

Compass Resources NL (CMR)

Exploration Pace Accelerates

Recommendation: Buy

02 July 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 2H07. At 9.4Mt and growing, Oxide resources are just over 10% of the 84Mt total. A feasibility study for a follow-up Sulphide development of up to 4Mtpa capacity is underway. A preliminary study on the adjacent Mt Fitch uranium resource determined favourable economics. CMR is an opportunity to participate in realisation of considerable value at advanced projects and exploration properties. 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

- Our last update was inappropriately titled 'Fair Winds Return on Asset Split'. Apparently not! In a fundamental sense things appear to be tracking positively for CMR even if the price isn't. In May the company received its second \$15m tranche from Oxide project joint venture partner Hunan and will get another \$10m at the end of June. Hunan will also provide a further \$32m and repay \$11m of past exploration expenditure. The stamp duty ruling to allow those final payments is expected mid July.
- Exploration has restarted post end of the NT wet season. The record 2007 field season is a 50% increase on the 2006 effort and includes 35,000m in the ground. Browns Deeps drilling continues parallel to a previous 79m @ 3.4%Cu equivalent intersection from 364m depth. CMR aims to more than double its 84Mt global base metal resource and results could be telling in addition to the 2006 results yet to be added. A rig has also been working at Mt Fitch and completed a dozen holes to date. This includes infill work to upgrade the 14.5Mlb uranium resource to measured category, in addition to extensions. At Browns East a third rig has completed 13 holes and at Area 55, a second diamond rig is upgrading the 12Mt base metal resource to measured category. Area 55 is the next oxide orebody to be mined after Browns. CMR is also in the throws of accessing a fifth NT drill rig.

Impact

- Of our marginally higher \$7.40ps CMR valuation, the Oxide project comprises \$1.52ps and the Sulphide project \$3.25ps, albeit we still halve the Sulphide project value to reflect its early stage. This conservatively assumes 50% probability of success. Long term assumptions of US\$1.75/lb copper, US\$15/lb cobalt, an A\$/US\$ exchange rate of 0.76 and a 10% discount rate remain. We upgrade nickel from US\$5.00/lb to US\$7.00/lb. Using spot prices markedly increases the valuation to over \$12ps, again including only half the sulphides.

Recommendation Impact

Unchanged.

Recommendation Trigger Guide

BUY	ACCUM	HOLD	REDUCE	SELL
\$6.70	\$7.40	\$9.65	\$11.87	

Note: Marker indicates price of \$4.19 at publication date.

Snapshot

Last Price	\$4.19
Market Cap.	\$531 million
52 Week High	\$6.25
52 Week Low	\$3.24
Shares on Issue	126.7 million
Sector	GICS - Materials

Valuation

Intrinsic Valuation	\$7.40
Note: NPV at 10% discount	

Risk

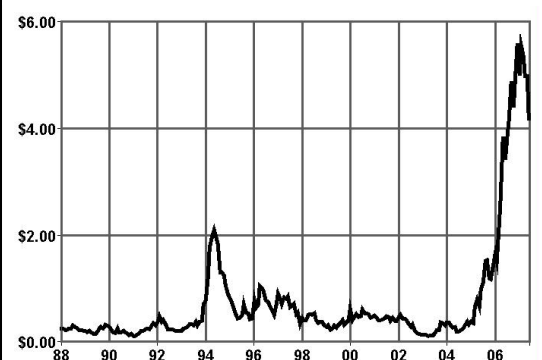
Business Risk	High
Pricing Risk	Medium
Company Beta	1.03
Sector Beta	1.22

Investment Fundamentals

Year-end Dec	FY05A	FY06A	FY07E	FY08E
NPAT (\$m)	-1.1	-2.8	6.6	52.7
EPS (¢)	-1.7	-2.7	5.0	40.3
EPS Growth (%)	50.5	59.3	-288.0	706.0
PE Ratio (x)	-250.9	-157.5	83.8	10.4
DPS (¢)			0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Franking (%)			0	0

Source: Aspect Huntley analyst estimates. Note:

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

Future NT exploration targets include Mt Fitch South copper, Mt Fitch copper and Rum Jungle East uranium between Whites and Dysons. Expect first assay results in the June quarterly report.

In NSW drilling has just finished at CMR's Ironbark gold Parkes and Tomingley West prospects - no assay results as yet. Work at Alkane's Caloma prospect is interesting adjacent to the Wyoming deposits on its Tomingley ground. Recent high grade Caloma gold intercepts include 15m @ 6.8g/t from 24m and 33m @ 5.0g/t from 78m. These are captured by CMR's royalty interests which also encompass most of Wyoming. We leave our 8cps value for this royalty interest unchanged for now but it could grow with positive results.

Of more interest to red blooded exploration watchers will be news that drilling at Cuttaburra in Western NSW is likely in about six weeks. Radiometric surveys have generated encouraging data. A wildcat hole drilled in October last year, freakishly intersected look-alike geology to the established Cobar Basin including anomalous copper, zinc, tungsten and silver mineralisation. Early days but virgin ground in elephant country is not to be sneezed at. CMR has four granted exploration licenses and another three under application for a combined ~2,000sqkm.

Chairman's roadmap

At the recent AGM, Chairman Gordon Toll set out company objectives for the five years to 2011. These include doubling the NT base metal resource inventory through drilling; an oxide and sulphide plant and at least one other significant operation; annual revenue in excess of A\$1bn assuming copper US\$1.50/lb; payment of dividends; a portfolio of uranium assets to support 5Mlb pa of U3O8 production; and a significant greenfields discovery. Fighting words but not beyond the realms of possibility. Toll says CMR has a wide network of international investors interested in participating in developments. The company will take a more international approach to search for opportunities, is in the final stages of putting in place an A\$100m standby facility and will appoint a new Business Development General Manager. It will evaluate additional listing venues and intends a global roadshow in late August/September at end of Northern Hemisphere summer holidays. Hopefully acquisitions will be prudent and the company won't bite off more than it can chew. Tax advice on splitting the company into three to achieve better market recognition is pending.

The Oxide project remains on track for the revised October start with capital cost estimated at \$83m together with \$21m working capital. Hunan pays 50% of the \$21m. CMR intends to fast track the Sulphide Base Metals Project. The study envisages a mine life in excess of 20 years up to 4.0Mtpa of ore processed. A sell-down by Hunan of 6M CMR shares, or half its holding, was recently completed off market at a price of \$4.10ps, a steep discount to market. While the discount is somewhat surprising, the sell-down isn't given Hunan was only interested in a direct project holding. Hunan's CMR stake was a legacy of the structure of the original Base Metal JV negotiations. Commitment to the JV has been demonstrated by the cash payments in accordance with agreements.

Note: The author personally holds shares in CMR.

Profit & Loss (\$M)

	2002A	2003A	2004A	2005A	2006A
Sales Revenue	1	--	0	0	0
Total Revenue ex. Int.	1	0	0	0	0
EBITDA	0	0	0	-2	-6
Depreciation & Amort.	0	0	0	0	0
Goodwill Amortisation	--	--	--	--	--
EBIT	0	0	0	-2	-6
Net Interest	0	0	0	0	3
Profit Before Tax	0	0	0	-1	-3
Income Tax	--	--	--	--	0
Outside Equity Int.	--	--	--	--	--
Profit after Tax	0	0	0	-1	-3
Significant Items after Tax	--	0	0	--	--
Reported Profit after Tax	0	0	0	-1	-3
Preferred Dividends	--	--	--	--	--

Ratios and Substantial Shareholders

	2002A	2003A	2004A	2005A	2006A
Profitability Ratios					
EBITDA Margin %	-18.10	-17,329,900.00	-3,338.70	11,028.00	
EBIT Margin %	-21.75	-17,837,376.00	-3,371.79	11,158.00	
Net Profit Margin %	-7.24	-15,254,975.00	-2,535.79	-5,508.00	
Return on Equity %	-0.25	-0.22	-2.72	-3.16	-2.10
Return on Assets %	-0.23	-0.21	-2.64	-3.07	-1.91

Debt/Safety Ratios

Net Debt/Equity %	-6.27	-11.98	-22.38	-42.60	-39.58
Interest Cover x	-49.86	-567.07	-13,990.10		-371.93

Top 5 Substantial Shareholders

HMC Investors LLC	11.9%
Human Nonferrous Metals Corporation Limited	9.6%
Citadel Investment Group LLC	8.2%
Wythenshawe Pty Ltd	8.0%

Previous Research

11/05/2007	Asset Split Announced
28/03/2007	Twenty Year Rains Don't Dampen Party
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)

	2002A	2003A	2004A	2005A	2006A
Receipts from Customers	--	--	--	--	--
Funds from Operations	-1	0	0	0	-4
Net Operating Cashflow	0	0	0	0	0
Capex	-3	0	-1	-4	-36
Acquisitions & Investments	0	--	--	0	--
Sale of Invest. & Subsid.	0	0	0	--	--
Net Investing Cashflow	-2	0	0	-4	-36
Proceeds from Issues	0	2	4	14	76
Dividends Paid	--	--	--	--	--
Net Financing Cashflow	0	2	4	14	74
Net Increase Cash	-3	1	3	10	37
Cash at Beginning	4	1	2	5	15
Exchange Rate Adjust.	0	0	0	--	--
Cash at End	1	2	5	15	52

Balance Sheet (\$M)

	2002A	2003A	2004A	2005A	2006A
Cash & Equivalent	1	2	5	15	52
Receivables	1	0	0	0	2
Inventories	--	--	--	--	--
Other Current Assets	0	0	0	0	0
Current Assets	2	2	5	16	55
Prop. Plant & Equipment	16	0	0	1	33
Intangibles	--	--	--	--	--
Other Non-Current Assets	0	0	0	0	6
Non-Current Assets	16	17	18	22	89
Total Assets	18	20	23	37	143
Interest Bearing Debt	0	0	0	0	0
Other Liabilities	1	0	1	1	12
Total Liabilities	1	0	1	1	12
Net Assets	17	19	22	36	131
Share Capital	22	24	28	42	138
Reserves	--	--	--	0	2
Retained Earnings	-5	-5	-5	-6	-9
Outside Equity Int.	--	--	--	--	--
Total Shareholders Equity	17	19	22	36	131

Principals & Directors**Principals**

Chairman	Mr Gordon L Toll
CEO/MD	Mr. Richard Swann

Directors

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

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