

6 Sep 2019

VENTUREX RESOURCES LIMITED

Debt Funding Package for Sulphur Springs

Venturex Resources Limited (VXR) has recently signed a A\$100M term sheet with Trafigura for senior debt funding of its Sulphur Springs Cu-Zn in the Pilbara. The funding package comprises a 4-year US\$70m (A\$100m) copper and zinc concentrate pre-payment facility. The interest rate will be 3-month LIBOR (assumed at 2%) plus 8.5% for the first year, LIBOR plus 9.5% in the second year and LIBOR plus 12.5% in the third and fourth years. There will be a repayment grace period, which will defer payments for ~18 months. While this is not the cheapest form of senior debt, it is a good outcome for VXR in the present market, and refinancing options are still available.

Pre-production capital in the DFS was A\$170M and given the working capital requirement, one could expect total funding to be in the order of A\$200-\$210M. Of the A\$210M we model, VXR has secured A\$100M from Trafigura and could receive A\$30M through the Northern Australia Infrastructure Facility (NAIF) fund. The remaining A\$80M is assumed to come through equity, and major shareholder NST would need to contribute ~A\$14M to maintain its 18% holding in VXR.

Offtake Update

With the prepayment, Trafigura has an offtake arrangement with VXR. Remember, Toho has the right to 280kt zinc from year 6 of production; an additional 50kt zinc as compensation for the recently negotiation 5-year deferral of offtake. Trafigura will receive all copper concentrate for 11 years (current LOM is 10.25 years) and 50% of production thereafter. Similarly, it will receive all zinc outside of the Toho arrangement for 11 years.

Approvals Update

VXR is still to secure EPA approval for Sulphur Springs. The project was previously permitted for an underground but with the inclusion of the open pit, an updated permit is required. VXR is working closely with the EPA to gain the necessary approvals. The Company has submitted its response to requests for additional information regarding the mine closure plan and the final stage of approval is nearing. Resolution should occur in the DecQ CY19.

Resource and exploration drilling

Positive resource drilling at Sulphur Springs has potentially extended the indicated resource a further 60m to the east. Recent intercepts incl. 31m @ 3.2% Cu from 94m are encouraging. Drilling at the Breakers Prospect, 15km south of Sulphur Springs has targeted depth extensions as well as tested along strike. Best result was 18m @ 7.8% Zn, 2% Pb & 0.3% Cu from 155m.

Timing has slipped but still compelling; Speculative Buy

Sulphur Springs is one of a handful of quality global base metal development stories. The Trafigura debt package and offtake has helped de-risk the project but delays in EPA approval has pushed back our assumptions for commencement of mining; however, the impact on our valuation is net neutral. The soft commodity prices of late and lack of resolution on approvals has no doubt had a bearing on VXR coming off its recent share price highs of February this year. Despite this, our NAV remains 54cps. Recent Sulphur Springs and Breakers drill results have highlighted additional potential and M&A activity in the base metals space is hotting up. Our 12-month price target is now 55cps (from 48cps). Our spot-NAV is 47cps.

Share Price	\$0.185
Valuation	\$0.54
Price Target (12 month)	\$0.55

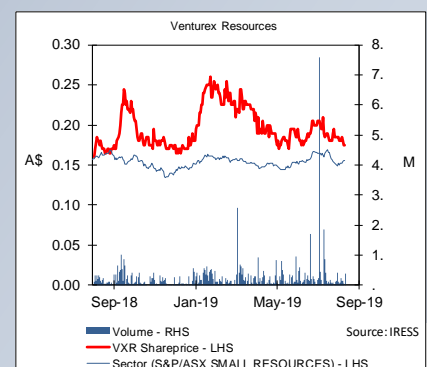
Brief Business Description:
 Base metals explorer & developer

Hartleys Brief Investment Conclusion
 VXR is focused on the Sulphur Springs Cu-Zn Project in the Pilbara, which has the hallmarks of a quality mine.

Chairman & MD
 Tony Kiernan (Non-Exec Chairman)
 A.J. Saverimutto (Managing Director)

Top Shareholders	
Northern Star Resources Limited	18.2%
Regent Pacific Group Ltd	12.7%

Company Address			
Level 2, 91 Havelock Street West Perth, WA 6005			
Issued Capital	279.9m		
- fully diluted	287.5m		
Market Cap	A\$52m		
- fully diluted	A\$53m		
Cash (30 June 2019)	A\$4.9m		
Debt (30 June 2019)	A\$0.0m		
EV -current	A\$46.9m		
EV - fully diluted	A\$48.3m		
Prelim. (A\$m)	FY18a	FY19e	FY20e
Prod (Kt CuEq)	-	-	-
Op Cash Flw	-1.9	-0.7	-6.3
Norm NPAT	-1.7	-0.6	-5.9
CF/Share (cps)	-1.0	-0.3	-2.2
EPS (cps)	-1.0	-0.3	-2.2
P/E	-17.9	-55.7	-8.5
	Mt	Cu %	Zn %
Resources	25.9	1.3	3.5
Reserves	8.5	1.4	3.1



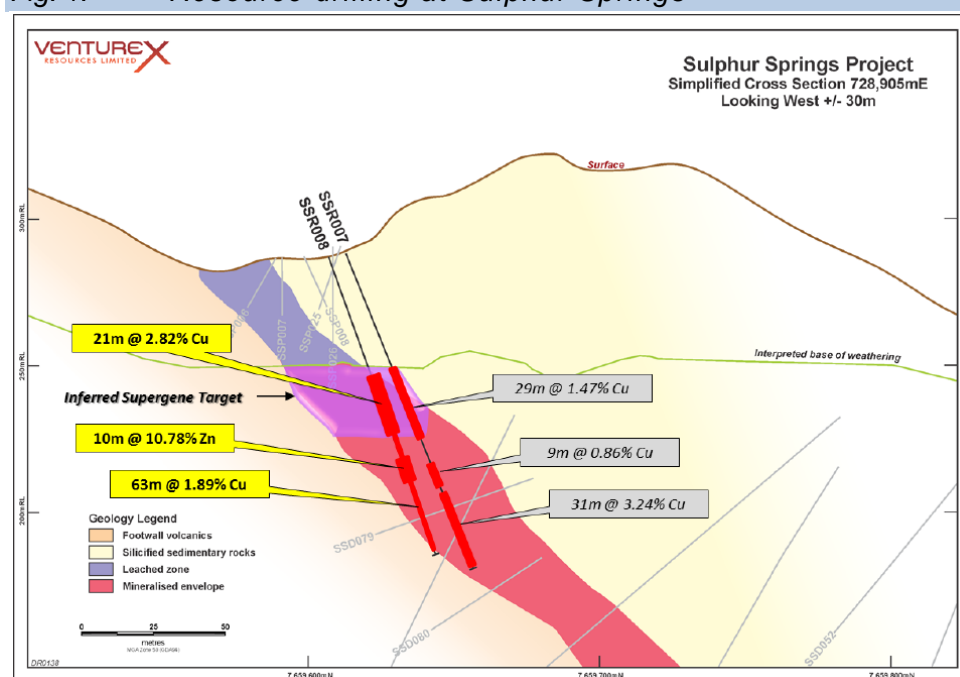
Paul Howard
 Resources Analyst
 Ph: +61 8 9268 3045
 E: paul.howard@hartleys.com.au

DRILL UPDATE

Resource drilling at Sulphur Springs has returned thick copper mineralisation and could extend the indicated resource 60m further to the east. Although drilled at an unconventional angle due to topography, the latest drilling has intersected 80m of cumulative massive to semi-massive copper mineralisation. True thickness of the orebody ranges from 20 to 40m. The first hole return **29m @ 1.5% Cu** from 45m, **9m @ 0.9% Cu** from 82m and **31m @ 3.2% Cu** from 94m.

The second hole in the programme, also returned high-grade copper mineralisation, along with an additional zone of high-grade zinc mineralisation: **63m @ 1.9% Cu** from 45m (incl. 21m @ 2.8% Cu supergene and 5m @ 5.4% Cu) and **10m @ 10.8% Zn** from 74m. Limited drilling has been completed to the east of the recently reported holes, presenting exploration opportunity for VXR.

Fig. 1: Resource drilling at Sulphur Springs



Resource drilling at Sulphur Springs has returned thick copper mineralisation and could extend the indicated resource 60m further to the east

Source: Venturex Resources Limited

Exploration drilling at the Breakers Prospect, located ~15km south of the Sulphur Springs deposit, has confirmed several zones of high-grade zinc (with lead and silver) beneath a surface gossan. The drilling program was targeting depth extensions to surface mineralisation previously identified – 8 completed RC holes (~2,452m).

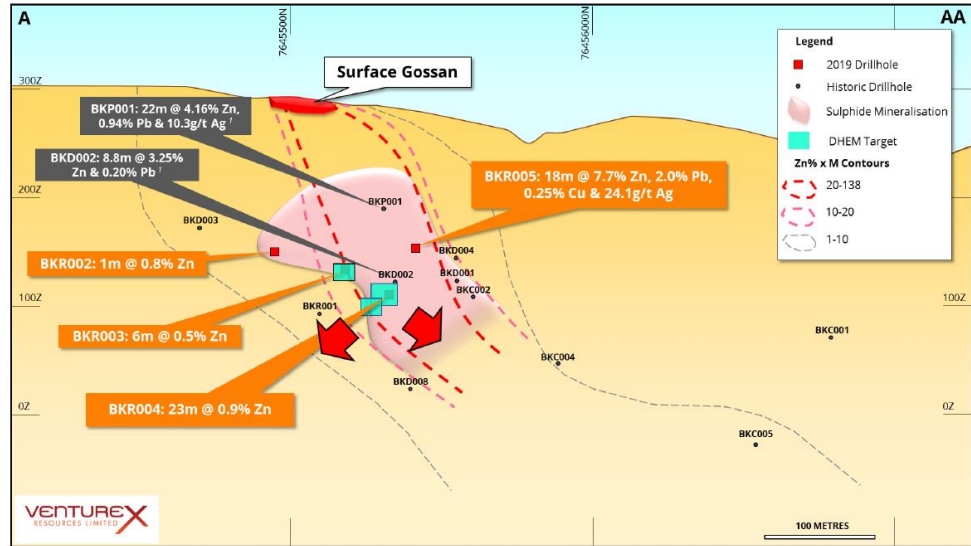
Some of the better high-grade results at Breakers include: **18m @ 7.8% Zn, 2% Pb, 0.3% Cu and 22.8g/t Ag** from 155m (incl. 7m @ 10.8% Zn, 4.4% Pb and 23.7 g/t Ag from 161m, 2m @ 10.2% Zn and 1.2% Cu from 170m, 5m @ 1.1% Zn and 4g/t Ag from 177m, and 5m @ 2.3% Zn from 185m) in hole BKR007

Drilling also tested along strike from Breakers and intercepted **8m @ 3.4% Zn, 0.3% Pb and 6.5g/t Ag** from 84m (incl. 1m @ 20.9% Zn, 1.8% Pb & 34.7g/t Ag) in hole BKR005. Importantly, this intercept is located 1km along strike from the 18m @ 7.8% Zn intercept in hole BKR007; however, two recent holes located in between holes BKR005 and BKR007 failed to return significant intercepts or downhole EM (DHEM) targets. Nevertheless, the mineralised intercepts highlight the fertility of the trend.

DHEM has defined several subtle target plates close to 3 of the recently drilled holes and require further work. The VMS mineralisation at Breakers remains open at depth to the ENE and has geological similarities to the Sulphurs Springs VMS, further enhancing the prospectivity for additional VMS systems within the Panorama Trend.

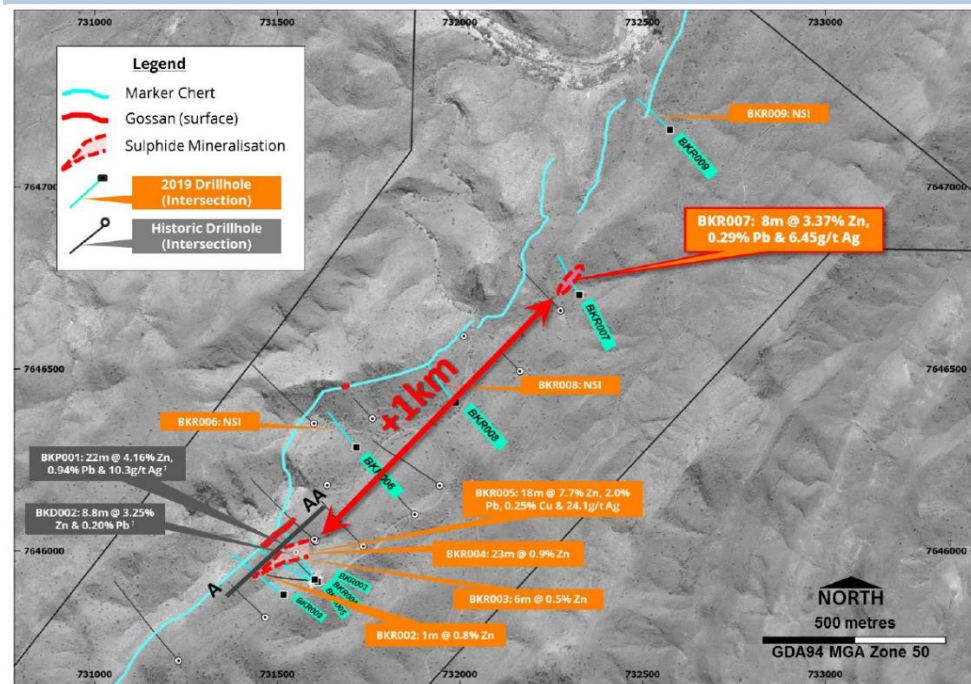
DHEM at Breakers has defined several subtle target plates close to 3 of the recently drilled holes and require further work.

Fig. 2: Exploration drilling at Breakers (long section)



Source: Venturex Resources Limited

Fig. 3: Exploration drilling at Breakers (plan)



Reconnaissance drilling at Breakers has intercepted mineralisation 1km along strike from thick, high-grade mineralisation and commands further attention.

Source: Venturex Resources Limited

VALUATION

Our sum of parts valuation for VXR is based on discounted cashflows and assumes a 10.25 year mine at Sulphur Springs with production from late FY21 after a ~15-month development build time. Given delays in EPA approvals, we have pushed mine commencing out by 12 months, which has impacted our current valuation. Our modelling of Sulphur Springs assumes total pre-production capital requirement of A\$190M, and we include a \$20M contingency/working capital to cover delays. We model total sustaining/mine development & infrastructure capital of and additional \$104M for the LOM. We model cashflows for the project with discount rates appropriate for the stage of development.

We model the Sulphur Springs operations in line with the Company's DFS. We assume a nominal \$A100m value for exploration upside potential and include a value for Whim Creek.

Hartleys sum of parts valuation for VXR is 54 cents per share

Fig. 4: Hartleys' Sum of Parts Valuation for VXR

Share Price Valuation (NAV)	Risked Est. A\$m	Est. A\$/share
100% Sulphur Springs (pre-tax NAV at disc. rate of 12%)	269.0	0.495
Other Exploration	100.0	0.184
Hedging	0.0	0.000
Corporate Overheads	-29.2	-0.054
Net Cash (Debt)	4.9	0.009
Tax (NPV future liability)	-52.0	-0.096
Expected future franking credits	0.0	0.000
Options & Other Equity	0.0	0.000
Total	292.7	0.54

Source: Hartleys' Estimates

PRICE TARGET

Our price target for VXR has increased to 55cps from 48cps and is derived from our NPV₁₂ base case for Sulphur Springs at spot and consensus prices. With recent exploration success at Breakers and strong infill results at Sulphur Springs, we also model mine life extensions. We continue to include takeover, metallurgical challenges and net cash backing scenarios.

Fig. 5: VXR Price Target Methodology

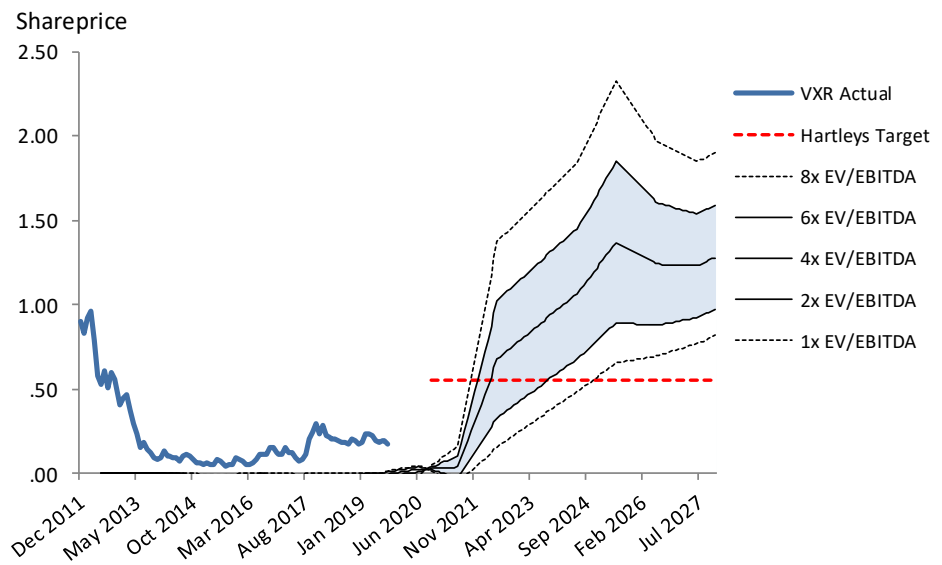
Price Target Methodology	Weighting	Spot	12 mth out
NPV12 base case	40%	\$0.539	\$0.576
NPV12 base case at spot commodity and fx prices	10%	\$0.474	\$0.504
Exploration success: 1 additional year of LOM	20%	\$0.674	\$0.720
Acquired by a major	20%	\$0.463	\$0.494
Lower recoveries in Year 1	5%	\$0.501	\$0.535
Net cash backing	5%	\$0.018	\$0.018
Risk weighted composite		\$0.514	
12 Months Price Target		\$0.548	
Shareprice - Last		\$0.185	
12 mth total return (% to 12mth target + dividend)		196%	

Source: Hartleys' Estimates

Hartleys 12-month price target is 55 cents per share

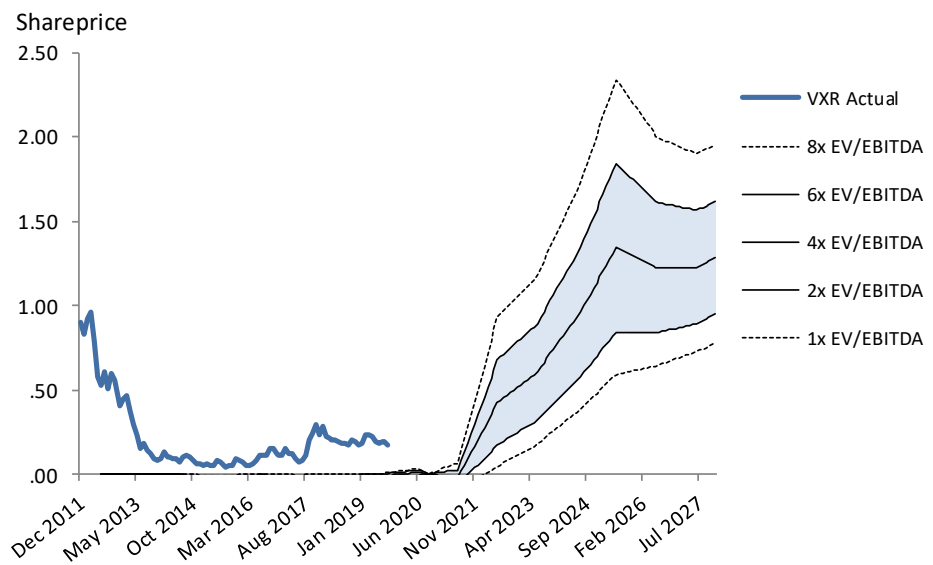
EV/EBITDA BANDS

Fig. 6: Using Hartleys' base case commodity forecasts



Source: Hartleys' Estimates, IRESS

Fig. 7: Using spot commodity prices



Source: Hartleys' Estimates, IRESS

RISKS

Fig. 8: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
10.25-year mine life at Sulphur Springs (1.25Mtpa)	Low-Moderate	Meaningful	We model a 10.25-year mine life, which we generate from the DFS mine inventory and applied to a 1.25Mtpa plant.
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of VXR, changes in these assumptions can change our valuation to both the upside and downside.
Recoveries and payabilities for supergene ore	Moderate	Meaningful	Flotation of the supergene ore is unconventional and attracts risk.
Mining method	Moderate	Meaningful	Modified sub-level caving presents risk with potential water ingress through the pit floor.
Exploration upside potential	Moderate	Meaningful	We assume exploration upside at Sulphur Springs and further afield along the Panorama Trend. Some downside risk to our valuation exists if VXR has no exploration success.
Funding	Moderate	High	We model a mix of debt (A\$130M) and equity (A\$80M) funding (52:38). We model debt comprising the Trafigura pre-payment (A\$100M) and NAIF funding (A\$30M) and note that NST could further assist with funding.
Orebody Risk	Low to Medium	Meaningful	As with all orebodies there is risk around geology, geotech and metallurgy.
Commodity prices	Moderate	High	VXR is reliant on commodity prices maintaining consensus performance and is very much economic at current spot prices.
<i>Conclusion</i>	<i>We have made significant assumptions but believe these are achievable. Funding, metallurgy in the early years and commodity prices present the biggest risk in our view.</i>		

Source: Hartleys' Research

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Paul Howard	Resources Analyst	+61 8 9268 3045
Aiden Bradley	Research Analyst	+61 8 9268 2876
Oliver Stevens	Research Analyst	+61 8 9268 2879
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
Stephen Kite	Director	+61 8 9268 3050
Scott Weir	Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Associate Director	+61 8 9268 2851
Michael Brown	Executive	+61 8 9268 2822

Registered Office

Level 6, 141 St Georges Tce Postal Address:

Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Digby Gilmour	+61 8 9268 2814
Jayne Walsh	+61 8 9268 2828
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Matthew Parker	+61 8 9268 2826
Charlie Ransom	+61 8 9268 2868
Heath Ryan	+61 8 9268 3053
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041

Disclaimer/Disclosure

The author of this publication, Hartleys Limited ABN 33 104 195 057 ("Hartleys"), its Directors and their Associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Hartleys and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs. Hartleys believes that any information or advice (including any financial product advice) contained in this document is accurate when issued. Hartleys however, does not warrant its accuracy or reliability. Hartleys, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.