

5 July 2018

Orion Minerals Ltd (ORN)

BUY

Share Price: \$0.04

Drilling targeting Ni-Cu sulphide to commence

Target Price: A\$0.12

Orion Minerals (ORN) is pushing ahead with its exploration program in the highly prospective Areachap Belt of South Africa following the recent capital raising and strategic investment from Independence Group (IGO). After a successful SkyTEM survey, a ground-based Fixed-Loop Electro Magnetic geophysical program and geological mapping has refined five compelling Ni-Cu-Co sulphide targets focused around the Jacomynspan Ni-Cu-Co ultramafic intrusive cluster. ORN is targeting magmatic Ni-Cu-Co deposits, with historic exploration establishing the presence of favourable geology and a fertile system. The new EM plates have far higher conductance than anomalies over the known Jacomynspan Ni-Cu-Co mineral resource, highlighting the potential for ORN's ongoing exploration activities in the coming months. **Maintain a BUY, A\$0.12/sh target price (unchanged).**

EM targets associated with fertile intrusive rocks

- New EM plates located within or adjacent to ultramafic bodies with historic nearby drilling showing lower grade Ni-Cu-Co sulphide mineralisation within the system.
- Historical Jacomynspan resource of 6.8Mt at 0.57% Ni, 0.33% Cu & 0.03% Co within a disseminated and net-textured sulphide orebody.
- New drilling to target highly conductive EM plates to test 'trap-sites' potentially hosting massive sulphide mineralisation.

ORN to benefit from IGO's focus in the Fraser Range

- Positive read-through from IGO's recent boost to investment in the Fraser Range including FY19 exploration budget of \$30m & \$21m payment to Creasy Group for 70% of Southern Hills tenements (Figure 1 & 2).
- IGO is a substantial shareholder in ORN, with joint-venture interests with ORN in the Fraser Range, as well as the recent \$5m investment to help ORN progress exploration opportunities in South Africa.
- IGO has identified numerous drill targets for FY19, with several being on IGO/ORN joint-venture ground.

Valuation of \$0.12/sh at 1x NPV_{12.5}

- We value ORN at long-term prices of \$1.20/lb Zn, \$3.00/lb Cu and 0.75 FX.

Upcoming Catalysts

- Drill results from Prieska and regional program.
- Resource upgrade in Q3 CY18; BFS in early CY19.
- Mining Right and EA approvals 1H CY19.

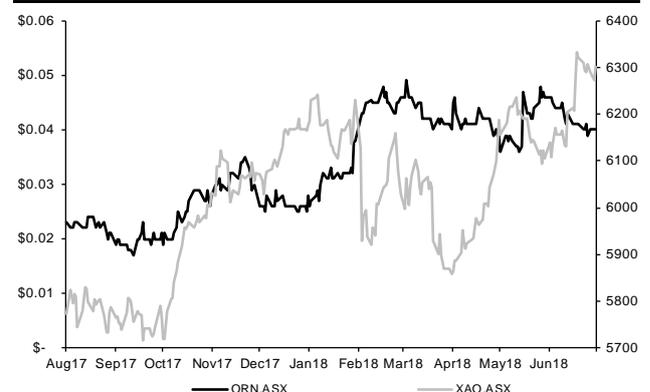
Company Data

Shares – ordinary (M)	1,874
Dilution (M)	426
Total (fully diluted) (M)	2,300
Market capitalisation (\$M)	75
12 month low/high (\$)	0.02/ 0.05
Average monthly turnover (\$M)	0.55
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year end June	2018F	2019F	2020F	2021F	2022F
Revenue (\$M)	0	0	0	125	215
Costs (\$M)	8	12	8	61	85
EBITDA (\$M)	-8	-12	-8	65	130
NPAT (\$M)	-7	-9	-5	32	62
EPS (¢ps)	-0.3	-0.4	-0.2	1.4	2.7
EPS growth (%)	0	0	0	686%	93%
PER (x)	na	na	na	3	1
Free Cashflow (\$M)	-9	1.1	0.6	52	103
FCFPS (¢ps)	-0.4	0.0	0.0	2.3	4.5
PFCFPS (x)	-10	87	165	2	1
Enterprise Value (\$M)	100	108	191	251	235
EV / EBITDA (x)	-13	-9	-25	4	2
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0

ORN – performance over one year



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Analysis

Orion Minerals (ORN)

4-Jul-18

Year End June

PROFIT & LOSS	2018F	2019F	2020F	2021F	2022F
Revenue	A\$M 0	0	0	125	215
Operating Costs	A\$M (1)	(2)	(2)	41	75
Exploration	A\$M 2	11	6	6	6
Other	A\$M 6	4	4	3	4
EBITDA	A\$M (8)	(12)	(8)	65	130
Depreciation & Amort.	A\$M 0	0	0	14	36
EBIT	A\$M (8)	(12)	(8)	51	95
Net Interest	A\$M 3	1	0	6	9
Pre-Tax Profit	A\$M (10)	(13)	(8)	44	86
Tax	A\$M (3)	(4)	(2)	2	24
Net Profit	A\$M (7)	(9)	(5)	32	62
Abnormal	A\$M 0	0	0	0	0
Reported Profit	A\$M (7)	(9)	(5)	32	62
Dividends Paid	A\$M 0	0	0	0	0
Adjustments	A\$M 0	0	0	0	0

CASHFLOW

Net Op Cash Flow	A\$M (9)	(2)	(2)	71	136
Net Interest	A\$M (2)	(1)	(0)	(6)	(9)
Tax Paid	A\$M 1	4	2	(2)	(24)
Operating Cash Flow	A\$M (9)	1	1	52	103
Net Capex	A\$M (2)	(6)	(80)	(99)	(75)
Exploration	A\$M (11)	(21)	(12)	(12)	(12)
Investing Cash Flow	A\$M (13)	(27)	(92)	(111)	(87)
Free cash flow	A\$M (23)	(26)	(92)	(59)	16
Net Borrowings	A\$M (0)	0	70	70	0
Dividends	A\$M 0	0	0	0	0
Equity Issues	A\$M 17	50	0	0	0
Other	A\$M 1	5	0	0	0
Financing Cash Flow	A\$M 18	54	70	70	0
Net Increase/Cash	A\$M (4)	29	(22)	11	16

BALANCE SHEET

Cash	A\$M 11	43	21	32	48
Other Current	A\$M 3	3	3	3	3
Current Assets	A\$M 14	46	24	35	51
Fixed Assets	A\$M 2	8	88	174	213
Exploration	A\$M 27	38	44	50	56
Other	A\$M 3	3	3	3	3
Non Current Assets	A\$M 32	50	136	227	273
Total Assets	A\$M 46	96	160	262	324
Borrowings	A\$M 0	0	0	0	0
Payables	A\$M 1	1	1	1	1
Other	A\$M 0	0	0	0	0
Current Liab	A\$M 1	1	1	1	1
Borrowings	A\$M 9	9	71	141	141
Provisions	A\$M 3	3	3	3	3
Other	A\$M 3	3	3	3	3
Non Current Liab	A\$M 14	14	76	146	146
Total Liabilities	A\$M 15	16	78	148	148
Total Equity	A\$M 31	80	83	115	176

RATIO ANALYSIS

EPS	¢ (0)	(0)	(0)	1	3
PER	x na	na	na	3	1
Enterprise Value	A\$M 97	106	189	249	233
EPS Growth	% 120	28	(42)	686	93
CFPS	¢ (0)	0	0	2	4
PCFR	x na	84	161	2	1
DPS	¢ 0	0	0	0	0
Yield	% 0	0	0	0	0
Payout Ratio	% 0	0	0	0	0
Gearing ND/E	% -7%	-43%	60%	95%	53%
Interest Cover	x na	na	na	8	11
EBITDA Margin	% na	na	na	52%	60%
EBIT Margin	% na	na	na	44%	44%
Return On Assets	% -16%	-13%	-5%	19%	29%
Eff Tax rate	% 28%	28%	28%	28%	28%

Share Price	(\$)	0.039
Iss. Shares	(M)	1874
Options/Con Notes	(M)	426
Fully Diluted	(M)	2300
Equity Raise Assumption	(M)	800
Mkt Cap.	(\$M)	A\$90M

PROJECTS

Production (100% basis)	Resource	Reserve	
Tonnes	Mt	29.4	0
Zinc grade	%	3.8%	0
Copper grade	%	12%	0
Gold grade	g/t	0.2	0
Silver grade	g/t	9.4	0

ASSUMPTIONS

	2018F	2019F	2020F	2021F	2022F
Exchange Rate	A\$/US\$ 0.77	0.77	0.75	0.75	0.75
Zinc price	US\$/lb 136	149	138	138	138
Zinc price	A\$/lb 178	193	184	184	184
Copper price	US\$/lb 2.80	3.04	3.00	3.00	3.00
Copper price	A\$/lb 3.65	3.95	4.00	4.00	4.00
Gold price	US\$/oz 1258	1320	1300	1250	1250
Gold price	A\$/oz 1641	1716	1733	1667	1667
Silver price	US\$/oz 17.05	19.19	20.00	20.00	20.00
Silver price	A\$/oz 22.24	24.95	26.67	26.67	26.67

Production (100% basis)

	2018F	2019F	2020F	2021F	2022F	
Ore milled	Mt	0	0	0	0.65	120
Grade - zinc	%	0	0	0	2.6%	2.9%
Grade - copper	%	0	0	0	2.4%	2.1%
Grade - gold	g/t	0	0	0	0.20	0.20
Grade - silver	g/t	0	0	0	8.70	9.23
Zinc in concentrate	t	0	0	0	14,872	30,624
Copper in concentrate	t	0	0	0	13,416	21,672
Gold	oz	0	0	0	3,594	6,636
Silver	oz	0	0	0	156,359	294,469
Zn Equivalent	t	0	0	0	56,213	96,505
Zn Equivalent	mlb	0	0	0	123.9	212.8

Production (73.3% Attributable)

	2018F	2019F	2020F	2021F	2022F	
Zinc in concentrate	t	0	0	0	10,906	22,457
Copper in concentrate	t	0	0	0	9,838	15,892
Gold	oz	0	0	0	2,636	4,866
Silver	oz	0	0	0	114,658	215,934
Zn Equivalent	t	0	0	0	41,204	70,738
Zn Equivalent	mlb	0	0	0	90.8	155.9

Sales (100% basis)

	2018F	2019F	2020F	2021F	2022F
Zinc Revenue	A\$M 0	0	0	51	98
Copper Revenue	A\$M 0	0	0	10	178
Gold Revenue	A\$M 0	0	0	6	10
Silver Revenue	A\$M 0	0	0	4	8
Total Revenue	A\$M 0	0	0	171	294

Sales (73.3% Attributable)

	2018F	2019F	2020F	2021F	2022F
Zinc Revenue	A\$M 0	0	0	38	72
Copper Revenue	A\$M 0	0	0	81	130
Gold Revenue	A\$M 0	0	0	4	8
Silver Revenue	A\$M 0	0	0	3	6
Total Revenue	A\$M 0	0	0	125	215

Unit Costs

C1 Costs*	US\$/lb Zn	0	0	0	-196	-168
AISC*	US\$/lb Zn	0	0	0	-163	-139

* Significant copper credits expected in first two years, producing negative Zn eq unit costs

CAPEX (100% basis)

	2018F	2019F	2020F	2021F	2022F
Prieska	A\$M 0	0	100	133	100
Other	A\$M 3	8	9	2	3
Total	A\$M 3	8	109	135	103

NPV (+1 Yr)

	Project interest	A\$M	A\$/sh.
Prieska	73.3%	294	\$ 0.09
Jacomynspan and other SA		33	\$ 0.01
Fraser Range		20	\$ 0.01
Corporate costs		-13	\$(0.00)
Net Cash (Debt)		34	\$ 0.01
Total		367	\$ 0.12

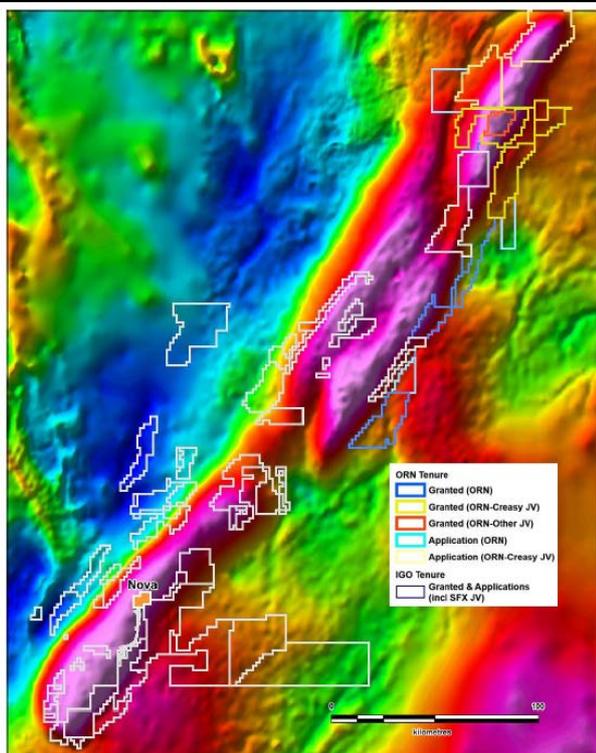
Source: Petra Capital

ORN to benefit from IGO's focus in the Fraser Range

We see a positive read-through from IGO's recent boost to investment in the Fraser Range including its \$50m FY19 exploration budget, of which 60% or ~\$30m is allocated to the Fraser Range. This excludes the recent \$21m payment to Creasy Group for 70% of Southern Hills tenements shown in red in Figure 2.

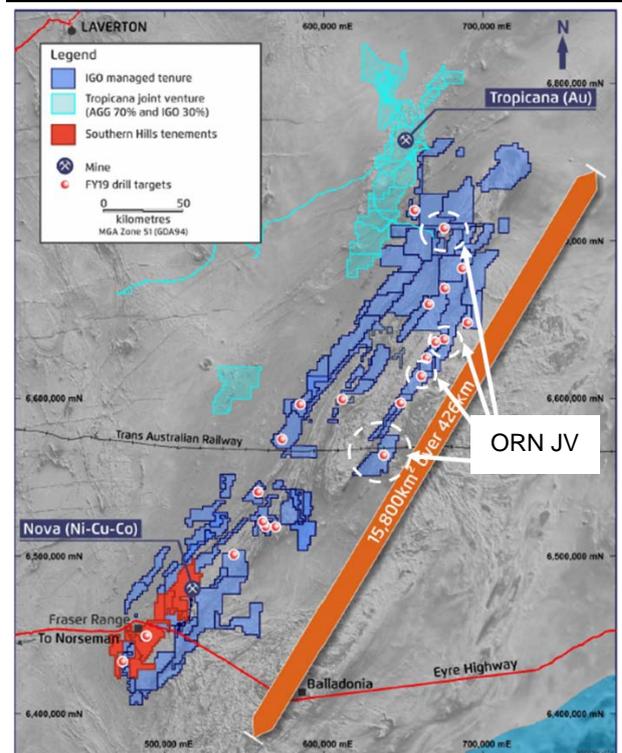
IGO is a substantial shareholder in ORN, with joint-venture interests with ORN in the Fraser Range as shown in Figure 1. IGO has identified numerous drill ready targets for FY19, with several of these being on IGO/ORN joint-venture ground as shown in Figure 2.

Figure 1: ORN & IGO's Fraser Range tenements



Source: ORN

Figure 2: IGO's Fraser Range tenements



Source: IGO

Fraser Range and Areachap similarities

IGO is a substantial shareholder in ORN and has contributed \$5m in capital to help ORN progress identical exploration opportunities to the Fraser Range in South Africa. Orion has established a commanding landholding and exploration position in the Areachap Belt over 1,790km² and is expected to play a major role in this emerging minerals district.

Importantly, no major exploration activity has occurred in the region over the past 30 years presenting a significant opportunity for ORN to apply modern exploration techniques with the potential to benefit from many identified mineral occurrences not drilled with most targets remain open on dip and strike.

ORN currently has 19 diamond drill rigs within the Areachap Belt, including an infill drilling program at Prieska. It is also fast tracking exploration targets looking for new VMS deposits and magmatic related Ni-Cu-Co targets.

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