

31 July 2018

## Orion Minerals Ltd (ORN)

**BUY**

**Share Price: \$0.037**

### A busy June quarter

**Target Price:**

**A\$0.12**

ORN has been active in the June quarter fast-tracking resource drilling at Prieska, progressing the BFS as well as initiating its regional exploration program targeting Ni-Cu sulphide discoveries. Prieska remains the key focus for ORN with the goal of upgrading its Mineral Resource as well as delivering a BFS by Q1 CY2019. In addition, the regional exploration program is starting to yield results, with drilling at the Namaqua/Disawell project confirming Ni-Cu sulphide mineralisation, provides strong geological proof of concept for the region. We maintain our BUY recommendation and A\$0.12/sh target price.

#### Resource drilling validates existing results

- A total of 67,158m of drilling has now been completed at Prieska including 17,446m of infill drilling in JunQ.
- Infill drilling resulted in 56 massive sulphide intersections in the Deep Sulphide Target at Prieska providing statistical validation of historical results.
- ORN will continue infill drilling with the aim of upgrading its Mineral Resource estimate in the 2H CY18.

#### Mine feasibility study advancing

- In addition to drilling, detailed mine design and scheduling is advancing at Prieska using the latest Mineral Resource estimation models.
- A top priority is to validate and optimise production output for the planned underground operation to ensure projects economics are maximised.
- We use a conservative 1.2Mtpa assumption for our base case valuation that provides an average LOM payable production of ~34ktpa of Zn and ~12ktpa of Cu over 15 years, assuming a resource to reserve conversion of ~60%.
- We expect the BFS to refine these parameters with the potential to substantially increase production to between 1.6-2Mtpa, which would lift annual output to ~45-55ktpa Zn and ~16-20ktpa Cu over 10 years with a Resource to Reserve conversion at a more typical ~80% for this type of deposit.

#### Regional exploration has success in first hole

- The first exploration hole at the Rok Optel prospect has intersected a thick succession of sulphide bearing ultramafic intrusives with strong similarities to those encountered in the Fraser Range. Assays are awaited.

#### Valuation of \$0.12/sh at 1x NPV<sub>12.5</sub>

- Our NPV<sub>12.5</sub> uses a long-term Zn price of \$1.20/lb, \$3.00/lb Cu and 0.75 AUD:USD.

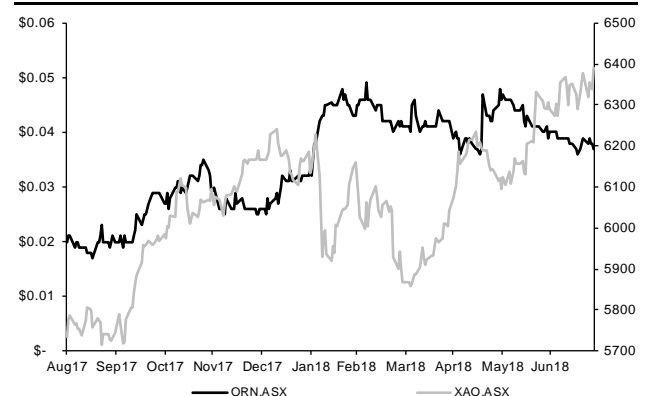
#### Company Data

Shares – ordinary (M)	1,874
Dilution (M)	426
Total (fully diluted) (M)	2,300
Market capitalisation (\$M)	92
12 month low/high (\$)	0.02/ 0.05
Average monthly turnover (\$M)	1.1
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
Op. Cashflow (\$M)	-9	1.1	0.6	52	103
OCFPS (¢ps)	-0.4	0.0	0.0	2.3	4.5
POCFPS (x)	-9	80	152	2	1
Enterprise Value (\$M)	93	101	185	244	228
EV / EBITDA (x)	-12	-8	-24	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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This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital Pty Ltd acted as joint lead manager and bookrunner for ORN's placement of \$11m at A\$0.037/share on 21 June 2018, for which a fee and options was received.

Craig Brown

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## Analysis

### Orion Minerals (ORN)

30-Jul-18

PROFIT & LOSS						PROJECTS							
	2018F	2019F	2020F	2021F	2022F	Production (100% basis)	Resource	Reserve					
Revenue	AS\$ 0	0	0	125	215	Tonnes	Mt	29.4	0				
Operating Costs	AS\$ (1)	(2)	(2)	41	75	Zinc grade	%	3.8%	0				
Exploration	AS\$ 2	11	6	6	6	Copper grade	%	1.2%	0				
Other	AS\$ 6	4	4	13	4	Gold grade	g/t	0.2	0				
<b>EBITDA</b>	<b>AS\$ (8)</b>	<b>(12)</b>	<b>(8)</b>	<b>65</b>	<b>130</b>	Silver grade	g/t	9.4	0				
Depreciation & Amort.	AS\$ 0	0	0	14	36	<b>ASSUMPTIONS</b>							
<b>EBIT</b>	<b>AS\$ (8)</b>	<b>(12)</b>	<b>(8)</b>	<b>51</b>	<b>95</b>	Exchange Rate	A\$/US\$	0.77	0.77	0.75	0.75	0.75	
Net Interest	AS\$ 3	1	0	6	9	Zinc price	US\$/lb	1.36	1.49	1.38	1.38	1.38	
<b>Pre-Tax Profit</b>	<b>AS\$ (10)</b>	<b>(13)</b>	<b>(8)</b>	<b>44</b>	<b>86</b>	Zinc price	A\$/lb	1.78	1.93	1.84	1.84	1.84	
Tax	AS\$ (3)	(4)	(2)	12	24	Copper price	US\$/lb	2.80	3.04	3.00	3.00	3.00	
<b>Net Profit</b>	<b>AS\$ (7)</b>	<b>(9)</b>	<b>(5)</b>	<b>32</b>	<b>62</b>	Copper price	A\$/lb	3.65	3.95	4.00	4.00	4.00	
Abnormal	AS\$ 0	0	0	0	0	Gold price	US\$/oz	1,258	1,320	1,300	1,250	1,250	
<b>Reported Profit</b>	<b>AS\$ (7)</b>	<b>(9)</b>	<b>(5)</b>	<b>32</b>	<b>62</b>	Gold price	A\$/oz	1,641	1,716	1,733	1,667	1,667	
Dividends Paid	AS\$ 0	0	0	0	0	Silver price	US\$/oz	17.05	19.19	20.00	20.00	20.00	
Adjustments	AS\$ 0	0	0	0	0	Silver price	A\$/oz	22.24	24.95	26.67	26.67	26.67	
<b>CASHFLOW</b>						<b>Production (100% basis)</b>							
Net Op Cash Flow	AS\$ (9)	(2)	(2)	71	136	Ore milled	Mt	0	0	0	0.65	1.20	
Net Interest	AS\$ (2)	(1)	(0)	(6)	(9)	Grade - zinc	%	0	0	0	2.6%	2.9%	
Tax Paid	AS\$ 1	4	2	(12)	(24)	Grade - copper	%	0	0	0	2.4%	2.1%	
<b>Operating Cash Flow</b>	<b>AS\$ (9)</b>	<b>1</b>	<b>1</b>	<b>52</b>	<b>103</b>	Grade - gold	g/t	0	0	0	0.20	0.20	
Net Capex	AS\$ (2)	(6)	(80)	(99)	(75)	Grade - silver	g/t	0	0	0	8.70	9.23	
Exploration	AS\$ (11)	(21)	(12)	(12)	(87)	Zinc in concentrate	t	0	0	0	14,872	30,624	
<b>Investing Cash Flow</b>	<b>AS\$ (13)</b>	<b>(27)</b>	<b>(92)</b>	<b>(111)</b>	<b>(87)</b>	Copper in concentrate	t	0	0	0	13,416	21,672	
Free cash flow	AS\$ (23)	(26)	(92)	(59)	16	Gold	oz	0	0	0	3,594	6,636	
Net Borrowings	AS\$ (0)	0	70	70	0	Silver	oz	0	0	0	156,359	294,469	
Dividends	AS\$ 0	0	0	0	0	<b>Zn Equivalent</b>	<b>t</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>56,213</b>	<b>96,505</b>	
Equity Issues	AS\$ 17	50	0	0	0	<b>Zn Equivalent</b>	<b>mlb</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>123.9</b>	<b>212.8</b>	
Other	AS\$ 1	5	0	0	0	<b>Production (73.3% Attributable)</b>							
<b>Financing Cash Flow</b>	<b>AS\$ 18</b>	<b>54</b>	<b>70</b>	<b>70</b>	<b>0</b>	Zinc in concentrate	t	0	0	0	10,906	22,457	
<b>Net IncreaseCash</b>	<b>AS\$ (4)</b>	<b>29</b>	<b>(22)</b>	<b>11</b>	<b>16</b>	Copper in concentrate	t	0	0	0	9,838	15,892	
<b>BALANCE SHEET</b>						Gold	oz	0	0	0	2,636	4,866	
Cash	AS\$ 11	43	21	32	48	Silver	oz	0	0	0	114,658	215,934	
Other Current	AS\$ 3	3	3	3	3	<b>Zn Equivalent</b>	<b>t</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>41,204</b>	<b>70,738</b>	
<b>Current Assets</b>	<b>AS\$ 14</b>	<b>46</b>	<b>24</b>	<b>35</b>	<b>51</b>	<b>Zn Equivalent</b>	<b>mlb</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>90.8</b>	<b>155.9</b>	
Fixed Assets	AS\$ 2	8	88	174	213	<b>Sales (100% basis)</b>							
Exploration	AS\$ 27	38	44	50	56	Zinc Revenue	AS\$	0	0	0	51	98	
Other	AS\$ 3	3	3	3	3	Copper Revenue	AS\$	0	0	0	110	178	
<b>Non Current Assets</b>	<b>AS\$ 32</b>	<b>50</b>	<b>136</b>	<b>227</b>	<b>273</b>	Gold Revenue	AS\$	0	0	0	6	10	
<b>Total Assets</b>	<b>AS\$ 46</b>	<b>96</b>	<b>160</b>	<b>262</b>	<b>324</b>	Silver Revenue	AS\$	0	0	0	4	8	
Borrowings	AS\$ 0	0	0	0	0	<b>Total Revenue</b>	<b>AS\$</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>171</b>	<b>294</b>	
Payables	AS\$ 1	1	1	1	1	<b>Sales (73.3% Attributable)</b>							
Other	AS\$ 0	0	0	0	0	Zinc Revenue	AS\$	0	0	0	38	72	
<b>Current Liab</b>	<b>AS\$ 1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	Copper Revenue	AS\$	0	0	0	81	130	
Borrowings	AS\$ 9	9	71	141	141	Gold Revenue	AS\$	0	0	0	4	8	
Provisions	AS\$ 3	3	3	3	3	Silver Revenue	AS\$	0	0	0	3	6	
Other	AS\$ 3	3	3	3	3	<b>Total Revenue</b>	<b>AS\$</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>125</b>	<b>215</b>	
Non Current Liab	AS\$ 14	14	76	146	146	<b>Unit Costs</b>							
<b>Total Liabilities</b>	<b>AS\$ 15</b>	<b>16</b>	<b>78</b>	<b>148</b>	<b>148</b>	C1 Costs*	US\$/lb Zn	0	0	0	-1.96	-1.68	
<b>Total Equity</b>	<b>AS\$ 31</b>	<b>80</b>	<b>83</b>	<b>115</b>	<b>176</b>	AISC*	US\$/lb Zn	0	0	0	-1.63	-1.39	
<b>RATIO ANALYSIS</b>						* Significant copper credits expected in first two years, producing negative Zn eq unit costs							
EPS	¢	(0)	(0)	(0)	1	3	<b>CAPEX (100% basis)</b>						
PER	x	na	na	na	3	1	Prieska	AS\$	0	0	100	133	100
Enterprise Value	AS\$	93	101	185	244	228	Other	AS\$	3	8	9	2	3
EPS Growth	%	120	28	(42)	686	93	<b>Total</b>	<b>AS\$</b>	<b>3</b>	<b>8</b>	<b>109</b>	<b>135</b>	<b>103</b>
CFPS	¢	(0)	0	0	2	4	<b>NPV (+1 Yr)</b>						
PCFR	x	na	80	152	2	1	Project interest		73.3%		294	\$	0.09
DPS	¢	0	0	0	0	0	Prieska				33	\$	0.01
Yield	%	0	0	0	0	0	Jacomynspan and other SA				20	\$	0.01
Payout Ratio	%	0	0	0	0	0	Fraser Range				-13	\$	(0.00)
Gearing ND/E	%	-7%	-43%	60%	95%	53%	Corporate costs				34	\$	0.01
Interest Cover	x	na	na	na	8	11	Net Cash (Debt)						
EBITDA Margin	%	na	na	na	52%	60%	<b>Total</b>				<b>367</b>	<b>\$</b>	<b>0.12</b>
EBIT Margin	%	na	na	na	41%	44%							
Return On Assets	%	-16%	-13%	-5%	19%	29%							
Eff Tax rate	%	28%	28%	28%	28%	28%							

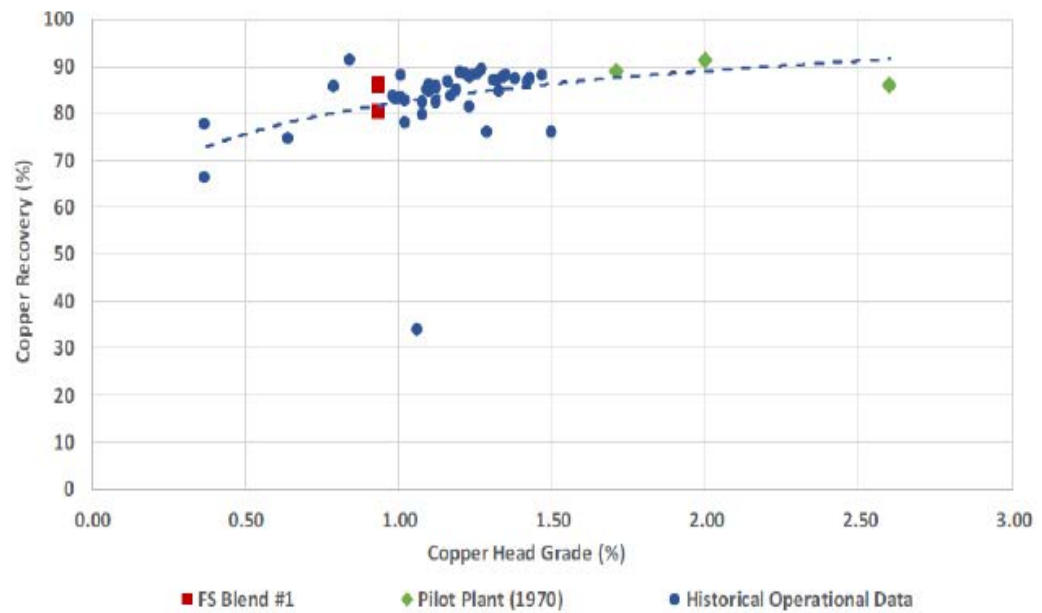
Source: Petra Capital

## Further Metallurgical test-work validates Prieska

Following on from the initial metallurgical test work that was carried out earlier in the year, locked-cycle testing commenced in the June quarter and is expected to complete in the September quarter 2018.

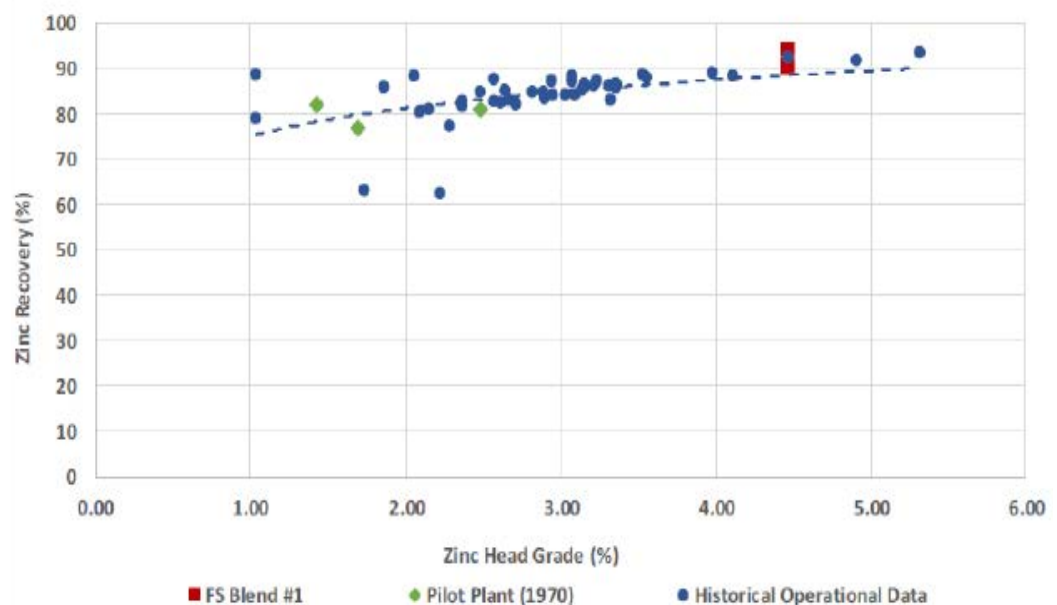
The tests were carried out on samples representing a 50/50 blend of material from the north-western area of the deposit and the south-eastern area, resulting in copper recoveries of ~80% to 86% and zinc recoveries of ~91% and 94%. These recoveries and concentrate qualities achieved for the 50/50 blend (FS Blend #1) are in line with historical performance as shown in Figure 1 & 2 below.

**Figure 1: Copper recoveries**



Source: ORN June Q Results

**Figure 2: Zinc recoveries**



Source: ORN June Q Results

## Regional Exploration (South Africa)

Outside of Prieska, ORN maintains a substantial and prospective landholding in the Areachap Belt of South Africa with a large prospecting right area with several historically drilled Zn-Cu discoveries (Figure 3). ORN is focusing on the exploration potential for VMS and nickel copper PGE deposits within the region.

The Jacomynspan area sits on the Disawell Prospecting Right and is of particular interest given the recent recognition of a large magmatic Ni-Cu intrusive system, with similarities to other major Ni-Cu occurrences such as Voisey's Bay, Kabanga and Nova-Bollinger.

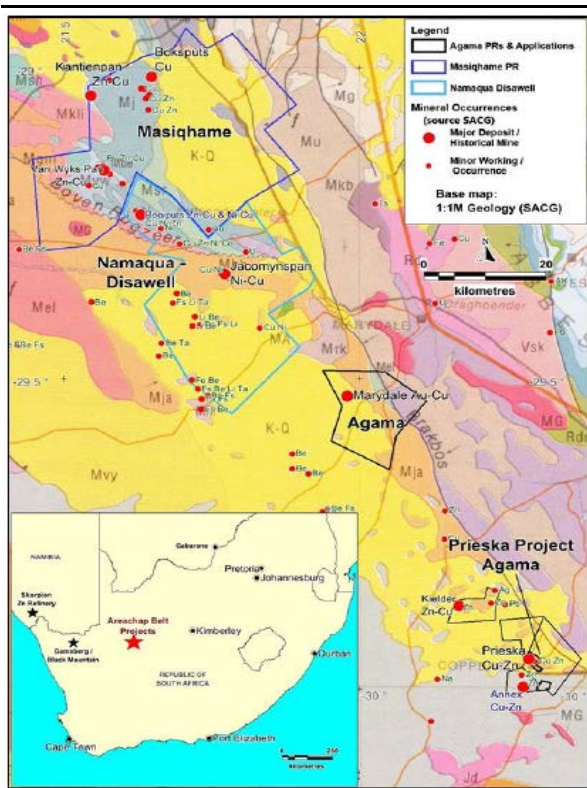
The Jacomynspan complex was discovered in 1973, and is a mafic-ultramafic sill with widths of up to 80m over a strike length of approximately 5km. Jacomynspan currently sits on a granted mining right following a positive feasibility study on a bulk tonnage low grade operation in 2012.

ORN in July 2018, started its diamond drilling program on its existing exploration acreage focusing on the Rok Optel Ni-Cu Prospect approximately 12km to the south of Jacomynspan as shown in Figure 4 below.

Drill Hole OROD001, has intersected a thick succession of sulphide bearing ultramafic intrusive, providing strong geological proof of concept for ORN's expectation that the Jacomynspan group of intrusions has good potential to host high grade massive sulphide mineralisation with strong similarities to those encountered by Nova-Bollinger in the Fraser Range.

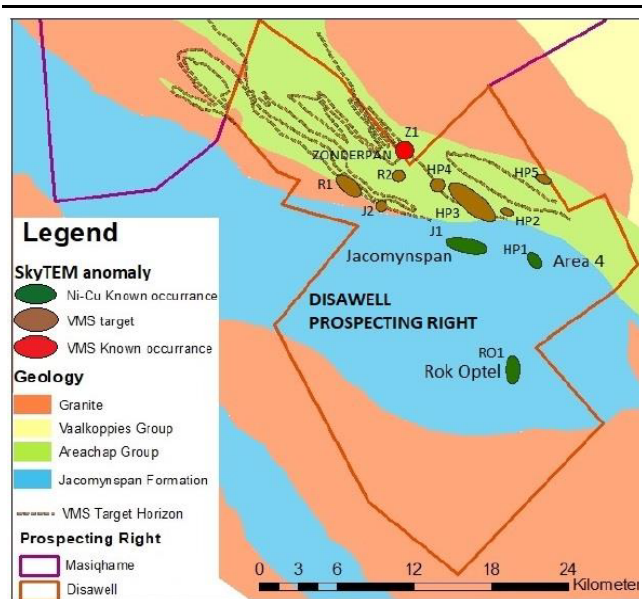
We remind investors about the key reasons Independence Group (IGO.ASX) and Tembo Capital are providing strong support for ORN is due to the significant potential that exists within its South African portfolio.

Figure 3: Regional geology map



Source: ORN

Figure 4: Rok Optel Ni-Cu Prospect



Source: ORN

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