

# Cape Lambert Resources Limited

CFE : ASX : A\$0.15

**SPECULATIVE BUY**

Gary Watson

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**Target: A\$0.34↓**

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## COMPANY STATISTICS:

Share Price (A\$)	0.15
1 Yr Hi-Lo (A\$)	0.165-0.073
Market Cap (A\$m)	94.8
Issued Shares	632.00
Options (various)	11.70
Cash est.	\$65.0m
Debt	\$0.0m

## Major Shareholders

African Minerals	19%
The Capital Group	7%
Tony Sage	6%

## EARNINGS SUMMARY:

Jun Yr End	2013e	2014e	2015e
Profit from sales	-10.0	0.0	0.0
EBITDA (A\$m)	-22.7	-9.6	-9.8
EV/EBITDA	nm	nm	nm
P/CF	-2.4	1.9	70.6
NPAT (A\$m)	-20.4	-5.1	-1.6
EPS (A\$)	-0.2	-0.0	-0.0
PER	-0.7	-18.5	-59.6
DPS	0.00	0.04	0.04
Yield (%)	0%	27%	27%

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

## RETURNING TO YIELD

### Investment Perspective

Cape Lambert Resources (CFE) has announced it will distribute two 2cps fully franked dividends (A\$25m) from the proceeds of its \$50m settlement with Metallurgical Corporation of China (MCC). CFE has also reached a \$2.4m settlement with the Australian tax office (ATO), which discharges all liability for the A\$79m which had been pursued. The company now stands in a very strong position as a dividend payer with \$65m in cash and no remaining tax liabilities, which is a big turnaround from two months ago when it had \$22m cash and a looming \$79m tax bill. Other assets within CFE's portfolio are positioning for monetisation in the next six to twelve months which could provide an ongoing dividend stream. We maintain our SPECULATIVE BUY rating.

### Key Points

- CFE's board has resolved to pay \$0.04/share (\$0.057/share total return) over two fully franked dividends to shareholders on the register at 29<sup>th</sup> Sept'14 and 30th Jan'15. At the current share price CFE is trading on an FY'15 dividend yield of 27%.
- CFE recently settled the remaining \$79m of its original \$96m Amended Tax Assessment with the ATO for \$2.4m. This is an exceptional victory for CFE which has greatly improved its balance sheet and removed a cloud over its ability to continue as a going concern. CFE also holds a balance of A\$62m to be available as carried forward losses to offset future taxable income.
- Ex-dividend, CFE will have a liquid position of ~\$40m cash, ~\$19m in listed securities and \$7m receivables (convertible notes and debt) which equates to \$0.11/share.
- CFE's portfolio has several maturing assets which may provide further sources for near dividend distribution. The delisting of lithium developer Global Strategic Metals (ASX:GSZ | Not Rated) for relisting on London's AIM market provides a near term catalyst for CFE's 28% shareholding. CFE still intends to sell its \$1/t royalty over the Mayoko iron ore project which we value at US\$32m based on a 5Mtpa production scenario.
- The sale process of the Marampa iron ore project in Sierra Leone is ongoing. The Ebola outbreak may slow the process however CFE believes it will be granted its Mining License in the DecQ'14. We have increased the risking from 20% to 35% on our Marampa valuation to reflect the stagnant iron ore pricing environment and ascribe a value of A\$134m based on our current iron ore price deck.

### Maintain SPECULATIVE BUY and decrease our TP to A\$0.34/share

We maintain a SPECULATIVE BUY rating and target price of A\$0.34 based on a sum of parts valuation formulated from a risked DCF<sub>12%</sub> valuation of the Marampa project of A\$134m and the sum of the estimated realisable value of cash, assets and investments held by CFE (A\$125m).

**FINANCIAL SUMMARY**

Cape Lambert Resources Limited

ASX:CFE

Analyst : Gary Watson  
Date: 11/08/2014  
Year End: June

Rating: **SPEC BUY**  
Price Target: **\$0.34**

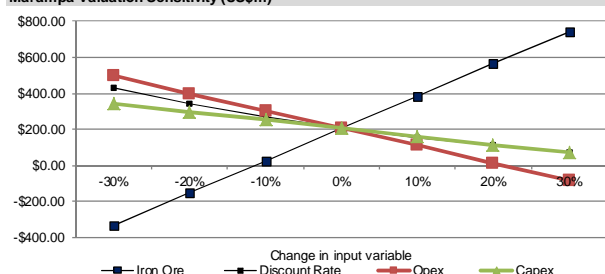
**Market Information**

Share Price	A\$	0.15
Market Capitalisation	A\$m	94.8
12 Month Hi-Lo	A\$	0.165-0.073
Issued Capital	m	632.00
Options	m	11.70
Fully Diluted	m	643.70

Valuation	Risk Adj.	A\$m	A\$/share
Marampa 5Mtpa (NPV @ 12%)	65%	133.4	0.19
Investments		60.8	0.10
Corporate		(31.8)	(0.05)
Options		-	-
Cash (est.)		65.0	0.09
Debt		-	-
<b>TOTAL NAV/ Price Target</b>		<b>227.5</b>	<b>0.34</b>
<b>Price:NAV</b>			<b>0.44</b>

Assumptions	2013a	2015a	2016e	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	9.9	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	32.4	0.05
Payables & Receivables	Realisable Value	0.5	0.00
Development Projects	Nominal Value	10.0	0.02
<b>Total</b>		<b>60.8</b>	<b>0.10</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	19.3%
The Capital Group	47.3	7.5%
Tony Sage	40.7	6.4%

Source: CFE & Canaccord Genuity estimates

**Company Description**

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Profit & Loss (A\$m)	2013a	2014e	2015a	2016e
<b>Profit from Asset Sales</b>	-10.0	0.0	0.0	0.0
Operating Costs	-6.3	0.0	0.0	0.0
Corporate & O'heads	-6.2	-5.8	-6.1	-6.2
Exploration (Expensed)	-0.2	-3.3	-3.5	-3.6
<b>EBITDA</b>	<b>-22.7</b>	<b>-9.1</b>	<b>-9.6</b>	<b>-9.8</b>
Dep'n	-1.3	-1.0	-1.0	0.0
<b>EBIT</b>	<b>-24.0</b>	<b>-10.1</b>	<b>-10.6</b>	<b>-9.8</b>
Net Interest	3.1	1.0	3.3	7.5
Tax	0.4	2.7	2.2	0.7
<b>NPAT</b>	<b>-20.4</b>	<b>-6.4</b>	<b>-5.1</b>	<b>-1.6</b>
Abnormals	-123.5	0.0	0.0	0.0
<b>NPAT (reported)</b>	<b>-143.9</b>	<b>-6.4</b>	<b>-5.1</b>	<b>-1.6</b>

Cash Flow (A\$m)	2013a	2014e	2015a	2016e
Cash Receipts	5.2	0.2	0.0	0.0
Cash paid to suppliers & emp.	-13.3	-5.8	45.9	-6.2
Tax Paid	-37.4	0.0	0.0	0.0
Net Interest	3.1	1.0	3.3	7.5
<b>Operating Cash Flow</b>	<b>-42.4</b>	<b>-4.7</b>	<b>49.2</b>	<b>1.3</b>
Asset Sales/Acquisitions	3.9	30.0	6.5	80.0
Exploration and Evaluation	-21.8	-13.1	-14.0	-14.0
Capex	0.0	0.0	0.0	0.0
Other	-9.0	-4.1	0.0	0.0
<b>Investing Cash Flow</b>	<b>-26.9</b>	<b>12.9</b>	<b>-7.5</b>	<b>66.0</b>
Debt Drawdown (repayment)	0.0	0.0	0.0	0.0
Share capital	-1.4	-2.2	0.0	0.0
Dividends	0.0	0.0	25.3	25.3
Financing Expenses	-0.8	-0.4	0.0	0.0
<b>Financing Cash Flow</b>	<b>-2.2</b>	<b>-2.6</b>	<b>25.3</b>	<b>25.3</b>
Opening Cash	88.5	17.0	22.6	89.6
Increase / (Decrease) in cash	-71.5	5.6	67.0	92.6
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>17.0</b>	<b>22.6</b>	<b>89.6</b>	<b>182.2</b>

Balance Sheet (A\$m)	2013a	2014e	2015a	2016e
Cash + S/Term Deposits	17.0	22.6	89.6	182.2
Other current assets	118.2	104.3	104.7	105.5
<b>Current Assets</b>	<b>135.2</b>	<b>126.9</b>	<b>194.3</b>	<b>287.8</b>
Property, Plant & Equip.	10.0	9.0	8.0	8.0
Exploration & Develop.	58.9	68.7	79.3	90.2
Other Non-current Assets	38.3	49.3	50.3	51.3
Payables	-1.3	0.1	0.3	0.8
Short Term debt	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0
Other Liabilities	15.5	33.9	142.2	273.9
<b>Net Assets</b>	<b>228.3</b>	<b>219.8</b>	<b>189.4</b>	<b>162.5</b>
Shareholders Funds	195.6	193.4	193.4	193.4
Reserves	-1.2	-1.2	-1.2	-1.2
Retained Earnings	33.9	27.6	-2.8	-29.6
<b>Total Equity</b>	<b>228.3</b>	<b>219.8</b>	<b>189.4</b>	<b>162.5</b>

Ratios & Multiples	2013a	2014e	2015a	2016e
EBITDA Margin	nm	nm	nm	nm
EV/EBITDA	nm	nm	nm	nm
Op. Cashflow/Share	-\$0.06	-\$0.01	\$0.08	\$0.00
P/CF	-2.4x	-20.3x	1.9x	70.6x
EPS	-\$0.21	-\$0.01	-\$0.01	\$0.00
PER	-0.7x	-15.6x	-18.5x	-59.6x
Dividend Per Share	\$0.00	\$0.00	\$0.04	\$0.04
Dividend Yield	0%	0%	27%	27%
ROE	-63%	-3%	-3%	-1%
ROIC	12%	4%	-9%	-8%
Debt/Equity	0%	0%	0%	0%
Net Interest Cover	nm	nm	nm	nm
Book Value/share	\$0.33	\$0.35	\$0.30	\$0.26
Price/Book Value	0.4x	0.4x	0.5x	0.6x

## 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.
  - 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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**APPENDIX: IMPORTANT DISCLOSURES**

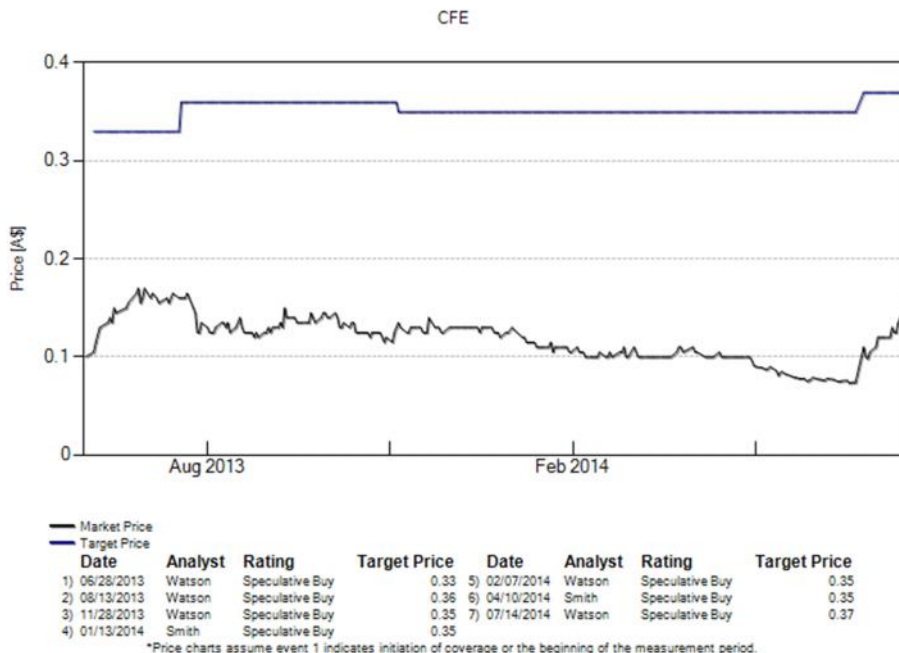
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**Site Visit:  
Price Chart:\***

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



**Distribution of Ratings:  
Global Stock Ratings  
(as of 30 September 2013)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	562	57.9%	37	37.7%
Speculative Buy	47	4.8%	44	67.4%
Hold	313	32.2%	11	11.2%
Sell	47	4.8%	6	6.4%
	971*	100.0%		

\*Total includes stocks that are Under Review

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