

# Noble Mineral Resources Limited NMG (\$0.43)

**Recommendation: BUY**

## New exploration push underway

Analyst: Alex Passmore

### OUR VIEW

Following a recent \$30m raising NMG is poised to embark on a major drilling campaign (5 rigs, peaking at 55,000 drill metres per month) which could dramatically improve the economics of Bibiani gold mine. The drilling campaign centres on testing newly discovered mineralisation in the hanging wall of the Bibiani main pit and satellite open pits where mineralisation has previously been identified. Our current model for the project assumes an average strip ratio of 9.8:1 (w:o) which could reduce dramatically if recently intersected mineralisation proves to be continuous. Bibiani has substantial infrastructure in place allowing NMG to join the ranks of producers rapidly however, risks surrounding the project restart remain. The plant throughput is greater than the mine plan currently allows and with the mine plan yet to be finalised the project could strain to deliver ore to the 3.2Mtpa mill. NMG is rushing its project back into production combating a high care and maintenance cost (c.\$12m pa and a US\$32m debt facility) and we continue to see mining (both tonnes and grade delivery) as key area to watch. NMG trades at a discount to the sector with value to be unlocked as these risks are mitigated. BUY.

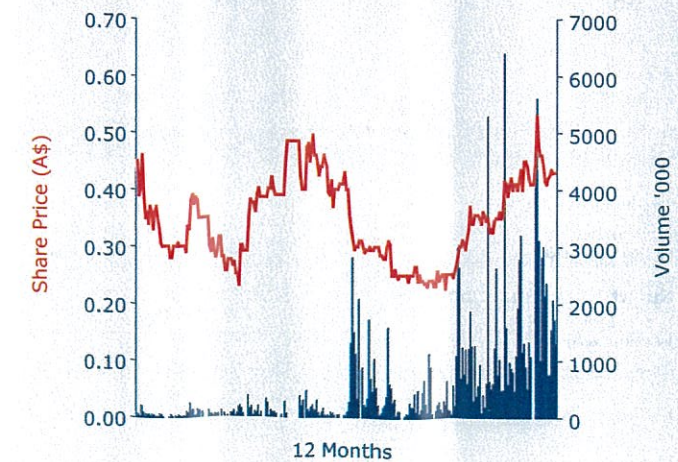
### Investment Highlights

- Raising allows for aggressive exploration campaign.** NMG has recently completed a placement of 77m shares at \$0.39/share to raise \$30m to fund an aggressive drilling campaign which the company expects to result in a significant increase in reserves and resources.
- Existing resources of 2Moz should see 25-50% increase.** We believe there is c.500koz contained in satellite pits near the Bibiani main pit which will report to resources with further drilling; in addition to mineralised material in the west wall cutback zone of the Bibiani main pit. These have the potential to lift the project's resource base to 2.7Moz+ in our view and will significantly expand the reserve base (currently 605koz) with the ounces likely to be commercial allowing a high resource-reserve conversion rate.
- Updated production plans.** NMG has provided an update on the commissioning of the Bibiani plant whereby the forecast throughput is now at 3.2Mtpa versus an earlier plan of 2.7Mtpa. Commissioning is set for May-June 2011 with a ramp up to 150kozpa (implied head grade 1.65g/t Au) thereafter.
- Mine plan remains a key risk.** On a recent site visit we noted the mine plan is yet to be finalized. Historical tailings are likely to provide commissioning material, to be followed by ore from satellite pits prior to the finalization of the Bibiani cut back.
- Care and maintenance costs result in a push for production.** With \$12m pa in sustaining capital costs we are acutely aware of why NMG is keen to get the Bibiani operation back in to production. The workforce of c.400 people is carrying out maintenance and refurbishment work although is a substantial cash drain until the company is pouring gold at the project.
- Project debt also creates a push for production.** NMG has US\$32m project debt with Investec Bank, and while interest (approx LIBOR + 4%) is capitalized until production commences and repayments are made from positive operation cashflow, the overhang of the debt facility also creates a significant impetus for a rapid production restart.
- Successful restart will ultimately give a re-rating.** If the company can complete construction and successfully achieve its production target of 150koz pa Au the company will be re-rated from the low EV/oz metrics it trades on.

Investment Summary				
Year End June 30	2010A	2011F	2012F	2013F
<b>Reported NPAT (\$m)</b>	<b>(3.0)</b>	<b>(5.1)</b>	<b>19.5</b>	<b>53.9</b>
Recurrent NPAT (\$m)	(3.0)	(5.1)	19.5	53.9
Recurrent EPS (cents)	(1.0)	(1.0)	3.8	10.4
EPS Growth (%)	na	na	na	177.3
PER (x)	(44.2)	(43.8)	11.4	4.1
<b>EBITDA (\$m)</b>	<b>(2.4)</b>	<b>(3.5)</b>	<b>37.9</b>	<b>97.2</b>
EV/EBITDA (x)	(39.7)	(53.5)	4.6	1.0
Capex (\$m)	0.0	20.7	32.2	16.3
Free Cashflow	(1.7)	(27.2)	(16.6)	31.4
FCFPS (cents)	(0.6)	(5.3)	(3.2)	6.1
PFCF (x)	(76.5)	(8.2)	(13.4)	7.1
<b>DPS (cents)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0

### Company Statistics & Performance

Shares on issue (m)	517.6	3mth ADT (\$m)	0.64
Market Cap. (\$m)	240.7	Debt est (\$m)	0.0
52 week range	\$0.23 - \$0.53	Cash est (\$m)	46.7



### Noble Mineral Resources Limited \$0.43

Valuation	A\$m	A\$/sh
Bibiani	232.6	0.45
Cape Three Points, Brotet	23.0	0.04
Exploration	18.1	0.04
Unpaid capital	54.1	0.10
Corporate	(14.3)	(0.03)
Forwards	0.0	0.00
Cash (est.)	46.7	0.09
Debt	0.0	0.00
<b>NPV (@ 8% discount rate)</b>	<b>360.2</b>	<b>0.70</b>
<b>Price Target</b>		<b>0.70</b>

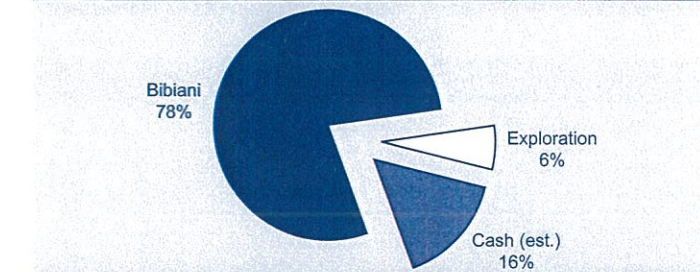
### NPV Sensitivity

NPV (nom) @ 5% disc.	0.71
NPV (nom) @ 0% disc.	0.85

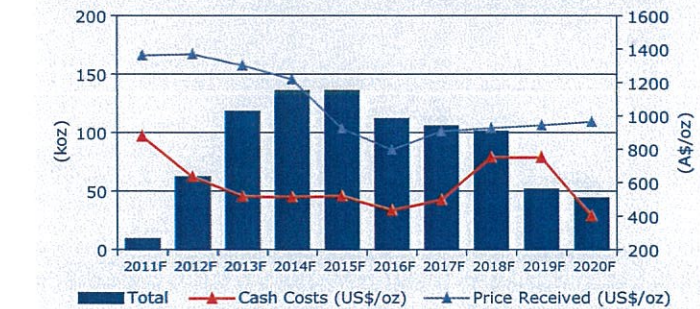
### Hedging

	koz	1-Year	3-years	% Reserve
Committed Production	na	na	na	na

### Valuation Summary of Operating Assets



### Gold Production Summary



### Reserves & Resources

	Mt	Au g/t	Au koz
<b>Reserves</b>			
Bibiani	8.4	2.2	605
<b>Resources</b>			
Bibiani	33.0	1.9	1,983

### Directors

Name	Position
Tunku Naquiyuddin	Non Executive Chairman
Wayne Norris	Managing Director
Brian Thomas	Non Executive Director

Substantial Shareholders	Shares (m)	%
Global Gold Holdings	44.7	12.1
Wayne Norris	43.1	11.6
Wei An Development Ltd	30.0	8.6
Bank of America	20.6	5.9

### Year End June 30

Commodity Assumptions	2010A	2011F	2012F	2013F
A\$:US\$	0.89	0.95	0.93	0.86
Gold (US\$/oz)	1093	1325	1368	1301
Silver (US\$/lb)	17.28	22.92	24.42	19.23
Gold (A\$/oz)	1222	1390	1467	1521

### Target Price Sensitivity

	-10%	0%	+10%	Change
FX (A\$:US\$)	0.77	0.70	0.63	(9%)
Gold Price	0.58	0.70	0.81	17%

EV:Reserve (A\$/oz)	291
EV:Resource (A\$/oz)	89

### Production Summary

	2010A	2011F	2012F	2013F
<b>Production (koz)</b>				
Bibiani	0	9	62	118
<b>Total</b>	<b>0</b>	<b>9</b>	<b>62</b>	<b>118</b>

### Cost Summary

Cash Costs (US\$/oz)	na	878	636	518
Total Costs (US\$/oz)	na	1112	862	729
Price Received (US\$/oz)	na	1,362	1,369	1,301

### Profit & Loss (A\$m)

	2010A	2011F	2012F	2013F
<b>Sales Revenue</b>	<b>0.0</b>	<b>12.6</b>	<b>92.1</b>	<b>179.8</b>
Other Income	0.2	1.7	2.2	4.2
Operating Costs	0.0	8.8	47.1	80.4
Exploration Exp.	0.6	5.2	6.2	3.2
Corporate/Admin	2.1	3.9	3.1	3.2
<b>EBITDA</b>	<b>(2.4)</b>	<b>(3.5)</b>	<b>37.9</b>	<b>97.2</b>
Depn & Amort	0.0	1.5	10.5	20.1
<b>EBIT</b>	<b>(2.4)</b>	<b>(5.0)</b>	<b>27.4</b>	<b>77.1</b>
Interest	0.6	0.0	0.0	0.1
Abnormals (pre-tax)	0	0	0	0
<b>Operating Profit</b>	<b>(3.0)</b>	<b>(5.1)</b>	<b>27.3</b>	<b>77.0</b>
Tax expense	0.0	0.0	7.9	23.1
Abnormals (post-tax)	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(3.0)</b>	<b>(5.1)</b>	<b>19.5</b>	<b>53.9</b>
<b>Normalised NPAT</b>	<b>(2.1)</b>	<b>(3.6)</b>	<b>19.1</b>	<b>53.9</b>

### Cashflow (A\$m)

	2010A	2011F	2012F	2013F
Adjusted Net Profit	(2.1)	(3.6)	19.1	53.9
+ Interest/Tax/Expl Exp	1.1	5.2	14.1	26.3
- Interest/Tax/Expl Inc	0.7	10.5	20.3	29.5
+ Depn/Amort	0.0	1.5	10.5	20.1
+/- Other	0.0	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>(1.6)</b>	<b>(7.3)</b>	<b>23.4</b>	<b>70.9</b>
- Capex (+asset sales)	0.0	20.7	32.2	16.3
- Working Capital Increase	0.1	(0.7)	0.0	0.0
<b>Free Cashflow</b>	<b>(1.7)</b>	<b>(27.2)</b>	<b>(8.8)</b>	<b>54.6</b>
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised/Options Ex	44.3	28.5	22.0	25.7
+ Debt drawdown (repaid)	(3.1)	0.9	0.0	0.0
<b>Net Change in Cash</b>	<b>32.3</b>	<b>(0.6)</b>	<b>13.2</b>	<b>80.3</b>
Cash at End Period	36.1	35.5	48.7	129.0
Net Cash/(LT Debt)	36.1	34.6	47.8	128.1

### Balance Sheet (A\$m)

	2010A	2011F	2012F	2013F
Cash/Bullion	36.1	35.5	48.7	129.0
Total Assets	44.4	68.2	109.3	189.0
Total Debt	0.0	0.9	0.9	0.9
Total Liabilities	0.7	(0.4)	(0.4)	(0.4)
Shareholders Funds	43.6	68.6	109.7	189.4

### Ratios

Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	554.3	1132.9
Return on Equity (%)	na	na	17.7	28.5

**Disclosure: Patersons Securities acted as lead manager/underwriter to the company's recent placement and SPP which raised a total of \$40.2m at \$0.30/share. It received a fee for these services.**