

30 April 2018

## Alkane Resources (ALK)

**BUY**

**Share Price: A\$0.29**

**MQ'18 Results – Slight Beat to Expectations**

**Target Price:**

**A\$0.51**

Alkane's MQ'18 gold production of 18.6koz was 5% higher than our estimate as the gold head grade of 2.4g/t remained 9% higher than our expectations. AISCs fell to A\$962/oz down 9% Qoq. Open pit production remains on track to finish in Q1'FY19, with the company retaining optionality for the processing of low grade stocks and a potential underground operation. An updated underground reserve is expected to be released in May. We retain our BUY recommendation and update our target price to A\$0.51/sh as we roll forward our valuation.

### Into Tomingley's Last Full Quarter

- Tomingley produced 18.6koz at an AISC of A\$962/oz as the head grade of 2.4g/t remained elevated versus our expectation of 2.2g/t (Figure 1 and Figure 2).
- FY18 guidance is tightened to 75-80koz (70-80koz prior) at an AISC of A\$975-1,050/oz (A\$1,000-1,100/oz).
- Open pits cease production in 1Q'FY19. Not included in our valuation are options to extend the asset life including; a) an underground, with an updated reserve due in May and; b) a cut-back at Caloma One and; c) low grade stock piles of 1Mt @ 0.9g/t for 31koz.

### Cash Flows

- Cash and bullion of A\$69m (cash of A\$60.6m and bullion of A\$8.4m) was up A\$11.2m QoQ, reflecting strong cash flow from the Tomingley Gold Operation.
- We now expect a cash balance of A\$75m at 30-June.

### Investment Thesis

- BUY rated – we maintain our BUY recommendation with a target price of A\$0.51/sh (A\$0.52/sh prior).
- The Dubbo Project underpins our investment thesis (100% of the +1yr NPV asset base). We see improved pricing in the underlying commodities and the release of a modularised development study supporting the momentum of this project.

### Upcoming Catalysts

- Improving prices of underlying commodities (zirconium and rare earths) as markets tighten.
- Modularised development study for the Dubbo Project in May-18.
- Updated underground reserve and mining study for Tomingley in May-18.

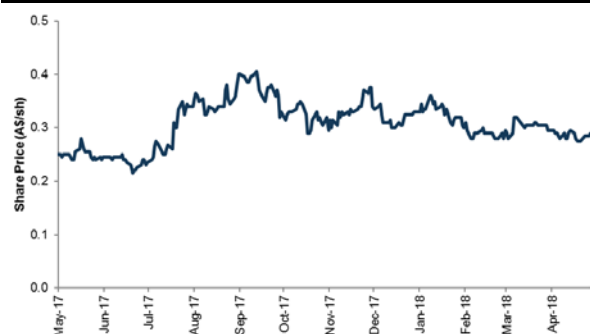
### Company Data

Shares – ordinary (M)	506
Market capitalisation (\$M)	147
12 month low/high (\$)	0.22 / 0.41
Average monthly turnover (\$M)	2.5
GICS Industry	Materials

### Financial Summary (fully diluted/normalised)

Year end June	FY17A	FY18F	FY19F	FY20F	FY21F
Revenue (\$M)	118	125	0	0	0
Costs (\$M)	-68	-53	-10	-16	-42
EBITDA (\$M)	50	72	-10	-16	-42
NPAT (\$M)	-29	20	-3	-10	-46
EPS (¢ps)	-6	3	0	-1	-4
EPS growth (%)	0	0	0	0	0
PER (x)	N.M	8.8	N.M	N.M	N.M
Cashflow (\$M)	55	57	-1	-9	-38
CFPS (¢ps)	11	5	0	-1	-3
PCFPS (x)	3	6	-244	-37	-8
Enterprise Value (\$M)	105	72	-33	325	545
EV / EBITDA (x)	2.1	1.0	3.3	N.M	N.M
Payout ratio (%)	0	0	0	0	0
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

### ALK – performance over one year



### Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

Matthew Schembri  
+61 2 9239 9630

## Analysis

Alkane Resources (ALK)							
P&L (A\$M)	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
Revenues	110	118	125	0	0	0	142
Operating Costs	-65	-57	-47	-10	-16	-42	-124
Other	-8	-12	-6	0	0	0	0
<b>EBITDA</b>	<b>37</b>	<b>50</b>	<b>72</b>	<b>-10</b>	<b>-16</b>	<b>-42</b>	<b>18</b>
D&A	-30	-43	-49	0	0	-6	-26
EBIT	7	7	23	-10	-16	-48	-7
Net Interest	0	-1	0	6	2	-18	-25
Taxes	-2	5	-3	1	4	20	10
Adjustments	0	-40	0	0	0	0	0
Net Profit	5	-29	20	-3	-10	-46	-23
EPS (¢)	1	-6	3	0	-1	-4	-2
DPS (¢)	0	0	0	0	0	0	0

Cash Flows (A\$M)	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
Receipts	109	117	124	0	0	0	142
Payments	-70	-60	-63	-9	-15	-41	-123
Net Interest	0	0	2	6	2	-18	-25
Taxes	0	0	-3	1	4	20	10
Other	-2	-2	-3	0	0	0	0
<b>Op Cash Flows</b>	<b>37</b>	<b>55</b>	<b>57</b>	<b>-1</b>	<b>-9</b>	<b>-39</b>	<b>4</b>
Capex	-34	-34	-9	-169	-338	-169	0
Disposals	0	0	0	0	0	0	0
Exploration	-7	-10	-12	-12	-12	-12	-12
Other	0	3	-3	0	0	0	0
<b>Inv Cash Flows</b>	<b>-40</b>	<b>-41</b>	<b>-24</b>	<b>-181</b>	<b>-350</b>	<b>-181</b>	<b>-12</b>
Change in Borrowings	0	0	1	0	215	210	0
Dividends	0	0	0	0	0	0	0
Equity	12	3	0	288	0	0	0
Other	0	0	0	0	0	0	0
<b>Fin Cash Flows</b>	<b>12</b>	<b>3</b>	<b>1</b>	<b>288</b>	<b>215</b>	<b>210</b>	<b>0</b>

Bal Sheet (A\$M)	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
Cash	24	42	75	180	37	27	19
Receivables	2	2	6	0	0	0	7
Inventories	12	10	10	0	0	0	11
Other	0	0	0	0	0	0	0
<b>Cur Assets</b>	<b>39</b>	<b>54</b>	<b>91</b>	<b>180</b>	<b>37</b>	<b>27</b>	<b>37</b>
Receivables	0	0	0	0	0	0	0
Investments	0	0	0	0	0	0	0
PPE	103	61	21	190	528	691	666
Intangibles	73	83	94	105	116	121	126
Other	7	5	5	5	5	5	5
<b>Non Cur Assets</b>	<b>183</b>	<b>148</b>	<b>120</b>	<b>299</b>	<b>648</b>	<b>817</b>	<b>797</b>
<b>Total Assets</b>	<b>221</b>	<b>203</b>	<b>210</b>	<b>480</b>	<b>685</b>	<b>844</b>	<b>834</b>
Borrowings	0	0	0	0	0	0	0
Payables	9	11	12	0	0	0	14
Provisions	2	8	8	8	8	8	8
Other	0	0	0	0	0	0	0
<b>Cur Liabilities</b>	<b>10</b>	<b>19</b>	<b>21</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>22</b>
Borrowings	0	0	1	1	216	426	426
Provisions	16	18	18	18	18	18	18
Other	5	0	0	0	0	0	0
<b>Non Cur Liabilities</b>	<b>21</b>	<b>18</b>	<b>19</b>	<b>19</b>	<b>234</b>	<b>444</b>	<b>444</b>
<b>Total Liabilities</b>	<b>31</b>	<b>38</b>	<b>40</b>	<b>27</b>	<b>242</b>	<b>452</b>	<b>466</b>
<b>Total Equity</b>	<b>190</b>	<b>165</b>	<b>171</b>	<b>453</b>	<b>443</b>	<b>391</b>	<b>368</b>

Assumptions	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
Gold (US\$/oz)	1,167	1,257	1,304	1,305	1,275	1,250	1,225
AUD/USD	0.73	0.75	0.78	0.76	0.75	0.75	0.75
Zirconia Basic Carbonate (US\$/kg)				6	6	6	6
Hafnium (US\$/kg)				500	500	500	500
Niobium (US\$/kg)				40	40	40	40

Key Ratios	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
PE (x)	24.5	N.M	8.8	N.M	N.M	N.M	N.M
EV/EBITDA (x)	3.3	2.1	1.0	3.3	N.M	N.M	30.3
EPS Growth (%)	<-100	<-100	<-100	<-100	>100	>100	-50.7
ROE (%)	2.5	-17.5	12.0	-0.6	-2.3	-11.7	-6.2
Net Debt to Equity (%)	-12.9	-25.4	-43.4	-39.7	40.4	101.9	110.6
Net Debt to EBITDA (x)	-0.7	-0.8	-1.0	18.0	-11.0	-9.5	22.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF Yield (%)	-2.1	7.5	11.1	-56.9	<-100	0.0	0.0

Production & Costs	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
<b>Tomingley</b>							
Group Gold Production (oz)	67,134	68,148	74,995				
AISC Gold Cash Costs (US\$/oz)	1,262	1,488	995				
Resources (Contained Au, Moz)	579						
Reserves (Contained Au, Moz)	234						
<b>Dubbo Zirconia Project</b>							
Throughput (kt)	0	0	0	0	0	75	325
Zirconium (ZrO2, t)	0	0	0	0	0	1,201	5,206
Hafnium (HfO2, t)	0	0	0	0	0	5	26
Ferro-Niobium (t)	0	0	0	0	0	148	640
Light rare earths - La, Ce, Nd, Pr, Sm (t)	0	0	0	0	0	366	1,588
Heavy rare earth - Y, Dy, Tb, Gd, Eu (t)	0	0	0	0	0	96	415
Revenue (A\$/kg)	0	0	0	0	0	0	18
Costs (A\$/kg)	0	0	0	0	0	14	14

EBITDA (A\$M)	FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
Tomingley	26	28	51	0	0	0	0
Dubbo Zirconia Project	0	0	0	0	0	-26	34
Corporate & Other	-9	-7	-9	-10	-16	-16	-16

NPV +1yr	(A\$M)	Per Share
Tomingley	0	\$0.00
DZP Stage One	93	\$0.08
DZP Stage Two	203	\$0.18
Corporate and other	-91	-\$0.08
Equity Raising	288	\$0.26
Net Cash	66	\$0.06
<b>Total</b>	<b>559</b>	<b>\$0.51</b>

Note: base case assumes ALK issues A\$300M of new equity at A\$0.50/share

Source: Petra Capital

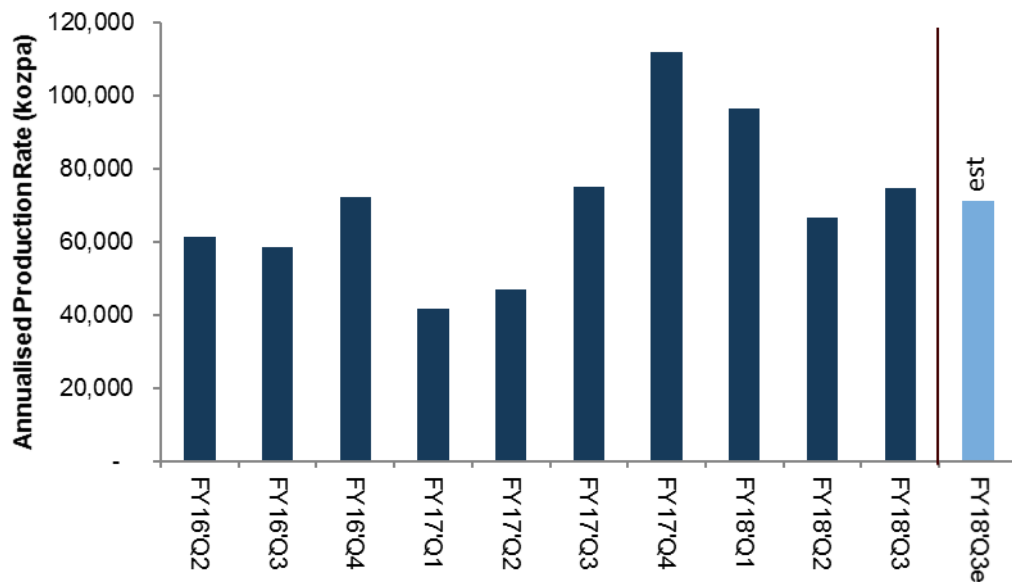
## Quarterly Results

**Figure 1: Quarterly Production Results**

Production	FY18'Q2	FY18'Q3	FY18'Q3e	Est (%)	Qoq (%)
Ore Mined (kt)	331	506	375	35%	53%
Ore Grade (g/t)	2.0	1.8	1.1	60%	-8%
Ore Processed (kt)	264	272	275	-1%	3%
Head Grade (g/t)	2.21	2.41	2.21	9%	9%
Recovery (%)	93%	91%	91%	0%	-2%
Gold Pro (oz)	16,641	18,635	17,783	5%	12%
Annualised Prod (ozpa)	66,564	74,540	71,132	5%	12%
Gold Revenue (\$m)	22.4	36.8	29.7	24%	64%
Costs					
Mining	503	436	590	-26%	-13%
Processing	260	240	294	-18%	-8%
G&A	78	42	93	-55%	-46%
C1	841	718	977	-27%	-15%
Royalties	51	48	45	7%	-6%
SIBC	27	27	42	-36%	0%
Rehab	99	140	18	666%	41%
Corp	40	29	42	-31%	-28%
AISC	1,058	962	1,125	-14%	-9%

Source: Company Reports, Petra Capital

**Figure 2: Annualised Production Rate by Quarter**



Source: Company Reports, Petra Capital

**Petra Capital**

Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782  
ACN 110 952 782  
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Research (Resources):	Peter Chilton	+61 (0)2 9239 9634	pchilton@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Mark Tomlins	+61 (0)2 9239 9625	mtomlins@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Jamie Campbell	+61 (0)2 9239 9620	jcampbell@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Michael Casey	+61 (0)2 9239 9608	mcasey@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

**Disclosure**

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

**Disclaimer**

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

**Ratings**

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

**US Investors**

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and "\$100 million investors" only and not the general investing public or retail customers. "\$100 million investors" means any entity, including any investment adviser (whether or not registered under the U.S. Investment Company Act of 1940) that owns or controls (or in the case on an investment adviser has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issues, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Global Alliance Securities, LLC ("Global Alliance"), a U.S. broker dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

**Other International**

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.