

16 February 2015

Alkane Resources

ALK A\$0.34/share

DZP receives conditional approval

BUY

Last week ALK received advice that the Planning Assessment Commission (PAC) has completed its review of the Dubbo Zirconia Project (DZP) and recommended the project be approved subject to certain conditions. The conditions outlined by PAC were anticipated and relate to air quality, water, transport, long term landform and land use. ALK states "there is nothing that raises any material concerns for the development of the project". This is a major milestone for ALK with formal project approval expected in Q2. Significant interest exists in the DZP as a strategic long term supplier of rare earths, zirconium and niobium backed by a 36 year mine life (reserves). Several funding options exist where discussions have been ongoing for >1.5 years. We maintain our BUY recommendation.

DZP (100%) - Conditional Approval

- PAC full report available:
<http://www.pac.nsw.gov.au/Projects/Current/tabid/102/ctl/viewreview/mid/439/pac/416/view/readonly/myctl/rev/Default.aspx>
- ALK to respond to PAC by Feb 27.

Recap of DZP Feasibility study (April 2013)

- Capex ~A\$1B.
- Annual revenue ~A\$504M at 1Mtpa rates.
- Annual opex of A\$214M for EBITDA of \$290M.
- Capital payback ~4 years, reserves equate to 36 yrs.
- NPV of A\$881M = \$2.12/sh @ 10% DR (20 yr life).
- NPV of A\$1,253M = \$3.36/sh @ 8% DR (20 yr life).
- Detailed project schedule & updated capex/costs expected Q2 2015 - Hatch Engineering.

Offtake

- Rare earths – MOU in place with Shin-Etsu.
- Niobium – JV in place with Treibacher.
- Zirconium – in discussions with several parties.

Export Credit Agencies

- Japanese and Korean ECAs remain very interested.
- Interest driven by need for supply outside of China.

Project debt

- Discussions led by Credit Suisse and Sumitomo Mitsui Banking Corporation.
- Several banks are interested in providing finance.

Strategic sale

- ALK remains focussed on a strategic sale (up to 15%) at the project level.

Company Data

Shares - ordinary	414.2M
Options	0M
Total (fully diluted)	414.2M
Market Cap	\$142.9M
12 month low/high	\$0.17 / \$0.47
Average monthly turnover	\$3.4M
Average monthly volume	12.6M

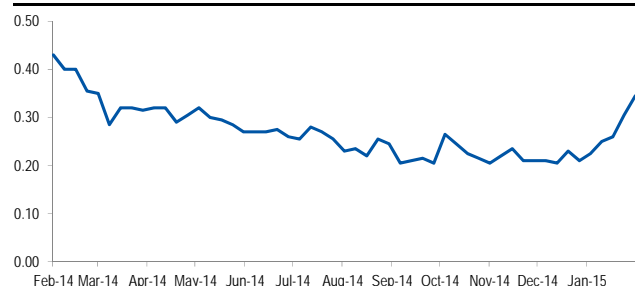
Financial Summary (fully diluted)

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	21.3	57.5
EPS (¢ps)	0.6	-3.0	6.1	5.1	13.9
EPS Growth (%)	>100	-594.5	>100	-15.3	>100
PER (x)	55.2	na	5.6	6.6	2.5
Cashflow (\$M)	6.4	-7.3	37.3	41.3	104.0
CFPS (¢ps)	1.5	-1.8	9.0	10.0	25.1
PCFPS (x)	na	na	3.8	3.4	1.4
Enterprise Value (\$M)	77	125	105	470	972
EV / EBITDA (x)	na	110	3	10	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.

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Analysis

ALKANE RESOURCES
(ALK AU) (ALKNY OTCQX)
13-Feb-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	605.4
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	307.9
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	297.6
Depreciation & Amort.	\$M 0.1	10.0	17.0	14.7	27.2	48.2
EBIT	\$M (0.1)	(8.9)	24.6	34.2	109.2	249.4
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	26.6	82.1	216.0
Tax	\$M (1.3)	4.9	0.0	5.3	24.6	64.8
Minorities	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	\$M 2.6	(12.6)	25.2	21.3	57.5	151.2
Abnormal	\$M (69.0)	6.4	0.0	0.0	0.0	0.0
Reported Profit	\$M (66.4)	(6.2)	25.2	21.3	57.5	151.2
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)	18.4	75.9	227.1

CASH FLOW	2013A	2014A	2015F	2016F	2017F	2018F
Revenue	\$M 6.8	23.3	112.6	115.9	294.7	605.4
Costs	\$M (1.9)	(32.1)	(71.0)	(67.0)	(158.3)	(307.9)
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	(5.3)	(24.6)
Gross Cash Flow	\$M 6.4	(7.3)	37.3	41.3	104.0	239.5
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)	(502.5)	231.0
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	(7.5)	31.0

BALANCE SHEET	2013A	2014A	2015F	2016F	2017F	2018F
Cash	\$M 64.3	15.6	36.3	41.1	33.7	64.6
Other Current	\$M 44.8	25.2	25.2	25.2	25.2	27.2
Total Current	\$M 109.1	40.8	61.6	66.4	58.9	91.9
Fixed Assets	\$M 21.1	100.0	99.5	491.4	1,070.6	1,031.0
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	551.5	1,130.8	1,091.1
TOTAL ASSETS	\$M 183.2	201.0	221.3	617.9	1,189.7	1,183.0
Total Debt	\$M 0.0	0.0	0.0	370.0	865.0	665.0
Current Liab	\$M 9.6	14.7	9.8	15.2	34.5	74.6
Non Current Liab	\$M 0.1	12.0	12.0	12.0	12.0	14.0
TOTAL LIAB	\$M 9.7	26.8	21.9	397.2	911.5	753.7
NET ASSETS	\$M 173.5	174.2	199.4	220.7	278.2	429.3
SH/HLDRS FUNDS	\$M 173.5	174.2	199.4	220.7	278.2	429.3

RATIO ANALYSIS	2013A	2014A	2015F	2016F	2017F	2018F
EPS	¢ 0.6	(3.0)	6.1	5.1	13.9	36.5
PER	x 55.2	na	5.6	6.6	2.5	0.9
EPS Growth	% >100	(594.5)	>100	(15.3)	169.8	163.0
EBITDA per share	¢ 0.0	0.3	10.0	11.8	32.9	71.8
EBITDA Multiple	x 7823.8	123.5	3.4	2.9	1.0	0.5
EV/EBITDA	x 4252	109.9	2.5	9.6	7.1	2.5
CFPS	¢ 1.5	(1.8)	9.0	10.0	25.1	57.8
PCFR	x na	na	3.8	3.4	1.4	0.6
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	149.0	298.9	139.8
Interest Cover	x 0.1	7.6	na	4.5	4.0	7.5
EBITDA Margin	% na	4.9	36.9	42.2	46.3	49.1
EBIT Margin	% na	(38.1)	21.8	29.5	37.0	41.2
Return On Assets	% (0.0)	(4.4)	11.1	5.5	9.2	21.1
Return On Equity	% 1.5	(7.2)	12.6	9.7	20.7	35.2
Eff Tax rate	% 0	0	0	20	30	30

Share Price (\$) 0.34
Iss. Shares (M) 414.2
Iss. Options (M) 0.0
Mkt Cap. (\$M) 140.8



RESOURCES	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold (NSW)						
Tonnes	Mt 12.6	13.5	12.3	11.2	10.1	9.0
Grade (gold)	g/t 2.0	1.9	1.9	1.9	1.8	1.8
Contained Gold	oz 809,556	822,712	741,692	669,192	598,460	531,626
Dubbo Zirconia (NSW)						
Tonnes	Mt 73.2	73.2	73.2	73.2	72.8	71.8
Zirconium (ZrO ₂)	% 2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Niobium	% 0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Yt + REE	% 0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Contained product	Mt 2.4	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	62,156
DZP - ZrO ₂ products	t 0	0	0	0	6,393	16,782
DZP - Niobium	t 0	0	0	0	854	2,242
DZP - LREE	t 0	0	0	0	1,935	5,080
DZP - YHREE	t 0	0	0	0	505	1,325
Other	t 0.0	0.0	0.0	0.0	0.0	0.0
Total - Dubbo	t 0	0	0	0	9,687	25,429

REVENUE	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	23.3	112.6	115.9	107.6	102.9
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	187.1	502.5
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	605.4

COSTS	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley (cash costs A\$/oz)	0	928	876	920	919	945
Tomingley (all in cash A\$/oz)	0	1604	989	1046	1048	1081
Tomingley Gold	\$M 0.0	19.2	66.0	62.0	60.4	58.7
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	92.8	244.2
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	307.9

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	14.7	15.3	16.0
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	12.0	32.1
Other	\$M 0.1	5.2	0.0	0.0	0.0	0.0
Total	\$M 0.1	10.0	17.0	14.7	27.2	48.2

EBITDA	2013A	2014A	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	4.1	46.5	53.9	47.1	44.2
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	94.3	258.3
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	302.6

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	ASM	A5ps
Tomingley Gold	178.9	\$ 0.43
Dubbo Zirconia	837.3	\$ 2.02
Corporate / Other	-52.8	\$ (0.13)
Net Cash (Debt)	18.9	\$ 0.05
Investments	6.0	\$ 0.01
Total	988.3	\$ 2.39

Source: Petra Capital

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