

# Havilah Resources (ASX:HAV)

## Iron ore could be the new “gold”

### Event

Strong demand from Chinese steelmakers, allied to supply disruptions from Brazil and Australia have boosted iron ore prices to a five-year high. While the commodity price hike has, not unexpectedly, supported significant share price gains in the large cap miners – BHP, Rio Tinto, Fortescue – the favourable supply/demand balance has also generated renewed interest in the small cap iron ore space. Havilah Resources, historically positioned as a copper/gold/cobalt exploration and development play, now finds that its long-sidelined iron ore projects (Maldorky and Grants/ Grants Iron Ore Basin (GIOB)), are firmly front and centre on investors’ radar screens.



At US\$96/t the iron ore price (62% Fe, CFR China) has increased by 48% since late 2018, and is now some 160% above its 5-year low of US\$35/t.

### State One comment: end-April could see a deal with SIMEC

In May 2018, SIMEC Mining (part of the Gupta Family Group (GFG)) commenced due diligence - including metallurgical testing and RC drilling - on HAV's iron ore projects. Note: the Maldorky and Grants/GIOB Projects are favourably located in relation to GFG's existing steelmaking and iron ore export operations at Whyalla. In December 2018, the exclusivity period to complete the due diligence was extended from the end of 2018 to the end of January 2019, and then on payment of A\$1m was extended further to 31 March 2019. Subsequently, a 30-day extension was granted (to the end of April 2019). Importantly, HAV stated that the extension was to allow for both parties to "continue negotiations on the terms of a deal structure and commercial arrangement". While there is no certainty that a deal will be announced by the end of April, or indeed at all, we suggest that the payment of A\$1m by SIMEC to allow due diligence extensions was a positive sign.

### SOTP Valuation: 30cps

HAV's current combined iron ore Resource is estimated at 451Mt @ 26% Fe for 117Mt of contained Fe. At an assumed Resource value of US\$0.15 per t of contained metal (based on peer average Resource valuations), we calculate HAV's iron ore Resource could be worth ~A\$24m (equivalent to A\$0.10 per diluted share). Importantly, HAV disclosed on 3 April 2019 an exploration target for the GIOB of at least 3.5Bt @ 24% for 840Mt of contained Fe. Converting this to a Resource, could increase the iron ore valuation by multiples. Allied to our (risk-adjusted) valuation of A\$38m for Kalkaroo, we calculate HAV's SOTP valuation at A\$71m (A\$0.30ps). **Recommendation: Speculative Buy (Higher Risk).** Risks to our target price and forecast earnings profile include but are not limited to: commodity price (Cu, Au, Co, Fe) and exchange rate volatility, near-term cash flow, development outcomes at the Mutooroo and Kalkaroo Projects, and a successful outcome with SIMEC re HAV's iron ore assets.

**17 April 2019**

Share Price: A\$0.14

Target Price: A\$0.30

**Target Upside: 113%**

Recommendation

**Speculative Buy**

Risk Assessment

**Higher**
**Resources, Cu, Au, Co, Fe**

David Brennan, CFA

Senior Investment Analyst

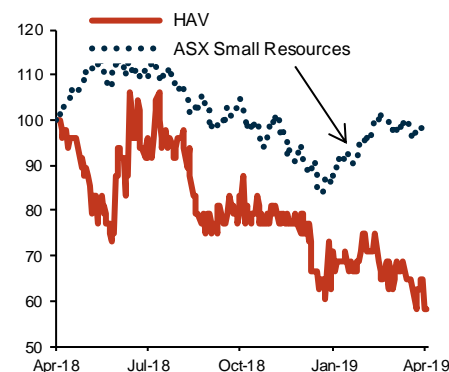
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### Havilah Resources Limited

ASX Code	HAV
52-week range (A\$ps)	A\$0.14-A\$0.27
Market Cap (ASm)	31
Shares Fully diluted (m)	237
Av Daily Turnover (shares)	164k
ASX All Ordinaries	6,361
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

<b>Profit &amp; Loss Statement (A\$M)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
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)
<b>EBITDA</b>	<b>(2.5)</b>	<b>(2.4)</b>	<b>(2.3)</b>	<b>(2.3)</b>	<b>(2.3)</b>
Depreciation & Amortisation	(0.2)	(2.7)	(0.2)	(0.2)	(0.2)
<b>Operating profit</b>	<b>(2.7)</b>	<b>(5.1)</b>	<b>(2.5)</b>	<b>(2.5)</b>	<b>(2.5)</b>
NOI (divestment & royalties)	5.6	7.0	0.0	0.0	5.3
<b>EBIT</b>	<b>3.0</b>	<b>1.9</b>	<b>(2.5)</b>	<b>(2.5)</b>	<b>2.8</b>
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
<b>Reported NPAT</b>	<b>1.8</b>	<b>1.5</b>	<b>(2.6)</b>	<b>(2.9)</b>	<b>2.3</b>
<b>Normalised NPAT</b>	<b>1.8</b>	<b>1.5</b>	<b>(2.6)</b>	<b>(2.9)</b>	<b>2.3</b>
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
<b>EPS Underlying (A\$)</b>	<b>0.01</b>	<b>0.01</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>0.01</b>
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	237	237	237	237
YE no. of fully-diluted shares (m)	237	237	237	237	237

<b>Cash Flow Statement (A\$M)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
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
<b>Operating Cash Flow</b>	<b>(5.5)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(2.3)</b>	<b>(2.3)</b>
Capex	(2.6)	(3.0)	(1.5)	(1.0)	(1.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(2.6)</b>	<b>(3.0)</b>	<b>(1.5)</b>	<b>(1.0)</b>	<b>(1.0)</b>
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
<b>Financing Cash Flow</b>	<b>1.7</b>	<b>2.0</b>	<b>0.9</b>	<b>2.1</b>	<b>(0.5)</b>
Non-operating & Other	7.3	7.0	0.0	0.0	5.3
<b>Inc/(Dec) in Cash</b>	<b>1.0</b>	<b>3.0</b>	<b>(3.6)</b>	<b>(1.2)</b>	<b>1.5</b>

<b>Balance Sheet (A\$M)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
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
<b>Total Assets</b>	<b>49.4</b>	<b>52.0</b>	<b>49.6</b>	<b>49.3</b>	<b>51.5</b>
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
<b>Total Liabilities</b>	<b>4.3</b>	<b>5.4</b>	<b>5.6</b>	<b>8.1</b>	<b>8.1</b>
<b>Total Equity</b>	<b>45.1</b>	<b>46.5</b>	<b>44.0</b>	<b>41.1</b>	<b>43.4</b>
Net cash / (debt)	1.7	2.2	(2.5)	(6.1)	(4.6)

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

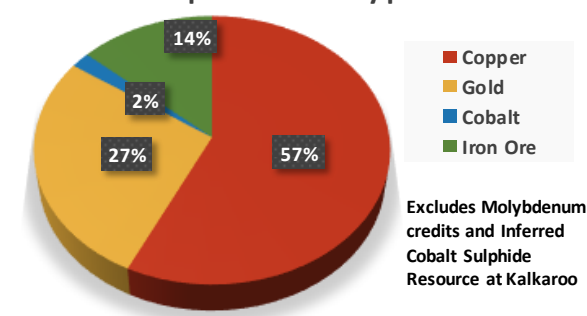
Source: Company, IRESS, State One Stockbroking forecasts

<b>Commodity price assumptions</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
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

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

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

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



<b>Valuation</b>	<b>(A\$m)</b>	<b>(A\$/share)</b>	<b>Comment</b>
Kalkaroo mine inventory (unrisked)	379	1.60	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	0.16	
Kalkaroo non-mine inventory	0	0.00	Assume zero
Kalkaroo Resource (Total)	38	0.16	
Kalkaroo exploration upside	0	0.00	Assume zero
Kalkaroo CuAu Project (risked)	38	0.16	
Land (Kalkaroo Station)	2	0.01	Purchase price
Mutooroo	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	68	0.29	
Net cash / (debt) (FY19E)	2	0.01	
<b>Group Equity value</b>	<b>71</b>	<b>0.30</b>	
Current share price		0.14	

<b>Total Return</b>	<b>Recommendation</b>
One-year capital gain	113%
One-year dividend yield	0%
Total potential return	113%
	<b>Speculative Buy</b>

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