

Rocks & Stocks



Calls to Action:

Small caps to play catch up in 2014

In 2014 growth will emerge and investors' appetite for riskier asset classes improves.

Base Resources

BSE is a mineral sands producer that commenced production in early December 2013. First exports of ilmenite are expected in early 2014 and the ramp up to full production is expected by Mid-2014.

Crusader Resources

CAS is currently producing and selling iron ore from its Posse mine in Brazil. We anticipate a number of value catalysts in 2014 off the back of government permitting and upgrades to production

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

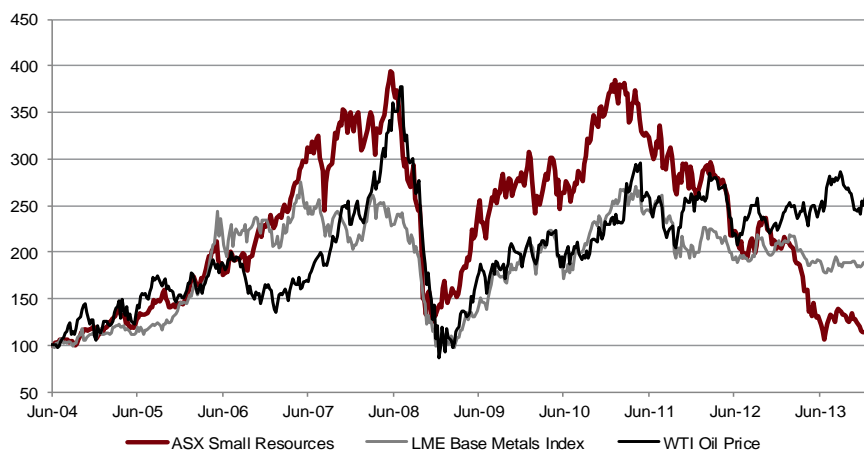
T (61) 7 3334 4503
E tom.sartor@morgans.com.au
www.morgans.com.au

RO_131223

Small caps to catch up in 2014

What a year 2013 was! If you are a resources company however there's a chance you might win when hearing that. The ASX small resources index is hovering at 10 year lows, M&A is being transacted at fire sale prices and explorers are merging projects and cash positions. In 2014 growth will emerge and investors' appetite for riskier asset classes will improve and it's here (in Rocks & Stocks) that we see an opportunity to capitalise on that outlook.

Figure 1: 2014 will see the small caps catch up with commodities prices



SOURCE: Morgans

Outlook for small caps – looking more positive in 2014

The ASX Small Resources Index is currently at the same price we saw in 2004 at pre-boom levels. In the same time period commodities prices such as oil and base metals have more than doubled in price, so why is there a price disconnect between the two?.

Interest in the speculative end of the market has been limited as investors have been riding the wave of macro financial shocks which has steered them into lower risk top end stocks that paid dividends or bonds that provided low risk secure returns. As interest dwindled in the small resources sector, cash positions dried up, explorers tightened their belts and mergers take place to consolidate projects and to combine cash positions to survive – we've seen a lot of the M&A activity occurring since October – and this puts a positive spin on the investment outlook in that companies are seeing value at current levels and aim to capitalise on cheap deals.

Indications are apparent that Europe is emerging from recession and the US growth will accelerate in 2014, and if this truly is the case then the investor appetite for riskier asset classes will improve as confidence in the global economy improves.

Where's the next big resources play – Rocks & Stocks will help you find it

The outlook for investment in the small-caps does deserve a second look. The upside potential in many of the small explorers is real in our view with some projects trading at significant discounts to peer valuations and some trading even at cash backing. Sentiment is improving and choosing the right investment in the small-caps can pay off with significant upside on a new discovery or outlook for a company.

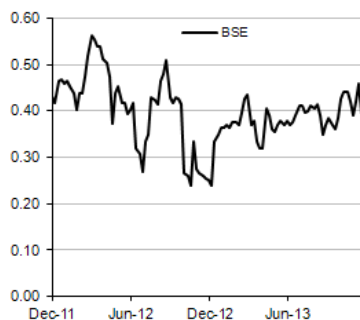
Each update of Rocks & Stocks is a compilation of meetings and discussions we've had with companies during the week with updates coming from Chris, James and Tom – so the ideas are fresh, they're real and they're directly from management and we see significant value in the stocks we're recommending in the new year. Stay tuned for updates as we're already seeing some interesting news coming from companies we follow – and the new year will be chock-full of exploration news updates.

Merry Xmas to everyone, and have a happy, safe and profitable new year.

Companies catching our eye this week

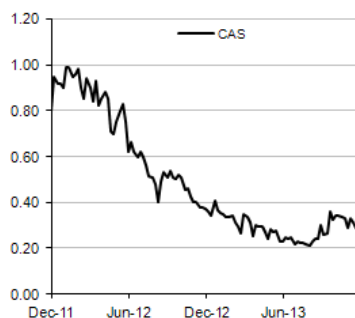
BSE is a mineral sands producer that commenced production in early December 2013. First exports of ilmenite are expected in early 2014 and the ramp up to full production is expected by Mid-2014.

www.baseresources.cm.au



CAS is currently producing and selling iron ore from its Posse mine in Brazil. We anticipate a number of value catalysts in 2014 off the back of government permitting and upgrades to production

www.crusaderresources.com.au



Base Resources (BSE) ▶ Mini-Iluka?

BSE is a mineral sands producer with its flagship project at Kwale in Kenya. The company recently commissioned the processing plant with its first export of ilmenite due in January 2014. Once the project ramps up to full production it should produce around 350kt of ilmenite, 80kt of rutile and 30kt of zircon products – representing around 8-9% of global ilmenite and ~12% of global rutile annually. The company anticipates being debt free in 28 months assuming mineral sands prices remain at current levels. In January 2014 the company will commence commissioning their zircon circuit and shipments to customers will commence later that month. BSE anticipates ramping up to full scale output by the middle of next year. There's been a lot of conjecture over BSE's projects in the last few years – from potential metallurgical issues with high slimes (clay) content and the odd curve-ball from the Kenyan government in terms of either tenure or raising royalties. Were happy to say that these issues have always been mitigated and the company has been pushing ahead to the point where they are now a producer. BSE recently raised a further \$25m through a debt facility which will see them have enough cash to complete the project with its maximum cash draw occurring in March 2014, prior to them receiving payments for their first production cargoes. If you are a believer in a resurgence in the global economy – and in particular the increase in demand for paint products (ilmenite's primary use is in paints and plastics) then BSE is attractive and significant global producer that we have coined a "Mini-Iluka".

Crusader Resources (CAS) ▶ Iron ore producer in Brazil...expect upgrades in 2014

CAS is a small-scale iron ore producer with its flagship project "Posse" in Brazil. The company is currently operating on a trial licence which enables them to produce around ~300kt of iron ore saleable product annually. CAS currently has around 200kt of lower grade stockpiles that would be processed as part of a Stage 2 expansion that the company is considering undertaking in 2014 which will involve dry magnetic separation of a portion of the lower grade product which could improve overall recoveries at the project to around +70% and would significantly improve cashflow for the company. CAS has applied for a full mining licence which will enable them to increase production to ~1.5Mtpa as part of the expansion. Exploration in the new year will focus on direct shippable ores outside the current mine area that were previously covered with vegetation and represent low hanging fruit to bolt on additional resources to the existing production plan.

CAS also has a secondary gold project at Borborema. CAS has submitted the environmental assessment documentation to the government and is a critical step in the path to licensing the project. The company has also been conducting low cost value accretive near mine exploration and has recently bolstered the operational team on the project with a new project manager.

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		WESTERN AUSTRALIA	
SYDNEY	(02) 8215 5055	PERTH	(08) 6462 1999
ARMIDALE	(02) 6770 3300		
BALLINA	(02) 6686 4144	SOUTH AUSTRALIA	
BALMAIN	(02) 8755 3333	ADELAIDE	(08) 8464 5000
CHATSWOOD	(02) 8116 1700	NORWOOD	(08) 8461 2800
COFFS HARBOUR	(02) 6651 5700		
GOSFORD	(02) 4325 0884	NORTHERN TERRITORY	
HURSTVILLE	(02) 9570 5755	DARWIN	(08) 8981 9555
MERIMBULA	(02) 6495 2869		
NEUTRAL BAY	(02) 8969 7500	TASMANIA	
NEWCASTLE	(02) 4926 4044	HOBART	(03) 6236 9000
NEWPORT	(02) 9998 4200		
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

None

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.