

# Stock Focus

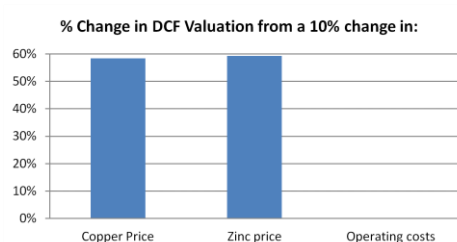
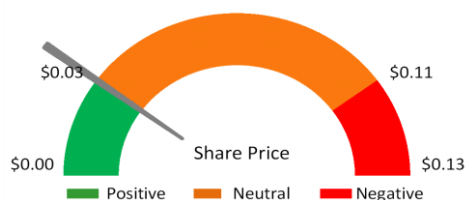
## Venturex Resources (VXR)



EVANS & PARTNERS

### BFS DISAPPOINTS

#### RECOMMENDATION :NEUTRAL (POSITIVE)



**Venturex delivered in our view a disappointing BFS, with operating costs and capital costs significantly higher than earlier estimates. This combined with a material decline in share price leads us to conclude funding will be very difficult in the current market unless a material change in current parameters is made. Accordingly we downgrade our recommendation from POSITIVE to NEUTRAL.**

**Key project parameters.** Venturex envisages a 1mtpa plant, located close to their Sulphur Springs underground operation. Production is forecast at a rate of 16,600tpa payable copper and 30kt payable Zinc from late 2015. Operating costs are expected to average \$1.58/lb copper over the mine life, with capital costs quoted at \$279m. Current mine life is 8.5 years, with further upside through development of additional resources not yet incorporated in the base case BFS.

**Shaping up as a high cost operation.** Headline LOM operating costs on a copper only basis of \$1.58/lb are materially higher than early indications of a similar magnitude but on a copper equivalent basis (with zinc converted to copper). Adding depreciation/amortisation and administration, and total costs are close to \$3.00/lb, which presents as one of the higher cost development opportunities.

#### Trading Data

Last Price	\$0.03
12 month range	\$0.03 - \$0.08
Market cap.	\$40m
Free Float	\$30m (76%)
Avg. daily volume	0.7M
Avg. daily value	\$0.0m
12m return (historical)	(58.0)%

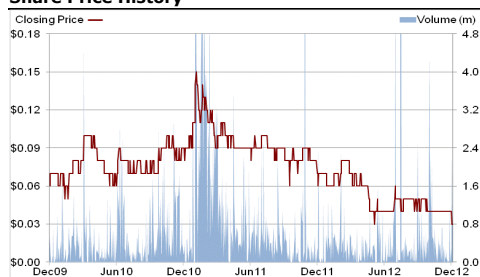
#### Earnings Forecasts

Yr to June	11A	12E	13E	14E
NPAT pre ab (\$m)	(3)	(3)	(2)	(2)
EBITDA (\$m)	(4)	(5)	(4)	(3)
EPS (¢)	(0.3)	(0.3)	(0.2)	(0.1)
EPS Gth (%)	N/A	N/A	N/A	N/A
<b>PER (x)</b>		<b>Na</b>	<b>Na</b>	<b>Na</b>
Production (kt cu)	0	0	0	0
Cost (US\$ lb)	0	0	0	0
DPS (¢)	0.0	0.0	0.0	0.0
<b>Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Franking (%)	0%	0%	0%	0%
NetDebt/EBITDA (x)	2.8	2.1	0.9	15.9

#### Valuation (DCF - \$ps)

**0.09**

#### Share Price History



**Why the change?** Like so many other pre development companies, Venturex has been negatively impacted by escalating costs within the mining sector (both operating and capital). Add to this a change in scope from potentially 1.5mtpa to 1.0mtpa, and a more than halving of share price, and it is difficult to see the project obtaining funding (particularly the equity component). **Any equity raising at these levels would see a likely tripling of issued capital, and we estimate a decline in valuation from 8c to 4c even assuming a raising at a low 10% discount to current price.**

**What now?** Game is most definitely not over, with the BFS delivered at what we believe is peak cycle costs, and not incorporating some excellent headway on the project holdings, including the high grade Salt Creek deposit, and the recently acquired Kangaroo Caves project. Venturex has indicated that preliminary modelling of these additional deposits extends mine life to in excess of 11 years. We would also expect both operating and capital costs will be downgraded before commencement of production (in line with anecdotal feed industry wide on declining costs). Our expectations are for the current project to be stalled until the full upside potential is investigated.

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PILBARA CU-ZN PROJECT	OUTCOMES
Processing Rate	1.0 Mtpa
Average annual payable metal production	16,500 t Cu, 30,000 t Zn, 200,000 oz Ag
Average annual concentrate production	130,000 dmt
Current Reserve Mine Life	8.5 years
Life of Mine C1 Operating Cost <sup>2</sup>	A\$1.57/lb payable copper
Pre-Production Capital Cost <sup>3</sup>	A\$279 million (incl. EPCM and contingency)
Capital Intensity	US\$10,500/t annual production CuEQ
Forecast EBITDA	A\$548 million
Forecast EBIT	A\$234 million
Price Assumptions (flat real)	Cu – US\$3.50/lb Zn – US\$0.95/lb Pb – US\$0.95/lb Ag – US\$25/oz A\$/US\$ - 0.95

<sup>2</sup> C1 Costs = Direct Opex + all concentrate transport and shipping costs + all TC/RC charges – all By Product Credits divided payable copper sold.

<sup>3</sup> Contingency = Variable from 2.5% - 9.0% on estimated capital costs.

Source: Venturex



## FINANCIAL SUMMARY

Venturex Resources As at:	VXR 20/12/12	Recommendation: Neutral							DCF Valuation	\$0.09
Year end	Dec	2012F	2013F	2014F	2015F	2016F	2017F	2018F		
<b>INCOME STATEMENT</b>										
<b>Total Revenue</b>	\$m	0.3	0.3	1.0	9.9	195.0	288.9	283.0		
Operating Costs	\$m	0.0	0.0	0.0	-4.4	-116.1	-183.1	-187.6		
Royalty	\$m	0.0	0.0	0.0	-0.3	-7.5	-11.2	-10.9		
Exploration W/off	\$m	-2.4	-0.8	-0.4	-0.7	-0.7	-0.7	-0.4		
<b>Total Op. Costs</b>	\$m	<b>-2.4</b>	<b>-0.8</b>	<b>-0.4</b>	<b>-5.4</b>	<b>-124.3</b>	<b>-195.0</b>	<b>-198.8</b>		
D&A	\$m	0.0	0.0	0.0	-0.9	-22.2	-34.2	-34.2		
Interest Exp.	\$m	0.0	0.0	0.0	-5.9	-12.7	-7.8	-1.5		
Corporate	\$m	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9		
Other	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Costs</b>	\$m	<b>-5.2</b>	<b>-3.7</b>	<b>-3.2</b>	<b>-15.0</b>	<b>-162.1</b>	<b>-239.9</b>	<b>-237.5</b>		
<b>Pre+Tax Profit</b>	\$m	<b>-5.0</b>	<b>-3.4</b>	<b>-2.3</b>	<b>-5.1</b>	<b>32.9</b>	<b>49.0</b>	<b>45.5</b>		
Tax Provision	\$m	1.5	1.0	0.7	1.5	-9.9	-14.7	-13.7		
<b>Net Profit</b>	\$m	<b>-3.5</b>	<b>-2.4</b>	<b>-1.6</b>	<b>-3.6</b>	<b>23.0</b>	<b>34.3</b>	<b>31.9</b>		
Minorities	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Attrib Net Profit</b>	\$m	<b>-3.5</b>	<b>-2.4</b>	<b>-1.6</b>	<b>-3.6</b>	<b>23.0</b>	<b>34.3</b>	<b>31.9</b>		
Abnormal/Discontinued Operations	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Reported profit</b>	\$m	<b>-3.5</b>	<b>-2.4</b>	<b>-1.6</b>	<b>-3.6</b>	<b>23.0</b>	<b>34.3</b>	<b>31.9</b>		
<b>CASH FLOW</b>										
<b>Operating Cashflow</b>	\$m	<b>-2.1</b>	<b>-2.6</b>	<b>-1.9</b>	<b>-5.4</b>	<b>28.8</b>	<b>59.1</b>	<b>64.8</b>		
-Capex	\$m	0.0	-13.0	-59.0	-207.0	-4.0	-4.0	-4.0		
-Exploration	\$m	-6.8	-2.3	-1.0	-2.0	-2.0	-2.0	-1.0		
<b>Free Cashflow</b>	\$m	<b>-8.9</b>	<b>-17.9</b>	<b>-61.9</b>	<b>-214.4</b>	<b>22.8</b>	<b>53.1</b>	<b>59.8</b>		
-dividends	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
+Equity Raised	\$m	10.6	10.0	110.0	0.0	0.0	0.0	0.0		
+Debt Drawdown	\$m	0.0	0.0	30.0	165.0	0.0	-100.0	-95.0		
-Other (incl asset sales)	\$m	-1.1	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Net Change in Cash</b>	\$m	<b>0.7</b>	<b>-7.9</b>	<b>78.1</b>	<b>-49.4</b>	<b>22.8</b>	<b>-46.9</b>	<b>-35.2</b>		
Cash at End Period	\$m	11.2	3.3	81.4	32.0	54.8	7.8	-27.4		
					-379.38			0		
<b>BALANCE SHEET</b>										
Cash	\$m	11.2	3.3	81.4	32.0	54.8	7.8	-27.4		
<b>Total Assets</b>	\$m	<b>71.1</b>	<b>77.7</b>	<b>215.4</b>	<b>374.7</b>	<b>406.0</b>	<b>364.8</b>	<b>330.0</b>		
Total Debt	\$m	0.0	0.0	30.0	195.0	195.0	95.0	0.0		
<b>Total Liabilities</b>	\$m	<b>7.4</b>	<b>7.4</b>	<b>37.4</b>	<b>202.4</b>	<b>202.4</b>	<b>102.4</b>	<b>7.4</b>		
<b>Shareholders Equity</b>	\$m	<b>63.7</b>	<b>70.3</b>	<b>178.0</b>	<b>172.3</b>	<b>203.6</b>	<b>262.4</b>	<b>322.6</b>		
<b>Production</b>										
<b>Pilbara VMS Project</b>		<b>12E</b>	<b>13E</b>	<b>14E</b>	<b>15E</b>	<b>16E</b>	<b>17E</b>	<b>18E</b>		
Ore Milled (kt)	(kt)	-	-	-	25	650	1,000	1,000		
Head Grade - cu (%)	(%)	-	-	0.0%	1.8%	1.8%	1.8%	1.8%		
Head Grade - Au (g/t)	(g/t)	-	-	0.0	0.0	0.0	0.0	0.0		
Recovery - cu (%)	(%)	-	-	0.0%	95.0%	95.0%	95.0%	95.0%		
Production - cu (kt)	(kt)	-	-	-	0	11	17	17		
Production - Zn (kt)	(kt)	-	-	-	1	25	38	38		
Production - Au (k oz)	(k oz)	-	-	-	-	-	-	-		
<b>Profit and Loss Cash Cost</b>										
Cash Cost	(\$US/t)	-	-	-	138	143	140	140		
Cash Cost	(\$US/lb Cu)	-	-	0.00	1.49	1.59	1.48	1.48		
Total Cost	(\$US/lb Cu)	-	-	0.00	2.68	2.88	2.67	2.66		
<b>Assumptions</b>										
Gold Price	(US\$/oz)	1673	1687	1680	1692	1711	1463	1204		
Silver Price	(US\$/A\$)	33	31	31	31	32	27	21		
Average Exchange Rate	(US\$/A\$)	1.03	0.99	0.97	0.97	0.97	0.93	0.89		
Copper	(US\$/lb)	3.69	3.63	3.61	3.62	3.63	3.30	2.98		
Zinc	(US\$/t)	2059	2088	2155	2217	2264	2320	2362		

Year end	Dec	2012F	2013F	2014F	2015F	2016F
<b>VALUATION METRICS</b>						
PER	x	Na	Na	Na	Na	1.7
EV/EBITDA	x	-12.9	-64.0	-20.5	44.8	2.5
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0
P/FCF	x	Na	Na	Na	Na	0.7
ROA	%	-5%	-3%	-1%	-1%	6%
ROE	%	-5%	-3%	-1%	-2%	11%
Net Debt to Equity	%	0%	0%	0%	95%	69%

<b>Directors</b>	
Chairman	Mr Anthony Kiernan
Managing Director	Mr Michael Mulronee
Non Executive Director	Mr Allan Trench
Executive Director	Mr Anthony Reilly
Non Executive Director	Mr John Nitschke
Non Executive Director	Mr Ray Parry

Substantial Shareholders	Shares (m)	%
Regent Pacific	438.7	31.9%
Northern Star	199.4	14.5%

Valuation Summary	BASE CASE	
	\$AM	A\$/share
<b>Operations</b>		
Pilbara VMS Project	104	0.08
Exploration	25	0.02
<b>Sub Total - Operations</b>	<b>129</b>	<b>0.09</b>
<b>Financial</b>		
Forward sales	0	0.00
Cash	5	0.00
Total Borrowings	0	0.00
Corporate/Other	-16	-0.01
<b>Total</b>	<b>-11</b>	<b>-0.01</b>
<b>Total Valuation*</b>	<b>118</b>	<b>0.09</b>
* Prior to any funding dilution		

RESOURCES	T (m)	Cu %	Zn %	Pb %	Silver g/t	Gold g/t
Whim Creek	972.0	2.1%	1.1%	0.2%	10	0.1
Mons Cupri	4,607.0	0.9%	1.3%	0.5%	24	0.1
Salt Creek	1,003.0	2.0%	7.0%	2.1%	52	0.3
Libertee-Indee	657.0	1.8%	3.7%	0.3%	36	0.8
Sulphur springs	12,831.0	1.5%	4.1%	0.2%	18	0.1
Kangaroo Caves	6,300.0	0.5%	3.3%		12	
<b>Attributable share</b>	<b>26,370.0</b>	<b>1.2%</b>	<b>3.4%</b>	<b>0.3%</b>	<b>19</b>	<b>0.1</b>
Venturex's Attributable Copper (mt)					<b>316.4</b>	
Venturex's Attributable Zinc (mt)						<b>896.6</b>

RESERVES (Contained Metal)	T (m)	Cu %	Zn %	Pb %	Silver g/t	Gold g/t
Whim Creek	0.2	2.7%	1.3%	0.7%	47	0.3
Mons Cupri	1.0	0.9%	1.3%	0.5%	24	0.1
Sulphur Springs	7.2	1.8%	4.3%	0.1%	19	0.0
<b>Attributable share</b>	<b>8.4</b>	<b>1.8%</b>	<b>4.0%</b>	<b>0.3%</b>	<b>21</b>	<b>0.1</b>



## RESEARCH RECOMMENDATION DEFINITIONS

Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
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Not Rated	Stock is not included in our investment research universe.

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Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
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