

# MOD Resources

Placing and bid

## Sandfire's bid undervalues MOD

MOD Resources has raised A\$10m through an oversubscribed institutional placing at a price of A\$0.30/share (17p/share), a 36% premium to the closing price on 18 January 2019. The company also intends to raise a further A\$5m through a fully underwritten rights issue at A\$24/share (13p/share). In addition, the company has received an unsolicited, non-binding, indicative all-share offer from Sandfire Resources (SFR:AU) at a price of A\$0.38/share (21p/share). The board of MOD believes the Sandfire offer undervalues the company's assets.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	0	(1.2)	(0.01)	0.00	N/A	N/A
12/17	0	(2.3)	(0.01)	0.00	N/A	N/A
12/18e	0	(5.0)	(0.02)	0.00	N/A	N/A
12/19e	0	(4.2)	(0.01)	0.00	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Proceeds to fully fund 2019 work programme

The funds from the placing and underwritten rights issue will fully fund MOD's 2019 work programme. This programme is expected to include: 1) completion of the T3 feasibility study, mining licences application and early development work, targeted for H119; 2) funding the acquisition of the farm on which the T3 open pit is located; 3) an infill drill programme to upgrade the part of the T3 JORC 2012 compliant mineral resource estimate to be mined early in the mine's life, to measured category; 4) advance the underground mining studies at T3 and A4 with required resource drilling; and 5) follow up drilling on the T4 and T23 discoveries.

## The Sandfire offer

Sandfire Resources is copper producer that operates the high-grade DeGrussa Copper-Gold Mine, located in Western Australia. The Sandfire offer followed a period of technical due diligence that included a site visit and access to MOD's data room. This interaction has been under the presumption of a potential assets level joint venture at the T3 Project, together with a potential investment in MOD. It would appear that the recent weakness in MOD's share price, a 2.5-year low, caused Sandfire to re-evaluate its strategy. The all-share offer is equivalent to one Sandfire share for 17 MOD shares. Sandfire is trading at A\$7/share.

## Valuation: Increased to A\$0.75/share (42p/share)

In our previous forecasts we estimated that MOD Resources would raise A\$20m in Q119 at a price of A\$0.32/share (18p/share). As a result of the company raising a smaller amount of capital than we forecast, but still enough to fund its 2019 work programme, and due to the reduced overall dilution thanks to the higher prevailing share price (24p/share vs 18p/share) our valuation has increased to A\$0.75/share (42p/share), from A\$0.64/share (39p/share) at 18 December 2018. The revised valuation represents 76% upside to the current share price (24p) and 112% upside to the Sandfire offer price (21p).

## Metals & mining

22 January 2019

**Price** **A\$0.33**
**Market cap** **A\$82m**

£/A\$1.79

Net cash (A\$m) at 30 September 2018 12.8

Shares in issue 248.6m

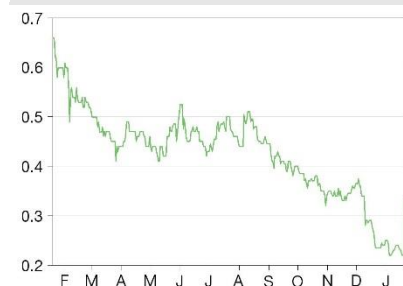
Free float 53%

Code MOD

Primary exchange ASX

Secondary exchange LSE

## Share price performance



%	1m	3m	12m
Abs	(6.4)	(42.1)	(66.6)
Rel (local)	(13.0)	(41.2)	(65.7)

52-week high/low	A\$0.6	A\$0.2
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## Business description

MOD Resources is an ASX-listed exploration and development company focused on the Kalahari Copper Belt of Botswana. The flagship T3 deposit has a JORC 2012 compliant mineral resource estimate of 60Mt at a grade of 0.98% copper.

## Next events

T3 feasibility study	H119
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T3 underground scoping study	H119
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## Investment summary

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### Valuation: A\$0.75/42p per share (from A\$0.64/39p per share)

In our [initiation note](#) we forecast that MOD Resources would raise A\$20m in Q119 at a price of A\$0.32/share (18p/share). Our updated forecasts and valuation take into account the actual capital raised from the placing (A\$10m) and the further A\$5m expected from an underwritten rights issue. This, and the reduced overall dilution thanks to the higher prevailing share price, has increased our valuation per share to A\$0.75/share (42p/share), from A\$0.64/share (39p/share) at 18 December 2018. The revised valuation represents 76% upside to the current share price (24p) and 112% upside to the Sandfire offer price (21p). Taking into account the value of the Sandfire offer, less MOD's estimated net cash position post the placing and underwritten rights issue, we estimate that the Sandfire offer implies A\$127/t (£71/t) of attributable contained copper equivalent.

Based on our model, we estimate that the copper price of US\$5,000/t is required to value MOD at the same level as the Sandfire Resources bid of A\$0.38/share; the current LME copper price is US\$6,021/t. The Sandfire offer is subject to: completion of due diligence; execution of a merger implementation agreement; unanimous recommendation from the MOD board; binding commitments or statements of intent by MOD shareholders holding 19.9% or more, in support of the transaction; and approval by the board of Sandfire.

### Financials: LOM EBITDA of A\$928m over nine years

In our updated forecasts we use an exchange rate of US\$/A\$1.4 compared to US/A\$1.39 in our previous report. As a result, we expect that MOD will generate revenue of A\$74.3m (previous forecast A\$73.6m) during 2020 as the T3 mine ramps up production levels. Once at full production, expected in 2021, we forecast this to increase to A\$226.4m (vs our previous forecast of A\$224.2m). Over the initial nine-year mine life, we forecast MOD to generate revenue of A\$1.9bn (vs A\$1.9bn) and EBITDA of A\$973m (vs A\$936m). To develop T3 into a mine that produces 23,000t of copper pa, using the base case PFS numbers, and to continue to advance its earlier-stage projects, we forecast that MOD will require additional funding of c A\$145m over the next two years, which we envisage will be funded through a mixture of debt and equity. We forecast that the company finished FY18 with a net cash position of A\$9.9m.

### Company description: Botswanan copper-silver explorer

MOD Resources is a copper-silver exploration and development company with a substantial ground holding in the Kalahari Copper Belt, Botswana. The company has been very successful with its regional exploration concept, which has led to the discovery and drill-out of 60Mt at a grade of 0.98% Cu and 13.9g/t Ag T3 copper-silver deposit and 2.5Mt at a grade of 1.80% Cu and 45g/t Ag T1 copper-silver deposit. Regional drilling in the T3 expansion project has led to two additional discoveries, A1 and A4, while regional drilling at the T20 exploration project has also returned interesting results at T4 and T23. MOD has already completed a pre-feasibility study (PFS) at T3 (announced on 31 January 2018) and is in the process of completing a feasibility study, targeted for H119. The PFS base case was for a 2.5Mtpa plant, and defined a pre-tax NPV<sub>8</sub> of US\$281m and a pre-tax IRR of 39%, assuming a nine-year life of mine (LOM) and an average copper price of US\$6,614/t. A PFS expansion case to 4Mtpa, defined a pre-tax NPV<sub>8</sub> of US\$402m and a pre-tax IRR of 38% assuming a 12-year LOM. The feasibility study targeted for H119 is expected by management to benefit from a coarser grind size and an increased base case plant size when compared to the PFS base case. MOD is pursuing a dual strategy to advance its T3 deposit into production and prove up potential supplementary sources of mineralisation for the T3 plant in the medium term, while continuing to test and advance the numerous targets for additional regional discoveries in the near term.

**Exhibit 1: Financial summary**

	A\$000s	2016	2017	2018e	2019e	2020e	2021e
31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		0.0	0.0	0.0	0.0	74,326.8	226,352.1
Cost of Sales		0.0	0.0	0.0	0.0	(50,686.1)	(121,722.3)
Gross Profit		0.0	0.0	0.0	0.0	23,640.8	104,629.9
EBITDA		(1,069.3)	(2,511.1)	(5,000.0)	(3,150.0)	20,333.3	101,157.0
Normalised operating profit		(1,080.6)	(2,551.2)	(5,000.0)	(3,150.0)	9,333.3	61,157.0
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(402.3)	(66.1)	0.0	0.0	0.0	0.0
Share-based payments		(319.2)	(1,074.0)	(5,639.7)	0.0	0.0	(13,422.3)
Reported operating profit		(1,802.1)	(3,691.3)	(10,639.7)	(3,150.0)	9,333.3	47,734.7
Net Interest		(103.7)	222.6	0.0	(1,000.0)	(9,362.2)	(9,490.9)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax (norm)		(1,184.3)	(2,328.5)	(5,000.0)	(4,150.0)	(29.0)	51,666.1
Profit before tax (reported)		(1,905.8)	(3,468.6)	(10,639.7)	(4,150.0)	(29.0)	38,243.8
Reported tax		0.0	0.0	0.0	0.0	0.0	(8,413.6)
Profit after tax (norm)		(1,184.3)	(2,328.5)	(5,000.0)	(4,150.0)	(29.0)	43,252.5
Profit after tax (reported)		(1,905.8)	(3,468.6)	(10,639.7)	(4,150.0)	(29.0)	29,830.2
Minority interests		(30.5)	(2.7)	0.0	0.0	0.0	0.0
Discontinued operations		(15.0)	(57.2)	0.0	0.0	0.0	0.0
Net income (normalised)		(1,214.8)	(2,331.2)	(5,000.0)	(4,150.0)	(29.0)	43,252.5
Net income (reported)		(1,951.2)	(3,528.6)	(10,639.7)	(4,150.0)	(29.0)	29,830.2
Basic average number of shares outstanding (m)		131	182	224	303	352	401
EPS – basic normalised (c)		(0.01)	(0.01)	(0.02)	(0.01)	(0.00)	0.11
EPS – diluted normalised (c)		(0.01)	(0.01)	(0.02)	(0.01)	(0.00)	0.10
EPS – basic reported (c)		(0.01)	(0.02)	(0.05)	(0.01)	(0.00)	0.07
Dividend (c)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		0.0	0.0	0.0	0.0	100.0	204.5
Gross margin (%)		0.0	0.0	0.0	0.0	31.8	46.2
EBITDA margin (%)		0.0	0.0	0.0	0.0	27.4	44.7
Normalised operating margin (%)		0.0	0.0	0.0	0.0	12.6	27.0
<b>BALANCE SHEET</b>							
Fixed assets		15,806.9	22,205.0	37,205.0	61,446.7	199,969.6	240,563.7
Intangible assets		15,735.5	21,431.2	36,431.2	48,431.2	56,431.2	64,431.2
Tangible assets		71.4	773.8	773.8	13,015.5	143,538.4	176,132.5
Investments & other		0.0	0.0	0.0	0.0	0.0	0.0
Current assets		5,840.7	14,190.8	14,256.5	11,673.7	21,700.9	44,571.3
Stocks		0.0	0.0	0.0	0.0	2,850.9	8,682.0
Debtors		245.3	644.5	800.0	1,000.0	6,109.1	18,604.3
Cash & cash equivalents		5,546.1	9,997.5	9,907.7	7,161.5	6,377.8	5,090.8
Other		49.3	3,548.8	3,548.8	3,512.3	6,363.2	12,194.3
Current liabilities		(2,133.7)	(2,580.0)	(7,444.8)	(7,444.8)	(15,773.0)	(30,153.9)
Creditors		(603.2)	(1,935.3)	(2,000.0)	(1,800.0)	(4,166.0)	(10,004.6)
Tax and social security		0.0	0.0	0.0	0.0	0.0	(8,413.6)
Short-term borrowings		(1,500.0)	(565.2)	(65.2)	(65.2)	(65.2)	(65.2)
Other		(30.5)	(79.6)	(5,379.6)	(5,579.6)	(11,541.8)	(11,670.5)
Long-term liabilities		0.0	(44.4)	0.0	(10,000.0)	(100,000.0)	(100,000.0)
Long-term borrowings		0.0	0.0	0.0	(10,000.0)	(100,000.0)	(100,000.0)
Other long-term liabilities		0.0	(44.4)	0.0	0.0	0.0	0.0
Net assets		19,513.9	33,771.3	44,016.7	55,675.6	105,897.6	154,981.1
Minority interests		(1,106.5)	(3,124.0)	0.0	0.0	0.0	0.0
Shareholders' equity		18,407.4	30,647.3	44,016.7	55,675.6	105,897.6	154,981.1
<b>CASH FLOW</b>							
Operating cash flow before WC and tax		(1,069.3)	(2,511.1)	(5,000.0)	(3,150.0)	20,333.3	101,157.0
Working capital		(373.8)	237.9	(135.2)	(400.0)	(5,594.0)	(12,487.7)
Exceptional & other		0.0	0.0	0.0	0.0	0.0	0.0
Tax		0.0	0.0	0.0	0.0	0.0	0.0
Net operating cash flow		(1,443.1)	(2,273.2)	(5,135.2)	(3,550.0)	14,739.3	88,669.3
Capex		(32.4)	(651.4)	0.0	(12,241.7)	(141,523.0)	(72,594.0)
Acquisitions/disposals		26.2	0.0	0.0	0.0	0.0	0.0
Net interest		(237.1)	212.5	0.0	0.0	(1,000.0)	(9,362.2)
Equity financing		10,272.4	14,409.4	17,545.4	15,045.4	45,000.0	0.0
Exploration and Evaluation		(4,311.4)	(8,296.7)	(15,000.0)	(12,000.0)	(8,000.0)	(8,000.0)
Other		1,106.5	2,120.4	3,000.0	0.0	0.0	0.0
Net cash flow		5,381.1	5,521.0	410.2	(12,746.3)	(90,783.7)	(1,287.0)
Opening net debt/(cash)		1,547.4	(4,046.1)	(9,432.3)	(9,842.5)	2,903.7	93,687.4
FX		94.0	(44.1)	0.0	0.0	0.0	0.0
Other non-cash movements		118.4	(90.7)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(4,046.1)	(9,432.3)	(9,842.5)	2,903.7	93,687.4	94,974.4

Source: Company data, Edison Investment Research

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