

5 July 2018

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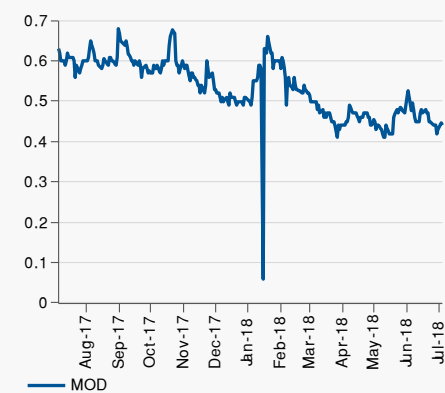
SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.90↑
 from A\$0.10
Price (5-Jul) A\$0.44
Ticker MOD-ASX

52-Week Range (A\$):	0.39 - 0.72
Avg Daily Vol (M) :	3.0
Market Cap (A\$M):	103
Shares Out. (M) :	234.1
Enterprise Value (A\$M):	86.1
Cash (A\$M):	15.8
Long-Term Debt (A\$M):	0.8
NAV /Shr (A\$):	0.10
NAV /Shr (5%) (A\$):	0.93
Net Cash (A\$M):	16.9
P/NAV (x) (A\$):	0.48
Major Shareholders:	Board and Management 14%
	Australian Super 8.9%
	Metal Tiger 6%
	LIM Asia 5%

FYE Jun	2017E	2018E	2019E	2020E
C1 Cash Cost (US\$ /lb)	-	-	-	3.78
Net Income (A\$M)	(3.3)	(9.6)	(10.0)	(14.6)↓
Previous	-	-	-	(13.9)
Copper production (000t)	0	0	0	3



Priced as of close of business 5 July 2018

MOD Resources (MOD:ASX) is an ASX listed company with copper development projects in Botswana. A prefeasibility study released in January 2018 highlighted the potential for the T3 project to become a long life (+10 years), low cost, +25kt Copper project. In addition MOD holds over 7,000km² of landholdings in the prospective Kalahari Copper belt.

Raising Target Price**Charging ahead with an enlarged T3**

44% increase in contained copper at T3: The revised Mineral Resource now stands at 60.2Mt at 0.95% Cu for 590kt Cu from 36Mt at 1.14% Cu for 409kt Cu with cut-off grade set at 0.4% Cu. At the previous cut-off grade of 0.5% Cu, the Resource has increased 33% to 47Mt at 1.13% Cu for 532kt as the result of delineating mineralisation. More importantly is the increase of copper grades at 1.0% Cu, which now lifts to 1.97% Cu from 1.43% Cu, suggesting consistency across the broad zones (up to 100m true width) of mineralisation down plunge. This bodes very well in our view to translate to an uplift to the current Ore Reserve (21.4Mt at 1.02% Cu + 10.3 g/t Ag) with ~46% of the updated resource in the Indicated category.

Updated resource warrants growth to a 4Mtpa project in our view: As part of the PFS released in Jan'18 MOD presented the potential to upsize the base line throughput at the T3 project from 2.5Mtpa to 4Mtpa by year 4 of a 12-year mine life. With the revised Resource increasing contained copper by 44% we now have moved to model an expansion. Key model adjustments we have made include an additional US\$50m in plant capex (from Year 3), mine life up from 12 to 15 years, LOM AISC to US\$1.50/lb and average production increasing from 23ktpa Cu/700koz Ag to 28ktpa Cu/900koz Ag in a metal concentrate.

Corporate: Over MarQ'18 MOD conducted an \$18m placement to fully fund development to complete a DFS at the T3 project by end of Q1'19. MOD had previously guided to \$10m of exploration spend over 2018; however, with ~\$20m in cash currently (CGe) we expect MOD will increase the current rig count from eight to ten. In addition, over Jun'18 MOD completed a 10:1 share consolidation with existing ownership at T3 and JV targets remaining at 70% with project partner Metal Tiger (MTR-LON | Not Rated).

Resource extension and regional exploration update:

- T1 Project (100% MOD): This underground deposit (2.7Mt at 2% Cu and 50g/t Ag) deposit located 20km NE of T3 currently has two diamond rigs drilling to extend the resource with visible copper intersected on the deeper NPF contact mineralisation.
- T3 Project (70% MOD): MOD will continue its infill program at T3 aimed at increasing resource classification ahead of revising current Ore Reserves. MOD is also assessing the underground potential of mineralised veins at T3 with a scoping level study expected over Q4'18. In addition, MOD is progressing geotechnical and sterilisation drilling to assist with PFS.
- T3 Dome complex (70% MOD): EM work to a depth of 500m has interpreted seven large dome targets proximal to T3 with key targets including A4 and A1 dome within 20km of the T3 project. A 60 DD hole program deploying four rigs is planned with EMP approval obtained in April '18.

Valuation and Recommendation: Permitting and assay delays that have contributed to price weakness in the last 12 months are largely behind MOD in our view, presenting the potential for strong news flow over H2'18. With very few advanced copper developers and an increase in corporate activity recently in the sector we maintain our SPECULATIVE BUY recommendation. Our price target moves to a\$0.90/share on the consolidated share basis.

FINANCIAL SUMMARY

Mod Resources Limited

MOD:ASX

Analyst: Larry Hill
Date: 5/07/2018
Year End: December

Rating: **SPEC BUY**
Target Price: **\$0.90**

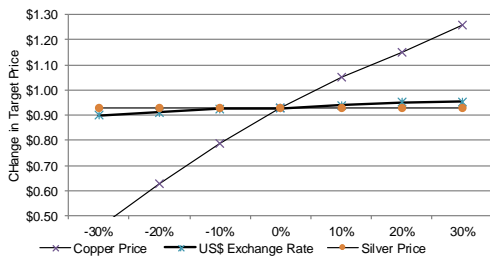
Market Information

Share Price	A\$	0.44
Market Capitalisation	A\$m	103.0
12 Month Hi	A\$	0.72
12 Month Lo	A\$	0.39
Issued Capital	m	1860.0
Options	m	140.34
Fully Diluted	m	2000.3

Valuation diluted for funding	A\$m	A\$/share	
T3 Deposit	NPV @ 10%	218.4	0.53
Projects (T1 Deposit + T3 U/G)		47.4	0.11
MOD Landholdings (100%)		27.1	0.07
Tshukudu Landholdings (70%)		19.0	0.05
Investments - Sam's Creek		-	-
Corporate	(18.4)	(0.04)	
Project Funding	71.3	0.17	
Cash and equivalents	17.3	0.04	
Debt (estimated)	(0.5)	(0.00)	

TOTAL Net Asset Valuation	381.6	0.93		
Price/NAV		0.48		
NAV at Spot US\$3/lb, AUDUSD \$0.74		0.10		
Target Price		0.90		
Assumptions	2017e	2018e	2019e	2020e
Copper Price (US\$/lb)	2.80	3.00	3.00	3.00
Silver Price (US\$/oz)	16.52	17.12	17.70	18.06
AUD:USD	0.77	0.78	0.78	0.77

NAV Sensitivity



Production Metrics

	2017e	2018e	2019e	2020e
T3 Deposit				
Copper (kt)	0	0	0	2,715
Silver (Moz)	0	0	0	79091
C1 Costs (US\$/lb)	0	0	0	0
C3 Costs (US\$/lb)	0	0	0	0

Reserves and Resources (Jun'18)

	Mt	Cu%	Ag g/t	Cu (kt)
Resources (100%)				
T3 Deposit	60.16	0.98%	13.71	590.83
T1 Deposit	2.68	1.99%	49.68	53.19
Attributable	44.79	1.04%	10.00	466.76
Reserves (100%)				
T3 Deposit	21.43	1.02%	10.30	218
Attributable	15.00	1.02%	10.30	152.69

Directors

Name	Position
Mark Clements	Chairman
Julian Hanna	Managing Director
Steve McGhee	Technical Director
Simon Lee	NE Director
Bronwyn Barnes	NE Director

Substantial Shareholders

	Shares (m)	%
Board and Management	32.77	14.0%
Australian Super	20.85	8.9%
Metal Tiger	14.00	6.0%
LIM Asia	11.70	5.0%

Company Description

MOD Resources (MOD:ASX) is an Australian listed Copper company focused on the development and exploration of its various projects located in Botswana. A prefeasibility study released in January 2018 highlighted the potential for the T3 project to become a long life (+10 years), low cost, +22kt Copper project. MOD has in place an experienced management team that is well placed to assess the potential for regional mine life extension within over 7,000km2 of land holding in the highly prospective Kalahari Copper Belt.

Profit & Loss (A\$m)	2017e	2018e	2019e	2020e
Revenue	0.0	0.0	0.0	17.0
Operating Costs	0.0	0.0	0.0	19.2
Royalties	0.0	0.0	0.0	0.4
Corporate & O'heads	3.6	5.0	5.0	3.0
Exploration (Expensed)	0.1	4.8	2.0	1.0
Hedging gain (loss)	0.0	0.0	0.0	0.0
EBITDA	-3.6	-9.6	-6.4	-6.3
Dep'n	0.0	0.0	0.0	1.2
EBIT	-3.7	-9.6	-6.4	-7.4
Net Interest	0.2	0.1	-2.9	-6.8
Tax	0.0	0.0	0.0	0.0
NPAT	-6.0	-9.6	-10.0	-14.6
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-6.0	-9.6	-10.0	-14.6

Cash Flow (A\$m)	2017e	2018e	2019e	2020e
Cash Receipts	0.0	0.0	0.0	17.0
Cash paid to suppliers & employee	-2.3	-4.6	-5.0	-22.6
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	0.0	0.2	-2.9	-6.8
Operating Cash Flow	-2.3	-4.5	-7.9	-12.4
Exploration and Evaluation	-8.3	-10.7	-4.0	-2.0
Capex	-0.7	-0.6	-91.2	-52.7
Other	0.3	-0.0	0.0	0.0
Investing Cash Flow	-8.6	-11.4	-95.2	-54.7
Debt Drawdown (repayment)	0.0	-0.3	103.1	0.0
Share capital	16.4	18.4	60.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.9	0.6	0.0	0.0
Financing Cash Flow	15.5	18.8	163.1	0.0
Opening Cash	5.5	10.1	13.2	73.1
Increase / (Decrease) in cash	4.5	2.9	59.9	-67.1
FX Impact	-0.2	0.2	0.0	0.0
Closing Cash	9.9	13.2	73.1	6.0

Balance Sheet (A\$m)	2017e	2018e	2019e	2020e
Cash + S/Term Deposits	10.0	13.2	73.1	6.0
Other current assets	4.2	0.0	0.1	3.5
Current Assets	14.2	13.2	73.2	9.5
Property, Plant & Equip.	0.8	1.4	92.6	144.1
Exploration & Develop.	21.4	26.2	28.2	29.2
Other Non-current Assets	0.0	10.5	73.5	114.6
Payables	1.9	0.0	0.1	1.7
Short Term debt	0.5	0.0	0.0	15.0
Long Term Debt	0.0	0.2	103.3	89.8
Other Liabilities	3.3	14.5	77.5	118.9
Net Assets	30.7	36.6	86.6	72.0
Shareholders Funds	88.1	106.5	166.5	166.5
Reserves	2.0	2.0	2.0	2.0
Retained Earnings	-62.3	-72.0	-81.9	-96.5
Total Equity	27.8	36.6	86.6	72.0

Ratios & Multiples	2017e	2018e	2019e	2020e
EBITDA Margin	nm	nm	nm	nm
EV/EBITDA	nm	nm	nm	nm
Op. Cashflow/Share	\$0.00	-\$0.02	-\$0.02	-\$0.03
P/CF	-366.5x	-23.1x	-21.3x	-13.6x
P/FCF	-9.4x	-6.5x	-1.0x	-1.5x
EPS	\$0.00	-\$0.03	-\$0.03	-\$0.04
EPS Growth	nm	nm	nm	nm
PER	-137.5x	-14.3x	-17.0x	-11.6x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-22%	-26%	-12%	-20%
ROIC	-4%	-9%	-2%	-3%
Debt/Equity	0%	1%	119%	125%
Net Interest Cover	-469.6x	-676.3x	-1.8x	-1.0x
Book Value/share	\$0.02	\$0.16	\$0.23	\$0.19
Price/Book Value	27.2x	2.8x	2.0x	2.3x

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Investment Recommendation

Date and time of first dissemination: July 05, 2018, 00:41 ET

Date and time of production: July 05, 2018, 00:41 ET

Target Price / Valuation Methodology:

MOD Resources Limited - MOD

Our price target is based on a 1x NPV10% for MOD's equity ownership (70%) of the T3 project, along with an attributable value ascribed to the T1 under ground project. We have ascribed a nominal value to MOD's exploration projects, net of corporate and other adjustments.

Risks to achieving Target Price / Valuation:

MOD Resources Limited - MOD

Funding risks: As a pre-production company with no material income, MOD is reliant on equity and debt markets to fund development of T3 and progressing MOD's regional exploration pipeline over the longer term. MOD have commenced discussion with a number of established project finance banks in order to meet stated project development timelines.

Operating risks: If and when in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues which could affect profitability.

Exploration risks: Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data.

Country risks: We acknowledge that taxation, fiscal and project licensing agreements in Botswana are subject to change and the definition of said laws may be re-interpreted.

Distribution of Ratings:

Global Stock Ratings (as of 07/04/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	674	73.03%	46.74%
Hold	227	24.59%	28.19%
Sell	22	2.38%	18.18%
	923*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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MOD Resources Limited Rating History as of 07/03/2018



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