



Compass Resources NL

Move Over Zambia

Recommendation: Buy

27 November 2006

Investment Rating

CMR is focused on development of its Browns project near Batchelor NT. Construction of the base metal oxides project is underway for first production by 1H07. At 9.4Mt and growing (A\$1.9bn in-ground value), oxide resources are just over 10% of the 84Mt total (~A\$18bn in-ground value). A feasibility study for a follow-up sulphide development, up to 4Mtpa, begins shortly. A preliminary study on the adjacent Mt Fitch uranium resource is underway. CMR is an opportunity to participate in realisation of considerable value at advanced projects and exploration properties. We rate this as one of the highest leverage plays to an extended resource boom. CMR has no earnings history, is subject to development risk and low liquidity. The balance sheet is strong with exploration and development well funded following the landmark Hunan deal.

Event

- The benefit of a site visit is getting a genuine feel for the assets. The message we bring back from CMR's Batchelor base metal and uranium assets are real, impressive in scale and their development is underway and in good hands. Earthworks and foundation construction for Browns Oxide are well advanced and should finish prior to wet season's onset. Most major plant items are on site and new MD Richard Swann is stamping his mark. Five of six key staff are due to arrive shortly. The sixth, a mining engineer, is proving challenging but should be recruited shortly. First metal is still expected by mid 2007, subject to NT power supply and a normal wet season.

Impact

- We retain our Buy recommendation. Our valuation rises 20% to \$6.95cps, conservatively crediting only 50% of our calculated sulphide project value. Long term assumptions remain US\$1.75/lb copper, US\$15/lb cobalt, US\$5.00/lb nickel, an A\$/US\$ exchange rate of 0.76 and a 10% discount rate. Using spot prices markedly increases the valuation. Such was the immediate and obvious potential of the uranium prospects on the recent trip, we increase our valuation for them from \$50m to \$190m. CMR says an additional uranium resource between Whites and Dysons is highly probable. We credit a doubling in uranium resources to 25Mlb, half the company's target, and apply A\$7.50/lb.
- CMR's strength is likely substantial earnings from existing resources and impressive exploration upside. Full funding for oxide and sulphide projects and ~\$90m in cash, after Hunan repayments, for exploration and other opportunities appeal. CMR has other attractive gold and base metals projects, including Western NSW where it is targeting the discovery of a new Cobar Basin province and an epithermal gold project in Peru with high surface gold values.

Recommendation Impact

Unchanged.

Recommendation Trigger Guide

BUY	ACCUM	HOLD	REDUCE	SELL
\$6.25	\$6.95	\$9.00	\$11.10	

Note: Marker indicates price of \$4.35 at publication date.

Snapshot

Last Price	\$4.35
Market Cap.	\$538 million
52 Week High	\$4.99
52 Week Low	\$1.01
Shares on Issue	123.6 million
Sector	GICS - Materials

Valuation

Intrinsic Valuation \$6.95

Note: NPV at 10% discount

Risk

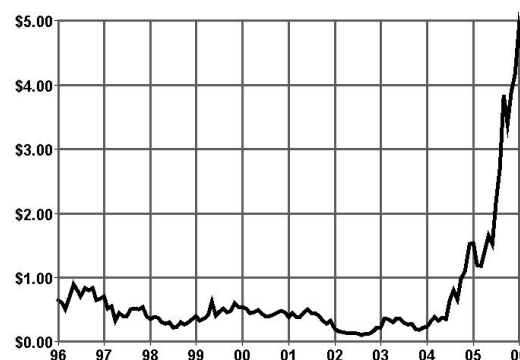
Risk	High
Company Beta	0.99
Sector Beta	1.22

Investment Fundamentals

Year-end Dec	FY04A	FY05A	FY06E	FY07E
NPAT (\$m)	-0.6	-1.1	0.0	29.6
EPS (¢)	-1.1	-1.7	0.0	22.7
EPS Growth (%)	1,133.3	50.5	-100.0	
PE Ratio (x)	-391.9	-260.5	0.0	19.2
DPS (¢)			0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Franking (%)			0	0

Source: Aspect Huntley analyst estimates. Note: Actuals before 12/05 are AGAAP pre-goodwill.

Price Chart



Business Description

Compass Resources NL (CMR) is a base and precious metals exploration and development company based in Australia. The company is focused on the development of the Brown's Project in the Northern Territory and exploration for copper/gold in Central New South Wales.

Event Analysis

The Hunan JV has FIRB approval. The aim is to sign agreements before year end triggering 's injection of \$69-72m into the 50:50 JV. That will pay all capex and repay past CMR expenditure. We forecast the oxides to initially deliver pre-tax cash flow of \$48m or 37cps to CMR.

In reality the 10 year oxide project just mines the skin of one of the biggest base metal inventories in . CMR cites potential to double the 84Mt resource and we think it could be more. The deposit is open along strike and at depths below 300-350m. Beneath the old Whites open cut for example is a 22m intersection of 5.8% copper that remains to be followed up. That 84Mt is worth around \$18bn at today's prices or A\$215/tonne, making it one of the highest value ores for a deposit of its size. Even excluding cobalt, the ore is still impressively valued at A\$165/tonne. But why exclude it when 's prime focus is to lock up cobalt for its hardened tool business? The JV contracts stipulate that will take 100% of the nickel/cobalt chemical produced while CMR will be responsible for sale of 100% of the copper cathode.

It is rare to find 1km of mineralised strike let alone the 2km presented between CMR's westernmost Browns zinc intercepts and the easternmost Dysons uranium pit. This is only a small portion of the many km of prospective Coomalie dolomite/black shale contact zone which preferentially hosts the stacked uranium, copper, lead and cobalt/nickel lenses CMR will mine. This classic sediment hosted stratiform deposit is analogous to the Zambian copper belt and Mt Isa/Hilton giants and has no less potential. It is a rare advantage for a company to control a near entire mineral district. A secondary area looks to be evolving 7.5km to the NW at Mt Fitch South albeit still in its infancy by comparison. Four rigs drilling at present, including three on base metals. One is focused on the zinc lens at Browns and two on the copper/cobalt lenses at Browns East. Zinc reportedly thickens and increases in grade with depth. Browns East drilling is near an impressive previous intercept of 52m @ 2.3%Cu, 0.5%Pb, 0.27%Co, 0.2%Ni and 65g/tAg.

A secondary focus, uranium, could soon escalate in prominence. Excluded from the Hunan JV, CMR retains 100% with full potential yet to be explored. CMR is confident uranium resources will grow to at least 50Mlb. If not via a preferred Ranger/East Alligator River style mega discovery, then via four to five smaller ore positions. It already has one defined in the 14.5Mlb Mt Fitch resource. The fourth rig is currently drilling a potential second at Rum Jungle Creek South where 6.8Mlb was previously mined at 8lbs/tonne grade. The potential for a continuation of those high grades is particularly good given its unconformity style in proximity to the Middle Proterozoic rocks. A third target is the more than 1km of prospective strike between the old Whites and Dysons mines which between them produced 3.6Mlb at 7.2lbs/tonne. The area known as Rum Jungle East, delivered encouraging drill intercepts earlier in the year. It will be a target for the 2007 exploration field season.

As an interesting aside, where they correlate well, CMR can use scintillometer counts over drill chips and down hole logging of Bismuth-214, a decay product of U-238, to very quickly and relatively accurately predict uranium grades. A useful advantage when in the field although only the more time consuming chemical assays have been reported to the market to date.

CMR has a considerable volume of assay results likely to spark market interest. Completed and waiting return are results from 10 Mt Fitch uranium holes, 10 Mt Fitch copper holes, three Browns East deep base metal holes and seven further shallower holes, two Hoppy prospect holes, two Sargeants gold/platinum holes and six Browns zinc lens holes. Mt Fitch uranium drilling includes 80m and 130m mineralised intercepts from the core of the orebody. In addition to those combined 40 holes, it is hoped the four rigs can continue for a further two to three weeks, weather permitting, prior to the close of the 2006 field season. That drilling would capture a further six Browns zinc holes, 12 Rum Jungle Creek South uranium holes, four Mt Fitch South copper holes, two Mt Fitch uranium metallurgical holes, two Kylie uranium holes and one 700m deep Browns hole. Kylie results will be keenly awaited as the first of the potential mega uranium prospects to be drilled.

The enlarged \$4m 2007 field season will see a 50% increase on 2006's drilling. Targets include Rum Jungle Creek South uranium, Browns East, Mt Fitch uranium, Mt Fitch South copper, Mt Fitch copper and Rum Jungle East between Whites and Dysons. This should be keep the most ardent of exploration aficionados happy and drive multiple resource upgrades.

Note: The author personally holds shares in CMR.

Profit & Loss (\$M)

	2001A	2002A	2003A	2004A	2005A
Sales Revenue	0	1	--	0	0
Total Revenue ex. Int.	2	1	0	0	0
EBITDA	0	0	0	0	-2
Depreciation & Amort.	0	0	0	0	0
Goodwill Amortisation	--	--	--	--	--
EBIT	0	0	0	0	-2
Net Interest	0	0	0	0	0
Profit Before Tax	0	0	0	0	-1
Income Tax	--	--	--	--	--
Outside Equity Int.	--	--	--	--	--
Profit after Tax	0	0	0	0	-1
Significant Items after Tax	0	--	0	0	--
Reported Profit after Tax	0	0	0	0	-1
Preferred Dividends	--	--	--	--	--

Ratios and Substantial Shareholders

	2001A	2002A	2003A	2004A	2005A
Profitability Ratios					
EBITDA Margin	% -1,014.21	-18.10	-17,329,900.00	-3,338.70	
EBIT Margin	% -1,152.33	-21.75	-17,837,376.00	-3,371.79	
Net Profit Margin	% 492.64	-7.24	-15,254,975.00	-2,535.79	
Return on Equity	% 0.28	-0.25	-0.22	-2.72	-3.16
Return on Assets	% 0.27	-0.23	-0.21	-2.64	-3.07

Debt/Safety Ratios

Net Debt/Equity	% -20.76	-6.27	-11.98	-22.38	-42.60
Interest Cover	x -297.76	-49.86	-567.07	13,990.10	

Top 5 Substantial Shareholders

HMC Investors LLC	12.9%
Human Nonferrous Metals Corporation Limited	9.7%
Merrill Lynch & Co Inc	8.9%
Citadel Investment Group LLC	8.3%
Wythenshawe Pty Ltd	8.1%

Previous Research

17/10/2006	Oxide's All Go
21/08/2006	Progress on Multiple Fronts, Timetable Slips
16/06/2006	Ownership Simplification Welcome
29/05/2006	Upgrade to Long Term Commodity Price Forecasts
09/05/2006	Monster Chinese Funding Package
07/03/2006	A Month to Oxides Funding?
30/11/2005	Drilling Points to Oxide Expansion
04/10/2005	Avalanche of Oxide Data and More to Come
12/08/2005	More Drill Results and Flexibility Highlighted
28/06/2005	NT Drilling Starts
05/04/2005	What's it Worth?
12/01/2005	Fresh Cash and Resources Lifted

Cash Flow (\$M)

	2001A	2002A	2003A	2004A	2005A
Receipts from Customers	0	--	--	--	--
Funds from Operations	-1	-1	0	0	0
Net Operating Cashflow	1	0	0	0	0
Capex	-4	-3	0	-1	-4
Acquisitions & Investments	0	0	--	--	0
Sale of Invest. & Subsid.	0	0	0	0	--
Net Investing Cashflow	-3	-2	0	0	-4
Proceeds from Issues	4	0	2	4	14
Dividends Paid	--	--	--	--	--
Net Financing Cashflow	4	0	2	4	14
Net Increase Cash	1	-3	1	3	10
Cash at Beginning	3	4	1	2	5
Exchange Rate Adjust.	0	0	0	0	--
Cash at End	4	1	2	5	15

Balance Sheet (\$M)

	2001A	2002A	2003A	2004A	2005A
Cash & Equivalent	4	1	2	5	15
Receivables	0	1	0	0	0
Inventories	--	--	--	--	--
Other Current Assets	0	0	0	0	0
Current Assets	4	2	2	5	16
Prop. Plant & Equipment	14	16	0	0	1
Intangibles	--	--	--	--	--
Other Non-Current Assets	0	0	0	0	0
Non-Current Assets	14	16	17	18	22
Total Assets	18	18	20	23	37
Interest Bearing Debt	0	0	0	0	0
Other Liabilities	1	1	0	1	1
Total Liabilities	1	1	0	1	1
Net Assets	17	17	19	22	36
Share Capital	22	22	24	28	42
Reserves	--	--	--	--	0
Retained Earnings	-5	-5	-5	-5	-6
Outside Equity Int.	--	--	--	--	--
Total Shareholders Equity	17	17	19	22	36

Principals & Directors**Principals**

Chairman	Mr Gordon L Toll
CEO/MD	Mr. Richard Swann
Company Secretary	Mr Philip Cohen

Directors

Mr Philip Cohen(Director, Company Secretary, Manager, Corporate, Legal Services)
Dr Malcom Humphreys(Executive Director)
Mr. Richard Swann(Managing Director)
Mr Gordon L Toll(Chairman)

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