

29 January 2015

Alkane Resources

ALK A\$0.24/share

Solid quarter, production guidance upgraded

BUY

ALK reported Dec qtr gold production of 19.2koz (down 14%) at all-in sustaining cash costs (AISC) of A\$1,116/oz (up from A\$867/oz). Higher costs reflect scheduled lower grades and transition from oxide to sulphide ore. Cash at hand reduced from \$25.3M to \$18.9M (end of Dec) reflecting; (i) a build-up of gold bullion inventory (+2.7koz or \$4.3M) (ii) a \$2.5M provision to CBA for a new hedge facility and (iii) \$2.8M in land acquisitions for the Dubbo project. Full year production forecasts have increased from 60-70koz to 65-75koz. Project approval for the Dubbo Zirconia Project (DZP) has moved to the PAC (Planning Assessment Commission) with the review to be completed shortly. We have adjusted our gold price and A\$US\$ forecasts with NPV rising 5% to A\$2.38/share. We maintain our BUY recommendation.

Tomingley Gold (100%) – Fig. 1

- Gold price received of A\$1,426/oz (A\$1,408/oz).
- Free cash margins of A\$310/oz (A\$541/oz).
- Margins set to rise with spot price at A\$1,630/oz.
- ALK has \$8.1M (5.6koz) in gold bullion for sale.
- Petra FY15 production unchanged at 75koz.
- FY15 AISC increased from A\$869/oz to A\$989/oz.

Gold price and A\$US\$ forecast changes

- 2H FY15 gold price up US\$25/oz to \$1300/oz.
- FY16 gold price up US\$50/oz to \$1,300/oz.
- FY17 gold price up US\$50/oz to \$1,300/oz.
- LT gold prices up US\$50/oz to \$1,300/oz.
- 2H FY15 A\$US\$ down from 0.90 to 0.81.
- FY16 A\$US\$ down from 0.89 to 0.81.
- FY17 A\$US\$ down from 0.87 to 0.80.
- LT A\$US\$ down from 0.85 to 0.78.

Earnings and Valuation changes (Petra)

- FY15 NPAT flat at \$25.2M (was \$25.1M).
- FY16 NPAT up 84% to \$19.2M (\$10.6M).
- Gold NPV up 38% to A\$0.44/share (A\$0.32/share).
- Group NPV up 5% to A\$2.38/share (A\$2.27/share).

Dubbo Zirconia Project (100%) – Fig. 2

- Mining lease application lodged during the quarter.
- Detailed project schedule & updated capex/costs expected Q2 - Hatch Engineering.
- Funding - ALK remains focussed on a strategic sale and export credit agency funding.

Company Data

Shares - ordinary	412.6M
Options	0M
Total (fully diluted)	412.6M
Market Cap	\$99.0M
12 month low/high	\$0.17 / \$0.47
Average monthly turnover	\$3.3M
Average monthly volume	12.0M

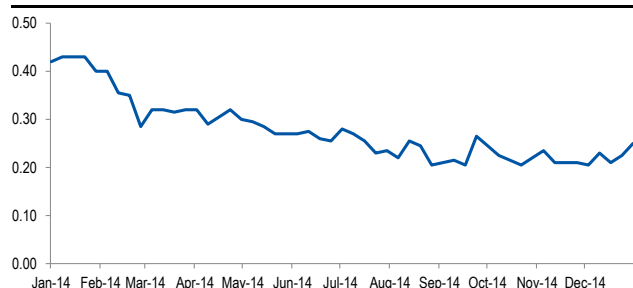
Financial Summary (fully diluted)

Year end June	2013A	2014A	2015F	2016F	2017F
Revenue (\$M)	2.7	23.7	112.6	115.9	294.7
Costs (\$M)	2.3	22.6	71.0	67.0	158.3
EBITDA (\$M)	0.0	1.1	41.5	48.9	136.4
NPAT (\$M)	2.6	-12.6	25.2	19.2	55.6
EPS (¢ps)	0.6	-3.1	6.1	4.7	13.5
EPS Growth (%)	>100	-594.5	>100	-23.7	>100
PER (x)	38.8	na	3.9	5.2	1.8
Cashflow (\$M)	6.4	-7.3	37.3	41.3	104.6
CFPS (¢ps)	1.5	-1.8	9.0	10.0	25.3
PCFPS (x)	na	na	2.7	2.4	0.9
Enterprise Value (\$M)	35	83	63	428	930
EV / EBITDA (x)	na	73	2	9	7

Substantial Shareholders (FPO)

	Shares (M)	(%)
Abbotsleigh	91.6	22.2%
Fidelity	41.3	10.0%

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. On 16th June 2014, Petra Capital was a broker to the issue of 40.0M shares at \$0.26/share, raising A\$10.4M. A fee was received.

Andrew Richards
+61 2 9239 9605

Figure 1: Tomingley Gold Operations

Solid quarter with production of 19.2koz. Bullion on hand has increased to 5.6koz.

TGO Production		FY 2014	Sept Quarter 2014	Dec Quarter 2014	FY 2015
Waste mined	BCM	4,635,684	1,653,357	1,414,557	3,067,914
Ore mined	Tonnes	545,550	300,493	389,242	689,735
Grade	g/t	1.42	2.03	1.67	1.82
Ore milled	Tonnes	359,096	296,012	300,971	596,982
Head grade	g/t	2.24	2.47	2.05	2.26
Recovery	%	91.4	95.4	94.4	94.9
Gold poured	Ounces	20,711	22,362	19,175	41,537
Gold sold	Ounces	16,374	23,734	16,500	40,234
Gold revenue	A\$M	23.3	33.4	23.5	56.9
AISC ¹	A\$/oz	1,604	867	1,116	991
Stockpiles					
Ore for immediate milling	Tonnes	185,701	192,966	301,326	301,326
Bullion on hand	Ounces	4,386	2,938	5,611	5,611

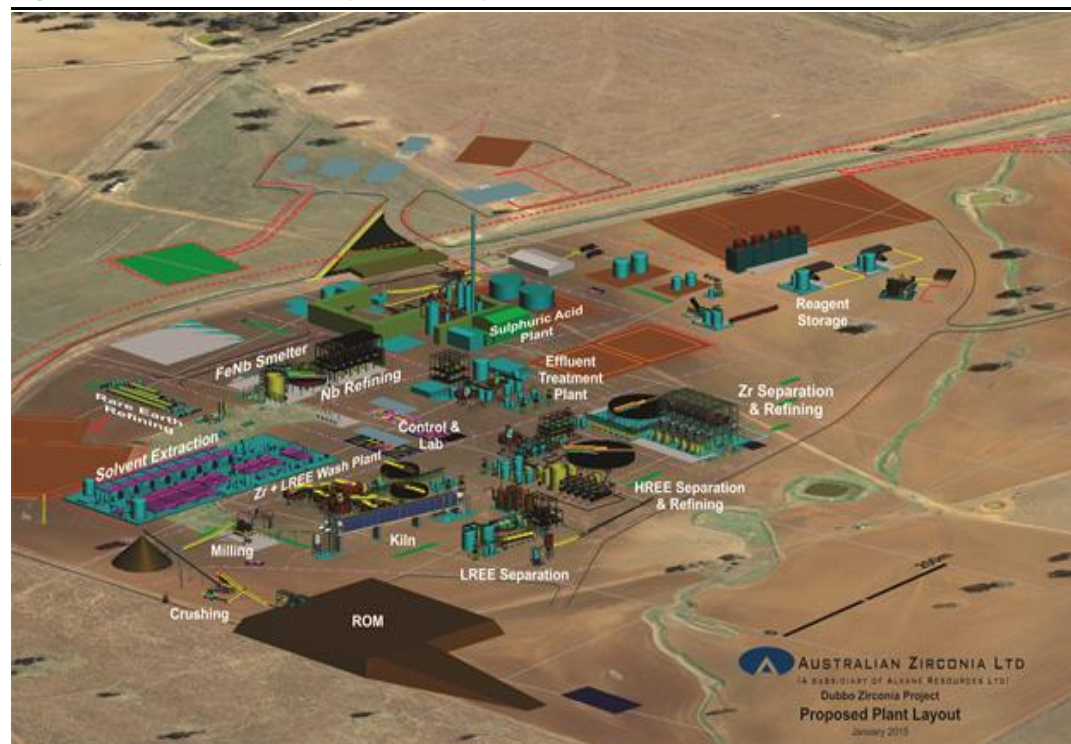
Source: Alkane Resources.

Figure 2: Dubbo Zirconia Project plant layout

Hatch are continuing the Front End Engineering Design (FEED) to deliver capital and operating cost estimates to a target of $\pm 10\%$ accuracy as well as a detailed schedule for the project.

Process engineering design and plant layout is complete.

Tender packages for supply of plant and equipment have begun to be released to the market, with tender lists completed.



Source: Alkane Resources

Analysis

ALKANE RESOURCES (ALK AU) (ALKNY OTCQX) 28-Jan-15

Year End 30 June

PROFIT & LOSS	2013A	2014A	2015F	2016F	2017F	2018F
Sales Revenue	\$M 0.0	23.3	112.6	115.9	294.7	624.0
Other Income	\$M 2.7	0.5	0.0	0.0	0.0	0.0
Operating Costs	\$M 2.3	22.6	71.0	67.0	158.3	319.3
Exploration	\$M 0.4	0.0	0.0	0.0	0.0	0.0
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	\$M 0.0	1.1	41.5	48.9	136.4	304.7
Depreciation & Amort.	\$M 0.1	10.0	17.0	17.3	30.0	52.7
EBIT	\$M (0.1)	(8.9)	24.6	31.6	106.4	252.0
Net Interest	\$M (1.4)	(1.2)	(0.6)	7.6	27.0	33.4
Pre-Tax Profit	\$M 1.3	(7.7)	25.2	24.0	79.4	218.7
Tax	\$M (1.3)	4.9	0.0	4.8	23.8	65.6
Minorities	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	\$M 2.6	(12.6)	25.2	19.2	55.6	153.1
Abnormal	\$M (69.0)	6.4	0.0	0.0	0.0	0.0
Reported Profit	\$M (66.4)	(6.2)	25.2	19.2	55.6	153.1
Dividends Paid	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	\$M 3.7	0.0	0.0	0.0	0.0	0.0
Retained Earnings	\$M (21.6)	(28.0)	(2.9)	16.3	71.9	225.0

CASH FLOW	2013A	2014A	2015F	2016F	2017F	2018F
Revenue	\$M 6.8	23.3	112.6	115.9	294.7	624.0
Costs	\$M (1.9)	(32.1)	(71.0)	(67.0)	(158.3)	(319.3)
Net Interest	\$M 1.4	1.6	0.6	(7.6)	(27.0)	(33.4)
Tax Paid	\$M 0.0	0.0	(4.9)	0.0	(4.8)	(23.8)
Gross Cash Flow	\$M 6.4	(7.3)	37.3	41.3	104.6	247.5
Net Capex	\$M (29.3)	(81.7)	(16.5)	(406.5)	(606.5)	(8.5)
Exploration	\$M (8.0)	(13.5)	0.0	0.0	0.0	0.0
Dividends	\$M 0.0	0.5	0.0	0.0	0.0	0.0
Other	\$M 0.0	(0.0)	0.0	0.0	0.0	0.0
Free Cashflow	\$M (30.8)	(102.1)	20.8	(365.2)	(501.9)	239.0
Equity Issues	\$M 0.0	9.8	0.0	0.0	0.0	0.0
Net Borrowings	\$M 0.0	0.0	0.0	370.0	495.0	(200.0)
Net Investments	\$M 15.4	43.6	0.0	0.0	0.0	0.0
Surplus Cash Flow	\$M (15.4)	(48.7)	20.8	4.8	(6.9)	39.0

BALANCE SHEET	2013A	2014A	2015F	2016F	2017F	2018F
Cash	\$M 64.3	15.6	36.3	41.1	34.2	73.2
Other Current	\$M 44.8	25.2	25.2	25.2	25.2	28.1
Total Current	\$M 109.1	40.8	61.6	66.4	59.4	101.3
Fixed Assets	\$M 21.1	100.0	99.5	488.8	1,065.3	1,021.1
Exploration	\$M 45.3	53.4	53.4	53.4	53.4	53.4
Intangibles	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$M 7.8	6.7	6.7	6.7	6.7	6.7
Total NC Assets	\$M 74.1	160.2	159.7	548.9	1,125.4	1,081.2
TOTAL ASSETS	\$M 183.2	201.0	221.3	615.3	1,184.8	1,182.5
Total Debt	\$M 0.0	0.0	0.0	370.0	865.0	665.0
Current Liab	\$M 9.6	14.7	9.8	14.6	33.6	75.4
Non Current Liab	\$M 0.1	12.0	12.0	12.0	12.0	14.9
TOTAL LIAB	\$M 9.7	26.8	21.9	396.7	910.7	755.3
NET ASSETS	\$M 173.5	174.2	199.4	218.6	274.1	427.2
SH/HLDRS FUNDS	\$M 173.5	174.2	199.4	218.6	274.1	427.2

RATIO ANALYSIS	2013A	2014A	2015F	2016F	2017F	2018F
EPS	¢ 0.6	(3.1)	6.1	4.7	13.5	37.1
PER	x 38.8	na	3.9	5.2	1.8	0.6
EPS Growth	% >100	(594.5)	>100	(23.7)	189.2	175.5
EBITDA per share	¢ 0.0	0.3	10.1	11.8	33.1	73.8
EBITDA Multiple	x 5501.9	86.9	2.4	2.0	0.7	0.3
EV/EBITDA	x 1930	73.2	1.5	8.8	6.8	2.3
CFPS	¢ 1.5	(1.8)	9.0	10.0	25.3	60.0
PCFR	x na	na	2.7	2.4	0.9	0.4
DPS	¢ 0.0	0.0	0.0	0.0	0.0	0.0
Yield	% 0.0	0.0	0.0	0.0	0.0	0.0
Franking	% 0	0	0	0	0	0
Payout Ratio	% 0%	0%	0%	0%	0%	0%
Gearing D/E	% na	na	na	150.5	303.1	138.5
Interest Cover	x 0.1	7.6	na	4.2	3.9	7.6
EBITDA Margin	% na	4.9	36.9	42.2	46.3	48.8
EBIT Margin	% na	(38.1)	21.8	27.2	36.1	40.4
Return On Assets	% (0.0)	(4.4)	11.1	5.1	9.0	21.3
Return On Equity	% 1.5	(7.2)	12.6	8.8	20.3	35.8
Eff Tax rate	% 0	0	0	20	30	30

Share Price	(\$)	0.24
Iss. Shares	(M)	412.6
Iss. Options	(M)	0.0
Mkt Cap.	(\$M)	99.0



RESOURCES	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold (NSW)						
Tonnes	Mt	12.6	13.5	12.3	11.2	10.1
Grade (gold)	g/t	2.0	1.9	1.9	1.9	1.8
Contained Gold	oz	809,556	822,712	741,692	669,192	598,460
Dubbo Zirconia (NSW)						
Tonnes	Mt	73.2	73.2	73.2	73.2	72.8
Zirconium (ZrO ₂)	%	2.0%	2.0%	2.0%	2.0%	2.0%
Niobium	%	0.5%	0.5%	0.5%	0.5%	0.5%
Yt + REE	%	0.9%	0.9%	0.9%	0.9%	0.9%
Contained product	Mt	2.4	2.4	2.4	2.4	2.4

ATTRIBUTABLE PRODUCTION	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	oz	-	20,711	75,348	67,425	65,780
DZP - ZrO ₂ products	t	0	0	0	0	6,393
DZP - Niobium	t	0	0	0	0	854
DZP - LREE	t	0	0	0	0	1,935
DZP - YHREE	t	0	0	0	0	505
Other	t	0.0	0.0	0.0	0.0	0.0
Total - Dubbo	t	0	0	0	0	9,687

REVENUE	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	23.3	112.6	115.9	107.6	97.5
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	187.1	526.4
Other	\$M 2.7	0.5	0.0	0.0	0.0	0.0
Total	\$M 2.7	23.7	112.6	115.9	294.7	624.0

COSTS	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley (cash costs A\$/oz)	0	928	876	920	919	993
Tomingley (all in cash A\$/oz)	0	1604	989	1046	1048	1137
Tomingley Gold	\$M 0.0	19.2	66.0	62.0	60.4	58.5
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	92.8	255.8
Corporate / Other	\$M 2.3	3.4	5.0	5.0	5.0	5.0
Total	\$M 2.3	22.6	71.0	67.0	158.3	319.3

CAPEX	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 21.0	78.5	3.5	3.5	3.5	3.5
Dubbo Zirconia	\$M 10.0	20.0	13.0	403.0	603.0	5.0
Other	\$M -1.7	-16.8	0.0	0.0	0.0	0.0
Total	\$M 29.3	81.7	16.5	406.5	606.5	8.5

DEPRECIATION	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	4.8	17.0	17.3	18.0	19.0
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	12.0	33.7
Other	\$M 0.1	5.2	0.0	0.0	0.0	0.0
Total	\$M 0.1	10.0	17.0	17.3	30.0	52.7

EBITDA	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	4.1	46.5	53.9	47.1	39.1
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	94.3	270.6
Other	\$M 0.0	-2.9	0.0	0.0	0.0	0.0
Total	\$M 0.0	1.1	46.5	53.9	141.4	309.7

HEDGING	2013A	2014A	2015F	2016F	2017F	2018F
Gold hedged	oz 0	0	30,000	0	0	0
Hedged price	US\$/oz 0	1319	1269	0	0	0
Hedged price	A\$/oz 0	1449	1493	0	0	0
Sales hedged	% 0%	0%	40%	0%	0%	0%
Ave. deliverable price	US\$/oz 1401	1293	1270	1300	1300	1300
Ave. deliverable price	A\$/oz 1,460	1,421	1,494	1,615	1,635	1,656

ASSUMPTIONS	2013A	2014A	2015F	2016F	2017F	2018F
Exchange Rate	A\$/US\$ 0.96	0.91	0.85	0.81	0.80	0.79
Gold Price	US\$/oz 1401	1295	1271	1300	1300	1300
Gold Price	A\$/oz 1460	1423	1495	1615	1635	1656
Zirconia Price	US\$/kg 5.75	6.00	5.50	5.50	5.75	6.00
LREE Price	US\$/kg 30.00	20.00	20.00	18.50	18.50	18.50
YHREE Price	US\$/kg 95.00	100.00	110.00	120.00	120.00	120.00
Niobium Price	US\$/kg 40.00	30.00	30.00	30.00	30.00	30.00
90 day Bank Bills	% 2.78	2.64	2.35	2.00	2.00	2.00
10 Yr Bond rate	% 3.73	3.98	3.16	3.00	3.00	3.00
Interest Rate Charged	% 4.23	4.48	3.66	3.50	3.50	3.50

VALUATION	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold					180.1	\$ 0.44
Dubbo Zirconia					830.5	\$ 2.01
Corporate / Other					-53.1	\$ (0.13)
Net Cash (Debt)					18.9	\$ 0.05
Investments					6.0	\$ 0.01
Total					982.4	\$ 2.38

Source: Petra Capital

Petra Capital

Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782

ACN 110 952 782

AFSL 317 944

Research (Res/Ind):	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Andrew Richards	+61 (0)2 9239 9605	arichards@petracapital.com.au
Research (Resources):	David Cotterell	+61 (0)2 9239 9630	dcotterell@petracapital.com.au
Research (Industrials):	Michael Henshaw	+61 (0)2 9239 9606	mhenshaw@petracapital.com.au
Research (Industrials):	George Kopsiaftis	+61 (0)2 9239 9618	gkopsiaftis@petracapital.com.au
Research (Industrials):	Nick Berry	+61 (0)2 9239 9634	nberry@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:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Shane Gavegan	+61 (0)2 9239 9616	sgavegan@petracapital.com.au
Sales:	Mark Innes	+61 (0)2 9239 9602	minnes@petracapital.com.au
Sales:	Michael Vincent	+61 (0)2 9239 9620	mvincent@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Daniel Gardiner	+61 (0)2 9239 9608	dgardiner@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Chelsea Leo	+61 (0)2 9239 9621	cleo@petracapital.com.au
Legal & Compliance:	Domenica Marias	+61 (0)2 9239 9612	dmarias@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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