5x

## Bauxite price – signs of a recovery

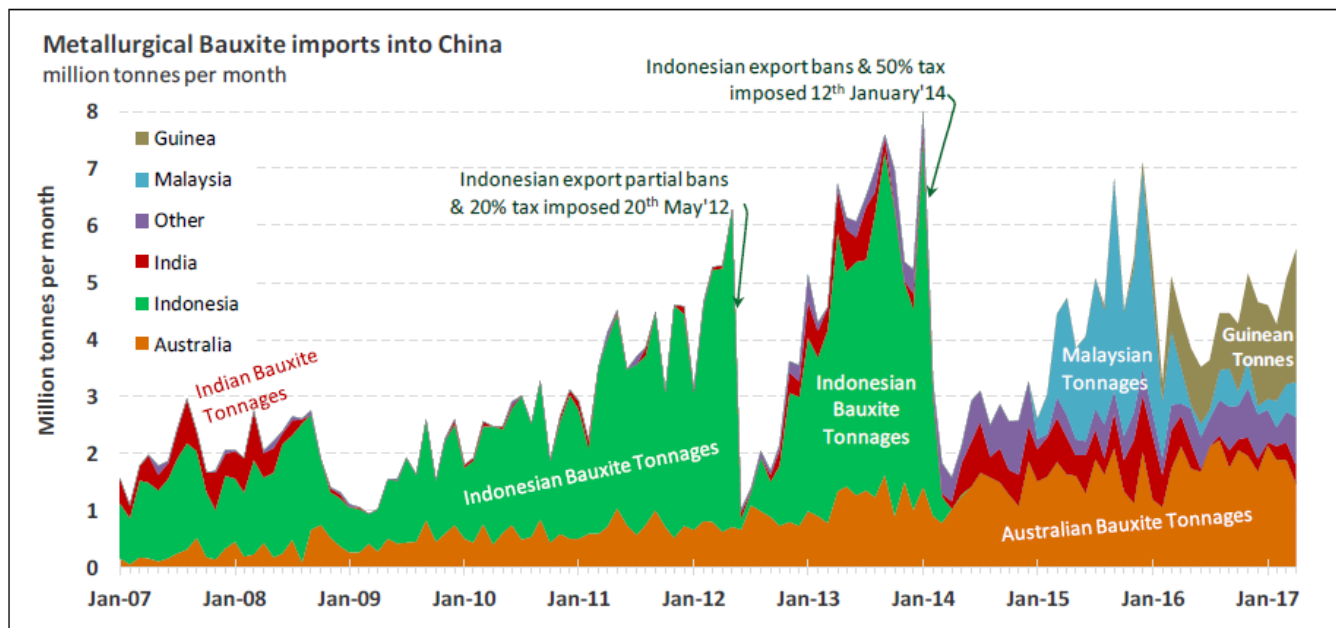
The Chinese metallurgical bauxite market was severely disrupted in 2015 and 2016 by oversupply from Malaysia, Guinea, and Australia when demand was weakening. Demand is catching up, prices have stabilised – and indeed have started to tick up above the US\$50/t mark (see Figure 1 below). We believe that at benchmark prices of US\$50/t, it is economic for ABX to sell metallurgical bauxite into China.

**Figure 1: Chinese bauxite import prices**



Source: ABX. Original Source: Chinese Customs, Bloomberg

**Figure 2: Chinese bauxite imports (tonnes)**



Source: ABX. Original Source: Chinese Customs, Bloomberg



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