

# Orion Minerals Ltd

## (ORN \$0.04) Speculative Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	25 <sup>th</sup> June 2018	\$0.11/sh

### \$11m Equity Raise

#### Investment case

Prieska is a high quality project that has the potential to transform ORN into a mid cap base metal producer. This equity raise will give ORN sufficient funds to complete the Prieska DFS by 1st Q CY'19. We see potential for Prieska to produce ~ 60kt of Zn and 20kt of Cu pa for >15yrs based on its current resource of 29mt. Due to the significant by product credits, operating costs of <US\$0.10/lb is possible and potential EBITDA of >\$170m pa. This is very rare for a project owned by a junior. Our valuation has increased from \$0.09/sh to \$0.11/sh due to the likely increased scope of the DFS (1.2mtpa to 1.8mtpa). There are few projects of this quality owned by a junior and the discount to valuation is reflective of the Sth African which will believe will reduce over time. With 14 rigs operating and regional exploration about to commence there should be plenty of news flow.

#### Key points

- ORN has raised \$11m via a two tranche placement at \$0.037/sh. This represents a;
  - 9.8% discount to the last traded price,
  - 16.7% discount to the 30 day VWAP,
- It also represents a 26% discount to the price that IGO put \$5m in May'18.
- In addition, Tembo, its largest shareholder, will convert approximately \$6.3m of its \$6.9m bridge loan facility into equity at the same price. Tembo's interest will increase to 22.9% on a fully diluted basis. Tembo loan facility reduced to \$0.6m
- Post raising and bridge loan conversion ORN will have 1,827m fully paid ordinary shares on issue and ~\$15m in cash.
- Funds raised will be used to complete the Prieska DFS which is due for completion in 1st Q CY'19 and continue exploration.
- Prieska is a high quality asset with previous production of >430kt of Zn and >1mt of Cu and is rated as one of the top 30 VMS projects in the world.
- A current resource of 29mt is likely to result in a DFS targeted at a minimum production rate of 1.8mt pa. At this rate we estimate annual zinc and copper production of ~ 60kt and 20kt pa is possible. The current resource would underpin a >15yr mine life.
- Due to the significant by product credits we estimate C1 costs of <US\$0.10/lb and believe this could generate EBITDA of US\$140m pa once in production. We assume a total capital cost of US\$250m.
- With significant infrastructure already in place (shafts, decline, roads, solar power etc) the capital cost/refurbishment cost should be manageable for a small company and the ability to start with a small open pit should reduce the total negative cashflow.
- ORN also secured a large 1,790 sqkm land holding surrounding Prieska. This package has been consolidated under a single owner for the first time in 30 years with no major activity in recent times.
- A recent SkyTEM survey has identified 19 high priority targets and exploration will commence shortly.
- ORN currently has 14 rigs drilling at Prieska and estimate it will cost in the range \$7-9m to complete the DFS. The additional funds will be used for regional exploration with a minimum of \$1m allocated for the Ni targets.

Orion Minerals Ltd	Year End 30 June	
Share Price	0.04	\$/sh
Issued Capital		
Ordinary	1827.0	m*
Options(In money)	61.2	m
Options (O-O-M)	156.5	m
Bridge loan	1.3	m
Con note (@ 2.6cps)	232	m
<b>Total Diluted</b>	<b>2059.0</b>	
Mkt Capital'n	82	\$m
Enterprise Value	71	\$m
Debt	4	\$m
Cash	15	\$m*
Turnover	1.03 m sh / day	
12 mth Hi-Lo	4.8-1.7 cps	
Balance Date	June 30th	
<i>*post placement</i>		

#### Directors

D Waddell	NE Chrm
E Smart	CEO, Mgr Dir
B Oliver	NE Dir
A Haller	NE Dir
M Palmer	NE Dir

#### Shareholders

Tembo Capital	22.90%
Tarney Holdings	8.0%

#### Company Details

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#### Share Price Chart



#### Disclaimer

Euroz Securities declares that it has been appointed as Joint Lead Manager for this equity raising. Euroz Securities will receive a fee for these services.

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- Recent corporate activity in the sector with South32 acquiring Arizona Mining for US\$1.3bn at a 50% premium to the 20day VWAP demonstrates what can happen
- Whilst at a different scale with a 29 yr mine life and resource of 144mt @ 10.8% Zn Eq and 95kt of Zneq pa it is nevertheless interesting to compare with what ORN could become.
- Based on the prices paid the equivalent value for ORN on a per pound of payable zinc and resource tonnes to would be in the range of \$0.30-0.40/sh. Whilst we don't suggest this is what ORN is worth now – its demonstrates the potential.

#### Analysis

Prieska is a high quality asset that has the potential to transform ORN into a long life mid cap Zn/Cu producer. It is rare for a junior to have an asset of this quality and testament to the counter cyclical opportunity when it acquired Prieska at the bottom of the resource market in 2015/16.

We had previously modelled in a 1.2mtpa scenario producing ~40kt of Zn and 15k of Cu pa, however due to the significant resource size it appears highly likely that a minimum 1.8mtpa will be the most optimal development.

Based on recoveries zinc and copper recoveries of 79% and 83% respectively and assume total operating costs of US\$80/t. We estimate C1 costs of <US\$0.10/lb and EBITDA of >A\$170m for 15yrs. Our model produces an NPV10 after tax of A\$648m. ORN has a 73.3% interest so its NPV10 could be ~ A\$475m. Due to the uncertainties on these assumptions we risk adj this NPV by 35% to derive our Prieska valuation of \$166m.

The net effect is that despite the dilution from this equity raising and Tembo conversion of its bridge loan our valuation has increased from \$0.09/sh to \$0.11/sh.

Operating in Sth Africa is tough and there is no doubt this is a risk. However, we note the MD, Errol Smart, is based in Sth Africa and the Northern Cape of Sth Cape has chronic unemployment and there is no township near Prieska. We also get a degree of comfort that African specialists like Tembo Capital have invested significant monies into this project.

We maintain our Speculative Buy. ORN has the potential to develop into a long life genuine mid cap base metal producer and be multiples of its current price. It is now funded through to DFS and with a high impact exploration program and 14 rigs currently drilling there should be plenty of news flow.

Valuation - Orion Minerals		
Prieska	A\$m	166
Exploration	A\$m	30
Aust Expln	A\$m	10
Corporate	A\$m	-10
WC & Inv	A\$m	0
Debt	A\$m	-4
Un paid capital	A\$m	2
Cash	A\$m	15
<b>Total</b>	<b>A\$m</b>	<b>208</b>
<b>Total</b>	<b>A\$/sh</b>	<b>0.11</b>

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Prieska - Euroz estimate of cashflow potential									
		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Zinc	US/lb	1.14	1.45	1.50	1.40	1.30	1.30	1.30	1.30
Copper	US/lb	3.25	3.00	3.25	3.25	3.33	3.40	3.40	3.40
A\$1.0=US\$		0.75	0.78	0.76	0.78	0.78	0.78	0.78	0.78
Ore Mined	mtpa	0.00	0.00	1.80	1.80	1.80	1.80	1.80	1.80
Prod'n Zn	ktpa	0	0	61	61	61	61	61	61
Prod'n Pb	ktpa	0	0	21	21	21	21	21	21
C1 Cash Costs	US\$/lb	0.00	0.00	0.08	0.08	0.05	0.02	0.02	0.02
Revenue	A\$m	0	0	383	361	348	353	353	353
EBITDA	A\$m	0	0	205	186	175	179	179	179
EBIT	A\$m	0	0	205	137	126	130	130	130
Capex	A\$m	0	263	66	39	26	26	26	26
Net CF (pretax)	A\$m	0	0	139	148	149	154	154	154
NPV (10% posttax)	A\$m	648							
IRR (AT, ungeared)	%	44%							

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