

# Stock Focus

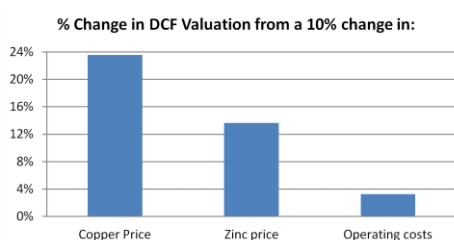
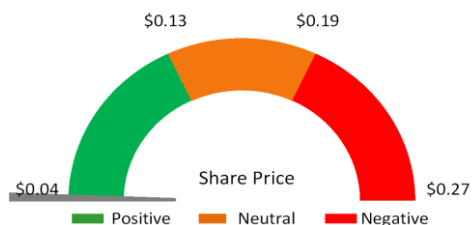
## Venturex Resources (VXR)



EVANS & PARTNERS

### \$11M RAISING HIGHLY POSITIVE

#### RECOMMENDATION : POSITIVE



#### Trading Data

|                         |                 |
|-------------------------|-----------------|
| Last Price              | \$0.05          |
| 12 month range          | \$0.04 - \$0.11 |
| Market cap.             | \$48m           |
| Free Float              | \$0m (0%)       |
| Avg. daily volume       | 0.5m            |
| Avg. daily value        | \$0.0m          |
| 12m return (historical) | (52.2)%         |

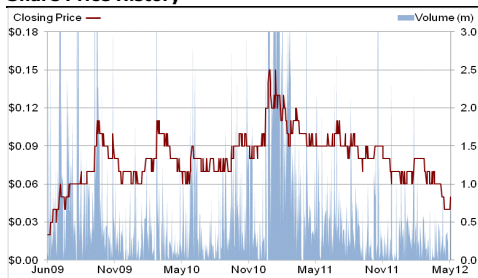
#### Earnings Forecasts

| Yr to June         | 11A        | 12E        | 13E        | 14E        |
|--------------------|------------|------------|------------|------------|
| NPAT pre ab (\$m)  | (3)        | (3)        | (2)        | (6)        |
| EBITDA (\$m)       | (4)        | (5)        | (4)        | (3)        |
| EPS (¢)            | (0.3)      | (0.3)      | (0.2)      | (0.4)      |
| 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)     | 0.00       | 0.00       | 0.00       | 0.00       |
| 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        | 3.4        | (52.2)     |

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

**\$0.16**

#### Share Price History



**Venturex now has funding through to a decision to mine, with the added benefit of a cashed up supportive major shareholder. Whilst the raising did result in some dilution to our valuation, the company remains attractively priced relative to its competitors. We retain our POSITIVE recommendation.**

**Short term uncertainty minimised through both today's raising and also the change in management team.** Since we initiated on the company 6 months ago the environment for funding and development has become increasingly negative, fuelled by weakening metal prices, and declining stock prices. Add to this, the resignation of the managing director on the day of publication, and the short term risk for Venturex was amplified. We see the recent appointment of Michael Mulrone as Managing Director combined with today's raising, including the clear support of a cashed up producer with a major stake in the company as a significant positive factor.

**Story intact, but detail somewhat different.** The combination of a lower metal price environment and new management team has resulted in some modification to the original proposed mine plan, with the revised plan viewed as more conservative, particularly in the light of the lower metal price environment:

1. We have delayed project start up 12 months to reflect the delays relating to change in management, and also the slower than expected completion of feasibility study (now expected in the September quarter).
2. Venturex is now looking to build the process plant adjacent to the underground mine at Sulphur Springs vs. original expectations of a plant close to open pit sources.
3. Original plant capacity was envisaged at 1mtpa to 1.3mtpa; with final plant design now looking likely to be 1mtpa. The revised focus is on the higher grade portions of both open pits and underground, with paste fill applied to underground workings to increase mining recoveries and reduce dilution.
4. Original capital expenditure was estimate at approx. \$150m, with capex including working capital and contingencies now estimates at \$236m, which is very much in line with industry wide cost inflation. Operating costs have also escalated.

**Valuation down but certainly not out.** Valuation has reduced 6c since our initiation due to a combination of higher capital expenditure, lower metal price assumptions and the dilution associated with the current raising. The valuation represents a 4X multiple of the current price, but we do stress we do anticipate an additional raising to fund the project during 2013, which could see further dilution in the valuation.

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May 30, 2012  
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## RAISING DETAILS

- Strategic 15% placement at \$0.04 per share to Northern Star Resources involving the issue of 163.1m ordinary shares. Northern Star to retain the right to maintain its % holding for the next two years.
- 1:10 entitlement issue at 3.6c involving the issue of a further 125m shares.
- Total raising to deliver net \$10.6m to Venturex, which will be used as follows:
  - Completion of the current feasibility study (due September)
  - Exploration in Australia focused on the Pilbara region (\$2.3m)
  - Exploration in Brazil (\$1.0m)
  - Working Capital (\$5.4m)
- Non-binding Memorandum of Understanding to explore potential joint development options for the Pilbara Copper-zinc Project (with Northern Star). The MOU is only valid for 6 months.
- Mr Ray Parry represents Northern Star on the Venturex Board.



## FINANCIAL SUMMARY

Venturex Resources VXR Recommendation: Positive  
As at: 30/05/12

DCF Valuation \$0.16

| Year end                         | Dec        | 2012F       | 2013F       | 2014F       | 2015F        | 2016F         |
|----------------------------------|------------|-------------|-------------|-------------|--------------|---------------|
| <b>INCOME STATEMENT</b>          |            |             |             |             |              |               |
| Total Revenue                    | \$m        | 0.3         | 0.4         | 1.0         | 29.8         | 213.7         |
| Operating Costs                  | \$m        | 0.0         | 0.0         | 0.0         | -17.3        | -103.5        |
| Royalty                          | \$m        | 0.0         | 0.0         | 0.0         | -1.1         | -8.1          |
| Exploration W/off                | \$m        | -2.4        | -0.8        | -0.4        | -0.7         | -0.7          |
| <b>Total Op. Costs</b>           | <b>\$m</b> | <b>-2.4</b> | <b>-0.8</b> | <b>-0.4</b> | <b>-19.1</b> | <b>-112.3</b> |
| D&A                              | \$m        | 0.0         | 0.0         | 0.0         | -4.0         | -32.0         |
| Interest Exp.                    | \$m        | 0.0         | 0.0         | -5.9        | -12.7        | -12.7         |
| Corporate                        | \$m        | -2.9        | -2.9        | -2.9        | -2.9         | -2.9          |
| Other                            | \$m        | 0.0         | 0.0         | 0.0         | 0.0          | 0.0           |
| <b>Total Costs</b>               | <b>\$m</b> | <b>-5.2</b> | <b>-3.7</b> | <b>-9.1</b> | <b>-38.7</b> | <b>-159.8</b> |
| <b>Pre-Tax Profit</b>            | <b>\$m</b> | <b>-5.0</b> | <b>-3.3</b> | <b>-8.1</b> | <b>-8.9</b>  | <b>53.9</b>   |
| Tax Provision                    | \$m        | 1.5         | 1.0         | 2.4         | 2.7          | -16.2         |
| <b>Net Profit</b>                | <b>\$m</b> | <b>-3.5</b> | <b>-2.3</b> | <b>-5.7</b> | <b>-6.2</b>  | <b>37.7</b>   |
| Minorities                       | \$m        | 0.0         | 0.0         | 0.0         | 0.0          | 0.0           |
| <b>Attrib Net Profit</b>         | <b>\$m</b> | <b>-3.5</b> | <b>-2.3</b> | <b>-5.7</b> | <b>-6.2</b>  | <b>37.7</b>   |
| Abnormal/Discontinued Operations | \$m        | 0.0         | 0.0         | 0.0         | 0.0          | 0.0           |
| <b>Reported profit</b>           | <b>\$m</b> | <b>-3.5</b> | <b>-2.3</b> | <b>-5.7</b> | <b>-6.2</b>  | <b>37.7</b>   |

| Year end                  | Dec        | 2012F       | 2013F        | 2014F         | 2015F        | 2016F       |
|---------------------------|------------|-------------|--------------|---------------|--------------|-------------|
| <b>CASH FLOW</b>          |            |             |              |               |              |             |
| Operating Cashflow        | \$m        | -2.1        | -2.5         | -7.7          | -6.6         | 83.9        |
| -Capex                    | \$m        | 0.0         | -64.0        | -172.0        | -4.0         | -4.0        |
| -Exploration              | \$m        | -6.8        | -2.3         | -1.0          | -2.0         | -2.0        |
| <b>Free Cashflow</b>      | <b>\$m</b> | <b>-8.9</b> | <b>-68.8</b> | <b>-180.7</b> | <b>-12.6</b> | <b>77.9</b> |
| -dividends                | \$m        | 0.0         | 0.0          | 0.0           | 0.0          | 0.0         |
| +Equity Raised            | \$m        | 10.6        | 70.0         | 0.0           | 0.0          | 0.0         |
| +Debt Drawdown            | \$m        | 0.0         | 30.0         | 165.0         | 0.0          | 0.0         |
| -Other (incl asset sales) | \$m        | -1.1        | 0.0          | 0.0           | 0.0          | 0.0         |
| <b>Net Change in Cash</b> | <b>\$m</b> | <b>0.7</b>  | <b>31.2</b>  | <b>-15.7</b>  | <b>-12.6</b> | <b>77.9</b> |
| Cash at End Period        | \$m        | 11.2        | 42.4         | 26.6          | 14.1         | 92.0        |

| Year end                   | Dec        | 2012F       | 2013F        | 2014F        | 2015F        | 2016F        |
|----------------------------|------------|-------------|--------------|--------------|--------------|--------------|
| <b>BALANCE SHEET</b>       |            |             |              |              |              |              |
| Cash                       | \$m        | 11.2        | 42.4         | 26.6         | 14.1         | 92.0         |
| <b>Total Assets</b>        | <b>\$m</b> | <b>71.1</b> | <b>167.8</b> | <b>324.7</b> | <b>313.4</b> | <b>364.6</b> |
| Total Debt                 | \$m        | 0.0         | 30.0         | 195.0        | 195.0        | 195.0        |
| <b>Total Liabilities</b>   | <b>\$m</b> | <b>7.4</b>  | <b>37.4</b>  | <b>202.4</b> | <b>202.4</b> | <b>202.4</b> |
| <b>Shareholders Equity</b> | <b>\$m</b> | <b>63.7</b> | <b>130.4</b> | <b>122.3</b> | <b>111.1</b> | <b>162.3</b> |

| Production                       |           | 12E | 13E | 14E  | 15E   | 16E   |
|----------------------------------|-----------|-----|-----|------|-------|-------|
| <b>Pilbara VMS Project</b>       |           |     |     |      |       |       |
| Ore Milled (kt)                  | (kt)      | -   | -   | -    | 150   | 1,000 |
| Head Grade - cu (%)              | (%)       | -   | -   | 0.0% | 1.7%  | 1.9%  |
| Head Grade - Au (g/t)            | (g/t)     | -   | -   | 0.0  | 0.2   | 0.1   |
| Recovery - cu (%)                | (%)       | -   | -   | 0.0% | 93.8% | 94.5% |
| Production - cu (kt)             | (kt)      | -   | -   | -    | 2     | 18    |
| Production - Au (k oz)           | (k oz)    | -   | -   | -    | 1     | 2     |
| <b>Profit and Loss Cash Cost</b> |           |     |     |      |       |       |
| Cash Cost                        | (\$US/t)  | -   | -   | -    | 34    | 38    |
| Cash Cost                        | (\$US/lb) | -   | -   | 0.00 | 0.98  | 0.96  |
| Total Cost                       | (\$US/lb) | -   | -   | 0.00 | 1.94  | 1.96  |

| Assumptions           |            | 12E  | 13E  | 14E  | 15E  | 16E  |
|-----------------------|------------|------|------|------|------|------|
| Gold Price            | (US\$/oz)  | 1637 | 1585 | 1598 | 1614 | 1650 |
| Silver Price          | (US\$/A\$) | 32   | 28   | 28   | 28   | 28   |
| Average Exchange Rate | (US\$/A\$) | 1.03 | 0.93 | 0.90 | 0.90 | 0.90 |
| Copper                | (US\$/lb)  | 3.63 | 3.51 | 3.49 | 3.47 | 3.44 |
| Zinc                  | (US\$/t)   | 1989 | 1934 | 1955 | 1957 | 1946 |

| Year end                 | Dec | 2012F | 2013F  | 2014F | 2015F | 2016F |
|--------------------------|-----|-------|--------|-------|-------|-------|
| <b>VALUATION METRICS</b> |     |       |        |       |       |       |
| PER                      | x   | Na    | Na     | Na    | Na    | 1.6   |
| EV/EBITDA                | x   | -23.9 | -114.9 | 352.2 | 22.7  | 1.6   |
| Dividend Yield           | %   | 0.0   | 0.0    | 0.0   | 0.0   | 0.0   |
| P/FCF                    | x   | Na    | Na     | Na    | Na    | 0.7   |
| ROA                      | %   | -5%   | -1%    | -2%   | -2%   | 10%   |
| ROE                      | %   | -5%   | -2%    | -5%   | -6%   | 23%   |
| Net Debt to Equity       | %   | 0%    | 0%     | 138%  | 163%  | 63%   |

| <b>Directors</b>       |                    |
|------------------------|--------------------|
| Chairman               | Mr Anthony Kiernan |
| Managing Director      | Mr Michael Mulrone |
| 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) | %     |
|-----------------------------|------------|-------|
| Nefco Nominees              | 356.5      | 25.9% |
| Northern Star*              | 163.1      | 11.9% |
| Straits Mineral Investments | 77.7       | 5.6%  |

\* Assuming the current entitlement issue is succesful

|                               | <b>BASE CASE</b> |              |
|-------------------------------|------------------|--------------|
|                               | \$AM             | A\$/share    |
| <b>Operations</b>             |                  |              |
| Pilbara VMS Project           | 205              | 0.15         |
| Exploration                   | 25               | 0.02         |
| <b>Sub Total - Operations</b> | <b>230</b>       | <b>0.17</b>  |
| <b>Investments</b>            |                  |              |
|                               | <b>0</b>         | <b>0.00</b>  |
| <b>Financial</b>              |                  |              |
| Forward sales                 | 0                | 0.00         |
| Cash                          | 11               | 0.01         |
| Total Borrowings              | 0                | 0.00         |
| Corporate/Other               | -25              | -0.02        |
| <b>Total</b>                  | <b>-14</b>       | <b>-0.01</b> |
| <b>Total Valuation</b>        | <b>216</b>       | <b>0.16</b>  |

| RESOURCES                           | T (m)       | Cu %        | Zn %        | Pb %        | Silver g/t | Gold g/t   |
|-------------------------------------|-------------|-------------|-------------|-------------|------------|------------|
| Whim Ck/Salt Ck                     | 7.6         | 1.2%        | 2.2%        | 0.7%        | 26         | 0.2        |
| Panorama                            | 19.3        | 1.2%        | 3.1%        | 0.2%        | 16         |            |
| <b>Attributable share</b>           | <b>26.9</b> | <b>1.2%</b> | <b>2.8%</b> | <b>0.3%</b> | <b>19</b>  | <b>0.1</b> |
| Venturex's Attributable Copper (mt) |             |             |             |             |            | <b>0.3</b> |
| Venturex's Attributable Gold (m oz) |             |             |             |             |            | <b>0.0</b> |

| RESERVES (Contained Metal) | T (m)       | Cu %        | Zn %        | Pb %        | Silver g/t | Gold g/t   |
|----------------------------|-------------|-------------|-------------|-------------|------------|------------|
| Whim Ck/Salt Ck            | 4.5         | 1.4%        | 2.8%        | 0.9%        | 35         | 0.3        |
| Panorama                   | 5.7         | 1.9%        | 4.3%        | 0.3%        | 23         |            |
| <b>Attributable share</b>  | <b>10.1</b> | <b>1.7%</b> | <b>3.6%</b> | <b>0.6%</b> | <b>28</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. |
| Suspended   | Stock is temporarily suspended due to compliance with applicable regulatory and/or Evans & Partners policies in circumstances where Evans & Partners is acting in an advisory capacity.  |
| Not Rated   | Stock is not included in our investment research universe.   |

### Research Criteria Definitions

Recommendations are primarily determined with reference to how a stock ranks relative to the S&P/ASX 200 on the following criteria:

|                         |  |
|-------------------------|--|
| Valuation               | Rolling 12 month prospective multiples (composite of Price-to-Earnings Ratio, Dividend Yield and EV/EBITDA), or long-term NPV for resource stocks.               |
| 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.  |
| Cyclical Risk           | Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.  |
| Industry Quality        | Qualitative assessment of an industry's growth/returns potential and company specific management capability.   |
| Financial Transparency  | If we don't understand it, we won't recommend it.  |

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