

Alkane Resources

Dubbo gets a boost

Equity raising

Metals & mining

23 June 2014

Price **A\$0.27**
Market cap **A\$111m**

Net cash (A\$m) as at 31 March 2014 18.6
 Shares in issue (post placing) 412.5m
 Free float 72%
 Code ALK
 Primary exchange ASX
 Secondary exchange OTCQX

Share price performance



%	1m	3m	12m
Abs	(8.5)	(16.9)	(18.2)
Rel (local)	(8.5)	(18.3)	(28.1)
52-week high/low	A\$0.47	A\$0.27	

Business description

Alkane is a multi-commodity explorer, with projects in the central west region of New South Wales in Australia. Alkane owns and operates its Tomingley Gold mine (100%) and is developing its Dubbo rare metal and rare earths (100%) project, with first production currently planned for 2017.

Next events

Quarterly reports	Mid July 2014
DZP project approval	Mid-October 2014

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Alkane has raised A\$10.4m via the issue of 40m ordinary shares at A\$0.26 per share. This financing allows Alkane to maintain its 2016 development timeline for Dubbo while it tackles the main issue of permitting the mine with the NSW authorities. This latter point is the main obstacle to Alkane advancing the financing strategy for its flagship project. Meanwhile, the Tomingley Gold Operation's processing plant has reached its annualised designed throughput capacity of 1Mtpa on schedule. However, gold processing capacity has been constrained by the oxygen supply to the plant, causing a slowing of the CIL plant throughput. This has resulted in a slight downward revision to its production target – now expected to be at the lower end of 22-27koz for FY14.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/13**	100.8	93.2	28.0	0.0	1.0	N/A
06/14e	47.1	6.5	1.7	0.0	15.9	N/A
06/15e	125.7	56.9	6.5	0.0	4.2	N/A
06/16e	115.9	29.7	3.4	0.0	7.9	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. **18-month period to reflect year-end change to 30 June.

Equity financing brings Fidelity on board

The A\$10.4m raised will be put towards costing DZP infrastructure to bankable level, further DZP end-product development, securing water and certain land for the DZP mine site, and other DZP expenditures and general working capital. Alkane's management states that Fidelity now has a 10% shareholding.

Tomingley Gold Operations (TGO) bedding down

The oxygen supply constraint at the processing plant is being resolved via installing a temporary liquid oxygen plant, with a permanent one being designed for installation in Q414 at a cost of A\$0.35m. Alkane has said reconciliation of the mined grade and tonnage versus that of the comparable reserve figures has resulted in a 15% uplift in ounces delivered to the mill. We expect the upgrade to the cyanide detoxification circuit to realise the value of the increased ounces delivered to the mill, with the effects of this upgrade on cash flow expected by end FY14, and supporting our target of 70koz Au produced for FY15.

Valuation: Revised for TGO production and financing

We revise our SOTP base case valuation for 22koz gold produced from TGO for FY14 (previously 25koz) and the dilution of 40m shares resulting from the equity financing. We do not revise our REE/Zr/Nb and gold prices and financing strategy for DZP (as stated in our [update note](#) published on 9 December 2013), other than our assumption for the FY14 gold price, which is now US\$1,384/oz (previously US\$1,448/oz). All this results in our total FY15 fully diluted valuation becoming A\$1.63 per share (versus previous FY14 valuation of A\$1.55) comprising A\$0.25 for TGP, A\$1.36 for DZP and A\$0.02 for the value of Alkane's remaining Regis Resources shareholding.

Alkane Resources is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	A\$'000s	2013 (18 months)	2014e	2015e	2016e
Year end 30 June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue (includes FY13 gain on sale of investments)		100,753	47,146	125,653	115,872
Cost of Sales		0	(24,097)	(52,115)	(52,115)
Gross Profit		100,753	23,049	73,538	63,757
EBITDA		88,339	8,120	55,684	59,460
Operating Profit (before GW and except.)		88,172	5,898	53,304	30,176
Intangible Amortisation		0	0	0	0
Exceptionals/discontinued		(99,024)	(498)	(498)	(498)
Other		0	0	0	0
Operating Profit		(10,852)	5,400	52,806	29,678
Net Interest		4,980	632	3,557	(500)
Profit Before Tax (norm)		93,152	6,530	56,861	29,676
Profit Before Tax (FRS 3)		(5,872)	6,032	56,363	29,178
Tax		5,989	0	0	0
Profit After Tax (norm)		99,141	6,530	56,861	29,676
Profit After Tax (FRS 3)		117	6,032	56,363	29,178
BALANCE SHEET					
Average Number of Shares Outstanding (m)		354.6	373.7	880.2	880.2
EPS - normalised (c)		28.0	1.7	6.5	3.4
EPS - FRS 3 (c)		0.0	1.6	6.4	3.3
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	48.9	58.5	55.0
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		74,144	152,021	153,289	715,902
Intangible Assets		45,278	52,669	52,669	52,669
Tangible Assets		21,093	91,579	92,847	655,460
Investments		7,773	7,773	7,773	7,773
Current Assets		107,836	40,406	484,673	26,785
Stocks		0	2,916	10,175	9,656
Debtors		3,680	2,455	8,566	8,129
Cash		63,073	26,034	456,932	0
Other available for sale financial assets		41,083	9,000	9,000	9,000
Current Liabilities		(9,590)	(3,836)	(6,138)	(81,398)
Creditors		(7,735)	(1,981)	(4,283)	(4,283)
Short term borrowings		0	0	0	(75,260)
Other		(1,855)	(1,855)	(1,855)	(1,855)
Long Term Liabilities		(135)	(135)	(135)	(135)
Long term borrowings		0	0	0	0
Other long term liabilities		(135)	(135)	(135)	(135)
Net Assets		172,255	188,456	631,688	661,154
CASH FLOW					
Operating Cash Flow		(12,823)	(12,747)	44,409	60,206
Net Interest		4,980	632	3,557	(500)
Tax		5,989	0	0	0
Capex		(57,777)	(75,002)	(3,648)	(591,898)
Acquisitions/disposals		10,329	40,199	0	0
Financing		102,566	9,880	386,580	0
Dividends		0	0	0	0
Net Cash Flow		53,264	(37,038)	430,898	(532,192)
Opening net debt/(cash)		(9,804)	(63,073)	(26,034)	(456,932)
HP finance leases initiated		0	0	0	0
Other		4	0	0	0
Closing net debt/(cash)		(63,073)	(26,034)	(456,932)	75,260

Source: Company accounts, Edison Investment Research

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