

AUSTRALIA



ROCKS & STOCKS

RECOMMENDATION

OVERWEIGHT

NEUTRAL

UNDERWEIGHT

Notes from the Field

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Call to action

M&A players

We think the number of number of available quality assets is dwindling and value of these deals is increasing. We recommend investors look at positioning into high quality assets that are trading on cheap multiples such as HIG, GOR and DRM.

The M&A Club

Evolution Mining (EVN) announced its intention to purchase the Frogs Legs and White Foil assets from La Mancha this week in a deal worth around A\$290m. It's the biggest deal we've seen in 12 months but importantly it shows that traditionally conservative players like EVN think that the acquisition represents good long term value for shareholders. We've said before that we think we are close to a turn in the cycle, and this and other recently announced deals just ratchets up our sentiment another notch.

Table 1 1: Speculative and current M&A targets

| Asset(s) | Owner | Prospective buyers | Value |
|---------------------|-------------------------|--------------------------------------|-----------|
| South32 | BHP Billiton (BHP) | X2, Glencore | \$10-12bn |
| Laos Projects | PanAust | GRAM (in progress) | \$1.1bn |
| Telfer & Porgera | Newcrest (NCM) | Newmont, NST, RRL, Goldfields, Zijin | +\$400m |
| Cowal | Barrick | EVN, NST, NCM, IGO | +\$400m |
| Frogs Legs | La Mancha | EVN (in progress) | \$293m |
| Gruyere | Gold Road (GOR) | OGC, IGO | +\$250m |
| Andy Well/Deflector | Doray Minerals | EVN, OCG, TRY, SAR | +\$150m |
| Frieda River | Highlands Pacific (HIG) | PNA, GRAM | +\$100m |
| Antas Copper | Avanco (AVB) | \$85m capex funded by Private Equity | \$85m |

SOURCE: MORGANS

Paying higher multiples ▶

The EVN deal with La Mancha was interesting for us in that i) EVN paid a higher multiple for in-ground resources at A\$370/oz versus recent deals at A\$200/oz and ii) their feedback suggested that this won't be their last deal. EVN sees significant exploration upside in the asset, but more importantly we think that they're aligning themselves with a La Mancha for improved cashflow and a funding partner to enable a larger deal down the track.

All the key players are visible ▶

NCM and Barrick have already announced their intent to sell non-core assets such as Cowal, Porgera and Telfer. It's part of a theme that's been going on for some time, with over-gearred majors which have too much debt on their balance sheets which has been driving divestments. Media speculation has alluded to all the usual suspects bidding on these larger assets including NST, RRL, WSA & IGO due to their increasing levels of cash and the necessity to re-invigorate mature asset portfolios with new projects.

Oz Minerals (OZL) has been the newest addition to M&A Club this week and their rhetoric suggests the shackles are off and it is significantly broadening the suite of opportunities it may look at, but will retain its focus on copper. The M&A market has become a highly competitive space and that's going to drive up valuations so investors should expect a frenzy of activity over the next 6-12 months.

How to play it ▶

Investors looking for exposure should be targetting high quality but cheap assets. A few examples come to mind including Highlands Pacifics (HIG) for its tier 1 world class PNG assets and GOR for its large resource base and significant exploration potential. Doray Minerals (DRM) also appeals thanks to its EV/Reserve ounce at ~\$200/oz which at current levels is cheaper than the EVN bid for La Mancha.

What's been catching our eye this week? »

Impact Minerals (IPT) \$0.02 Not Covered

In January IPT announced the results from its maiden drill program at the Red Hill project near Broken Hill. The program confirmed the presence of significant thicknesses of high grade Platinum Group Elements (PGM's) together with associated nickel and copper. Its early days but the grade and extensions of the previously untested zones show early promise.

Of particular interest was the two zones discovered below the existing Red Hill shaft (excavated in the early 1900's) which returned 13.8m @6.3g.t PGE, 1.1% Cu and 0.3% Ni. The zones at this stage are "poddy" but IPT has delineated zones not previously interpreted that are open at depth and along strike. Importantly some of the intercepts contained what is known as 7PGM minerals which includes high value PGM's of osmium, iridium and rhodium.

IPT will commence a drill program on Red Hill at the end of May aimed at extending current zones of mineralisation, if successful this could significantly increase the potential for a larger resource at depth.

