



Venturex SPECULATIVE BUY

22 July 2011

Reserve upgrades on the way

Current Price: **\$0.10**
Valuation: **\$0.30**

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

Shares on Issue (m): **1,087.2**
Market Cap (\$m): **105.5**
Net Cash (\$m): **11.0**
Enterprise Value (A\$m): **94.5**

52 wk High/Low: **\$0.17** **\$0.07**
12m Av Daily Vol (m): **0.98**

Board and Management

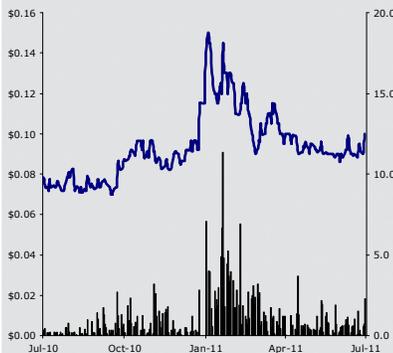
Tony Kiernan Chairman
Tim Sugden Managing Director
Anthony Reilly Executive Director
Allan Trench Non-Executive Director
Michael Mulronev Non-Executive Director

Substantial shareholders*:

Regent Pacific 25.9%
Straits Resources 9.4%

*Undiluted

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

Update:

Venturex Resources (VXR) is an emerging Australian Cu-Zn producer.

Current optimisation studies indicate the potential for increased production rates from both (Whim Creek open pits and Sulphur Springs underground) mining centres.

A pending Reserve upgrade from Sulphur Springs is set to underpin expanded plant capacity to ~1.4Mtpa.

Impact:

Neutral

Our 'Base Case' profile originally assumed a centralised ~1Mtpa processing hub at Whim Creek, delivering annual production of 38kt Zn and 16kt Cu over 9 years (~27kt Cu Eq pa), underpinned by an equal blend of open pit ore (Mons Cupri) and underground feed from Sulphur Springs (transported via road haulage).

Assuming an expanded processing plant to 1.4Mtpa, VXR could produce average annual production of 46kt Zn and 20kt Cu over 9 years (~33kt Cu Eq pa).

The uplift in planned production is counterbalanced by slippage on delivery of the BFS (now January 2012, was October 2011) and a six month push back on project commissioning (now 'late' 2013).

View:

Positive

VXR is likely to attract greater attention following an exodus of established copper names from the small cap space. Despite being relatively advanced, the stock remains largely a market secret.

Among the emerging 20 - 40ktpa copper production peer group, VXR compares favourably given the value of precious metal by-product credits associated with the concentrates.

Recommendation:

Spec Buy

Incorporating the expanding production potential into our modelling has seen our valuation rise to \$0.30ps (up from \$0.26). We maintain our SPEC BUY recommendation.

Important Disclosures

Argonaut acts as Corporate Advisor to VXR. Argonaut acted as Corporate Advisor to VXR on the acquisition of the Panorama Cu-Zn Project, and as the Sole Lead Manager and Underwriter (Entitlements Issue only) to the Placement and Entitlement Issue in February 2011. Argonaut has previously acted for VXR and has earned fees commensurate with those services. Argonaut holds or controls 56,865,106 VXR shares and 10,526,316 VXR options exercisable at \$0.095. Mr. Michael Mulronev is also a director of an Argonaut group company and is a non-executive director of VXR.

Update

Pending Reserve upgrades

Pending Reserve upgrades...

The current Resource base is 26.9Mt @ 2.3% Cu Eq (~600kt Cu Eq) while Reserves stand at 8.4Mt @ 3.5% Cu Eq.

Table 1: Current Reserve and Resource Base

Combined Reserve & Resource Position							
Reserves	Mt	Cu %	Zn %	Pb %	Ag g/t	Au g/t	Cu Eq %
Pilbara VMS	4.5	1.4%	2.8%	0.9%	33.9	0.3	2.9%
Sulphur Springs	3.9	2.2%	6.2%	0.0%	25.3	0.0	4.1%
TOTAL	8.4	1.8%	4.4%	0.5%	29.9	0.1	3.5%
Resources	Mt	Cu %	Zn %	Pb %	Ag g/t	Au g/t	Cu Eq %
Pilbara VMS	7.6	1.2%	2.2%	0.7%	26.1	0.2	2.4%
Sulphur Springs	19.3	1.2%	3.2%	0.2%	16.1	0.0	2.2%
TOTAL	26.9	1.2%	2.9%	0.3%	18.9	0.1	2.3%

Source: Argonaut (unless stated otherwise), assumes current spot prices for Cu Eq conversion

We anticipate further Reserve upside in the coming months:

- Sulphur Springs (imminent) - inclusion of ~3Mt, predominantly copper (stringer) mineralisation in the footwall and less selective mining than previously proposed (we assuming dilution of ~20% to current grades to reflect this)
- Pilbara (coming months) - Recent metallurgical drilling supports the potential for an expanded Mons Cupri pit design. Diamond hole MCD003 (in the central part of the proposed pit) intersected 122m @ 1.45% Cu Eq including 23.75m @ 3.35% Cu Eq

BFS - Targeting 20kt Cu and >40kt Zn

... underpinning an anticipated 40% increase in plant throughput...

The anticipated expanded mining inventory is the basis for which VXR had flagged a potential 30-50% increase in the optimal plant throughput rate since April.

With mining studies now largely complete, VXR envisages increased production rates from both mining centres:

- Sulphur Springs (finalised) – Up to 1Mtpa (originally 0.5Mtpa) using a traverse open stoping mining method. Metallurgical testwork has confirmed 'excellent' copper and zinc recoveries
- Whim Creek (to be finalised) – Phase 1 work, including pit slope parameters, sequential stages and selective mining studies is largely complete. The Phase 2 program, including definitive optimisation and pit designs based on updated resource block models has commenced. Metallurgical test work is ongoing, focused on batch and blended ore treatment to achieve optimal copper and zinc recoveries and concentrate grades

Our 'Base Case' profile originally assumed a centralised ~1Mtpa processing hub at Whim Creek, delivering annual production of 38kt Zn and 16kt Cu over 9 years (~27kt Cu Eq pa), underpinned by an equal blend of open pit ore (Mons Cupri) and underground feed from Sulphur Springs (transported via road haulage).

... delivering average annual production of ~33kt Cu Eq pa

Assuming an expanded processing plant to 1.4Mtpa, VXR could produce average annual production of 46kt Zn and 20kt Cu over 9 years (~33kt Cu Eq pa) based on our modelling.

We highlight the change in going from a proposed 1Mtpa to assumed 1.4Mtpa plant in Table 2.

Table 2: Expanded Production Plan
Expanded production case

Combined v Standalone basis		VXR*	CBH / Toho	Combined - Base Case	1.4Mtpa Case	% ch
		Pilbara VMS	Sulphur Springs	Pilbara + SS	Pilbara + SS	
Project						
Mining Inventory	Mt	4.5	3.9	8.3	12.0	44%
Grade	% Cu Eq ^	2.9%	3.9%	3.4%	2.6%	-23%
Throughput	ktpa	600	600	1,000	1,400	40%
Metal in Conc						
- Zinc	ktpa	14	34	38	46	22%
- Copper	ktpa	8	12	16	20	23%
Cu Eqv		13	20	27	33	22%
Mine Life	yrs	9	7	9	9	0%
First Production	yr	FY13	-	FY14	FY14	-
Capex		96	163	150	170	13%

* From November 2010 Scoping Study

Source: Argonaut unless stated otherwise

Changes to our modelled assumptions

Significant changes to our modelled assumptions include:

- An expanded mining inventory (Reserve) to ~12Mt, predicated on pending upgrades at both projects
- Mill Throughput – 1.4Mtpa (600ktpa from Pilbara + 800ktpa from Sulphur Springs)
- We have increased our capex assumption to \$170m. We note however that in recent presentations, VXR has maintained its capital estimate of \$150m, with 'fat' built into the original 1Mtpa scenario
- We have also reduced anticipated silver recovery (from 750koz pa to ~500koz pa) – this is conservatism on our behalf ahead finalising all metallurgical testwork for the BFS

Key risks include:

Key risks

- Metallurgy - Copper/zinc differential flotation plants are complicated and have an industry wide track record of taking longer than expected to commission e.g. JML needed ~2 years at Jaguar to ramp-up recoveries. VXR also has to decide on a preferred processing method – batchnig or blending the ore types.
- Costs – Trading off more tonnes for lower grades (particularly at Sulphur Springs) means higher C1 operating cash costs. The size of by-product credits (Silver predominantly) will also have a material impact. We have boosted our C1 cash estimate to ~US\$1.00/lb to reflect this.
- Further cost pressures – Sulphur Springs ore will be trucked 260km to Whim Creek (where existing infrastructure is already place). The business model becomes further leveraged to diesel prices with increased trucking quantities. VXR are also competing for labour in the "hottest" of all labour markets, Western Australia's north west, where demand from the oil and gas industry and the large iron ore miners has accentuated the shortage
- Permitting – The approvals process in Western Australia can be drawn out and longwinded
- Financing - VXR will need additional capital in the future to fund the estimated \$170m capex required to bring both mines into production. VXR does however have a number of potential financing alternatives (off take etc) at its disposal. We note the Company has commenced discussions with banks regarding debt funding

Timing slippage
Time to first production has drifted by six months

As a result of the anticipated increased mining rates and expanded requirements for process and non-process infrastructure (which are largely incremental), we note timing for the BFS as slipped to January 2012 (was October 2011).

Consequently, first production has drifted from May 2013 to 'late' 2013. We model first production commencing from Dec Q 2013.

Exploration

6,500m program underway

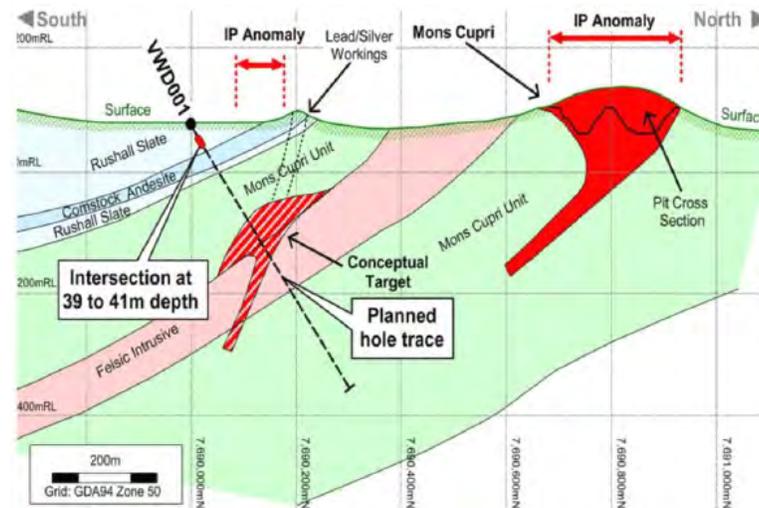
Further, VXR has commenced a 6,500m diamond and RC program, targeting near mine resources.

Pilbara

IP targets at Mons Cupri...

- At Mons Cupri, 7 RC holes are planned, testing and IP anomaly to a depth of ~400m. The first hole returned a 2m interval (from 39m) of visible chalcopyrite and sphalerite for which assays are pending

Figure 1: Mons Cupri Section



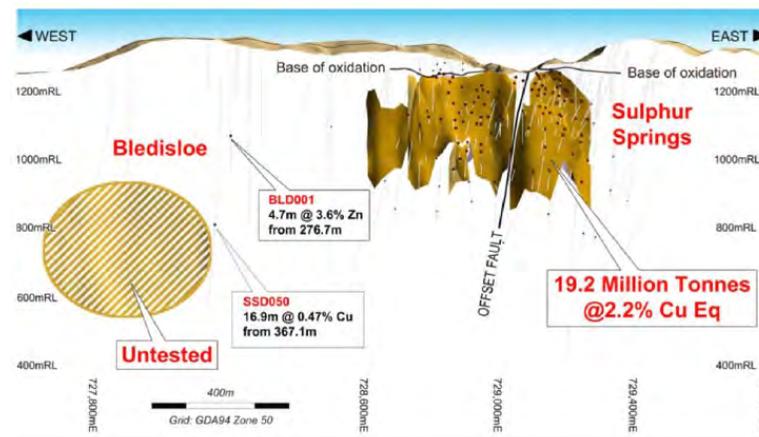
Source: VXR

Sulphur Springs

... and Sulphur Springs

- At Sulphur Springs, the primary target is the Bledisloe anomaly (located ~500m W of the deposit). Previous drilling intersected stringer style copper mineralisation (16.9m @ 0.47% Cu). Drilling commences after the Mons Cupri program is complete

Figure 2: Sulphur Springs Long Section – Bledisloe anomaly



Source: VXR

Results due later this Q

Results from the drilling campaign are expected during the current September Q.

Valuation

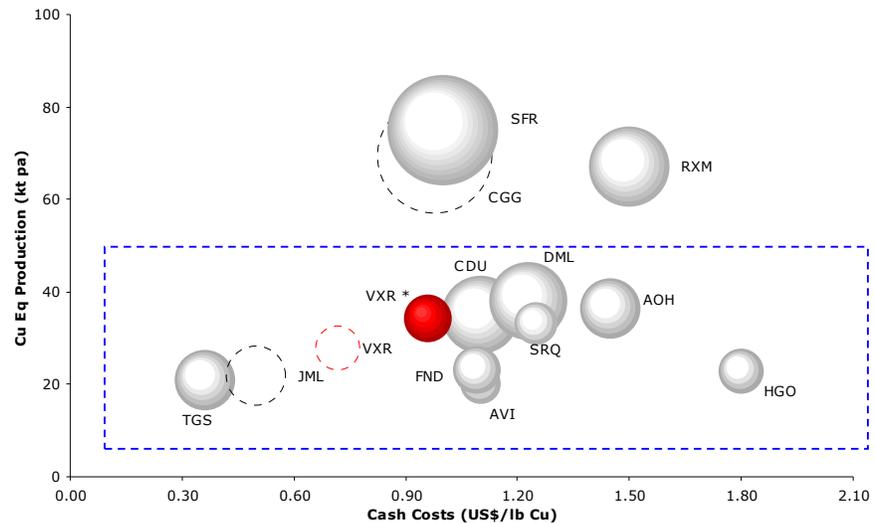
Peer Comparison

VXR compares favourably amongst the copper developer peer group

Among the emerging 20 – 40ktpa copper production peer group, VXR's cash costs (US\$/lb Cu) compare favourably given the value of precious metal by-product credits associated with the concentrates.

VXR* (coloured in red) represents the 1.4Mtpa case. The 'old' VXR assumptions (1Mtpa) is represent by the red-dashed line. Recent acquired companies, Citadel (CGG) and Jabiru (JML), are also presented (black-dashed line).

Figure 3: ASX listed Copper developers



Note: Bubble Size - Fully Funded Enterprise Value (FTEV) = EV + Capex

Argonaut's commodity and exchange rate pricing assumptions are presented in Table 3.

Table 3: Commodity and FX Assumptions

Key pricing assumptions

Pricing Assumptions		FY12F	FY13F	FY14F	LT
Copper	US\$/lb	4.00	3.75	3.50	2.50
Zinc	US\$/lb	1.10	1.20	1.20	0.85
Silver	US\$/oz	30	30	30	20
Gold	US\$/oz	1,350	1,350	1,350	1,000
AUD	A\$:US\$	1.00	1.00	1.00	0.80

We derive a valuation of \$324m or \$0.30 per share.

Table 4: Summary Valuation

Argonaut values VXR at \$324m or \$0.30 per share

Summary Valuation		
	\$m	\$/sh
Venturex Resources		
Pilbara VMS + Panorama	280	0.26
CMG Gold (Brazil)	20	0.02
Exploration	10	0.01
Investments	0	0.00
Tax Losses	15	0.01
Unpaid Capital	0	0.00
Corporate	-12	-0.01
Cash	11	0.01
Debt	0	0.00
Total @ 11% Discount Rate	324	0.30

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The analyst(s) own VXR shares.

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