

Havilah Resources (ASX:HAV)

Funding path secured for key projects

27 May 2019

In Early May 2019, HAV entered into a Share Subscription Agreement (SSA) with SIMEC Mining (part of the Gupta Family Group (GFG)) consisting of A\$50m in committed equity investments over three years and a further A\$50m in conditional or discretionary funding. The committed funds will be used to progress HAV's iron ore projects (Maldorky/Grants/GIOB) and the copper prospects in the Mutooroo Cu-Co District to DFS status. At the committed funding share price structure, and after a proposed A\$5m rights issue, we calculate that GFG will have ~51% of HAV's share capital. At this level of ownership, the SSA entitles GFG to appoint four (4) directors to the Board. Note: the Board will maintain a majority of independent directors and an independent Chair in compliance with the Corporate Governance Principles and Recommendations.

Calculation of shares in issue post committed SSA funding

Funding component	Amount (A\$m)	Funding share price (A\$)	No of shares (million)
....Committed initial placement	6	0.154	39.0
....Committed subsequent placement	44	0.188	234.2
Committed SSA funding (total)	50		273.2
Proposed Rights Issue to HAV shareholders	5	0.14	36.1
Current HAV shares in issue (diluted)			229.4
Forecast total no. of shares post funding			538.6
<i>Committed SSA as % total shares in issue</i>			<i>51%</i>

Assumptions: Committed initial placement priced at Reference Share Price of A\$0.154c (45-day VWAP to 30 April 2019), committed subsequent placement at 22% premium to Reference Share Price, State One Stockbroking assumes proposed A\$5m Rights Issue is priced at a ~10% discount to HAV's 30 April 2019 closing price of A\$0.155.

Source: Company, State One Stockbroking forecasts

State One comment: a reasonable outcome for HAV shareholders

The SSA is conditional on receiving HAV shareholder approval at an EGM to be convened in due course. Prior to dispatching announcements for the EGM, HAV must obtain an ASX waiver (in relation to GFG's eventual >20% equity interest in HAV and the issue of shares to GFG over a period of more than three months) and an independent expert's report. While it is difficult to put a timeline on the ASX approval process, we believe the independent expert report is currently being compiled and suggest that HAV could be in a position to convene the EGM before the end of the current financial year (i.e., by end-July 2019). We note that each of the directors intends to recommend that shareholders vote in favour of approving the SSA. In the absence of a superior proposal, we believe that the SSA represents a reasonable outcome for HAV shareholders.

- We suspect that current HAV shareholders are effectively "tapped out", and that without the funding provided by the SSA, materially advancing HAV's portfolio of projects would likely become increasingly difficult.
- Although forming part of the conditional additional Project funding, we note with interest that GFG can purchase a direct equity interest in HAV's iron ore assets at A\$1.2m for each 1% ownership interest; this values HAV's current iron ore Resource at A\$120m or A\$1.03/t of contained Fe metal. In comparison, we value the assets at (only) US\$0.15/t of contained metal. The implication, we suggest, is that HAV/GFG believe the iron ore Resource base has the potential to significantly expand (we estimate by 5x or more).

At this juncture, determining a target price for HAV is problematic. The SSA implied value of HAV (A\$98m) divided by the indicative number of post SSA-shares (539m) is A\$0.18ps; in addition, the share price - at least in the near-term - is most likely capped at A\$0.21, the SSA reference share price of A\$0.154 escalated by 35% (as per the committed funding terms). With some 30% upside potential from current share price levels, we maintain a Speculative Buy (higher Risk) recommendation.

Share Price: A\$0.16

Target Price: A\$0.21

Target upside: 31%

Recommendation
Speculative Buy

Risk Assessment
Higher

Resources: Cu, Au, Co, Iron Ore

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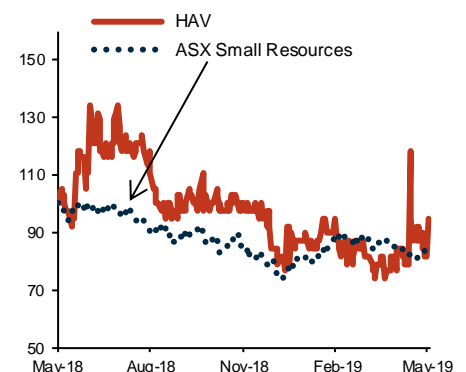
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Havilah Resources Limited

ASX Code	HAV
52 week range (A\$cps)	A\$0.14-A\$0.27
Market Cap (A\$m)	34
Fully diluted no. of shares (m)	229
Av Daily Turnover (shares)	164k
ASX All Ordinaries	6,549
FY19E BV per share (A\$)	0.20
FY19E EPS (A\$)	0.01
FY19E Net (Debt)/Cash (A\$m)	2.2

Relative price performance



Havilah Resources Limited

Year ending July

Profit & Loss Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue (Portia Project only)	0.0	0.1	0.0	0.0	0.0
Mining/Hauling	0.0	0.0	0.0	0.0	0.0
Processing	0.0	0.0	0.0	0.0	0.0
Corporate/Royalty/Other	(2.5)	(2.5)	(2.3)	(2.3)	(2.3)
EBITDA	(2.5)	(2.4)	(2.3)	(2.3)	(2.3)
Depreciation & Amortisation	(0.2)	(2.7)	(0.2)	(0.2)	(0.2)
Operating profit	(2.7)	(5.1)	(2.5)	(2.5)	(2.5)
NOI (divestment & royalties)	5.6	7.0	0.0	0.0	5.3
EBIT	3.0	1.9	(2.5)	(2.5)	2.8
Interest income	0.0	0.1	0.1	0.0	0.0
Interest expense	(0.2)	(0.5)	(0.3)	(0.4)	(0.5)
Tax expense	(1.0)	0.0	0.0	0.0	0.0
Reported NPAT	1.8	1.5	(2.6)	(2.9)	2.3
Normalised NPAT	1.8	1.5	(2.6)	(2.9)	2.3
EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	0.01	0.01	(0.01)	(0.01)	0.01
EPS Underlying (A\$)	0.01	0.01	(0.01)	(0.01)	0.01
EPS growth (%)	nm	nm	nm	nm	nm
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	229	229	229	229	229
YE no. of fully-diluted shares (m)	237	229	229	229	229

Cash Flow Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(2.5)	(2.4)	(2.3)	(2.3)	(2.3)
Investment in working capital	(2.1)	(0.7)	(0.8)	0.0	0.0
Tax expense	(1.0)	0.0	0.0	0.0	0.0
Operating Cash Flow	(5.5)	(3.0)	(3.0)	(2.3)	(2.3)
Capex	(2.6)	(3.0)	(1.5)	(1.0)	(1.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(2.6)	(3.0)	(1.5)	(1.0)	(1.0)
Net interest received / (paid)	(0.2)	(0.5)	(0.1)	(0.4)	(0.5)
Debt draw down / (repayment)	0.0	2.5	1.0	2.5	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	1.9	0.0	0.0	0.0	0.0
Financing Cash Flow	1.7	2.0	0.9	2.1	(0.5)
Non-operating & Other	7.3	7.0	0.0	0.0	5.3
Inc/(Dec) in Cash	1.0	3.0	(3.6)	(1.2)	1.5

Balance Sheet (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	1.8	4.9	1.2	0.1	1.5
Receivables	0.1	0.0	0.0	0.0	0.0
Inventories	0.6	0.0	0.0	0.0	0.0
Other Current Assets	3.3	3.3	3.3	3.3	3.3
PPE and Exploration & Development	36.0	36.3	37.6	38.4	39.2
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	7.5	7.5	7.5	7.5	7.5
Total Assets	49.4	52.0	49.6	49.3	51.5
Payables and other current Liabilities	3.5	2.1	1.3	1.3	1.3
Short Term Debt	0.2	2.7	3.7	6.2	6.2
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.7	0.7	0.7	0.7	0.7
Total Liabilities	4.3	5.4	5.6	8.1	8.1
Total Equity	45.1	46.5	44.0	41.1	43.4
Net cash / (debt)	1.7	2.2	(2.5)	(6.1)	(4.6)

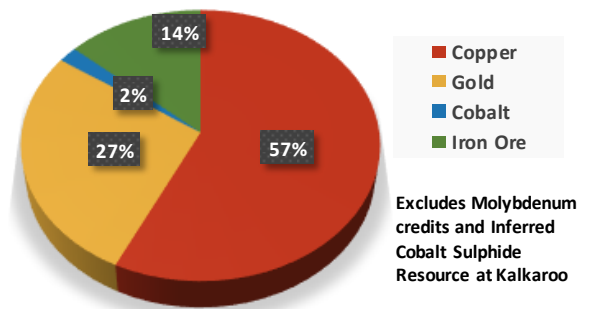
Substantial Shareholders	%	Date
Trindal Pty Ltd	19.2	
First names (Jersey) Ltd	9.1	Oct-18
Glencopper SA Pty Ltd	4.7	

Source: Company, IRESS, State One Stockbroking forecasts

Commodity price assumptions	FY18A	FY19E	FY20E	FY21E	FY22E
Spot Gold (US\$/oz)		1,300	1,326	1,353	1,380
AUD:USD		0.75	0.75	0.75	0.75
Spot Gold (A\$/oz)		1,733	1,768	1,803	1,839
Copper price (US\$/t)		6,500	6,630	6,763	6,898
Cobalt price (US\$/t)		33,000	33,660	34,333	35,020
Iron ore (62% Fe, CFR China) (US\$/t)		95	75	77	78

Cu/Au/Co Resources	Tonnes ore (Mt)	Cu (Kt)	Au (Koz)	Co (t)
Kalkaroo Reserves.....				
included within Resources below	100.1	474	1,407	n/a
Kalkaroo (Mes, Ind, Inf Resources)	245.6	1,292	3,105	0
Mutooro (Mes, Ind, Inf Resources)	13.1	195	45	8,400
Total	258.7	1,487	3,150	8,400

Fe Resources	Tonnes ore (Mt)	Fe (%)	Fe metal (Mt)
Maldorky (Indicated Resource)	147	30%	44
Grants (Inferred Resource)	304	24%	73
Total	451	26%	117

In-situ value of Resource (US\$14.7bn)
 - based on spot commodity prices


SOTP Valuation	(A\$m)	(A\$/share)	Comment
Kalkaroo mine inventory (unrisked)	379	1.65	State One's NPV valuation
<i>Risk weighting</i>	<i>90%</i>		<i>i.e., 90% discount to NPV</i>
Kalkaroo mine inventory (risked)	38	0.17	
Kalkaroo non-mine inventory	0	0.00	Assume zero
Kalkaroo Resource (Total)	38	0.17	
Kalkaroo exploration upside	0	0.00	Assume zero
Kalkaroo CuAu Project (risked)	38	0.17	
Land (Kalkaroo Station)	1	0.00	Purchase price
Mutooro	5	0.02	Nominal
Maldorky Iron Ore Project	9	0.04	Assume US\$0.15 per t Fe meta
Grants Iron Ore Project	15	0.06	Assume US\$0.15 per t Fe meta
Group Enterprise value	67	0.29	
Net cash / (debt) (FY19E)	2.2	0.01	
Group Equity value	70	0.30	
Current share price		0.16	

Total Return	Recommendation
One-year capital gain on SOTP TP	89%
One-year dividend yield	0%
Total potential return to SOTP TP	89%
	Speculative Buy

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