

Compass Resources NL (CMR)

Twenty Year Rains Don't Dampen Party

Recommendation: Buy

28 March 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 leveraged 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

- Recently we suggested potential for a pre-production lull in share price. This looks to be bearing out. After spiking briefly in late February to \$6.20ps, the current \$5.30 price is only marginally higher than at the time we last wrote. Potential is for a re-rating upon first metal production all else being equal. This is still slated for mid 2007 with the oxide plant construction on track despite some of the heaviest rain in 20 years. Earthworks held despite a robust test of integrity from cyclones.
- CMR previously said the Hunan signing ceremony would be delayed until March 16 due to complexities in legal drafting of three separate joint ventures. It is taking longer still. The Chinese regulator has approved Hunan's participation. We believe completion of the English version of the documents is imminent. The Chinese translation could take two to three weeks longer. That would see signing in mid to late April. CMR will receive \$72m cash for the Oxide project and \$11m for past exploration expenditure. While frustrating, we don't believe the delays reflect any loss of enthusiasm on the part of the Chinese. CMR has more than enough cash to fund completion of the oxide plant in the interim.

Impact

- We retain our Buy recommendation. Our valuation increases marginally to \$7.25ps still 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 over \$12ps. 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
\$6.55	\$7.25	\$9.45	\$11.60	

Note: Marker indicates price of \$5.27 at publication date.

Snapshot

Last Price	\$5.21
Market Cap.	\$653 million
52 Week High	\$6.25
52 Week Low	\$1.57
Shares on Issue	125.4 million
Sector	GICS - Materials

Valuation

Intrinsic Valuation	\$7.25
Note: NPV at 10% discount	

Risk

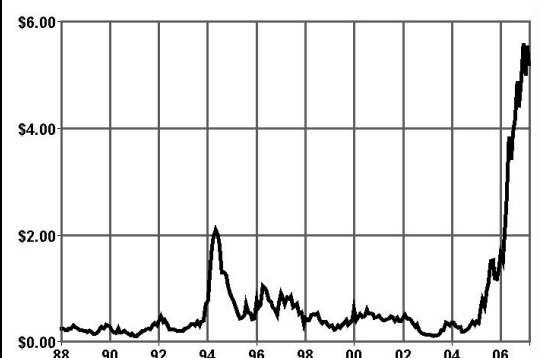
Business Risk	High
Pricing Risk	Medium
Company Beta	1.01
Sector Beta	1.22

Investment Fundamentals

Year-end Dec	FY04A	FY05A	FY07E	FY08E
NPAT (\$m)	-0.6	-1.1	35.8	49.9
EPS (¢)	-1.1	-1.7	27.4	38.2
EPS Growth (%)				39.4
PE Ratio (x)			19.0	13.6
DPS (¢)	0.0	0.0	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

One area where the rains have impacted is exploration. The big wet has put pay to plans for even limited drilling. The official wet season end is April. That will herald the beginning of the largest drill program in the company's history. The enlarged \$4m 2007 field season will see a 50% increase on the 2006 effort. 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. The timing of release of first new drill results could coincide nicely with company's new found producer status.

Uranium approvals process triggered

Results of the preliminary scoping study for the Mt Fitch uranium resource indicate positive economics for a 2Mtpa mine. The study is based on the 8.1Mlb indicated portion of the 14.5Mlb resource. A range of Net Present Values is provided including a high end \$276.3m or \$2.10ps at around the current US\$90/lb spot uranium price. This is 46% above our current \$1.43ps valuation for all CMR's uranium assets. Our valuation credits 25Mlb of resources, half the company's target, at A\$7.50/lb. This could prove conservative. Thirty new drill holes have been completed since the July 2006 resource calculation. Results include 128m @ 1.1lb/t from 5m and 76m @ 2.0lb/t from 34m – solid grades over those widths. These are likely to both increase the global resource and result in more of the inferred portion being upgraded to indicated status. Mt Fitch environmental engineering and regulatory work has begun.

Mt Fitch is the first step in a plan to produce uranium from a number of sources in the Rum Jungle area through a centralised mill. Most recently, CMR reported significant uranium intercepts at Browns East including 10m @ 2.8lb/t with mineralisation continuing to over 120m below surface. CMR says it is possible the new zone has similar grade and size potential to the Whites mine 450m to the north east. Whites produced 2.4Mlb @ 6lb/t in the mid 50s. A third target is the more than 1km of prospective strike between the old Whites and Dysons (1.2Mlb @ 7.7lb/t) mines. The area delivered encouraging drill intercepts earlier in the year and will be a target for the 2007 exploration field season.

Mt Fitch Scoping Study

Uranium price	NPV @ 10%
US\$60	\$73.8M
US\$70	\$141.3M
US\$80	\$208.8M
US\$90	\$276.3M

Mt Fitch Scoping Study

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	% -20.77	-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

08/02/2007	A Single Major Orebody Demonstrated
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
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	
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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