



# Australian Bauxite Limited (ABX)

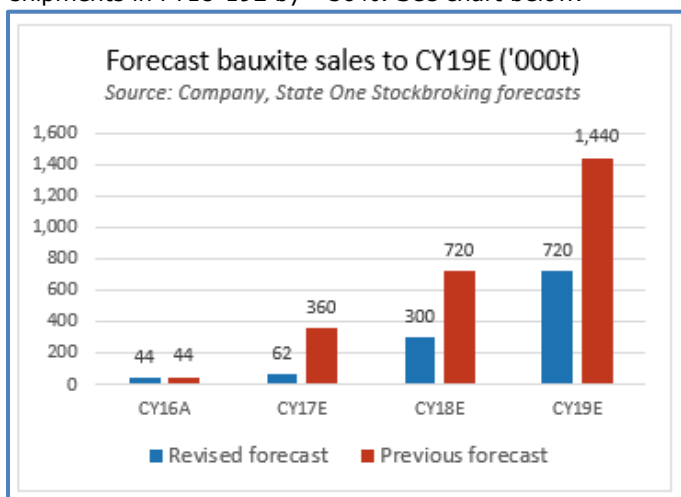
## Good news with LOI received for next shipment

ABX announced on 25 May 2017 that it had received a letter of intent (LOI) for a significant shipment of cement grade bauxite from its Bald Hill Bauxite Project in Tasmania. The shipment date is expected to be early in the December quarter, but may be earlier depending on final delivery arrangements currently under discussion.

### State One Stockbroking comments

Visibility on the timing and quantum of sales tonnage has been poor following ABX's maiden international shipment of 36kt of cement-grade bauxite and the re-opening of the mothballed Bald Hill operations in early August 2016. Thus, we see the announcement as a significant development. In addition, we note management's comments on new potential cement-grade bauxite customers, and an increasing number of queries on potential sales of metallurgical bauxite into China and India.

We have revised our FY17E sales forecast from 360kt (i.e., 12 shipments (1 x month) of 30kt) to 62kt (1.5kt fertiliser-grade material sold in March 2017 quarter plus 2 x 30kt shipments of cement-grade bauxite). We have also reduced our forecast shipments in FY18-19E by ~50%. See chart below.



Our 62kt bauxite sales forecast in **FY17E** assumes 2 shipments of cement-grade bauxite already processed at the Bald Hill mine. Our 300kt sales forecast in **FY18E** assumes 60kt of bauxite already processed at the Bald Hill mine, and 240kt mined from the Fingal Rail site. Our 720kt sales forecast in **FY19E** assumes 60kt per month (2\* 30kt shipments) of cement grade bauxite from Fingal Rail.

### SOTP/PER-derived target price: A\$0.19ps (A\$0.36ps previously)

As a result of the above sales revisions, and after increasing the risk discount to 50% (25% previously) on our forecast Tasmanian bauxite NPV, our SOTP/PER-derived target price has been revised to A\$0.19ps (A\$0.36ps previously). With ABX trading just above its record low of A\$0.097ps, 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.

**Share price catalysts:** ABX is currently negotiating long-term offtake sales contracts with cement-grade bauxite traders; success here would be, in our opinion, the key share price catalyst. In addition, we note management's statement in the March Quarter Report that "a potential partner" for developing the Binjour Project has approached ABX. Unlocking development and infrastructure solutions for the group's bauxite projects in QLD would also be a significant share price driver. Finally, ABX is continuing to investigate 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). 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, and operational and capital costs.

29 May 2017

Share Price: A\$0.10

Target Price: A\$0.19

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

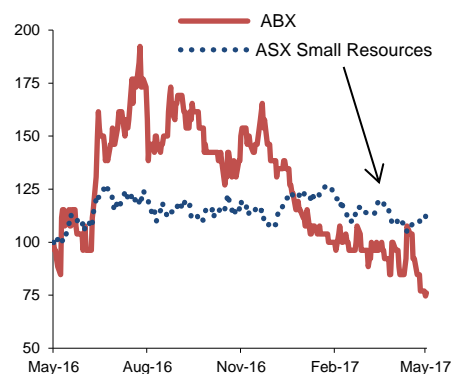
### Resources – Bauxite

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### Australian Bauxite Limited

ASX Code	ABX
52 week range	A\$0.097-A\$0.25
Market Cap (ASm)	14
Shares Outstanding (m)	142
Av Daily Turnover (shares)	268k
ASX All Ordinaries	5,769
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\$¢)	(0.1)	0.06	2.0	5.4	10.5
<b>EPS Normalised (A\$¢)</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\$¢)</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>Incl(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 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\$/wmt)	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	163	5.0	1.9	1.0
Price/OP Cash Flow	na	na	4.4	1.6	0.9
EV (A\$m)	13	13	12	7	-3
EV/EBITDA	-8	183	2.3	0.6	-0.1
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
<i>Risk discount (timing, sales, margin)</i>	<i>50%</i>		
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 f'cast Tasmanian mine inventory of 9.84Mt is 3/4 of 14.7Mt Stated Resource

### Weighted Target Price\*

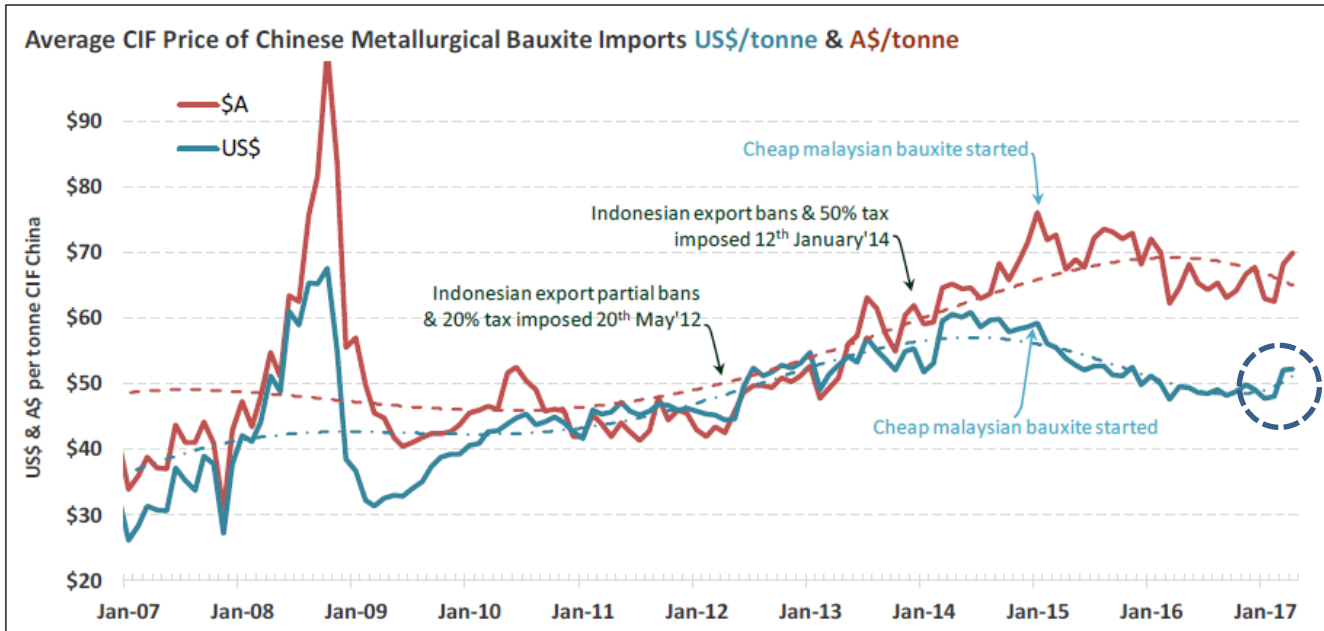
Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Risk-weighted SOTP	0.27	25%	0.19	0.100	94%
EPS/PER	0.17	75%			

EPS/PER- valuation based on 2-year rolling EPS of A\$3.4c (rounded) and PER of 5x

## Bauxite price – signs of a recovery

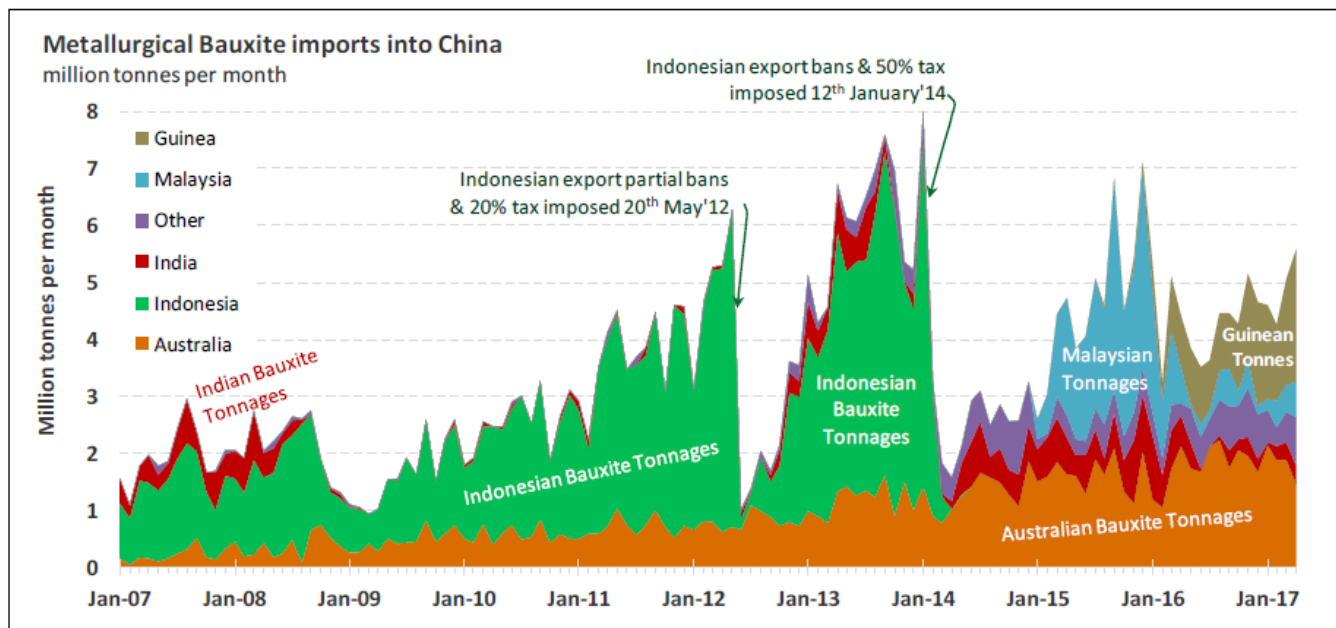
The Chinese metallurgical bauxite market was severely disrupted in 2015 and 2016 by oversupply from Malaysia, Guinea, and Australia when demand was weakening. Demand is catching up, prices have stabilised – and indeed have started to tick up above the US\$50/t mark (see Figure 1 below). We believe that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