

Cape Lambert Resources Limited

CFE : ASX

SPECULATIVE BUY

Gary Watson

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Target: A\$0.35

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COMPANY STATISTICS:

Share Price (A\$)	0.11
1 Yr Hi-Lo (A\$)	0.285-0.1
Market Cap (A\$m)	74.4
Issued Shares	676.19
Options (various)	11.70
Cash est.	\$30.3m
Debt (31/12/13)	\$0.0m

Major Shareholders

African Minerals	18%
The Capital Group	9%
Company Directors	7%
BlackRock Group	7%

EARNINGS SUMMARY:

Jun Yr End	2013e	2014e	2015e
Profit from sales	-10.0	0.0	48.0
EBITDA (A\$m)	-22.7	-8.8	39.3
EV/EBITDA	nm	nm	0.9
P/CF	-1.8	-21.3	2.3
NPAT (A\$m)	-20.4	-6.1	29.1
EPS (A\$)	-0.2	-0.0	0.0
PER	-0.5	-12.2	2.6
DPS	0.00	0.00	-0.15
Yield (%)	0%	0%	-136%

Source: Canaccord Genuity estimates

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Cape Lambert Resources Limited (CFE) is a listed resource investment company based in Western Australia. The company has a diverse asset portfolio containing ready for sale assets, projects at various stages in development, debt and equity stakes in listed and unlisted vehicles, and royalty streams from completed transactions.

All amounts are in AUD unless otherwise noted.

Metals and Mining – Base Metals

MAYOKO ROYALTY GETS CLOSER

Investment Perspective

Another of Cape Lambert Resources' (CFE) investments is progressing to maturity with the granting of the Mining Convention for the Mayoko Iron ore project in the Republic of Congo (aka Congo Brazzaville). CFE owns a US\$1/t royalty on the project which could be producing 5Mtpa as early as 2H'15. CFE has made no secret of its intention to sell the royalty, which could inject US\$30-US\$50m. CFE is also set to receive an A\$13m payment from the takeover of Glory Resources (ASX:GLY| not rated), a \$6.5m payment for the sale of the Leichhardt copper project, and it continues its recovery actions of the final A\$80m payment relating to the sale of the Cape Lambert project in 2008. Adding the above cash receipts to the possible sale of the Marampa Iron ore project and CFE has the potential to have multiples of its market capitalisation in cash. We maintain our SPECULATIVE BUY rating.

Key Points

- Exxaro Resources (JSE:EXX) has been granted its Mining Convention for the Mayoko Iron Ore Project in the Republic of Congo (Congo Brazzaville) which could be producing 5Mtpa early as 2H'15 and 10Mtpa by CY'19. CFE holds a \$1/t royalty over the Mayoko project as a result of the spin-out of the Mayoko Project to African Iron which was subsequently taken over by Exxaro Resources (JSE:EXX| not covered) in 2011.
- CFE has been looking to sell the royalty which we value on a DCF10% basis at A\$36m assuming a flat 5Mtpa production profile or A\$55m assuming 10Mtpa from CY'19.
- CFE has a strong cash position of ~\$30m (assuming the completion of the Glory Resources takeover which is nearing completion) and has several assets for sale which could significantly drive the share price in the short term.
- CFE is advanced in the process to recover the A\$80m (\$0.12/share) owing for the sale of the Cape Lambert Iron Ore project to Metallurgical Corporation of China (MCC) in 2008. In late Nov'13 MCC deposited the disputed funds into an Australian domiciled account pending determination of the dispute.
- The sale process of the Marampa iron ore project in Sierra Leone is ongoing which we have a risked valuation of \$165m based on our current iron ore price deck.

Maintain SPECULATIVE BUY and TP at A\$0.35/share

We maintain a SPECULATIVE BUY rating and target price of A\$0.35 based on a sum of parts valuation formulated from a risked DCF^{12%} valuation of the Marampa project of A\$166m and the sum of the estimated realisable value of assets and investments held by CFE (A\$75m).

FINANCIAL SUMMARY

Cape Lambert Resources Limited ASX:CFE

Analyst : Gary Watson
Date: 6/02/2014
Year End: June

Rating: **SPEC BUY**
Price Target: **\$0.35**

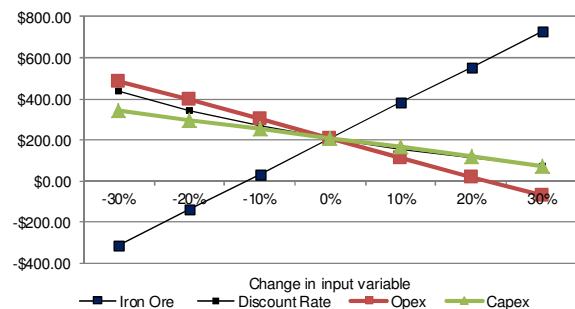
Market Information

Share Price	A\$	0.11
Market Capitalisation	A\$m	74.4
12 Month Hi-Lo	A\$	0.285-0.1
Issued Capital	m	676.19
Options	m	11.70
Fully Diluted	m	687.89

Valuation	Risk Adj.	A\$m	A\$/share
Marampa 5Mtpa (NPV@12%)	80%	165.8	0.24
Investments		75.4	0.11
Corporate		(31.8)	(0.05)
Options		-	-
Cash (est.)		30.3	0.04
Debt		-	-
TOTAL NAV/ Price Target		239.7	0.35
Price:NAV			0.31

Assumptions	2013a	2014e	2015e	LT
Gold Price (US\$/oz)	1,605	1,314	1,326	1,406
Iron Ore (62% CFR)	127	115	107	95
AUD:USD	1.03	0.91	0.90	0.85

Marampa Valuation Sensitivity (US\$m)



Investment Portfolio

Investments	Valuation	A\$m	A\$/share
Listed Investments	50% discount to Mark to Market	8.2	0.01
Unlisted Investments	50% discount to Carrying Value	3.5	0.01
Financial Assets	Face Value	5.3	0.01
Mayoko Royalty	DCF Valuation	36.0	0.05
Payables & Receivables	Realisable Value	12.4	0.02
Development Projects	Nominal Value	10.0	0.01
Total		75.4	0.11

Directors & Management

Name	Position
Tony Sage	Executive Chairman
Tim Turner	NE Director
Ross Levin	NE Director
Jason Brewer	NE Director

Substantial Shareholders

	Shares (m)	%
African Minerals	122.0	18.0%
The Capital Group	61.4	9.1%
Company Directors	46.2	6.8%
BlackRock Group	44.0	6.5%

Source: CFE & Canaccord Genuity estimates

Company Description

Cape Lambert Resources Limited (CFE) is a listed resource investment company based in Western Australia. The company has a diverse asset portfolio containing ready for sale assets, projects at various stages in development, debt and equity stakes in listed and unlisted vehicles, and royalty streams from completed transactions.

Profit & Loss (A\$m)	2012a	2013a	2014e	2015e
Profit from Asset Sales	65.2	-10.0	0.0	48.0
Operating Costs	-13.1	-6.3	0.0	0.0
Corporate & O'heads	-8.1	-6.2	-6.0	-6.1
Exploration (Expensed)	-5.9	-0.2	-2.8	-2.6
EBITDA	38.1	-22.7	-8.8	39.3
Dep'n	-0.7	-1.3	-1.0	-1.0
EBIT	37.3	-24.0	-9.8	38.3
Net Interest	4.3	3.1	1.1	3.3
Tax	-4.6	0.4	2.6	-12.5
NPAT	37.0	-20.4	-6.1	29.1
Abnormals	-14.3	-123.5	0.0	0.0
NPAT (reported)	22.7	-143.9	-6.1	29.1

Cash Flow (A\$m)	2012a	2013a	2014e	2015e
Cash Receipts	0.1	5.2	0.0	48.0
Cash paid to suppliers & emp.	-25.4	-13.3	-6.0	-6.1
Tax Paid	0.0	-37.4	1.4	-12.5
Net Interest	2.2	3.1	1.1	3.3
Operating Cash Flow	-23.2	-42.4	-3.5	32.7
Asset Sales/Acquisitions	105.0	3.9	29.8	92.0
Exploration and Evaluation	-22.5	-21.8	-11.0	-10.0
Capex	-3.0	0.0	0.0	0.0
Other	-8.6	-9.0	-3.9	0.0
Investing Cash Flow	70.9	-26.9	14.8	82.0
Debt Drawdown (repayment)	0.0	0.0	0.0	0.0
Share capital	-2.2	-1.4	-1.6	0.0
Dividends	0.0	0.0	0.0	-101.4
Financing Expenses	-0.1	-0.8	0.0	0.0
Financing Cash Flow	-2.3	-2.2	-1.6	-101.4
Opening Cash	43.1	88.5	17.0	26.8
Increase / (Decrease) in cash	45.4	-71.5	9.7	13.3
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	88.5	17.0	26.8	40.0

Balance Sheet (A\$m)	2012a	2013a	2014e	2015e
Cash + S/Term Deposits	88.2	17.0	26.8	40.0
Other current assets	122.2	118.2	12.4	12.4
Current Assets	210.4	135.2	39.2	52.4
Property, Plant & Equip.	3.0	10.0	9.0	8.0
Exploration & Develop.	145.5	58.9	67.2	74.7
Other Non-current Assets	38.3	38.3	49.3	49.3
Payables	4.6	-1.3	0.1	5.1
Short Term debt	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0
Other Liabilities	19.0	15.5	-56.1	-171.9
Net Assets	373.6	228.3	220.6	351.2
Shareholders Funds	197.1	195.6	194.0	194.0
Reserves	-1.2	-1.2	-1.2	-1.2
Retained Earnings	177.8	33.9	27.8	158.4
Total Equity	373.6	228.3	220.6	351.2

Ratios & Multiples	2012a	2013a	2014e	2015e
EBITDA Margin	58%	nm	nm	82%
EV/EBITDA	-0.4x	nm	nm	0.9x
Op. Cashflow/Share	-\$0.03	-\$0.06	-\$0.01	\$0.05
P/CF	-3.2x	-1.8x	-21.3x	2.3x
EPS	\$0.03	-\$0.21	-\$0.01	\$0.04
PER	3.3x	-0.5x	-12.2x	2.6x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.15
Dividend Yield	0%	0%	0%	-136%
ROE	6%	-63%	-3%	8%
ROIC	-17%	12%	4%	39%
Debt/Equity	0%	0%	0%	0%
Net Interest Cover	nm	nm	-361.5x	nm
Book Value/share	\$0.55	\$0.33	\$0.33	\$0.52
Price/Book Value	0.2x	0.3x	0.3x	0.2x

INVESTMENT RISKS

The key investment risks for CFE include:

- Geological risk – the actual characteristics of an ore deposit may differ significantly from initial interpretations and expectations.
 - Financing risk – the ability of CFE to fund the development of its suite of projects should also be considered a key investment risk. Both equity and credit markets may not be conducive to raising the required funds to commence construction of the project.
 - Legal risk – CFE is engaged in legal conflicts with several parties. The outcome of those legal conflicts may adversely affect the financial strength of the company.
 - Capital expenditure & operating risk – the risk that capital and or operating costs exceed budget and/or exhaust available funding before project completion, and reduce the profitability and free cash generation of the project.
 - Commodity Price and Exchange Rate risk: As with all mining and mineral exploration companies, commodity price and exchange rate risk should also be considered.
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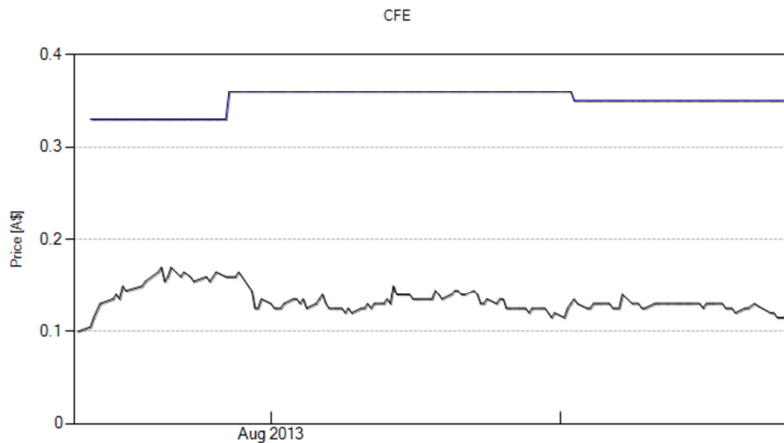
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**Site Visit:
Price Chart:***

An analyst has not visited Cape Lambert Resources Limited's operations in Sierra Leone.



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/28/2013	Watson	Speculative Buy	0.33	3) 11/28/2013	Watson	Speculative Buy	0.35
2) 08/13/2013	Watson	Speculative Buy	0.36	4) 01/13/2014	Smith	Speculative Buy	0.35

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:
Global Stock Ratings
(as of 31 December 2013)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	564	57.0%	38	38.1%
Speculative Buy	47	4.7%	18	42.6%
Hold	325	32.8%	12	11.4%
Sell	50	5.1%	3	6.0%
	990*	100.0%		

*Total includes stocks that are Under Review

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