

Company Review

Ord Minnett Research

Tuesday, March 01, 2011

Cobar Consolidated Resources Ltd

Debt funding de-risks path to silver production

Cobar Consolidated Resources Limited (CCU) is a silver and base metals exploration and development company based on its large strategic tenement area in the polymetallic Cobar mining region of western NSW.

CCU is set to become the largest pure silver producer on the ASX when its Wonawinta project, which is based on extensive shallow deposits of secondary silver mineralisation, starts operating in the December quarter of 2011.

CCU has arranged a debt financing package of \$22m for project development with a major local bank as well as an overseas bank. Additional facilities for cost overrun, working capital and bonding/guarantee requirements have also been agreed. The funding package is subject to finalisation of the documentation and a number of conditions precedent and is an important step towards silver production.

The project loan has a term of three years and requires the company to hedge a minimum of 30% of silver production over the period of the loan. At current silver prices, such hedging would potentially lock in a very handsome cash margin forecast to be at least A\$20 per ounce. On CCU's forecast annual production of over 2.5M ozs, current silver prices would enable the company to generate an annual operating cash surplus of at least \$50m. Ord Minnett Ltd (OML) understands that the hedging CCU undertakes is not likely to be too restrictive, allowing the company financial flexibility to pay dividends.

OML sees this funding development as a major de-risking event for the company as it progresses along the approvals path leading to project development over the next few months. OML regards the outlook for silver as sound from its strong and growing industrial demand, which in turn makes CCU's Wonawinta project look very attractive.

OML has revised its equity diluted base case valuation of CCU to \$0.90 with an upside valuation of \$1.34. Notwithstanding CCU's strong share price performance, we retain our "Buy" recommendation with high risk. Revised 12-month price target is \$1.20.

Key Financials					
Year to June	FY10A	FY11E	FY12E	FY13E	FY14E
Silver Price (US\$/oz)	16.9	27.4	28.5	27.3	24.5
Silver Production (Moz)			1.2	2.7	2.9
Sales Revenue (\$M)			33.4	81.5	81.8
Mining Profit before tax (\$M)	(0.6)	(0.9)	17.3	53.3	53.7
Reported NPAT (\$M)	(0.6)	(0.7)	9.7	28.9	30.9
Reported EPS (¢)	(0.5)	(0.4)	5.9	17.4	18.6
Normalised EPS (¢)	(0.5)	(0.4)	5.9	17.4	18.6
Op. Cash Flow Per Shr (¢)	(0.4)	(0.9)	5.1	28.7	25.0
Dividend (¢)	0.0	0.0	0.0	0.0	3.0
EPS Growth (%)	nm	nm	nm	197%	7%
Normalised P/E (x)	nm	nm	17.8	6.0	5.6
Price/Op. Cash Flow (x)	nm	nm	20.6	3.6	4.2
Normalised ROE (%)	-7%	-4%	31%	57%	39%

Source: Iress, Company Data, Ord Minnett Estimates. Share price: \$ 1.045 March 01, 2011.

Note 1. Mining Profit Before Tax is the contribution from mining operations after admin & royalties

CCU A\$1.045

Recommendation

Buy

Risk Assessment

High

Sector - Silver

Peter Arden

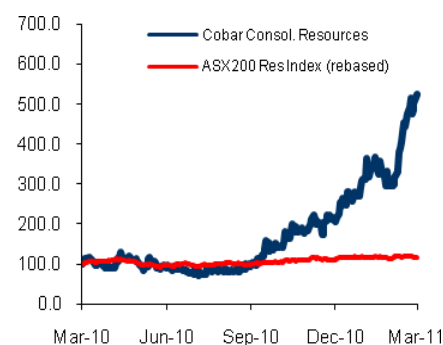
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Cobar Consolidated Limited

ASX Code	CCU
52 week range	\$1.06 - \$0.13
Market Cap (\$M)	160
Shares Outstanding (M)	146.9
Av Daily Turnover (\$M)	0.2
ASX All Ordinaries	4920.4
ASX200 Resources Index	5931.6
Net Cash 1H11 (\$M)	7.9

Relative price performance



Source: Iress

Consensus Estimates

	FY11F	FY12F
NPAT* (\$M)	na	na
EPS* (¢)	na	na
No of estimates	0	0

Source: Iress

Debt Funding Agreed

CCU has achieved an important step towards development of its Wonawinta silver project with the company reaching agreement on the terms of the debt funding for the project.

Terms have been agreed with the Commonwealth Bank of Australia and with WestLB AG Sydney Branch, (the Australian arm of a major European commercial bank based in Dusseldorf in Germany that is part owned by the German state of North Rhine-Westphalia) to provide a secured loan of \$22m to CCU for project development. Additional finance facilities for cost overrun, working capital and bonding/guarantee requirements have also been agreed. The funding package is subject to documentation being finalised and a number of conditions precedent.

The term of the project loan is three years and CCU will be required to hedge a minimum of 30% of silver production over the period of the loan.

OML understands that the hedging CCU undertakes is not likely to be too restrictive, allowing the company financial flexibility to pay dividends.

OML regards the debt funding as one of the key steps along the path to CCU getting its exciting silver project underway as it considerably de-risks the project. Other important steps that remain to be completed include the environmental and planning approvals and the issue of a mining licence. These are well underway and are expected to be completed in the next two months or so.

OML regards CCU's achievement of project debt funding as an important de-risking step towards the development of the company's Wonawinta silver project

Revised Valuations

Since OML initiated coverage of CCU in early February 2011, the silver price has risen 16% and the company has agreed terms for the debt funding component of its Wonawinta project. OML has revised its valuations of CCU after incorporating assumptions for this debt finance. These assumptions include silver hedging of approximately 30% of output over the first three years of the project at prices that are at modest discounts to the current spot and futures prices. The current silver price is around US\$34 per ounce.

As detailed below and in keeping with the previous valuations, the revised valuations are largely based on Net Present Value (NPV) considerations (Table 1). Note that these valuations assume the issue of additional equity to complete the funding of the Wonawinta project, which has an estimated capital cost of \$29.5m.

OML has revised its valuations of CCU to take account of a 16% increase in the silver price and CCU achieving debt finance agreement

Table 1. Summary valuations based on forecasts of additional share capital

	Base Case		Upside Case	
	\$M	Value (\$) per Share ¹	\$M	Value (\$) per Share ¹
Assessed value of Wonawinta silver project ²	98	0.60	144	0.87
Assessed value of exploration assets ³	41	0.24	67	0.41
Subtotal of mineral assets	139	0.84	211	1.28
Net financial assets ⁴	10	0.07	10	0.07
Total net value	149	0.90	221	1.34

Source: Ord Minnett

Note: 1. Per share valuation does not add exactly as each component has been done on a diluted basis, for securities that are dilutive, making for duplication when summed individually

2. Based on NPV at 10% discount rate using JORC reserves and resources for base case and estimated deposit extensions for upside case; includes De Nardi

3. Estimated value of exploration projects and other assets derived by various methods including NPV

4. Includes corporate costs and NPV of capital to be raised from additional equity

The company's shares are currently trading at a 14% premium to OML's revised equity adjusted base case valuation of CCU and at a 28% discount to OML's revised equity adjusted upside valuation.

OML forecasts that CCU will require additional equity funding to assist with the capital cost of the Wonawinta project, high priority exploration and development of additional silver resources at Wonawinta and De Nardi and some early exploration follow-up of priority targets from the forthcoming VTEM survey and of CCU's previous discoveries at the Gundaroo prospect.

In forecasting the potential impact of such a capital raising to complete its Wonawinta funding and for those other purposes, OML has assumed that CCU raises additional capital of approximately \$11m at a modest discount to the current share price of \$1.045. OML has assumed that this would involve CCU issuing approximately 12m shares in FY11.

The result of these assumptions is incorporated in OML's valuations in Table 1.

Major share price risks

OML regards the following as the major share price risks for CCU:

- Lower Australian dollar silver price either from a fall in the US dollar silver price and/or a rise in the value of the Australian dollar compared to the US dollar.
- Production problems that include changed geological or mining conditions, regulatory changes such as adverse variations to environmental approvals, equipment failures or adverse weather impacts.
- Adverse operating costs from either lower ore grades than expected and/or higher operating costs from input costs or changed mining conditions.
- Lack of exploration success or ability to convert the company's current resource base and exploration targets into mineable reserves.

Financial Summary

Cobar Consolidated Resources Limited

Year end June

Profit & Loss Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Sales Revenue			33	82	82
Mining Operating Costs	(1)	(1)	(16)	(28)	(28)
Mining Op. Profit Before Tax	(1)	(1)	17	53	54
Other Expenses and Net Income			(2)	(3)	(3)
EBITDA	(1)	(1)	15	50	51
Depreciation & Amortisation			(4)	(8)	(9)
EBIT	(1)	(1)	11	42	42
Net Interest (Expense) / Income					1
Pre-Tax Profit	(1)	(1)	11	41	44
Tax Expense			(1)	(12)	(13)
Reported NPAT	(1)	(1)	10	29	31
Adjustments (after-tax)					
Normalised NPAT	(1)	(1)	10	29	31
EBITDA Margin (%)	na	na	46%	62%	62%
Effective tax Rate (%)	0%	0%	9%	30%	29%
EPS Reported (cps)	(0.5)	(0.4)	5.9	17.4	18.6
EPS Normalised (cps)	(0.5)	(0.4)	5.9	17.4	18.6
EPS growth (%)	nm	na	na	197%	7%
Operating Cash Flow (cps)	(0.4)	(0.9)	5.1	28.7	25.0
DPS (cps)					3.0
Payout Ratio (%)	0%	0%	0%	0%	16%
Franking (%)	0%	0%	0%	0%	100%

Cash Flow Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Pre-Tax Operating Cash Flow	(1)	(1)	8	50	54
Tax Paid				(2)	(12)
Operating Cash Flow	(1)	(1)	8	48	41
Exploration & Development	(2)	(9)	(8)	(7)	(8)
Property, Plant & Equipment		(9)	(9)	(2)	(6)
Other Investing Items		(3)	(3)	(5)	(7)
Investing Cash Flow	(2)	(21)	(20)	(14)	(21)
Inc/(Dec) in Equity	5	16			
Inc/(Dec) in Borrowings		20		(7)	(7)
Dividends Paid					
Financing Cash Flow	5	36		(7)	(7)
Inc/(Dec) in Cash	2	14	(12)	26	13

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash	4	18	6	32	45
Other Current Assets			2	12	28
Property, Plant & Equipment		9	21	22	27
Exploration & Development	7	18	26	30	30
Other Non Current Assets		1	1	1	1
Total Assets	11	48	65	105	130
Short-term Debt					5
Other Current Liabilities		1	9	23	30
Long-term Debt		20	20	13	
Other Non Current Liabilities				3	3
Total Liabilities		22	29	39	39
Total Equity	11	27	36	65	91
Net Debt (Cash)	(4)	2	14	(19)	(39)

Source: Cobar Consolidated Resources, Ord Minnett estimates.

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Silver (US\$/oz)	17	27	29	27	25
US\$/A\$	0.88	0.98	1.00	0.97	0.92
Silver (A\$/oz)	19	28	28	28	27

Equity Silver Production (M ozs)	FY10A	FY11E	FY12E	FY13E	FY14E
Wonawinta			1.2	2.7	2.6
De Nardi					0.3
Total			1.2	2.7	2.9
Total cash cost incl royalty (A\$/oz)			13.9	10.6	10.6

JORC Resource Estimate	Grade			Contained Metal	
Deposit	Mt	Ag (g/t)	Pb %	Ag (M oz)	Pb (000t)
Wonawinta	21.9	72	1.0	51	212
De Nardi	1.8	47		3	
TOTAL	23.7	70	0.9	53	212

Major Shareholders	Million	(%)	Date
Magna Resources Corporation	29.0	19.7	17/12/10
Ian Lawrence	17.7	12.0	20/10/10

Leverage	FY10A	FY11E	FY12E	FY13E	FY14E
Net Debt (Cash)/Equity	(34%)	8%	39%	(29%)	(43%)
Net Debt/(Cash)/Total Assets	(33%)	5%	22%	(18%)	(30%)
Interest Cover (x)	nm	nm	21.9	nm	nm

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	nm	nm	17.8	6.0	5.6
Price/Op Cash Flow	nm	nm	20.6	3.6	4.2
EV/EBITDA	nm	nm	11.5	2.8	2.4
EV/EBIT	nm	nm	15.7	3.4	2.9

Valuation	Base Case		Upside Case	
	\$M	\$ per share¹	\$M	\$ per share¹
Wonawinta Project	98	0.60	144	0.87
Other Exploration Areas	41	0.24	67	0.41
Total Mineral Assets	139	0.84	211	1.28
Net Financials ²	10	0.07	10	0.07
Total	149	0.90	221	1.34

Valuation	Base:	\$0.90	Upside:	\$1.34
Premium / (Discount) to share price		(14)%		28%

Valuation sensitivity to:

+/- 10% move in silver price	\$0.12 per share	\$0.16 per share
+/- 10% move in the \$US/\$A rate	\$0.13 per share	\$0.18 per share

Current price	\$1.05
Recommendation	Buy
Risk rating	High
12-month price target	\$1.20

Notes: 1. May not add because of rounding and dilution effects; includes additional shares.
2. Includes corporate costs and NPV of forecast additional equity.

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Guide to Ord Minnett Recommendations

BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%. Investors may add to existing holdings, or initiate holdings on share price weakness.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down 15%. Investors should consider selling into share price strength.
SELL	The stock's total return is expected to lose 15% or more.
RISK ASSESSMENT	Classified as High, Medium or Low, denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, volatility, nature of its operations and other relevant quantitative and qualitative criteria.

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