

Rocks & Stocks

Rocks & Stocks



Calls to Action:

BHP positive on growth: BHP's AGM spoke broadly of the positive tone coming from Asia, in particular Japan's renewed vigor and long term Chinese growth from urbanization over the next 15 years.

Crusader AGM: CAS is a smaller scale iron ore producer in Brazil. The company produces at a relatively cheap opex and sells ore to local steel mills. The company aims to upgrade their plant in the near term which would improve recoveries significantly and boost production.

Caravel Minerals (CVV)

Caravel is targeting porphyry copper 120km NE of Perth, drilling starts this week with results due around Xmas/New Year. Good technical management and Kingsgate Consolidated is a 27% cornerstone shareholder.

KGL Resources (KGL)

Market Cap of \$12M, cash of \$10M, and asset value in the Murchison gold project of as much as \$10M, KGL's had a difficult recent history, but it's about what it's worth now and may be in the future, rather than what happened in the past.

James WILSON

T (61) 8 6160 8707

E james.wilson@morgans.com.au

Chris BROWN

T (61) 7 3334 4885

E chris.brown@morgans.com.au

Tom SARTOR

T (61) 7 3334 4503

E tom.sartor@morgans.com.au

www.morgans.com.au

RO_131126

AGM season wrap-up

We've attended a few Annual General Meetings in the last week, and whilst the tone is sombre for many resources companies they remain upbeat on the outlook and are continuing to make cost savings with a focus on value and winning investors back. M&A is squarely in focus with many of the junior and mid-tiers either looking at assets or being looked at themselves and we anticipate deals to be consummated in the near term as cash balances dwindle and predators swoop in.

BHP AGM – Andrew McKenzie addresses shareholders in Perth



SOURCE: Morgans

BHP's AGM

Chairman Jac Nasser covered all the usual bases in what was a 'by-the-numbers talk' on the Big Australian, but their outlook on the global economy was broadly positive citing Japan's latest policy push as being positive for growth and they're confident of a recovery in the USA despite the potential for unwinding of stimulus. BHP also forecasts Chinese growth continuing despite weaker trade data in recent months backed up by their forecast for 250 million people in China's rural areas moving to the cities in the next 15 years.

M&A scuttlebutt

Perhaps the biggest theme we've been hearing around town is the amount of M&A talk surrounding the resources sector, in particular the number of offshore companies looking at merger activities with our local ASX players. We're also seeing a lot of talk on M&A activity in the explorers – often related to low-ball offers for assets. One MD we spoke to said M&A activity was as frequent as "every day". From an ASX perspective we anticipate M&A deals to crystallise in the short term. Of the 745 ASX listed resource stocks we looked at 174 (of 745) companies have less than \$500k in cash, and close to 300 (of 745) have less than \$1m in cash according to the September quarterly reporting season. In our view, stick to companies that have decent cash reserves as they are likely to be the predator rather than the prey in the current market.

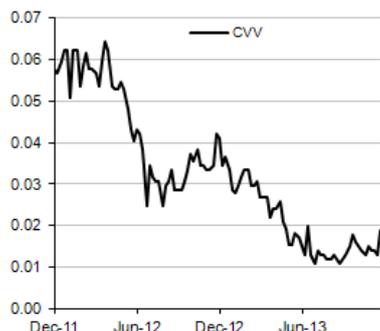
Golds

We've had a fair few questions related to gold companies and our best picks this week. Spot pricing is down on technical selling and weakness ahead of the US Thanksgiving this Thursday 28th November so spot prices are likely to remain weak for another few days. Even in times of weakness such as this we still favour the two best exposures to gold with the highest quality operations and some of the lowest industry costs on the ASX – Beadell Resources (BDR) and Regis Resources (RRL). BDR below \$0.80c is in great value territory as is RRL around \$3.00.

Companies catching our eye this week

www.caravelminerals.com.au :

Caravel is just about to commence a drilling program in their highly prospective Calingiri project in Western Australia.



Caravel Minerals (CVV) ▶ Drilling commences at Calingiri

Caravel is an Australian based copper, gold and base metals explorer with projects in Western Australia and Queensland. We met with the Managing Director Marcel Hilmer recently and we've steadily seen a bit of excitement build in the stock as the company prepares to start drilling on their highly prospective Calingiri Copper-Molybdenum project in Western Australia.

- The projects came from Kingsgate Consolidated after the company bought out Dominion Mining in 2011. The deal also saw Tony Poustie join the company, he was the former General Manager/Chief Geologist for Dominion Mining and then Kingsgate, so we have no doubt over the calibre of technical expertise in this small explorer. KCN remains a 27% shareholder in the company.
- Calingiri is located about 120km north-east of Perth in Western Australia. Earlier in the year an initial drill program discovered substantial widths of copper-molybdenum mineralisation at "Dasher" prospect.
- Subsequent exploration using induced polarisation (IP) geophysics revealed further prospectivity along the Calingiri trend which now includes "Edmonds", "Kurrali" and "Opie". The strike extent of the prospective structure is now over 7.5km in length.
- CVV will commence drilling this week and will initially focus on Edmonds – the largest of the IP targets and will then move onto Kurrali – initially the drill program will be ~5300m of RC drilling with a series of shallow 50m deep holes aiming to test the near surface anomalism. Additional drilling will be added if the program is successful. First results should be available in coming weeks.
- It's a comparatively cheap story with a market capitalisation of ~\$8m undiluted at 1.9cps. Any success on the Calingiri drill program will likely see this improve off a low base with results in the near term.

www.carbinetungsten.com.au

CNQ is re-developing the Mt Carbine tungsten mine, Queensland, on granted MLs.



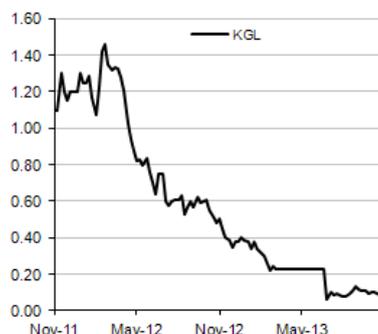
Carbine Tungsten (CNQ) – re-developing a profitable tungsten mine ▶

- Production from the Mt Carbine tungsten mine from 1974 to 1986 generated 2Mt of tailings with a grade of 0.1% WO₃ and a 12Mt stockpile at 0.075% WO₃. A hard rock resource of 47Mt at 0.13% WO₃ is now defined by CNQ to JORC Code standards. The significant mining tenements and licences were maintained subsequent to closure.
- CNQ commenced treating tailings in early 2012. Although at a relatively low concentrate production rate, this has confirmed the potential for improved process recoveries, and the quality of the concentrate. The off-taker, Mitsubishi Corporation Unimetal Ltd signed an MOU to provide A\$15M to Carbine Tungsten for processing the 12Mt stockpile in February 2013 at a rate of 1.5Mtpy.
- A Hard Rock scoping study evaluated an A\$55M project mining 3Mtpy of ore to produce 260,000MTU in concentrate per year. The estimated cash cost is A\$137/MTU, with the current price approximately A\$250/MTU.
- The weak Tungsten price in 1985/86 was the result of a flood of Chinese exports, resulting in the closure of over 60 mines world-wide in the 1980s, and stalling the concentrate price at US\$50-60/Metric tonne unit (MTU – 10kg, one one hundredth of a tonne) for over 15 years. Driven by economic growth in China the concentrate price rose to above US\$300/MTU in mid-2011, then weakened through to late 2012, before recovering to the current level, as has been the case for most commodities. As Ammonium paratungstate it's now around US\$420/MTU- which converts back to a price as concentrate above US\$300/MTU

KGL Resources (KGL) – a new life

www.kglresources.com.au

Evaluating the Jervois polymetallic project, NT



- KGL has established a resource of 13.5Mt at 1.3% copper and 25.8g/t silver at its Jervois project, 350km northeast of Alice Springs, with the resource in the Marshall/Reward and Green Parrot lenses on the eastern flank of the structure, and Bellbird/Bellbird North on the west. The resource contains 170,000t of copper and 11.6Moz of silver, with some of the shoots containing gold (69koz so far) and zinc-lead.
- Drilling has been on-going to extend the known deposits to depth and along strike. Our expectation is that the drilling to date could take the resource to 200kt of contained copper, which in our view is of a scale to justify a Feasibility Study.
- Geophysics has defined a Marshall/Reward look-alike IP anomaly immediately to the northeast of the deposit, and a relatively shallow hole reported 18m @ 0.9% copper which appears to have been too shallow to effectively test the since-defined anomaly. It's a high priority target and success could add further pounds of metal to the inventory.
- Drilling at the Rockface prospect to the south, in the keel of the structure, has now reported 24m @ 1.47% copper and 3.5g/t silver, beneath 9m @ 1.21% copper. The holes aren't optimally sited because of topography, and the intersections aren't true width, but equally they aren't drilled into the most promising part of the geophysical anomaly, either. This is an exploration play worth watching for those interested in base and precious metals.
- Market Cap of \$12M, cash of \$10M, and asset value in the Murchison gold project of as much as \$10M, KGL's had a difficult recent history, but it's about what it's worth now and may be in the future, rather than what happened in the past.

Crusader Resources (CAS) – AGM Meeting notes

www.crusaderresources.com

Crusader is a Brazil based iron ore producer. The company also has a gold project with an advanced feasibility study underway.



- Crusader Resources (CAS) is an iron ore miner with projects in Brazil. The company is currently focussed on the "Posse" iron ore project which is processing around 200kt of material each quarter to produce around 65kt of iron ore concentrate which is then on-sold to local Brazilian steel mills.
- We attended CAS's Annual General Meeting last week and got an update from MD Rob Smackman. We like the sound of the story, in particular the potential for an upgrade in capacity at the project to improve the amount of saleable product which presents a catalyst for value uplift in the near term.
- Processing throughput of ~65kt per month results in about 33% recovery of saleable product which is sold locally. The remaining two thirds of the product is stockpiled which runs at about 50% Fe (and has around +200,000t stockpiled at present). CAS can upgrade their plant with an additional screen and magnetic separator which could bump possibly double the recovery overall. Cost was estimated at around ~\$10m according to the MD and we feel this could significantly improve production and value for CAS in the longer term.
- CAS gold project at Borborema contains 42.4Mt @ 1.18g/t (1.61Moz Au) of ore reserves, but is really dependent on higher gold prices for viability. It's a significant asset of the company and we potentially see them spinning the asset out / monetising the asset to focus on their iron ore interests.
- CAS will be coming into the Sydney, Melbourne and Brisbane offices this week on Tuesday (Brisbane), Wednesday (Sydney) and Thursday (Melbourne) for desk presentations on an eastern states road show.

QUEENSLAND			
BRISBANE	(07) 3334 4888	PORT MACQUARIE	(02) 6583 1735
BUNDABERG	(07) 4153 1050	SCONE	(02) 6544 3144
CAIRNS	(07) 4222 0555	SYDNEY – LEVEL 9	(02) 8215 5000
CALOUNDRA	(07) 5491 5422	SYDNEY – LEVEL 33	(02) 8216 5111
CHERMSIDE	(07) 3350 9000	SYDNEY – MACQUARIE STREET	(02) 9125 1788
EDWARD STREET	(07) 3121 5677	SYDNEY – MACQUARIE STREET (Parramatta)	(02) 9615 4500
EMERALD	(07) 4988 2777	SYDNEY – REYNOLDS EQUITIES	(02) 9373 4452
GLADSTONE	(07) 4972 8000	WOLLONGONG	(02) 4227 3022
GOLD COAST	(07) 5581 5777		
IPSWICH/SPRINGFIELD	(07) 3202 3995	ACT	
MACKAY	(07) 4957 3033	CANBERRA	(02) 6232 4999
MILTON	(07) 3114 8600		
MT GRAVATT/CAPALABA	(07) 3245 5466	VICTORIA	
NOOSA	(07) 5449 9511	MELBOURNE	(03) 9947 4111
REDCLIFFE	(07) 3897 3999	BRIGHTON	(03) 9519 3555
ROCKHAMPTON	(07) 4922 5855	CAMBERWELL	(03) 9813 2945
SPRING HILL	(07) 3833 9333	CARLTON	(03) 9066 3200
SUNSHINE COAST	(07) 5479 2757	FARRER HOUSE	(03) 8644 5488
TOOWOOMBA	(07) 4639 1277	GEELONG	(03) 5222 5128
TOWNSVILLE	(07) 4725 5787	RICHMOND	(03) 9916 4000
YEPPON	(07) 4939 3021	SOUTH YARRA	(03) 9098 8511
		TRARALGON	(03) 5176 6055
		WARRNAMBOOL	(03) 5559 1500
NEW SOUTH WALES			
SYDNEY	(02) 8215 5055	WESTERN AUSTRALIA	
ARMIDALE	(02) 6770 3300	PERTH	(08) 6462 1999
BALLINA	(02) 6686 4144		
BALMAIN	(02) 8755 3333	SOUTH AUSTRALIA	
CHATSWOOD	(02) 8116 1700	ADELAIDE	(08) 8464 5000
COFFS HARBOUR	(02) 6651 5700	NORWOOD	(08) 8461 2800
GOSFORD	(02) 4325 0884		
HURSTVILLE	(02) 9570 5755	NORTHERN TERRITORY	
MERIMBULA	(02) 6495 2869	DARWIN	(08) 8981 9555
NEUTRAL BAY	(02) 8969 7500		
NEWCASTLE	(02) 4926 4044	TASMANIA	
NEWPORT	(02) 9998 4200	HOBART	(03) 6236 9000
ORANGE	(02) 6361 9166		

DISCLAIMER

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Although CIMB Securities (Australia) Ltd (ABN 84 002 768 701), its related bodies corporate, directors and officers, employees, authorised representatives and agents ("CIMB Securities Australia") may have been involved in the preparation of certain content for this Research Report, this Research Report constitutes general advice provided by Morgans to the recipient of this report under its Australian financial services licence and Morgans is solely responsible for the content of this report. CIMB Securities Australia do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within.

DISCLOSURE OF INTEREST

Morgans and CIMB Securities Australia may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans or CIMB Securities Australia may previously have acted as manager or co-manager of a public offering of any such securities. Morgans' affiliates or CIMB Securities Australia affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Each of Morgans and CIMB Securities Australia advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans' Authorised Representatives may be remunerated wholly or partly by way of commission.

STATUTORY DISCLOSURES

An analyst or a member of the household of an analyst who participated in the preparation of this report may have a shareholding/financial interest in Beadell Resources.

RECOMMENDATION STRUCTURE

For a full explanation of the recommendation structure, refer to our website at https://www.morgans.com.au/research_disclaimer.

If you no longer wish to receive Morgans' publications please advise your local Morgans office or write to Morgans, Reply Paid 202, Brisbane QLD 4001 and include your account details.