

Havilah Resources Limited

Near-term gold cash flow, base metal upside

Portia Mine: unhedged, lowering costs, extending LOM

Cumulative gold production of 20,000oz (100%) by end January 2017 (i.e., by end 2QFY17), has allowed HAV to deliver all 10,000oz of its gold hedge (@ A\$1,618/oz), repay A\$4m in outstanding debt, and fund processing plant improvements (scrubber/trommel), a water storage pond, and a Resource extensional drilling programme. HAV is now (i) debt-free, (ii) fully exposed to the gold price (spot A\$1,700/oz @ US\$1,275/oz and US\$0.75c), (iii) optimising mill throughput and AISCs and, (iv) maintaining an active drill programme to extend the Resource beyond the pit expansion announced in [November 2016](#). Although our base-case Portia mine inventory of 101koz Au (~ 2 years LOM) is almost double the original optimised open pit design of 54koz, we believe that there is upside risk to our forecast from additional Resource extensions at the southern and northern pit areas, and the pit floor. With the potential inclusion of the adjacent (500m) North Portia Cu-Au deposit - metallurgy and mine plan studies currently in progress - Portia could develop into a multi-year (8-10yr) Cu-Au operation for a relatively modest ~A\$5m capex outlay.

Kalkaroo Cu-Au Project: 76% increase in Cu Eq. Resource

After the inclusion of data from 74 holes and extensive re-interpretation and block modelling re-estimation, HAV announced on 29 March 2017 a [significant Resource upgrade](#) (+76% increase in copper equivalent tonnes) at the Kalkaroo Cu-Au Project. The revised Resource of 1.14Mt contained Cu (0.45%) and 3.3Moz contained gold (0.4g/t) - excluding unquantified credits of molybdenum, cobalt, and sulphur - remains open and depth and long strike, and represents one of the largest undeveloped Cu-Au deposits in Australia. The Resource expansion underscores the potential opportunity to enhance the project's economics (note: earlier scoping studies based on the 2012 Resource model estimates capex at >A\$350m). With US\$ copper prices up 21% over the past year, and the global supply/demand balance forecast to tighten over the next three years, we believe Kalkaroo must be seen as an increasingly attractive target for a JV partner (either at an equity or asset level).

Mutooroo Project: exposure to "in- metal" - Cobalt

The Mutooroo Project is a lode-style massive sulphide deposit containing an estimated Resource of 13.1Mt grading 1.48% Cu and 0.21g/t Au for ~195kt contained copper and ~90koz of gold. Importantly, the Resource also contains 17.5Mkg of cobalt (0.14% Co), which has an in-situ value of US\$980m at the current Co spot price of US\$25.50/lb. Note: Kalkaroo also has cobalt potential from the pyrite concentrate. Over the next 12 months, [HAV plan to advance the Mutooroo Project](#) in terms of mine permitting (mining lease, native title), and completing metallurgical and mining plan / processing / costing studies.

Valuation: Revised up to A\$0.84ps (A\$0.66ps previously)

On the back of a significant Resource upgrade at Kalkaroo, and a 10% upward revision in our forecast long-term Cu price to US\$5,250/t (spot US\$5,740/t), we have increased our estimated NPV (un-risked) for the Kalkaroo Cu/Au Project to A\$379m from A\$302m. This in turn underpins an upward revision in our risk-adjusted SOTP valuation to A\$0.84ps (A\$0.66ps previously). At current share price levels of A\$0.69ps, HAV offers some 22% upside potential; **we maintain a Buy (Higher Risk) Recommendation.**

12 April 2017

HAV A\$0.69 (TP A\$0.84)
Recommendation
Buy
Risk Assessment
Higher

Resources – Gold, Copper

David Brennan, CFA

Senior Investment Analyst

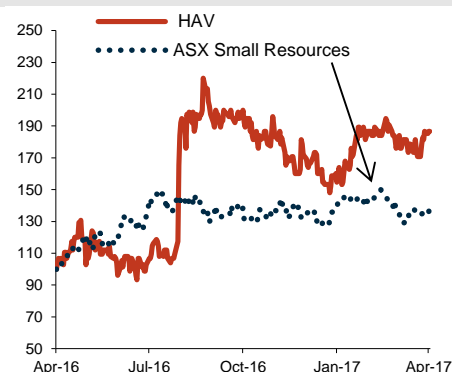
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Havilah Resources Limited

ASX Code	HAV
52 week range	A\$0.32-A\$0.87
Market Cap (A\$m)	118
Shares Outstanding (m)	171
Av Daily Turnover (shares)	141,361
ASX All Ordinaries	5,962
FY17E BV per share (A\$)	0.25
EPS FY17E (A\$)	0.07
Net Debt/(Cash) FY17E (A\$m)	-6

Relative price performance



Source: IRESS

Financial Statements

Havilah Resources Limited

Year ending July

Profit & Loss Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue (Portia Project only)	2.7	31.2	38.6	0.0	0.0
Mining/Hauling	0.0	0.0	0.0	0.0	0.0
Processing	(1.4)	(6.1)	(7.5)	0.0	0.0
Corporate/Royalty/Other	(2.3)	(4.0)	(4.0)	(2.0)	(2.0)
EBITDA	(0.9)	21.1	27.1	(2.0)	(2.0)
Depreciation & Amortisation	(0.2)	(0.2)	(1.0)	(1.0)	(0.5)
Operating profit	(1.1)	20.9	26.1	(3.0)	(2.5)
NOI	0.0	0.0	0.0	0.0	0.0
EBIT	(1.1)	20.9	26.1	(3.0)	(2.5)
Interest income	0.0	0.0	0.2	0.5	0.3
Interest expense	(0.3)	(0.3)	0.0	0.0	0.0
Tax expense	2.6	(6.2)	(7.9)	0.0	0.0
Reported NPAT	1.2	14.5	18.4	(2.5)	(2.2)
Normalised NPAT	1.2	14.5	18.4	(2.5)	(2.2)
EBITDA Margin (%)	-33%	68%	70%	na	na
Operating profit margin (%)	-39%	67%	68%	na	na
EPS Reported (A\$)	0.01	0.07	0.09	(0.01)	(0.01)
EPS Normalised (A\$)	0.01	0.07	0.09	(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)	210	214	214	214	214
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Cash Flow Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(0.9)	21.1	27.1	(2.0)	(2.0)
Investment in working capital	2.4	(1.8)	0.2	0.0	0.0
Tax expense	2.6	(6.2)	(7.9)	0.0	0.0
Operating Cash Flow	4.1	13.1	19.4	(2.0)	(2.0)
Capex	(7.1)	(4.0)	(8.0)	(5.5)	(5.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(7.1)	(4.0)	(8.0)	(5.5)	(5.5)
Net interest received / (paid)	(0.3)	(0.2)	0.2	0.5	0.3
Debt draw down / (repayment)	3.2	(3.3)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	0.5	0.0	0.0	0.0	0.0
Financing Cash Flow	3.4	(3.6)	0.2	0.5	0.3
Non-operating & Other	(1.8)	(0.1)	0.0	0.0	0.0
Inc/(Dec) in Cash	(1.5)	5.5	11.6	(7.0)	(7.2)

Balance Sheet (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	0.7	6.1	17.7	10.8	3.6
Receivables	0.0	1.6	1.9	0.0	0.0
Inventories	1.3	1.6	1.9	0.0	0.0
Other Current Assets	0.8	0.8	0.8	0.8	0.8
PPE and Exploration & Development	43.6	47.4	54.4	58.9	63.9
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	5.1	5.1	5.1	5.1	5.1
Total Assets	51.5	62.5	81.9	75.5	73.4
Payables and other current Liabilities	5.3	5.3	6.3	2.4	2.4
Short Term Debt	3.3	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	3.1	3.0	3.0	3.0	3.0
Total Liabilities	11.7	8.3	9.3	5.4	5.4
Total Equity	39.8	54.2	72.6	70.1	68.0
Net Debt (Cash)	2.6	(6.1)	(17.7)	(10.8)	(3.6)

Substantial Shareholders	%	Date
Trindal Pty Ltd	15.6	
Selvie Tjow asi	8.4	Oct-16
First names (Jersey) Ltd	7.1	

Source: Company, IRESS, State One Stockbroking forecasts

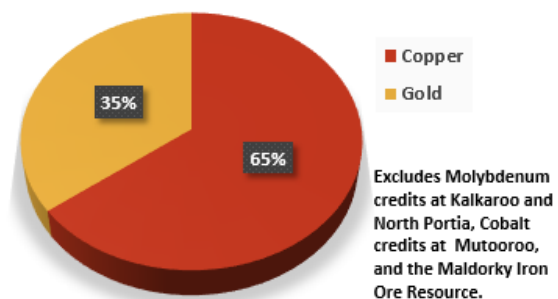
Assumptions	FY16A	FY17E	FY18E	FY19E	FY20E
Spot Gold (US\$/oz)	1,250	1,250	1,275	1,301	1,327
AUD:USD	0.75	0.75	0.75	0.75	0.75
Spot Gold (A\$/oz)	1,667	1,667	1,700	1,734	1,769
Mill throughput (Mt)	0.03	0.35	0.50	0.00	0.00
Grade (g/t Au)	2.4	3.5	3.0	0.0	0.0

Gold production profile (koz)	FY16A	FY17E	FY18E	FY19E	FY20E
Portia Gold Mine (100%)	4.9	38	47	0	0
Portia (HAV share)	2.5	19	24	0	0
Hedged sales	0.0	10	0	0	0
Hedged sales as % total	0%	52%	0%	na	na

Gold Resources	Status	Mt	Grade (g/t)	(koz)
Portia (100%)	Inferred	0.64	2.9	54
North Portia	Ind. & Inf.	11.4	0.6	235
Kalkaroo	M, I, & Inf.	254.1	0.4	3,284
Mutooro	M, I, & Inf.	13.1	0.2	90
Total	M, I, & Inf.	279.3	0.41	3,663

Copper Resources	Status	Mt	Grade (%)	(Cu tonnes)
Portia	Inferred	0.64	0.0%	0
North Portia	Ind. & Inf.	11.4	0.89%	100,685
Kalkaroo	Meas & Ind.	254.1	0.45%	1,140,120
Mutooro	M, I, & Inf.	13.1	1.48%	194,455
Total	M, I, & Inf.	279.3	0.51%	1,435,260

In-situ value of Resource (US\$13bn)
- based on spot Cu and Au prices



Valuation	(A\$m)	(A\$/share)	Comment
Portia mine inventory	21	0.10	As per NPV valuation
Portia non-mine inventory	0	0.00	
Portia exploration upside	5	0.02	Nominal
Portia Gold Project (Total)	26	0.12	
Kalkaroo mine inventory (unrisked)	379	1.77	As per NPV valuation
Risk weighting	80%		
Kalkaroo mine inventory (risked)	76	0.35	
Kalkaroo non-mine inventory	7	0.03	
Kalkaroo Resource (Total)	83	0.39	
Kalkaroo exploration upside	8	0.04	10% of total Resource value
Kalkaroo CuAu Project (risked)	92	0.43	
North Portia	40	0.19	A\$10m from "gold cap"
Mutooro	15	0.07	Unit Kalkaroo NPV + Co
Maldorky Iron Ore Project	1	0.00	Nominal
Land (Kalkaroo Station)	2	0.01	Purchase price in Sept. 2014
Group Enterprise value	175	0.81	
Net (debt)/cash (FY17E)	6	0.03	
Group Equity value	181	0.84	

Valuation

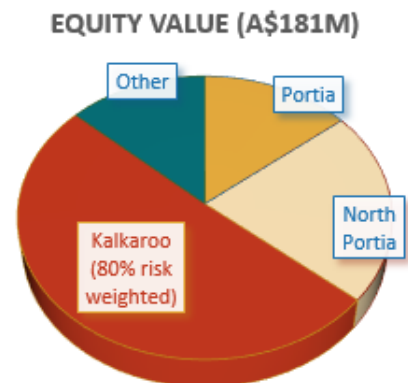
Underpinned by estimated NPVs₁₀ of A\$21m for the Portia Gold Mine (HAV 50% share of gold production), and A\$76m for the Kalkaroo Cu-Au Project (NPV 80% risk-weighted), we calculate HAV's enterprise value at A\$175m (equivalent to A\$0.81 per fully diluted share). Adjusting for FY17E net cash of A\$6m, we calculate HAV's equity value at A\$171m (rounded) or A\$0.84 per fully diluted share.

Figure 1: Sum-of-the-parts (SOTP) valuation

	Project	(A\$m)	(A\$ps)	Comment
Portia Gold Mine	Mine inventory	21	0.10	As per NPV valuation
	Non-mine inventory	0	0.00	75% of unit mine inventory NPV
	Exploration upside	5	0.02	Nominal
	Value	26	0.12	
Kalkaroo Cu/Au Project	Mine inventory (unrisked)	379	1.77	As per NPV valuation
	<i>Risk discount</i>	<i>80%</i>		i.e., 80% discount to NPV
	Mine inventory (risked)	76	0.35	20% of mine inventory NPV
	Non-mine inventory	7	0.03	10% of unit mine inventory NPV (risked)
	Resource	83	0.39	
	Exploration upside	8	0.04	Nominal 10% of total Resource value
	Value (risked)	92	0.43	
	North Portia ("Gold Cap" only)	7	0.03	State One estimate ~40koz Au
	North Portia (balance of Au/Cu Resource)	32	0.15	State One estimate 664koz Au Eq
	Mutooroo (215kt Cu Eq. Resource)	15	0.07	Discount to Kalkaroo Cu Eq. unit NPV + Co credit
	Maldorky Iron Ore Project (140Mt @ 30% Fe)	1	0.00	Nominal A\$1m value for low grade Fe ore deposit
	Land (Kalkaroo Station purchased Sept. 2014)	2	0.01	Purchase price
Group Enterprise value		175	0.81	
Net (debt)/cash (FY17E)		6.1	0.03	
Group Equity value		181	0.84	

The Portia Gold Mine plus the North Portia Cu/Au Project accounts for A\$66m (36%) of our estimated A\$182m group equity value; the 80% risk-weighted Kalkaroo Cu/Au Project accounts for A\$92m (51%) of our estimated group equity value.

We attach relatively modest value (A\$18m, 10%) to HAV's other, less developed, projects (Mutooroo and Maldorky), with the balance (A\$6m, 3%) to FY17E net cash.



Source: Company, State One Stockbroking forecasts

Risks

Risks to our earnings profile and target price include, but are not limited to:

- Commodity price (gold and copper) and AUD:USD exchange rate volatility,
- Portia Mine: grade volatility and/or lower than expected grades and estimated Resource tonnage, ore body characteristics, metallurgy and recovery rates,
- Project development: the Kalkaroo Cu-Au project (even at 80% discount) is the biggest contributor to our estimated group equity value. However, it is capital intensive (scoping study A\$350m) and will need JV partners to develop. Mutooroo is also capital intensive and will require capex of A\$350m for a roaster. Progress on developing these projects – and in particular securing financing – could be important share price catalysts. Conversely, lack of meaningful progress on these key non-gold projects could lead to investor concern.
- Near-term capital and operating cost risks at Portia,
- Permitting risk - particularly at the Kalkaroo Cu/Au Project.

Sensitivity to the underlying Cu and Au price environment

We calculate HAV's combined Resource at 3.67Moz Au and 1.44Mt Cu.

Figure 2: Resources Summary

Gold Resources	<i>Status</i>	<i>Mt</i>	<i>Grade (g/t)</i>	<i>(koz)</i>
Portia (100%)	Inferred	0.64	2.9	54
North Portia	Ind. & Inf	11.4	0.6	235
Kalkaroo	M, I, & Inf.	254.1	0.4	3,284
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Copper Resources	<i>Status</i>	<i>Mt</i>	<i>Grade (%)</i>	<i>(Cu tonnes)</i>
Portia	Inferred	0.64	0.0%	0
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Mutooroo	M, I, & Inf.	13.1	1.48%	194,455
Total	M, I, & Inf.	279.3	0.51%	1,435,260

Source: Company, compiled by State One Stockbroking

Note: Resources above are Cu and Au Resources only and exclude Molybdenum and Cobalt credits

1.44Mt of Cu at the current LME price of US\$5,740/t has an in-situ value of US\$8.4bn; 3.67Moz of gold at the spot COMEX price of US\$1,275/oz has an in-situ value of US\$4.6bn. Thus, HAV's total in-situ metal value (excluding molybdenum, cobalt, sulphur) of US\$13bn is split approximately 65% copper and 35% gold. Our conclusion, is that while HAV - as a gold producer - is currently viewed as a gold play (with share price direction broadly determined by underlying precious metal momentum), the company is fundamentally a base-metal (copper) play. As the base-metal projects are advanced – specifically the Kalkaroo Cu-Au Project – we suggest that the share price will be increasingly driven by the copper price. Predicated on the generally favourable outlook for copper prices heading into 2018/2019, we believe that this is not a negative development.

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