



Havilah Resources Limited (HAV)

Flagship project taking centre stage

Production at the Portia Gold Mine of only 2,130oz Au in the April 2017 quarter was disappointing relative to HAV's first two financial quarters; lower gold production was due to lower throughput of higher grade material (as a result of processing difficulties) leading to a significant drop in the overall processed grade to 0.9g/t (from >3.6g/t). We forecast July quarter gold output of ~6,300oz (on higher plant throughput of higher-grade saprolite ore). Nevertheless, our revised forecast full-year output of ~24koz (100%) is some 40% below our prior FY17E production forecast of 38koz Au.

Portia Gold Mine- quarterly production to 4Q FY17E

Quarter ending....	Oct-16 1Q FY17	Jan-17 2Q FY17	Apr-17 3Q FY17	Jul-17 4Q FY17E	Full Year FY17E
Overburden mined (BCM)	1,392,000	1,167,000	1,042,000		
Ore mined (t)	127,000	135,000	61,000		
Ore processed (t) -wet	76,000	74,000	84,000	85,000	319,000
Water content (estimated)	10%	10%	10%	10%	10%
Ore processed (t) -dry	68,400	66,600	75,600	76,500	287,100
Grade processed (g/t Au)	3.9	3.6	0.9	2.6	2.7
Contained gold (oz)	8,577	7,709	2,188	6,395	24,870
Mill Recovery (%)	95%	99%	97%	98%	97%
Gold produced (oz)	8,138	7,618	2,130	6,268	24,154

Source: Company, State One Stockbroking forecasts

Kalkaroo Cu-Au Project: building up momentum

While grade variability at the Portia Gold Mine has undoubtedly been an issue over the past six-months, we note that Portia is a relatively short-lived operation (~24 months LOM), and a peripheral activity relative to the main objective of developing the group's much larger copper-gold-cobalt projects. Over the past quarter, the Kalkaroo Cu-Au Project in particular has built up significant momentum. 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). On 29 May, HAV announced that it had signed a [MOU with Wanbao Mining](#) for a prefeasibility study on the Project; Wanbao is a Beijing-based off-shore copper and cobalt producer. On 28 June, HAV announced that it had finalised the terms for a [Native Title Mining Agreement](#) for the Project with the legal representatives of the Adnyamathanha people. This key milestone paves the way for the granting of a Mining Lease.

Valuation: Revised down to A\$0.50ps (A\$0.84ps previously)

Lower than (originally) forecast gold production from the Portia Gold Mine will reduce near-term internally generated cash flows. As well as reducing Portia Mine's NPV, this could negatively impact the group's ability to timeously progress project development at the adjacent North Portia Cu-Au Project, the Mutooroo Cu-Co-Au Project, and even the priority Kalkaroo Project. As a result, we have reduced our risk-adjusted group SOTP valuation to A\$107m (equivalent to A\$0.50ps) from A\$181m (A\$0.84ps). HAV's share price has fallen significantly from a 2017 high of A\$0.72, on the back of poor operational performance at Portia and a broad-based sell-off in the gold sector. However, relative to our (reduced) A\$0.50 target price, we calculate that HAV now offers significant upside potential. **Recommendation: BUY (Higher Risk).**

11 July 2017

Share Price: A\$0.305 (10 July 2017)

Target Price: A\$0.50

Recommendation
Buy

Risk Assessment
Higher

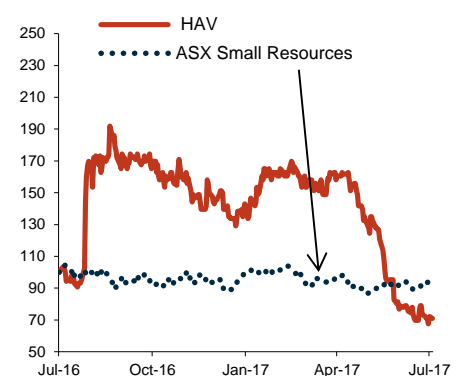
Resources – Gold, Copper

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Havilah Resources Limited

ASX Code	HAV
52 week range	A\$0.29-A\$0.87
Market Cap (ASm)	56
Shares Outstanding (m)	179
Av Daily Turnover (shares)	133k
ASX All Ordinaries	5,763
FY17E BV per share (A\$)	0.23
EPS FY17E (A\$)	0.04
Net Cash/ (Debt) FY17E (A\$m)	1.8

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	19.4	19.7	18.3	0.0
Mining/Hauling	0.0	0.0	0.0	0.0	0.0
Processing	(1.4)	(5.0)	(5.7)	(5.0)	0.0
Corporate/Royalty/Other	(2.3)	(4.0)	(4.0)	(6.0)	(2.0)
EBITDA	(0.9)	10.4	10.0	7.2	(2.0)
Depreciation & Amortisation	(0.2)	(0.2)	(1.0)	(1.0)	(0.5)
Operating profit	(1.1)	10.2	9.0	6.2	(2.5)
NOI	0.0	0.0	0.0	0.0	0.0
EBIT	(1.1)	10.2	9.0	6.2	(2.5)
Interest income	0.0	0.0	0.1	0.1	0.2
Interest expense	(0.3)	(0.3)	0.0	0.0	0.0
Tax expense	2.6	(1.5)	(2.7)	(1.9)	0.0
Reported NPAT	1.2	8.5	6.3	4.5	(2.3)
Normalised NPAT	1.2	8.5	6.3	4.5	(2.3)
EBITDA Margin (%)	-33%	54%	51%	40%	na
Operating profit margin (%)	-39%	53%	46%	34%	na
EPS Reported (A\$)	0.01	0.04	0.03	0.02	(0.01)
EPS Normalised (A\$)	0.01	0.04	0.03	0.02	(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
YE no. of fully-diluted shares (m)	214	214	214	214	214

Cash Flow Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(0.9)	10.4	10.0	7.2	(2.0)
Investment in working capital	2.4	(0.6)	(1.0)	0.0	0.0
Tax expense	2.6	(1.5)	(2.7)	(1.9)	0.0
Operating Cash Flow	4.1	8.3	6.3	5.3	(2.0)
Capex	(7.1)	(3.5)	(4.0)	(3.5)	(2.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(7.1)	(3.5)	(4.0)	(3.5)	(2.0)
Net interest received / (paid)	(0.3)	(0.2)	0.1	0.1	0.2
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)	0.1	0.1	0.2
Non-operating & Other	(1.8)	(0.1)	0.0	0.0	0.0
Inc/(Dec) in Cash	(1.5)	1.2	2.4	2.0	(3.8)

Balance Sheet (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	0.7	1.8	4.2	6.2	2.4
Receivables	0.0	1.0	1.0	0.9	0.0
Inventories	1.3	1.0	1.0	0.9	0.0
Other Current Assets	0.8	0.8	0.8	0.8	0.8
PPE and Exploration & Development	43.6	46.9	49.9	52.4	53.9
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	56.6	62.0	66.3	62.1
Payables and other current Liabilities	5.3	5.3	4.4	4.2	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	7.4	7.2	5.4
Total Equity	39.8	48.3	54.6	59.1	56.7
Net Debt (Cash)	2.6	(1.8)	(4.2)	(6.2)	(2.4)

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

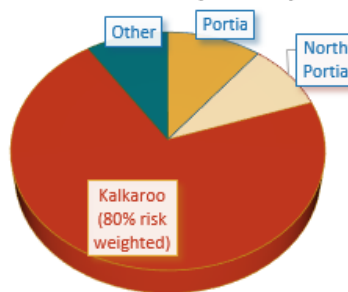
Assumptions	FY16A	FY17E	FY18E	FY19E	FY20E
Spot Gold (US\$/oz)	1,250	1,250	1,275	1,301	1,327
AUD:USD	0.75	0.75	0.75	0.75	0.75
Spot Gold (A\$/oz)	1,667	1,667	1,700	1,734	1,769
Mill throughput (Mt)	0.03	0.29	0.30	0.26	0.00
Grade (g/t Au)	2.4	2.7	2.6	2.6	0.0

Gold production profile (koz)	FY16A	FY17E	FY18E	FY19E	FY20E
Portia Gold Mine (100%)	4.9	24	25	21	0
Portia (HAV share)	2.5	12	12	11	0
Hedged sales	0.0	10	0	0	0
Hedged sales as % total	0%	83%	0%	0%	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

EQUITY VALUE (A\$107m)



The Kalkaroo Cu-Au Project accounts for 71% of our estimated A\$107m (risk-weighted) SOTP equity value for HAV.

HAV's current operating mine - Portia - accounts for A\$11m (a relatively modest 11%) of our group valuation.

Valuation	(A\$m)	(A\$/share)	Comment
Portia mine inventory	11	0.05	As per NPV valuation
Portia non-mine inventory	0	0.00	
Portia exploration upside	0	0.00	Nominal
Portia Gold Project (Total)	11	0.05	
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	0	0.00	
Kalkaroo Resource (Total)	76	0.35	
Kalkaroo exploration upside	0	0.00	10% of total Resource value
Kalkaroo CuAu Project (risked)	76	0.35	
North Portia	10	0.05	A\$3m from "gold cap"
Mutooro	5	0.02	Nominal
Maldorky Iron Ore Project	1	0.00	Nominal
Land (Kalkaroo Station)	2	0.01	Purchase price in Sept. 2014
Group Enterprise value	105	0.49	
Net (debt)/cash (FY17E)	1.8	0.01	
Group Equity value	107	0.50	

Valuation

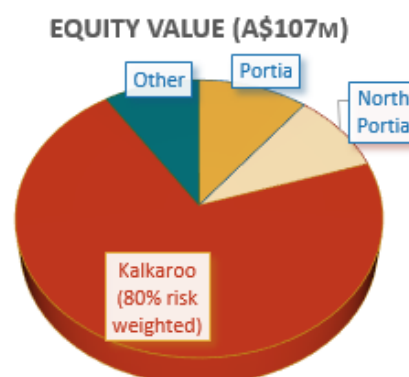
Underpinned by estimated NPVs₁₀ of A\$11m for the Portia Gold Mine (HAV 50% share of gold production), and A\$76m for the Kalkaroo Cu-Au Project (NPV 80% risk-weighted), we calculate HAV's enterprise value at A\$105m (equivalent to A\$0.49 per fully diluted share). Adjusting for FY17E net cash of A\$1.8m, we calculate HAV's equity value at A\$107m (rounded) or A\$0.50 per fully diluted share.

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

	Project	(A\$m)	(A\$ps)	Comment
Portia Gold Mine	Mine inventory	11	0.05	As per NPV valuation
	Non-mine inventory	0	0.00	75% of unit mine inventory NPV
	Exploration upside	0	0.00	Nominal
	Value	11	0.05	
Kalkaroo Cu/Au Project	Mine inventory (unrisked)	379	1.77	As per NPV valuation
	Risk discount	80%		i.e., 80% discount to NPV
	Mine inventory (risked)	76	0.35	20% of mine inventory NPV
	Non-mine inventory	0	0.00	10% of unit mine inventory NPV (risked)
	Resource	76	0.35	
	Value (risked)	76	0.35	
	North Portia ("Gold Cap" only)	3	0.02	State One estimate ~40koz Au
	North Portia (balance of Au/Cu Resource)	7	0.03	State One estimate 664koz Au Eq
	Mutooroo (215kt Cu Eq. Resource)	5	0.02	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		105	0.49	
Net (debt)/cash (FY17E)		1.8	0.01	
Group Equity value		107	0.50	

The Portia Gold Mine plus the North Portia Cu/Au Project accounts for A\$21m (20%) of our estimated A\$107m group equity value; the 80% risk-weighted Kalkaroo Cu/Au Project accounts for A\$76m (71%) of our estimated group equity value.

We attach relatively modest value (A\$8m, 8%) to HAV's other, less developed, projects (Mutooroo, Maldorky, land value), with the balance (A\$1.8m, 2%) 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 estimate: A\$350m) and will need JV partners to develop. Mutooroo is also capital intensive and will ultimately require capex of over A\$300m (although capex for Stage 1 is a more manageable A\$30m). Progress on developing these projects – and in particular securing financing – could be important share price catalysts.
- Near-term cash flow => largely dependent on capital and operating costs 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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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\$5,804/t has an in-situ value of US\$8.3bn; 3.67Moz of gold at the spot COMEX price of US\$1,213/oz has an in-situ value of US\$4.5bn. Thus, HAV's total in-situ metal value (excluding molybdenum, cobalt, sulphur) of US\$12.8bn 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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