

Australian Bauxite Limited

Interim results: a solid platform to grow

- Cash of A\$2.9m / debt-free.
- During 1H 2016, ABX identified new markets other than the Chinese metallurgical bauxite market, and sold 40kt of product, mined & stockpiled in 2015, into the cement-grade and fertiliser-grade bauxite markets.
- The Bald Hill bauxite mine (mothballed in January 2016) was reopened on 4 August 2016. Contractors are currently assembling three bauxite lots for sale from existing mine stockpiles, with a large cement-grade shipment planned for late 2016.
- ABX is looking to establish long-term offtake contracts with customers that will underpin the recommencement of full-scale mine production from Bald Hill and early start-up of a second (lower cost) mine at Fingal Rail.
- Because of the group's strategy to target the (lower Al content) cement-grade bauxite market, ABX has been able to reduce the Resource cut-off grade at Fingal Rail. As a result, ABX has increased the estimated bauxite Resources at Fingal Rail to 6.3Mt (at 31% Al₂O₃) from 1.10Mt (at 40.4% Al₂O₃). This, we believe, should alleviate any supply concerns for repeat-business customers.
- We note with interest that ABX and marketing partner Rawmin Mining are currently working on a possible sale of metallurgical grade bauxite to a major non-Chinese refinery. Recent press reports indicate that Malaysia is looking to extend the ban on bauxite mining by a further six months from 31 Dec 2016. This could help improve the regional supply/demand balance and support near-term export prices.

SOTP/PER-derived target price: A\$0.36ps

Our base-case valuation offers significant upside potential. **However, we believe there is the potential for more upside if ABX successfully identifies development and infrastructure solutions for its bauxite projects in QLD.** Risks to our target price and earnings profile include bauxite price and exchange rate volatility, the timing and tonnage of sales, and operational and capital costs.

Key Financials

Year-end December	FY15A	FY16E	FY17E	FY18E	FY19E
Bauxite price (US\$/dmt CIF)	53	46	50	55	56
ARP (US\$/w mt FOB)	na	37	37	39	37
ARP (A\$/w mt FOB)	na	49	49	52	50
Sales volume ('000t)	-	70	360	720	1,440
Revenue (A\$m)	0	3	18	37	72
EBITDA (A\$m)	(3)	2	7	14	25
Cash costs (A\$/t)	na	21	29	33	32
Reported NPAT (A\$m)	(1)	1	4	9	17
Normalised NPAT (A\$m)	(2)	1	4	9	17
EPS Reported (A\$c)	(0.7)	0.7	3.1	6.2	11.7
EPS Normalised (A\$c)	(1.5)	0.7	3.1	6.2	11.7
DPS (A\$c)	-	-	-	2.1	3.9
PER (x)	-ve	28	6.3	3.1	1.7
Net debt / (cash) (A\$m)	(1.5)	(3.1)	(4.6)	(10)	(21)
Capex (A\$m)	(2)	-	(2)	(2)	(2)

Source: Iress, Company Data, State One Stockbroking, Share price: \$ 0.195 Sep 08, 2016

8 September 2016

ABX A\$0.195 (TP A\$0.36)

Recommendation
Speculative Buy

Risk Assessment
Higher

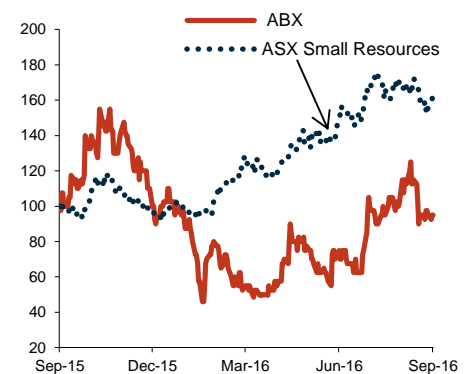
Resources – Bauxite

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Australian Bauxite Limited

ASX Code	ABX
52 week range	A\$0.09-A\$0.32
Market Cap (A\$m)	27
Shares Outstanding (m)	142
Av Daily Turnover (shares)	299k
ASX All Ordinaries	5,375
FY16E BV per share (A\$c)	12.4
EPS FY16E (A\$c)	0.70
Net Debt/(Cash) FY16E (A\$m)	-3.1

Relative price performance



Source: Iress

Financial Statements

Australian Bauxite Limited (ABX)

Year ending December

Profit & Loss Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	0	3.4	18	37	72
C1 costs	0	(1.2)	(8.7)	(22)	(44)
Corporate / Other	(3)	(0.3)	(1.6)	(1.6)	(1.7)
Royalty	0.0	(0.0)	(0.18)	(0.4)	(0.7)
EBITDA	(2.6)	1.9	7.3	13.8	24.9
Depreciation & Amortisation	0.0	(0.5)	(1.0)	(1.0)	(1.0)
Operating profit	(2.6)	1.4	6.3	12.8	23.9
NOI	1.5	0.0	0.0	0.0	0.0
EBIT	(1.1)	1.4	6.3	12.8	23.9
Interest income	0.2	0.0	0.1	0.1	0.3
Interest expense	(0.1)	0.0	0.0	0.0	0.0
Tax expense	0.0	(0.4)	(1.9)	(3.9)	(7.3)
Reported NPAT	(1.0)	1.0	4.5	9.0	17.0
Normalised NPAT	(2.1)	1.0	4.5	9.0	17.0
EBITDA margin (%)	na	56%	41%	37%	35%
Operating profit margin (%)	na	41%	35%	34%	33%
EPS Reported (A\$c)	(0.7)	0.7	3.1	6.2	11.7
EPS Normalised (A\$c)	(1.5)	0.7	3.1	6.2	11.7
Dividend payout (%)	na	0%	0%	33%	33%
DPS (A\$c)	0.0	0.0	0.0	2.1	3.9
Dil Av no. of shares (m)	142	144	145	145	145
Dil YE no. of shares (m)	143	145	145	145	145

Cash Flow Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
EBITDA	(2.6)	1.9	7.3	13.8	24.9
Investment in working capital	1.6	0.1	(1.9)	0.4	0.7
Tax expense	0.0	(0.4)	(1.9)	(3.9)	(7.3)
Operating Cash Flow	(1.0)	1.6	3.4	10.3	18.3
Capex	(1.5)	0.0	(2.0)	(2.0)	(2.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(1.5)	0.0	(2.0)	(2.0)	(2.0)
Net interest received / (paid)	0.0	0.0	0.1	0.1	0.3
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends declared	0.0	0.0	0.0	(3.0)	(5.6)
Equity raised / (repaid)	0.3	0.0	0.0	0.0	0.0
Financing Cash Flow	0.3	0.0	0.1	(2.8)	(5.3)
Non-operating & Other	(1.0)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	(3.2)	1.6	1.5	5.4	11.0

Balance Sheet (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Cash & Deposits	1.5	3.1	4.6	10.1	21.1
Receivables	0.1	0.0	2.5	5.2	10.0
Inventories	0.0	0.0	1.8	3.7	7.2
Other Current Assets	0.1	0.0	0.2	0.4	0.7
PPE and Exploration & Development	18.0	17.5	18.5	19.5	20.5
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
Total Assets	19.8	20.8	27.7	39.1	59.7
Payables and other current Liabilities	2.4	2.3	4.8	10.1	19.3
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
Total Liabilities	2.9	2.8	5.3	10.6	19.8
Total Equity	17.0	18.0	22.4	28.5	39.9
Net Debt (Cash)	(1.5)	(3.1)	(4.6)	(10.1)	(21.1)

Major Shareholders	%	Date
Citicorp Nominees Pty	8.1	
Wsf Pty Ltd	6.5	Feb-16
Gleneagles Securities Pty Ltd	5.3	

Source: Company, IRESS, State One Stockbroking forecasts

Bauxite price	FY15A	FY16E	FY17E	FY18E	FY19E
CBIX index (CIF China US\$/dmt)	53	46	50	55	56
ABX received price (FOB US\$/w mt)	na	37	37	39	37
AUD/USD exchange rate	0.76	0.74	0.75	0.75	0.75
ABX received price (FOB A\$/w mt)	na	49	49	52	50

Shipments ('000 wmt)	FY15A	FY16E	FY17E	FY18E	FY19E
Bald Hill Project (Tasmania)	0	70	90	0	0
Fingal Rail Project (Tasmania)	0	0	270	720	720
Nile Road Project (Tasmania)	0	0	0	0	0
Campbell Town prod. centre (TAS)	0	70	360	720	720
DL-130 / Portside prod. centre (TAS)	0	0	0	0	720
Total	0	70	360	720	1,440

Unit data (A\$/wmt)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	na	49	49	52	50
C1 costs	na	17	24	30	31
Corporate/Other	na	4	4	2	1
Royalty	na	0.5	0.5	0.5	0.5
Total Cash Costs (FOB)	na	21	29	33	32

JORC Resource and Reserve Estimates (100%)*

	Status	Mt	Al ₂ O ₃ %	Al ₂ O ₃ (Mt)
Tasmania	Ind. & Inf.	14.3	38.3%	5.5
Queensland	Ind. & Inf.	28.0	43.6%	12.2
NSW	Ind. & Inf.	81.9	39.9%	32.7
Group	Ind. & Inf.	124.2	40.6%	50.4

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

Leverage	FY15A	FY16E	FY17E	FY18E	FY19E
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)	FY15A	FY16E	FY17E	FY18E	FY19E
Normalised PER	-ve	27.9	6.3	3.1	1.7
Price/OP Cash Flow	-28.8	17.7	8.1	2.7	1.5
EV (A\$m)	26	25	23	18	7
EV/EBITDA	-10.3	13.1	3.2	1.3	0.3
ROE (%)	-6%	6%	20%	32%	43%

SOTP Valuation	NPV (A\$m)	NPVps (A\$)	Ore NPV* (A\$/t)
Tasmanian mine inventory	62	0.43	5.91
Risk discount (timing, sales, margin) 25%			
Tasmanian mine inventory - risked	47	0.33	
Queensland Resources	7	0.05	
NSW Projects Resources	3	0.02	
Total Bauxite Resource	57	0.40	
Exploration upside	0	0.00	
Enterprise value	57	0.40	
FY16E cash	3	0.02	
FY16E debt	0	0.00	
Equity value (NPV)	60	0.42	

* NPV per tonne of ore

Note: Forecast Tasmanian mine inventory of 10.54Mt compares to stated Resources of 9.2Mt

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Risk-weighted SOTP	0.42	75%	0.36	0.195	84%
EPS/PER	0.19	25%			

EPS/PER- valuation based on 1-year rolling EPS of A\$2.4c (rounded) and PER of 8x

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