



Venturex Resources SPECULATIVE BUY

Current Price: **\$0.030**
Valuation: **\$0.045**

Ticker: **VXR**
Sector: **Materials**

Shares on Issue (m): **1,375.4**
Market Cap (\$m): **41.3**
Cash (\$m): **6.5**
Debt (\$m): **0.0**
Enterprise Value (\$m): **34.8**

52 wk High/Low: **\$0.08** **\$0.03**
12m Av Daily Vol (m): **0.69**

Directors:

Anthony Kiernan Non-Executive Chairman
Michael Mulroneo Managing Director
Dr Allan Trench Non-Executive Director
John Nitschke Non-Executive Director
Ray Parry Non-Executive Director

Substantial Shareholders:

Regent Pacific Group Ltd 31.9%
Northern Star Resources Ltd 14.5%

Share Price Graph



Analysts:
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Matthew Keane

21 December 2012

At the crossroads

Feasibility Study:

Venturex Resources (ASX: VXR) has released the findings of the Definitive Feasibility Study undertaken for its Pilbara Copper Zinc Project in Western Australia (100% VXR). The study confirms Sulphur Springs (SS) as the 'centre of gravity' as the project sources ~85% of its ore from this deposit. Preliminary modelling by VXR indicates the mine life could be extended beyond 11 years with ongoing exploration. Key results of the study against previous Company guidance:

- Capex: \$279m (was \$236m)
- Life of mine operating cost (C1 CFR): \$1.57/lb Cu eq (was \$1.15/lb)
- Capital intensity: \$10,500/t annual production Cu eq (was \$8,777/t)
- Payable metal: 16.5kt Cu, 30kt Zn, 200koz Ag (was 18kt Cu, 30kt Zn, 250koz Ag)
- Mine life: 8.5 years (was ~7.5 years)
- Mining Inventory: 8.4Mt @ 1.8% Cu, 4.0% Zn, 0.3% Pb, 21.5g/t Ag, 0.1g/t Au (was 7.0Mt @ 1.9% Cu, 4.0 Zn, 0.1% Pb, 22.0g/t Ag, 0.13g/t Au)

Impact:

Negative

Capital and operating costs increased by 18% and 37% respectively whilst annual concentrate production has decreased 15% from previous guidance. Whilst the project economics as stated by VXR (EBITDA \$548m, EBIT \$234m) seem optically robust, the key question now turns to funding.

View:

Negative

The study confirms the project has not been immune to cost inflation since the study commenced in 2010. Capital and operating costs have increased from initial guidance based on the revised scope and cost estimate. Prima facie, the increased funding requirement presents the key hurdle relative to the ~\$40m market capitalisation of VXR.

The decrease in annual payable metals production is a function of a revised mining schedule and negatively impacts Argonaut's valuation. The project economics demonstrates the development scenario may be premature and further project scale may provide a step change to reconsider the strategy moving forward.

VXR has reached a crossroad to either pursuing project development in the current form or considering further exploration to ultimately demonstrate a larger operation. Whilst the market is sceptical on development / funding, an energised approach to exploration (including regional) is likely to be well received. The strategic land package is under-explored and could potentially emulate the success of the Jaguar – Bentley VMS corridor.

Recommendation:

Spec Buy

Argonaut's valuation has been revised to 4.5c (was 14c) based on a pre-production peer average EV/Resource lb metric of US4.4c/lb. Speculative buy maintained.



Feasibility Study

DFS has been released...

Venturex Resources (ASX: VXR) has released the findings of the Definitive Feasibility Study undertaken for its Pilbara Copper Zinc Project in Western Australia (100% VXR).

...confirming Sulphur Springs as the 'centre of gravity' for the project

The study confirms the location of a centralised processing facility at Sulphur Springs (SS) based on a revised Ore Reserve. This update confirms SS is the 'centre of gravity' for the project, which contains ~85% of the total Reserve. The project is set to transition from the SS underground mine to a blend of Whim Creek and SS from year 7, bringing in open pit ores from Mons Cupri and Whim Creek.

Preliminary modelling by VXR indicates the mine life could be extended in excess of 11 years with ongoing brownfields drilling both at SS and the broader Whim Creek tenements.

Key results of study

The key results of the study against previous Company guidance is as follows:

- Capex: \$279m (was \$236m)
- Life of mine operating cost (C1 CFR): \$1.57/lb Cu eq (was \$1.15/lb)
- Capital intensity: \$10,500/t annual production Cu eq (was \$8,777/t)
- Average annual payable concentrate production: 130,000 dmt (was 150,000 dmt)
- Payable metal: 16.5kt Cu, 30kt Zn, 200koz Ag (was 18kt Cu, 30kt Zn, 250koz Ag)
- Mine life: 8.5 years (was ~7.5 years)
- Mining Inventory: 8.37Mt @ 1.8% Cu, 4.0% Zn, 0.3% Pb, 21.5g/t Ag, 0.1g/t Au (was 6.97Mt @ 1.9% Cu, 4.0 Zn, 0.1% Pb, 22.0g/t Ag, 0.13g/t Au)

Capex and opex revised upwards

The study confirms the project has not been immune to cost inflation since the study commenced in 2010. Capital and operating costs have increased by 18% and 37% respectively from previous guidance from initial guidance based on the revised scope and detailed cost estimate.

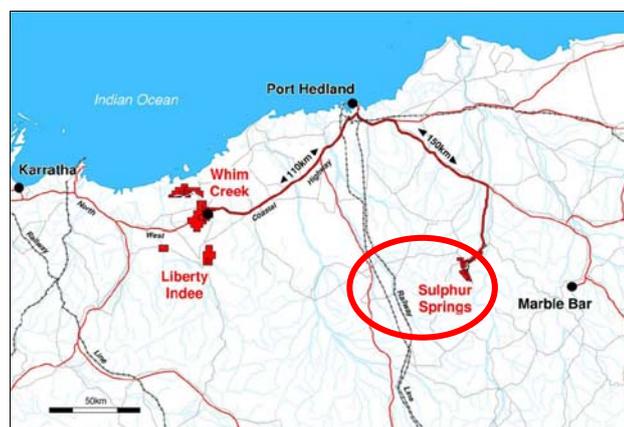
The revised mining schedule takes into account SS as the centralised processing hub and not Whim Creek as initially planned. Despite the revisions based on this study, the increased funding requirement now presents the key hurdle relative to the ~\$40m market capitalisation of VXR.

Upside remains to build on the Reserve base and further revise the schedule

Upside remains to add further inventory with ongoing exploration, given the under-explored nature of the broader tenement package. Recent positive drilling results from SS demonstrated the project has more to offer on a local and regional exploration basis and Argonaut considers that adding project scale via further exploration would be a major value driver for VXR. This would allow a larger operation to be evaluated and provide economies of scale (potential opex savings).

Location of Sulphur Springs

Figure 1: Location of the Sulphur Springs hub and Whim Creek deposits



Source: VXR



Updated Reserve

VXR has increased the Reserve base with more UG ore

The updated Reserve estimate provided the basis for the mining schedule which confirms SS as the 'centre of gravity' for the project, which hosts ~85% of the Reserve.

Table 1: Resources and Reserves of Pilbara assets

Reserve						
	Kt	Cu %	Zn %	Pb %	Ag g/t	Au g/t
Whim Creek	1,172	1.24	1.30	0.54	28.44	0.14
Panorama	7,200	1.80	4.30	0.10	18.50	0.00
Total	8,372	1.72	3.88	0.16	19.89	0.02

Resource						
	Kt	Cu %	Zn %	Pb %	Ag g/t	Au g/t
Whim Creek	7,239	1.30	2.28	0.66	27.18	0.19
Sulphur Springs	19,131	1.17	3.84	0.13	15.79	0.07
Total	26,370	1.20	3.41	0.28	18.92	0.10

Source: Argonaut

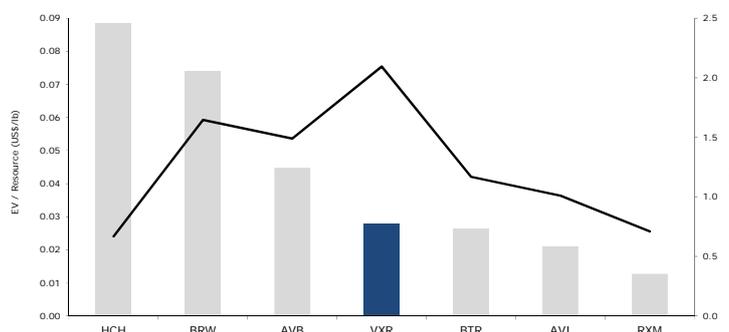
Revised valuation

The stock is trading at a discount to peers...

VXR offers relative value. On the EV/Resource lb metric, the stock is trading at US2.8c v a pre-production peer average of US4.4c, despite offering the highest Cu eq grade.

Figure 2: EV/Resource lb (pre-production peer group)

...despite offering the highest grade



Source: Argonaut

Applying the average multiple results in an implied valuation of 4.5c.

Time to get adVenturex

VXR has reached the cross road of development or further exploration

VXR has reached a cross road to either pursuing project development in the current form or considering further scale via exploration to support a larger operation.

Project development at the current scale appears immature and is likely to be met with a wall of scepticism.

The market is likely to look at a revised exploration focus more favourably, as the exploration potential at both SS and Whim Creek is yet to be unlocked. VXR control a strategic VMS land package within the Pilbara and demonstrated recently at SS that 'easy wins' exist to increase Resources and Reserves. Drilling which targeted the down-plunge extents of the SS orebody confirmed further mineralisation of both copper and zinc lenses. It is likely that similar programs may replicate similar results at each deposit.

The land holding and number of VMS targets is compelling

SS forms part of a broader belt of mineralised volcanic rocks which host multiple VMS occurrences, which are known to occur in clusters. In July 2012, VXR acquired an additional 14 tenements through the Panorama Exploration JV covering an area of ~35km² to the south of the Sulphur Springs Project. This increases VXR's total land package which hosts multiple untested VMS prospects. The exploration side to the VXR story is compelling.

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Important Disclosure

In May 2012 Argonaut acted as Sole Manager to the Placement and Entitlements issue to raise \$11M and earned fees commensurate with those services. Argonaut acts as Corporate Advisor to VXR and earns fees commensurate with those services. Argonaut holds or controls 61,102,319 VXR shares.

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