

BUY

Current Price \$0.32
Target Price \$0.60

Ticker: **MOD**
Sector: **Base Metals**

Shares on Issue (m): **303.7**
Market Cap (\$m): **95.7**
Net Cash (\$m): **18.0**
Enterprise Value (\$m): **77.7**

52 wk High/Low: **\$0.53** **\$0.21**
12m Av Daily Vol (m): **0.41**

Project
Kalahari Copper Project

Development Stage Pre-DFS

T3 Reserve and Resource	Tonnes	Cu	Cu
	(Mt)	Grade (%)	Cont. (kt)
Reserve	21.4	1.0	218
Resource	60.1	1.0	590

Key Metrics (PFS Base Case)	
Pre-Production Capex est.	US\$230m
All-in Sustaining Cost est.	US\$1.40/lb
Steady State EBITDA est.	\$123m pa
First Production	H2 2020

Board	
Mark Clements	Executive Chairmen
Julian Hanna	Managing Director
Steve McGhee	Technical Director
Simon Lee Ao	Non-Executive Director
Bronwyn Barnes	Non-Executive Director
Michael McNeilly	Non-Executive Director

Share Price Graph and ave. Trading Volumes (msh)



Please refer to important disclosures at end of the report (from page 4)

Sunday, 24 March 2019

MOD Resources

In play, but eyes still on the ball

Analysts: Matthew Keane | James Wilson

Quick Read

MOD Resources (MOD) recently received an unsolicited, non-binding indicative offer from Sandfire Resources (SFR, BUY, \$7.80/sh TP) of ~\$0.38/sh. While this is yet to materialise in a formal offer, we believe the Company is in-play and one of the few acquirable quality copper development plays globally. Despite this corporate interest, the Company is maintaining its course on the Botswana Copper Project and is due to release a Bankable Feasibility Study (BFS) on its 100% owned T3 deposit in the coming weeks. Argonaut is expecting throughput to remain at the revised 3Mt/tpa rate and pre-production capital intensity to be roughly in-line with the PFS Base Case equating to ~US\$230m. The Company is also working on financing options which may include a mix of debt and equity capital with a potential project or TopCo minority investment. BUY maintained.

Key Points

BFS expectations: MOD's BFS is expected for release in the coming weeks. Argonaut is expecting throughput to remain at the revised 3Mt/tpa rate and capital intensity roughly in-line with the PFS Base Case equating to US\$230-250m. We model steady state production of 27.6kt/tpa copper and ~900kozpa silver over a 12.5-year mine life. Our estimated all-in sustaining costs (AISC) of US\$1.40/lb generate ~US\$94mpa free cashflow. Key risks to our asset valuation are likely to come from incremental increases in both capital intensity and/or operating costs, versus the PFS estimates. Give the level of infill drilling at T3 we have a high level of confidence in the mine grade of ~1% copper. A Ore Reserve update will precede/accompany the BFS.

Financing options: MOD has been working on financing options in conjunction with the BFS. We believe the economics of the project should support a significant portion of debt. In order to minimise equity dilution the Company may seek either a TopCo or T3 project level minority investment. While we believe SFR would be more interested in majority ownership of the Botswana Project, the project will be attracting interest from a range of parties, including; midcap base metal miners, offtakers, private equity groups, Chinese mining groups and/or Japanese trading houses. Argonaut has noted an increased presence of Japanese groups at recent mining conferences. Their acquisition appetite was evidenced by the recent A\$90m investment by Toho Zinc in Galena Mining's (G1A, BUY, \$0.65 val.) Abra Lead Project. Argonaut currently models 60:40 debt to equity financing.

Drilling and exploration: MOD is currently infill drilling at T3 which should put the first few years of mining inventory in the Measured category, improving the confidence level for potential lenders. The A4 Dome will be the focus in Q2 2019 then MOD plans to follow up with drilling on geochem and geophysical targets in the highly prospective T20 Dome.

Recommendation

Argonaut maintains a BUY recommendation with a revised target price of \$0.60 (previously \$0.83), accounting for dilution from the recent \$15m equity raising.

Valuation | View

Argonaut expects the 3Mtpa case for the upcoming BFS...

...producing ~28ktpa copper in concentrate

We see significant value in MOD's belt scale tenement package...

...and derive a NAV of \$0.60

Argonaut applies the expanded 3Mtpa throughput case to our model. We assume a ~12.5-year operation producing 27.6ktpa copper and ~900kozpa silver. We apply US\$230m total development capex to reach a with AISC of US\$1.40/lb. Our NPV₁₀ of \$342m incorporates only open pit mining from T3. We highlight the tangible mine life extension options available from an underground extension at T3, an underground operation at T1 (Resource: 2.7Mt @ 2.0% Cu and 50g/t Ag) and further discoveries within MOD's vast land holding in the prospective Kalahari Copper Belt. Conceptually, underground mines at T1 and T3 could each contribute ~1Mtpa at 1.5%-2.0% Cu for ~15kt additional copper production.

We assign \$80m to the T1 Resource and the exploration potential of MOD's >11,700km² land holding (70-100% ownership). We justify our considerable value to exploration on the basis that: Cupric Canyon (private unlisted) has defined ~5.7Mt contained copper on its abutting 4,000km² land holding to the northeast, while MOD has defined just 590kt contained copper on its 12,600km² tenement holding. We highlight that Cupric's mineralisation commonly has a surface expression making discovery easier, while mineralisation on MOD's ground is under cover. Noting that MOD has a high propensity for sulphide discoveries rather than copper oxide.

Our sum of parts (NAV₁₁) valuation is \$0.65/sh (previously \$0.83), incorporating equity dilution from the recent \$15m equity raising, comprising \$10m Institutional Placement at \$0.30/sh and a \$5m Rights Issue at \$0.24/sh. We model 60:40 debt to equity to fund T3 development capex.

Table 1. Argonaut's sum of parts valuation for MOD (Base Case)

NAV Valuation		
Sum of Parts	AUD M	AUD / Share
T3 Copper Deposit (100%)	342.1	0.53
	-	-
Exploration Assets	80.0	0.12
Corporate NPV	(49.7)	(0.08)
Cash	18.0	0.03
Debt	-	-
Sub Total	390	0.60

Source: Argonaut

Exploration upside

MOD is hunting two main copper mineralisation styles:

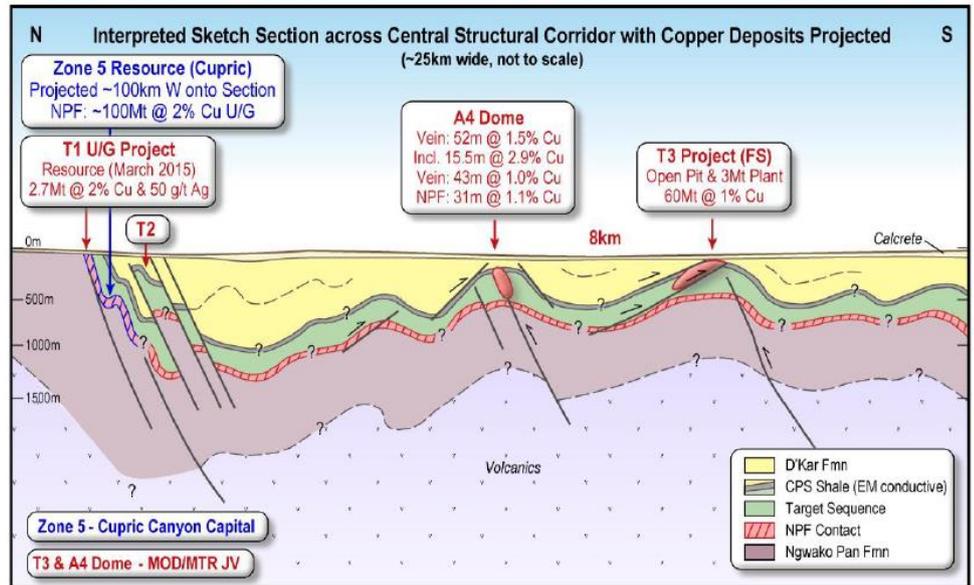
- 1) Vein hosted: High-grade vein mineralisation at top of domes (antiforms in the sedimentary rocks) as seen in at T3 and T4, and
- 2) Contact hosted: Where fluids have deposited metal in the regional Ngwako Pan formation (NPF) as seen below the below the A4 and A1 domes. This is also the primary mineralisation style on Cupric Canyons ground

Given the Kalahari Copper Belts location with the Ghanzi-Chobe Fold Belt, an orogenic collision/mobile zone, we also see potential for larger scale intrusive related base metal.

MOD is chasing two main mineralisation styles...

...vein hosted and contact (strata bound) mineralisation

Figure 1. Mineralisation styles at the Botswana Copper Project



Source: MOD

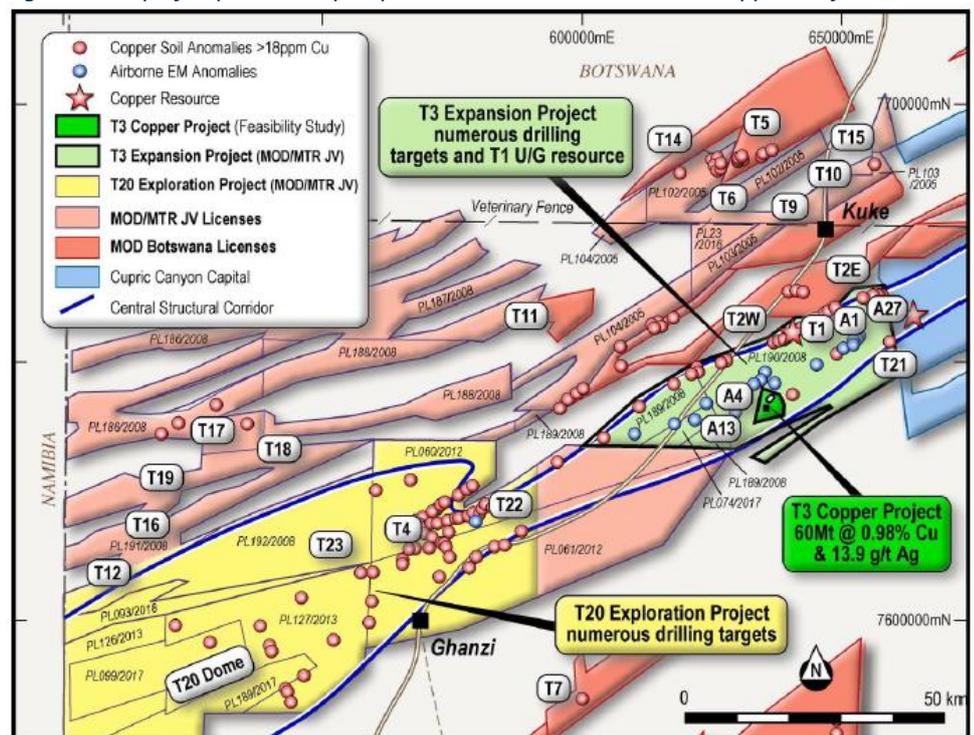
We believe the big prize could lie under T20...

T20 could be the big prize

Given the scale of the T20 dome and the potential for extensive near surface NPF strata (as highlighted by regional EM surveys), this area has the capacity to host large scale deposits. MOD attained the requisite Environmental Management Plan (EMP) for T20 Dome Complex in September last year and has since been undertaking surface geochemistry and higher resolution EM to define targets. Drilling is expected to commence in H2 2019. Exploration, in particular T20, should maintain strong newsflow during the financing and construction phase of T3.

Figure 2. Map of deposits and prospects within MOD's Botswana Copper Project

...with the scale of this dome and near surface host strata making the region highly prospective



Source: MOD

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