

# Compass Resources NL ( CMR )

## A Single Major Orebody Demonstrated

**Recommendation: Buy**

08 February 2007

### Investment Rating

CMR is focused on development of its Browns project near Batchelor NT. First production from the base metal Oxides project is set for mid 2007. 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 (HNC) deal.

### Event

- Has CMR gone into the pre-production lull that so often besets companies emerging from explorer status? The market can become fixated with wanting to see the colour of the metal before moving on. CMR should be in production in less than six months and may be conforming to the pattern. Lower metals prices have also taken some of the exuberance out of the resources sector. The December quarterly report had much to cheer about, yet not so with the share price. Those hoping for a huge uranium discovery on the first drill pass may have been disappointed. There was no Ranger in the initial results from either the Kylie or Rum Jungle Creek South prospects. That said the Kylie three metre intersections at just under a pound per tonne uranium did contain anomalous gold, a characteristic of the coveted unconformity related orebodies. It's very early days and the results sufficiently enticing to warrant early follow-up drilling despite the wet season which doesn't officially end until April.

### Impact

- We retain our Buy recommendation. Our valuation is little changed at \$7.05ps 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 to \$12.15ps. 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.

### Recommendation Impact

Unchanged.

### Recommendation Trigger Guide

BUY	ACCUM	HOLD	REDUCE	SELL
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\$6.35      \$7.05      \$9.15      \$11.30

Note: Marker indicates price of \$5.07 at publication date.

#### Snapshot

Last Price	\$5.00
Market Cap.	\$622 million
52 Week High	\$5.78
52 Week Low	\$1.40
Shares on Issue	124.3 million
Sector	GICS - Materials

#### Valuation

Intrinsic Valuation \$7.05

Note: NPV at 10% discount

#### Risk

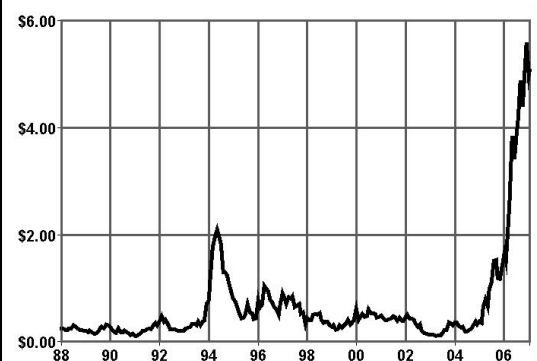
Business Risk	High
Pricing Risk	Medium
Company Beta	1.01
Sector Beta	1.22

#### Investment Fundamentals

Year-end Dec	FY05A	FY06E	FY07E	FY08E
NPAT (\$m)	-1.1	-3.7	32.2	48.1
EPS (¢)	-1.7	-3.1	25.7	36.8
EPS Growth (%)				43.2
PE Ratio (x)			19.5	13.6
DPS (¢)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Franking (%)		0	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

Other uranium activities are progressing well. Drilling at the 14.5Mlb Mt Fitch orebody improved confidence levels for mine planning and confirmed a thick central zone of mineralisation. Results included 128m @ 1.1lb/t from 5m and 76m @ 2.0lb/t from 34m – solid grades over those widths. Drilling also intersected anomalous uranium 700m to the north. The geology could support exploration activities for years to come. The preliminary development study and conceptual flow sheet are due this month.

On the base metals front, a late start to the wet season was kind with Oxide construction on track. Foundation work in most areas of the processing plant is sufficiently advanced for construction to continue in the rain. All senior managers are appointed, a minor concern in our last update. Crucial acid supply and wharf storage are secure under a contract with Orica. Negotiations to ensure grid power continue but CMR can produce power on site if need be. This is less likely. Signing of the HNC Agreement is set for March 16, later than anticipated due to the complex legalities of three separate - Oxide, Sulphide and Exploration - joint ventures. CMR will receive \$72m cash for the Oxide project and \$11m for past exploration expenditure. The company has funded construction in the interim, something that may have spooked punters. Cash levels fell by \$22.5m to \$52.3m in the December quarter.

The Sulphide feasibility team is set to begin work imminently. HNC will fund the study and construction up to a plant size of 4.0Mtpa. The Chinese support could potentially represent a saving of many hundreds of millions of dollars to CMR, a point often lost on direct comparisons with competitors. The plant may need to be larger than four million tonnes if recent exploration results are anything to go by – a nice problem to have. Deeper drilling at Browns-Browns East demonstrates it is a single major orebody. Copper mineralisation was intersected at the eastern end of Browns East including 55m at just under 9% copper equivalent worth almost US\$500/t ore at spot prices. By comparison, Olympic Dam is worth US\$190/t, Prominent Hill US\$80/t and Ridgeway US\$75/t. We don't pretend the cost structures are comparable or one hole representative.

06BE013		%Cu	%Pb	%Zn	%Co	%Ni	g/tAg	%Cu Equiv
	55m	0.92	4.68	0.87	0.37	0.29	22	8.8
including	19m	2.12	1.89	0.01	0.57	0.488	14	12.1
	US\$/t	51.5	79.3	30.5	214.4	110.4	9.4	495.6

At double FY06's size, the 35,000m FY07 drill program is underway. A second Browns Deeps hole is at 595m and due to enter mineralisation at 650m, the deepest hole to date. The sister hole returned 79m @ 3.4% Cu equiv from 364m. Also to be drilled during the wet are copper rich Browns East extensions, Browns zinc extensions and uranium at Rum Jungle East, Kylie and Rum Jungle Creek South. The pace will accelerate with the dry season.

Note: The author personally holds shares in CMR.



**Profit & Loss (\$M)**

	2001A	2002A	2003A	2004A	2005A
<b>Sales Revenue</b>	<b>0</b>	<b>1</b>	<b>--</b>	<b>0</b>	<b>0</b>
Total Revenue ex. Int.	2	1	0	0	0
<b>EBITDA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2</b>
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.	--	--	--	--	--
<b>Profit after Tax</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>
Significant Items after Tax	0	--	0	0	--
<b>Reported Profit after Tax</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>
Preferred Dividends	--	--	--	--	--

**Ratios and Substantial Shareholders**

	2001A	2002A	2003A	2004A	2005A
<b>Profitability Ratios</b>					
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	% -20.77	-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**

27/11/2006	Move Over Zambia
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
<b>Net Operating Cashflow</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capex	-4	-3	0	-1	-4
Acquisitions & Investments	0	0	--	--	0
Sale of Invest. & Subsid.	0	0	0	0	--
<b>Net Investing Cashflow</b>	<b>-3</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>-4</b>
Proceeds from Issues	4	0	2	4	14
Dividends Paid	--	--	--	--	--
<b>Net Financing Cashflow</b>	<b>4</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>14</b>
Net Increase Cash	1	-3	1	3	10
Cash at Beginning	3	4	1	2	5
Exchange Rate Adjust.	0	0	0	0	--
<b>Cash at End</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>15</b>

**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
<b>Current Assets</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>16</b>
Prop. Plant & Equipment	14	16	0	0	1
Intangibles	--	--	--	--	--
Other Non-Current Assets	0	0	0	0	0
<b>Non-Current Assets</b>	<b>14</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>22</b>
Total Assets	18	18	20	23	37
Interest Bearing Debt	0	0	0	0	0
Other Liabilities	1	1	0	1	1
<b>Total Liabilities</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>
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.	--	--	--	--	--
<b>Total Shareholders Equity</b>	<b>17</b>	<b>17</b>	<b>19</b>	<b>22</b>	<b>36</b>

**Principals & Directors****Principals**

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

**Directors**

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

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