

Noosa Mining Conference wrap

RBS Morgans was again proud to support the third Noosa Mining and Exploration Conference. "NMEC" was well attended by 36 corporates and over 500 delegates in a surprisingly positive mood, perhaps reflecting a solid bounce among the small caps since late June. Funding constraints remain a dominant theme however investors took heart from upbeat keynotes from Owen Hegarty and Michael Pascoe. Both echoed that whilst the road may be bumpy, "Australia and Asia are locked in a virtuous circle of prosperity". The sector looks like an opportunity for patient, counter-cyclical investors.

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*"The only commodities in oversupply at the moment are gloom, doom and despondency":
Owen Hegarty, Tigers Realm Group*

ASX S&P Small Resources versus commodities – 10 year indexed



SOURCES: RBS MORGANS, IRESS

Keynote address ▶

Owen Hegarty is a perma-bull, no doubt about it, but he's been through a few of these downturns before. Asia's burgeoning middle class is accelerating consumption and the regional surge in infrastructure in China will continue – with the metal intensive stage of economic development underway. Hegarty cites regional subway systems still in their infancy and sees strong demand in an upwards trend coming from China and Asia.

Key Metals & Mining Ideas ▶

Overall, Most of the explorers/producers we spoke to are in "cash conservation mode" and whilst equities may have bounced recently we don't see any easing of funding constraints in the near term.

Evolution Mining (EVN) – EVN was our key metals pick from the conference. We anticipate the upcoming quarterly result for EVN will focus heavily on cost cutting across the portfolio which will see EVN emerge leaner and meaner. Capex intensity peaked over the last 12 months and as a result we see the fruits of EVN's 5 operations bearing fruit in CY13-14.

Key Oil & Gas ideas ▶

Overall, Many companies have positive positioning with respect to cash flow from current production which is supported by the current oil price or have done recent deals to help retain cash during exploration and drilling. Other companies have a high interest in acreage that potentially can be farmed out for funding exploration and development, which is helpful in this environment.

Senex Energy (SXY) stood out due to; 1) growth in its high margin oil business; 2) potential for near term gas commercialisation and/or JV at the Hornet field; 3) impending news flow from a 30 well oil drilling program, and 4) potential monetisation of its QLD CSG interests. SXY has over A\$150m in cash and no debt at 31 March 2013.

Small-caps to watch ▶

Crusader Resources (CAS) – CAS produces iron ore from its Posse project in Brazil and aims to lift production from 300ktpa to 1Mtpa via an expanded licence in the near term. Opex of ~\$12/t generates healthy margins albeit on a small but growing scale. We like the story for its 1) producer status; 2) scalability, and 3) for its secondary growth option at its Borborema gold project.

Blue Energy (BUL) – Blue Energy is an oil and gas explorer with extensive acreage in Queensland and the Cooper Basin. The company has 2P reserves of 50PJ and 3P reserves of 180PJ. BUL has 100% equity in the majority of its acreage and has an active work program planned. We like the story for its 1) near term drilling of the Marburg oil prospect, 2) the potential for JVs due to its high interests in extensive acreage in both producing and frontier basins, and 3) its existing uncontracted reserves near the east coast gas market

Keynote themes

We noted a number of key themes at the conference – perhaps the most significant was the feeling of “less hype” in the market and the willingness of boards and directors to “do deals” in a much more constructive atmosphere compared to 2012 when many companies were still beating their chest ascribing much higher valuations for their projects. Funding execution remains a major risk for a large portion of the explorers, and this will play out over the next 12 months as M&A and deal making consolidates the sector.

Owen Hegarty

Owen Hegarty spoke at length about “the only commodities in oversupply at the moment are Doom, Gloom and Despondency”. Equity valuations are oversold as a result of investor pessimism about the short term future of commodity prices. Hegarty sees “Australia and Asia locked together in a virtuous circle of prosperity, and that multiple decades of prosperity will be led by India and China which will be unstoppable and unbridled”, he agrees there will be speedbumps, but the direction overall will be up. Asia’s burgeoning middle class is accelerating consumption and the regional surge in infrastructure in China will continue – with the metal intensive stage of economic development underway. Hegarty cites regional subway systems still in their infancy and sees strong demand in an upwards trend coming from China and Asia.

Michael Pascoe

Michael Pascoe’s keynote theme was that “we [Australia] has been travelling in the fast lane doing 160km/hr, and yes we’ve slowed down, but were still doing 100km/hr”. He made the comment that our government is missing an opportunity by not fully utilising its healthy balance sheet to use debt to build more infrastructure and invest in the Australian economy. Michael sees green shoots in housing and sees Australia as a world leader in real GDP terms with low government debt as a percent of GDP (around 10-11%).

ASX S&P Small Resources versus commodities – 10 year indexed

Sector	Company	Mcap A\$m	Cash A\$m	Overview & catalysts
Oil & Gas				
LNC	Linc Energy	1,008	130	Production ramp up on the Gulf Coast; Drilling in Alaska ~October; JV on Arckaringa Basin - ongoing
SXY	Senex Energy	830	150	Hornet gas JV - ongoing; Oil drilling results - ongoing
COE	Cooper Energy	155	72	Results from Tunisia Hammamet West-3 flow testing - August
CTP	Central Petroleum	144	4	Drill Mt Kitty well - Jan 2014; Ongoing news around Surprise Development 2HCY13
AJQ	Armour Energy	104	40	Result of Egilabria 2 DW1 lateral frac and flow test - August
COI	Comet Ridge	98	7	An initial 2P reserve definition - CY2014
BUL	Blue Energy	81	17	Spud of Marburg oil prospect - August; Gas reserves upgrades
PVD	Pura Vida Energy	75	10	Completion of Morocco farm out - ~August; Farm out of Gabon -
TTN	Titan Energy Services	72	10	An interesting growth play on oil & gas filed logistics and support services
AOK	Austex Oil	70	6	Finalisation of loan facility - 3QCY13
WCL	Westside Corporation	65	18	Full year production - July; Full year report - August
PRL	Petrel Energy	37	8	Drilling Uruguay shale basin - August
EEG	Empire Energy	30	4	Licence approvals in the NT ~4Q2013/1Q2014
AKK	Austin Exploration	24	2	Completion of farm out in Colorado and Texas - ~3QCY13;
NGE	New Guinea Energy	16	9	Seismic interpretation on PPL267 - 4QCY13; JV or farm out on PPL267
NGY	Nu Energy Gas	9	1	First revenue from gas sales - Q4 2013; Proved Reserves booked - 2013/2014
AWD	Aleator Energy	10	-	Receipt of Debt finance - ~August; Drill Pov-105 - 2HCY13 spud
Gold				
EVN	Evolution Mining	766	107	Potentially an acquirer of distressed gold assets in this market?
HIG	Highlands Pacific	63	8	Xstrata's possible divestment of Freida River may benefit HIG's exposure to a highly strategic copper asset
OBS	Orbis Gold	46	14	Natougou initial resource due within weeks (~1Moz?)
GOR	Gold Road Resources	35	9	Yamana offers regional scale gold discovery potential
AMX	Ampella Mining	34	22	Ongoing drill results from regional programs
CHZ	Chesser Resources	20	4	Ongoing drill programs at Sisorta, Resource upgrades
ERM	Emmerson Resources	11	2	Ongoing drill programs at Goanna and Geckko
Coal, Iron ore & Bulks				
TIG	Tigers Realm Coal	105	15	Amaam North PFS release (due Sep-Q) should offer TIG a low capex entry into the highly strategic premium hard coal market
AJM	Altura Mining	62	3	Earnings from Services, Indonesian Coal and the Mount Webber JV sees AJM well positioned to sustain current activities, while possible divestments would free up cash for possible M&Ar
IEC	Intra Energy Corp	32	4	Leveraged to economic development in Tanzania and Malawi via a strategic entry into small scale coal mining
CBX	Cape Alumina	12	3	Owner of an attractive package of direct-shippable bauxite resources in FNQ, though constrained by the regulatory environment
AJC	Acacia Coal	9	5	Niche QLD met coal developer with potential to figure in sector co-operation or consolidation with neighbours
Base metals				
RXM	Rex Minerals	103	30	Owner of the largest undeveloped copper project in Australia and highly confident of securing finance in 2013
CAS	Crusader Resources	32	3	Expansion of iron ore production licence to 1mtpa
PLY	Polymetals	16	13	Consummation of the SGX merger should create a highly capable and well funded gold developer
DTM	Dart Mining	15	6	Investigating a potential ne Moly-Copper-Silver porphyry province in NE VIC
SRZ	Stellar Resources	12	3	Owner of a niche Tasmanian development project leveraged to compelling tin fundamentals
DGR	DGR Global	11	2	Trading at a significant discount to NTA and offering diversified junior exposure

SOURCES: RBS MORGANS, COMPANY REPORTS

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