

## Cape Lambert Resources Limited

CFE : ASX

**SPECULATIVE BUY**

Target: A\$0.37 ↑

Gary Watson

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### COMPANY STATISTICS:

Share Price (A\$)	0.07
1 Yr Hi-Lo (A\$)	0.17-0.073
Market Cap (A\$m)	47.0
Issued Shares	635.00
Options (various)	11.70
Cash est.	\$70.0m
Debt	\$0.0m

### Major Shareholders

African Minerals	19%
The Capital Group	10%
Tony Sage	6%

### EARNINGS SUMMARY:

Jun Yr End	2013e	2014e	2015e
Profit from sales	-10.0	0.0	48.0
EBITDA (A\$m)	-22.7	-9.1	38.4
EV/EBITDA	nm	nm	-1.7
P/CF	-1.2	-10.1	0.5
NPAT (A\$m)	-20.4	-6.4	29.9
EPS (A\$)	-0.2	-0.0	0.0
PER	-0.4	-7.7	1.6
DPS	0.00	0.00	0.15
Yield (%)	0%	0%	203%

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

## TWICE CASH BACKED

### Investment Perspective

Cape Lambert Resources (CFE) has announced it has negotiated a settlement to receive \$50m (plus interest) arising from its legal dispute with Metallurgical Corporation of China (MCC). After receiving the payment, CFE will have cash on hand of approximately A\$70m (11cps), \$22m in listed securities (3.5cps) and receivables of \$7m (1cps) for a total of 15.5cps. The Board of CFE has scheduled a meeting within the next two weeks to approve disbursement of the funds via a dividend or capital return. Beyond the cash settlement we still see value locked within CFE which still has the potential to return multiples of its market capitalisation. We maintain our SPECULATIVE BUY rating.

### Key Points

- CFE has reached a \$50m (plus \$1.6m interest) settlement with Metallurgical Corporation of China Limited (MCC) over the disputed A\$80m payment from the sale of the Cape Lambert magnetite iron ore project which CFE sold in 2008. In addition to the settlement CFE will receive a ~\$2m tax deduction for excess tax already paid on the contingent settlement proceeds.
- The CFE Board is scheduled to meet within the next two weeks to approve a dividend or capital return. We expect any dividend would be franked given that tax on the settlement has already been paid.
- CFE has now has a very strong cash position of ~\$70m, ~\$22m in listed securities and \$7m receivables (convertible notes and debt) which equates to \$0.15/share which is twice its last traded price and includes the possibility of a franked dividend.
- CFE still 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. Development of the Mayoko project has stalled while EXX negotiates port and rail access, but EXX has indicated it is intent on resuming development once its logistics are secured. We value the royalty at US\$32m based on a 5Mtpa production scenario. EXX is considering a 12Mtpa project which would value the royalty at \$74m.
- The sale process of the Marampa iron ore project in Sierra Leone is ongoing. We have a risked valuation of \$162m based on our current iron ore price deck. CFE believes it will be granted its Mining License in the DecQ'14.

### Maintain SPECULATIVE BUY and increase our TP to A\$0.37/share

We maintain a SPECULATIVE BUY rating and target price of A\$0.37 based on a sum of parts valuation formulated from a risked DCF<sub>12%</sub> valuation of the Marampa project of A\$162m and the sum of the estimated realisable value of cash, assets and investments held by CFE (A\$118m).

**FINANCIAL SUMMARY**

Cape Lambert Resources Limited

ASX:CFE

Analyst : Gary Watson  
Date: 14/07/2014  
Year End: June

Rating:  
Price Target:

**SPEC BUY**  
**\$0.37**

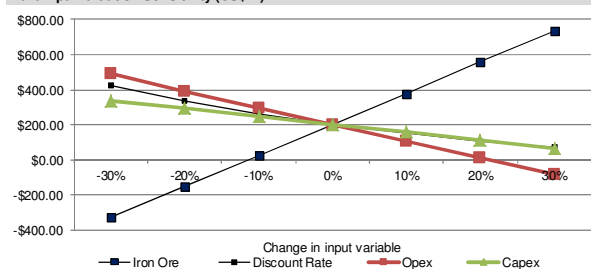
**Market Information**

Share Price	A\$	0.07
Market Capitalisation	A\$m	47.0
12 Month Hi-Lo	A\$	0.17-0.073
Issued Capital	m	635.00
Options	m	11.70
Fully Diluted	m	646.70

Valuation	Risk Adj.	A\$m	A\$/share
Marampa 5Mpa (NPV@12%)	80%	162.2	0.24
Investments		46.7	0.07
Corporate		(31.8)	(0.05)
Options		-	-
Cash (est.)		70.0	0.10
Debt		-	-
<b>TOTAL NAV/ Price Target</b>		<b>247.1</b>	<b>0.37</b>
Price:NAV			0.20

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	11.2	0.02
Unlisted Investments	50% discount to Carrying Value	3.5	0.01
Financial Assets	Face Value	4.5	0.01
Mayoko Royalty	DCF Valuation	32.0	0.05
Payables & Receivables	Realisable Value	-14.6	-0.02
Development Projects	Nominal Value	10.0	0.02
<b>Total</b>		<b>46.7</b>	<b>0.07</b>

**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	19.2%
The Capital Group	61.4	9.7%
Tony Sage	40.7	6.4%

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
<b>Profit from Asset Sales</b>	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	-5.8	-6.1
Exploration (Expensed)	-5.9	-0.2	-3.3	-3.5
<b>EBITDA</b>	<b>38.1</b>	<b>-22.7</b>	<b>-9.1</b>	<b>38.4</b>
Dep'n	-0.7	-1.3	-1.0	-1.0
<b>EBIT</b>	<b>37.3</b>	<b>-24.0</b>	<b>-10.1</b>	<b>37.4</b>
Net Interest	4.3	3.1	1.0	5.3
Tax	-4.6	0.4	2.7	-12.8
<b>NPAT</b>	<b>37.0</b>	<b>-20.4</b>	<b>-6.4</b>	<b>29.9</b>
Abnormals	-14.3	-123.5	0.0	0.0
<b>NPAT (reported)</b>	<b>22.7</b>	<b>-143.9</b>	<b>-6.4</b>	<b>29.9</b>

Cash Flow (A\$m)	2012a	2013a	2014e	2015e
Cash Receipts	0.1	5.2	0.2	48.0
Cash paid to suppliers & emp.	-25.4	-13.3	-5.8	45.9
Tax Paid	0.0	-37.4	0.0	0.0
Net Interest	2.2	3.1	1.0	5.3
<b>Operating Cash Flow</b>	<b>-23.2</b>	<b>-42.4</b>	<b>-4.7</b>	<b>99.2</b>
Asset Sales/Acquisitions	105.0	3.9	30.0	98.5
Exploration and Evaluation	-22.5	-21.8	-13.1	-14.0
Capex	-3.0	0.0	0.0	0.0
Other	-8.6	-9.0	-4.1	0.0
<b>Investing Cash Flow</b>	<b>70.9</b>	<b>-26.9</b>	<b>12.9</b>	<b>84.5</b>
Debt Drawdown (repayment)	0.0	0.0	0.0	0.0
Share capital	-2.2	-1.4	-2.2	0.0
Dividends	0.0	0.0	0.0	-95.3
Financing Expenses	-0.1	-0.8	-0.4	0.0
<b>Financing Cash Flow</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.6</b>	<b>-95.3</b>
Opening Cash	43.1	88.5	17.0	22.6
Increase / (Decrease) in cash	45.4	-71.5	5.6	88.5
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>88.5</b>	<b>17.0</b>	<b>22.6</b>	<b>111.1</b>

Balance Sheet (A\$m)	2012a	2013a	2014e	2015e
Cash + S/Term Deposits	88.2	17.0	22.6	111.1
Other current assets	122.2	118.2	12.3	12.3
<b>Current Assets</b>	<b>210.4</b>	<b>135.2</b>	<b>34.9</b>	<b>123.4</b>
Property, Plant & Equip.	3.0	10.0	9.0	8.0
Exploration & Develop.	145.5	58.9	68.7	79.2
Other Non-current Assets	38.3	38.3	49.3	49.3
Payables	4.6	-1.3	0.1	5.3
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	-58.1	-90.5
<b>Net Assets</b>	<b>373.6</b>	<b>228.3</b>	<b>219.8</b>	<b>344.9</b>
Shareholders Funds	197.1	195.6	193.4	193.4
Reserves	-1.2	-1.2	-1.2	-1.2
Retained Earnings	177.8	33.9	27.6	152.8
<b>Total Equity</b>	<b>373.6</b>	<b>228.3</b>	<b>219.8</b>	<b>344.9</b>

Ratios & Multiples	2012a	2013a	2014e	2015e
EBITDA Margin	58%	nm	nm	80%
EV/EBITDA	-1.0x	nm	nm	-1.7x
Op. Cashflow/Share	-\$0.03	-\$0.06	-\$0.01	\$0.16
P/CF	-2.2x	-1.2x	-10.1x	0.5x
EPS	\$0.03	-\$0.21	-\$0.01	\$0.05
PER	2.2x	-0.4x	-7.7x	1.6x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.15
Dividend Yield	0%	0%	0%	203%
ROE	6%	-63%	-3%	9%
ROIC	-17%	12%	4%	37%
Debt/Equity	0%	0%	0%	0%
Net Interest Cover	nm	nm	-374.5x	nm
Book Value/share	\$0.55	\$0.33	\$0.35	\$0.54
Price/Book Value	0.1x	0.2x	0.2x	0.1x

## 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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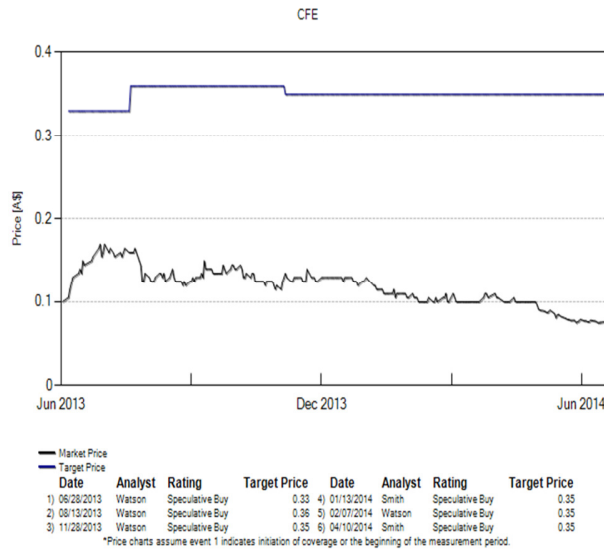
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**Site Visit:  
Price Chart:\***

An analyst has not visited CFE's operations in Sierra Leone.



**Distribution of Ratings:  
Global Stock Ratings  
(as of 3 July 2014)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	602	61.2%	38.2%	
Speculative Buy	49	5.0%	55.1%	
Hold	290	29.5%	13.1%	
Sell	41	4.2%	7.3%	
	984	100.0%		

\*Total includes stocks that are Under Review

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