

Orion Minerals

Independence Group share subscription underpins value of wider Orion portfolio; PT increased to 15c

Independence Group to acquire \$5m stake at premium to market value

Orion Minerals (ORN) has announced that Independence Group (IGO), an Australian-listed base metals miner and developer, has subscribed to \$5m in new equity in ORN at AUD 5c/share, a ~35% premium to the current share price. IGO, which operates the Nova nickel-copper, Jaguar copper-zinc and Long nickel mines in Western Australia, will own 11.1% of ORN post subscription, up from 4.2% prior to this transaction. We view this injection as a strong endorsement of ORN's prospects for value-creation, both at the flagship Prieska zinc-copper project and its earlier-stage nickel projects in the Areachap Belt in South Africa's Northern Cape Province. It will also provide some welcome near-term liquidity to ORN, with the company having disclosed a cash balance of A\$1.65m as of the end of March 2018.

IGO investment reflects belief in Areachap exploration portfolio

IGO's Nova nickel-copper operations are centred on the Fraser Range in Western Australia, where ORN also has exploration holdings. However, we also believe IGO's interest in ORN reflects a positive outlook on the potential upside from the company's regional exploration in the Northern Cape. As part of today's deal, ORN has granted IGO preferential rights to JV or purchase projects within the company's Areachap exploration portfolio, the most advanced of which is the Jacomynspan Nickel-Copper-Cobalt Project, where ORN declared a JORC-compliant Resource estimate on [8th March](#). As noted in the release, the collaboration between the two companies makes sense, as IGO has employed similar exploration techniques in the Fraser Range to those used by ORN in the Areachap. This deal, therefore, illustrates the significant "blue sky" upside which ORN could offer beyond Prieska, in our view. See our [7th March initiation](#) for more details.

Infill drilling programme likely to support upgraded Prieska BFS

ORN announced an increase in Prieska's Mineral Resource Estimate from 24.2Mt to 29.4Mt on [9th April](#). Further infill drilling is ongoing, with the aim of boosting a significant portion of the Inferred Resource to the Measured & Indicated category. We therefore expect further positive resource upgrades before completion of a Bankable Feasibility Study, targeted for Q4 2018. We acknowledge a degree of uncertainty in making estimates ahead of the BFS. However, on the assumption that the tabular orebody at Prieska has shown good continuity historically, we now assume ~80% conversion to Reserves in our conceptual DCF model, implying ~23Mt of ore mined and processed over the life of mine. With limited additional upfront capex, this could support a ~1.8Mtpa operation at full capacity, in our view, vs our previous assumption of 1.2Mtpa. This boosts our attributable DCF estimate for Prieska by ~52% to US\$295m, with an IRR of 45% vs 35% previously. (See table below).

Increasing price target to AUD 15c/sh

As well as the revisions to our DCF model outlined above, we have adjusted our June'18E net debt estimate for the proceeds from the IGO share subscription, as well as a slower rate of underlying quarterly cash burn revealed within ORN quarterly cash flow report on 30th April. Applying a target multiple of 0.6x and spot AUD/USD FX of US\$0.75/A\$, we derive a price target of AUD 15c/sh, vs AUD 9.5c/sh previously, implying 305% upside from the current share price.

| GICS Sector | Materials |
|-------------------------------|-----------|
| Ticker | AU:ORN |
| Market cap 17-May-18 (A\$m) | 47.7 |
| Share price 17-May-18 (A\$c) | 3.7 |
| Target price 31-Dec-18 (A\$c) | 15 |

35%

Premium to current share price paid by IGO for additional 7% stake in ORN

45%

Estimated potential IRR from Prieska Zinc-Copper Project



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H&P Advisory Ltd is a Retained Advisor to Orion Minerals. The cost of producing this material has been covered by Orion Minerals as part of a contractual engagement with H&P; this report should therefore be considered an "acceptable minor non-monetary benefit" under the MiFID II Directive.

Summary of conceptual DCF outputs

| | | Revised base case | Previous base case |
|--|---------|-------------------|--------------------|
| Initial capex | US\$m | 350 | 300 |
| LoM ore tonnes processed | Mt | 23.2 | 17.8 |
| Annual average throughput | Mt | 1.7 | 1.2 |
| Average Zn head grade | % | 3.5% | 3.4% |
| Average Cu head grade | % | 1.2% | 1.2% |
| Average Au head grade | g/t | 0.2 | 0.2 |
| Average Ag head grade | g/t | 9.4 | 9.4 |
| Recovery rate - Zn | % | 90% | 90% |
| Recovery rate - Cu | % | 90% | 90% |
| Recovery rate - Au | % | 80% | 80% |
| Recovery rate - Ag | % | 80% | 80% |
| Zinc in conc production pa | kt | 51.6 | 35.9 |
| Copper in conc production pa | kt | 17.6 | 12.6 |
| Gold in conc production pa | koz | 11.2 | 8.0 |
| Silver in conc production pa | koz | 498.7 | 357.1 |
| Zinc price | US\$/t | 3,400 | 3,400 |
| Copper price | US\$/t | 6,900 | 6,900 |
| Gold price | US\$/oz | 1,300 | 1,300 |
| Silver price | US\$/oz | 16.50 | 16.50 |
| Zinc payability | % | 95% | 95% |
| Copper payability | % | 95% | 95% |
| Gold payability | % | 90% | 90% |
| Silver payability | % | 90% | 90% |
| Cash cost/t Zn equivalent, net of by-product credits | US\$/t | 1,587 | 1,664 |
| ZAR/USD FX | ZAR/\$ | 12.60 | 11.86 |
| LoM gross revenue | US\$m | 4,231 | 3,199 |
| LoM EBITDA | US\$m | 2,221 | 1,597 |
| LoM free cash flow | US\$m | 1,110 | 766 |
| Discounted cash flow at 10% real WACC | US\$m | 402 | 265 |
| Attributable DCF at 10% real WACC | US\$m | 295 | 194 |
| Internal rate of return | % | 45% | 35% |

Source: H&P estimates.

Valuation / Price Target Derivation

| | | Value | Target multiple | Target Value |
|--|--------------|-------------|-----------------|--------------|
| Prieska Project* | US\$m | 295 | 0.6 | 177 |
| Jacomynspan & Other Projects** | US\$m | 6 | 1.0 | 6 |
| Net cash/(debt), excl. convertible notes (Jun'18E) | US\$m | -2 | 1.0 | -2 |
| Total | US\$m | 299 | | 181 |
| Shares out., assuming conversion of notes | m | 1,623 | | 1,623 |
| NPV / Target Price per share | US c | 18.4 | | 11.2 |
| NPV / Target Price per share | AUD c | 24.6 | | 15.0 |
| Current share price | AUD c | 3.7 | | 3.7 |
| Prem./Disc. to NPV / Target Price | \$m | -85% | | -75% |

Source: H&P estimates. Notes: *Based on DCF. **Based on EV/Cu equivalent Resource of \$20/t

Orion Minerals - Financial Statements

Income statement

| Year end June | | FY18E | FY19E | FY20E | FY21E | FY22E | FY23E |
|---------------------------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | A\$m | - | - | 129.1 | 193.7 | 299.5 | 429.9 |
| Cost of Sales | A\$m | - | - | (33.5) | (49.9) | (117.4) | (186.8) |
| Depreciation | A\$m | - | - | (18.1) | (27.2) | (31.7) | (40.8) |
| Gross profit/(loss) | A\$m | - | - | 77.5 | 116.6 | 150.4 | 202.3 |
| Exploration & Evaluation | A\$m | (13.4) | (5.0) | (5.0) | - | - | - |
| S,G&A | A\$m | (6.0) | (4.0) | (9.5) | (9.5) | (9.5) | (9.5) |
| Royalties | A\$m | - | - | (7.6) | (11.9) | (15.7) | (21.4) |
| Other operating costs | A\$m | - | - | - | - | - | - |
| Operating profit/(loss) | A\$m | (19.4) | (9.0) | 55.4 | 95.2 | 125.2 | 171.3 |
| Net finance costs | A\$m | (0.8) | (0.6) | (5.3) | (9.6) | (8.3) | (8.1) |
| Profit/(Loss) before tax | A\$m | (20.2) | (9.6) | 50.1 | 85.6 | 116.9 | 163.2 |
| Tax credit/(expense) | A\$m | - | - | (16.9) | (26.7) | (35.1) | (48.0) |
| Minority interests | A\$m | - | - | (11.6) | (18.3) | (24.1) | (32.9) |
| Net profit/(loss) | A\$m | (20.2) | (9.6) | 21.6 | 40.6 | 57.8 | 82.3 |
| Wtd ave shares outstanding | m | 1,153 | 1,390 | 1,390 | 1,390 | 1,390 | 1,390 |
| EPS | A¢/sh | (1.8) | (0.7) | 2.4 | 4.2 | 5.9 | 8.3 |
| EPS growth | % | nm | nm | nm | 78% | 39% | 41% |

Cash flow statement

| Year end June | | FY18E | FY19E | FY20E | FY21E | FY22E | FY23E |
|--|-------------|---------------|---------------|----------------|----------------|----------------|---------------|
| Operating cash inflow/(outflow) | A\$m | (20.2) | (9.6) | 45.4 | 101.7 | 129.4 | 155.8 |
| Additions to PPE | A\$m | (0.6) | (66.7) | (112.1) | (79.9) | (127.1) | (94.8) |
| Other | A\$m | 1.5 | (4.5) | (4.5) | - | - | - |
| Net cash used in investing activities | A\$m | 0.9 | (71.2) | (116.6) | (79.9) | (127.1) | (94.8) |
| New equity issued | A\$m | 13.9 | - | - | - | - | - |
| Increase/(decrease) in borrowings | A\$m | 4.9 | - | - | - | - | - |
| Other | A\$m | (0.2) | - | - | - | - | - |
| Net cash from financing activities | A\$m | 18.7 | - | - | - | - | - |
| Net change in cash | A\$m | (0.7) | (80.7) | (71.3) | 21.8 | 2.4 | 61.0 |
| Beginning cash/(additional funding reqd) | A\$m | 3.4 | 2.7 | (78.0) | (149.3) | (127.4) | (125.1) |
| Ending cash/(additional funding reqd) | A\$m | 2.7 | (78.0) | (149.3) | (127.4) | (125.1) | (64.1) |

Balance Sheet

| Year end June | | FY18E | FY19E | FY20E | FY21E | FY22E | FY23E |
|--------------------------------|-------------|-------------|---------------|----------------|---------------|---------------|--------------|
| Cash | A\$m | 2.7 | (78.0) | (149.3) | (127.4) | (125.1) | (64.1) |
| Receivables | A\$m | 0.3 | 0.3 | 21.2 | 31.8 | 49.2 | 70.7 |
| Inventory | A\$m | - | - | 3.7 | 5.5 | 12.9 | 20.5 |
| Other | A\$m | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Current Assets | A\$m | 3.6 | (77.1) | (123.9) | (89.6) | (62.4) | 27.6 |
| PPE | A\$m | 0.7 | 67.4 | 161.4 | 214.1 | 309.4 | 363.4 |
| Other | A\$m | 13.5 | 18.0 | 22.5 | 22.5 | 22.5 | 22.5 |
| Fixed Assets | A\$m | 14.3 | 85.4 | 183.9 | 236.6 | 331.9 | 385.9 |
| Payables | A\$m | 1.1 | 1.1 | 2.7 | 4.1 | 9.6 | 15.4 |
| Short Term Debt | A\$m | - | - | - | - | - | - |
| Other | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Liabilities | A\$m | 1.2 | 1.2 | 2.8 | 4.1 | 9.7 | 15.4 |
| Long term debt | A\$m | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Convertible note | A\$m | 5.8 | 5.8 | 5.8 | 5.8 | 5.8 | 5.8 |
| Other | A\$m | 3.8 | 3.8 | 20.7 | 47.4 | 82.4 | 105.5 |
| Non Current Liabilities | A\$m | 14.5 | 14.5 | 31.4 | 58.1 | 93.2 | 116.3 |
| Total Equity | A\$m | 2.2 | (7.4) | 25.8 | 84.8 | 166.6 | 281.8 |

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