

Company Review

Ord Minnett Research

Tuesday, 30 August, 2011

Kasbah Resources Limited

Moving from 1 to 5 Drill rigs at Achmmach

Kasbah Resources Limited (Kasbah) in the past month has achieved a major milestone of securing tenure over the two mining permits that make up the Achmmach Tin Project in Morocco. Furthermore, Kasbah is mobilising an additional four drill rigs to Achmmach, to accelerate the infill drilling of the Gap Zone.

- Kasbah has received final ministerial approval for transfer of the two granted mining permits that make up the Achmmach Tin Project in Morocco. This is a hugely significant de-risking event for Kasbah. Kasbah has now secured 100% title over the project after holding an exclusive option over the project for the past five and a half years.
- The transfer of ownership from the Moroccan Government to Kasbah highlights the conviction the company has in the project as well as confirming Morocco's status as a mining friendly jurisdiction for foreigners.
- Kasbah in early August signed a letter of intent with Spektra Jeotek AS (Spektra), an international drilling company with more than 100 drill rigs through Turkey, the Middle East and North Africa. Spektra is now mobilising three diamond drill rigs to Achmmach and are forecast to start drilling late September/early October with a priority of drilling out The Gap Zone. In addition the current driller will mobilise an additional drill rig in the next two weeks, resulting in 5 drills by October and a forecast 10,000 metres drilled before the end of 2011.
- Kasbah as at the end of June was well funded with A\$22 million in cash and no debt. Ord Minnett Ltd (OML) forecast Kasbah is fully funded through to a development decision in the second half of 2012.

OML's base case valuation of Kasbah has been revised to \$0.43 per share (previously \$0.48) with an upside valuation of \$0.59 per share (previously \$0.64). OML's 12-month price target is \$0.50 per share (previously \$0.55). The principal change is brought about through our adjustment of forecast long-term AUD:USD exchange rate to \$0.89.

Key Financials

Year-end June (A\$)	FY10A	FY11E	FY12E	FY13E	FY14E
Tin Price (\$US/t)	16,153	24,144	32,500	33,750	35,000
Sales Revenue (\$M)	0.0	0.0	0.0	12.8	155.4
Op. Profit Before Tax ¹ (\$M)	0.0	0.0	0.0	8.1	87.1
Reported NPAT (\$M)	(6.0)	(10.5)	(14.8)	1.5	67.8
Normalised NPAT (\$M)	(6.0)	(10.5)	(14.8)	1.5	67.8
Reported EPS (¢)	(2.7)	(2.8)	(3.6)	0.3	11.9
Normalised EPS (¢)	(2.7)	(2.8)	(3.6)	0.3	11.9
Op. Cash Flow Per Shr (¢)	(0.5)	(0.7)	(0.7)	0.8	13.8
Total Dividends (¢)	0.0	0.0	0.0	0.0	0.0
Normalised P/E (x)	(6.3)	(6.0)	(4.7)	65.4	1.4
EV/EBITDA	na	na	na	31.4	0.9
Price/Op. Cash Flow (x)	na	na	na	13.4	0.8
Normalised ROE (%)	na	na	na	3%	57%

Source: Iress, Company Data, Ord Minnett Est. Share price: \$0.185, August 29 2011.

KAS \$0.185

Recommendation

Buy

Risk Assessment

High

Metals & Mining – Tin

Luke Smith

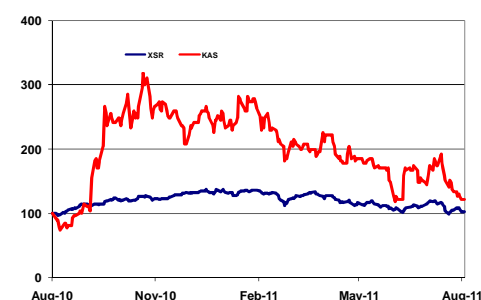
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Kasbah Resources Limited

ASX Code	KAS
52 week range	\$0.05 - \$0.44
Market Cap (\$M)	67
Shares Outstanding (M)	364.3
Av Daily Turnover (\$M)	0.8
ASX All Ordinaries	4333
ASX Small Resources	5612
Net Cash Jun11 (\$M)	22

Relative price performance



Source: Iress

Consensus earnings

	FY11F	FY12F
NPAT (C)*	-	-
NPAT (OM)	-	-
EPS (C)	-	-
EPS (OM)	-	-

Source: Iress (Only 1 other estimate)

Projects

Achmmach

Kasbah has announced that it has received final ministerial approval for transfer of the two granted mining permits that make up the Achmmach Tin Project in Morocco. This is a very significant de-risking event for Kasbah and now secures 100% title over the project which they have held an exclusive option over for the past five and a half years.

Upon transfer of the mining permits an initial payment of US\$1million will be paid with the remaining US\$4 million to be paid in US\$1 million instalments, annually for next four years. Importantly, Kasbah as at the end of June was well funded with A\$22 million in cash and no debt.

Additional Drill Capacity

Drilling at the Achmmach was delayed for the first half of July due to a change of drilling contractor. Kasbah brought in a Moroccan drilling contractor commencing mid July with one drill rig. An additional drill rig from the contractor will commence in September.

Kasbah has also appointed Spektra Jeotek AS (Spektra), an international drilling company with more than 100 drill rigs through Turkey, the Middle East and North Africa. Spektra is now mobilising three diamond drill rigs to Achmmach and are forecast to start drilling late September/early October with a priority of drilling out The Gap Zone. This will result in 5 operating drills by October and a forecast 10,000 metres drilled from July to December 2011, double the first half of 2011.

The Gap zone is the 350 metre wide zone that sits between the current JORC resources of the Meknes and the Eastern zones. Further positive drill results from The Gap could lead to the currently two separate resource areas of Meknes and Eastern joining to become one large resource. This would significantly change the project economics leading into the finalisation of a pre-feasibility study (PFS).

This short delay in drilling will likely push the expected resource upgrade and PFS out to early 2012 (previously expected late 2011). This is a small set back but far outweighed by the tenor of the results announced and at this stage OM doesn't forecast a delay to the longer dated timeline.

Table 1: Timeline

	Date
Further Drill results from the Gap	July – Nov 2011
Resource Upgrade	January 2012
Pre-Feasibility Study results	March 2012
Feasibility Study results	Dec qtr 2012

Source: OML

Financial Forecast

As at 30 June 2011, Kasbah had \$21.9 million in cash and no debt with a current market capitalization of \$62 million. This results in Kasbah having in our view an extraordinarily low enterprise value (A\$40 million) considering its tin asset.

OML estimates that gross cash outflows over the next 12 months to 30 June 2012 to be in the order of \$15 million. Gross cash inflows over this same period could be as high as \$11 million through exercise of outstanding options although these options on the whole are out of the money with average exercise price of \$0.25. Even without the potential exercise of options, Kasbah remains well funded through to any development decision and importantly, well funded to potentially add significant value without further shareholder dilution.

Tin price and market

The tin price has now fallen more than 25% since mid-April on the London Metals Exchange, which OM believes is likely the result of general market volatility and fund/trader selling that has influenced all the metals.

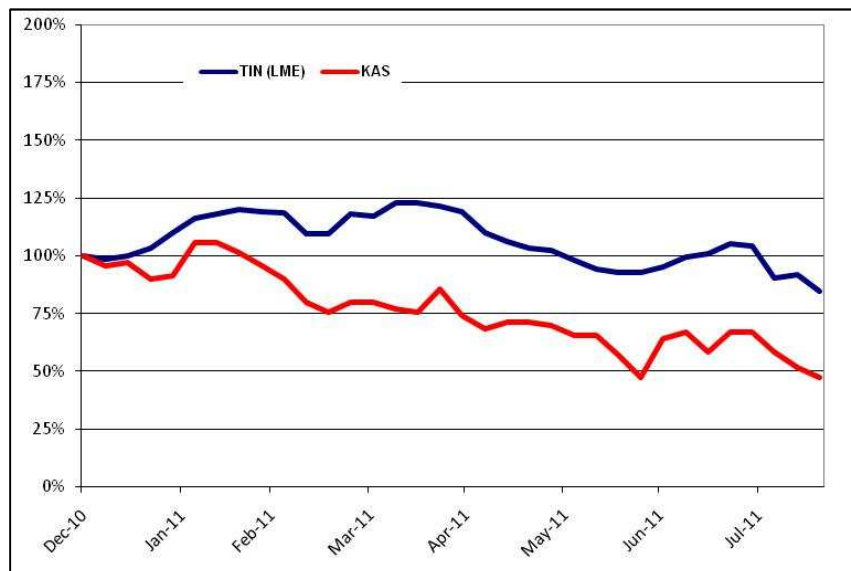
Figure 1: LME Tin Price



Source: Iress and Ord Minnett

The price of tin on the LME is now approximately US\$23,800 per tonne. The Kasbah share price over the same period has significantly underperformed as shown in Figure 2.

Figure 2: LME Tin Price relative to KAS share price



Source: Iress and Ord Minnett

Critically, the underlying physical demand for tin has not materially changed over this period with prices for tin within the Chinese market remaining around US\$29,000-30,000 per tonne. The price within China reflects more truly the supply and demand fundamentals for tin where as the tin price on the London Metals Exchange (LME) is significantly affected by commodity trading and financial market volatility.

World production is still forecast to be less than consumption in 2011 with updated forecasts by ITRI envisaging a continued shortfall of supply in 2012. OML forecast a strong tin market underpinned by physical demand until at least 2014.

Our target price for Kasbah is very sensitive to the long term tin price assumptions and relatively immune to changes in exchange rate. Our long term prices are effective from FY15 with Kasbah forecast to commence production in the later half of FY13. Table 2 highlights our target price sensitivity to tin price.

Table 2: Kasbah target price sensitivity

A\$:US\$	Tin Price (US\$/tonne)					
	15,000	20,000	25,000	30,000	35,000	40,000
0.80	\$0.14	\$0.31	\$0.47	\$0.63	\$0.80	\$0.96
0.89	\$0.14	\$0.28	\$0.43	\$0.58	\$0.72	\$0.87
0.95	\$0.13	\$0.27	\$0.41	\$0.54	\$0.68	\$0.82
1.05	\$0.13	\$0.25	\$0.38	\$0.50	\$0.62	\$0.75
1.15	\$0.12	\$0.24	\$0.35	\$0.46	\$0.58	\$0.69

Morocco Political Climate

On July 1, 2011, a referendum was held in Morocco in relation to diluting the powers held by the King of Morocco and instituting a new constitution based upon democratic reforms. It was overwhelmingly supported and the Moroccan government has now brought forward the parliamentary elections to November 2011, which was previously scheduled for September 2012.

Throughout 2011 and the political turmoil in North Africa, Kasbah has been unaffected in advancing the project and has continued operating in country for the entire period.

Furthermore, since the referendum, Kasbah's Managing Director has spent 6 of the 8 weeks in Morocco and reported 'business as usual' at all levels and jurisdictions.

Major share price risks and drivers

Share price risks

OML identifies the major risks for Kasbah as follows:

- Political risk in northern Africa spills into Morocco causing civil unrest.
- Downgrades to existing resources through infill drilling would significantly lower the value of the underground project at Achmmach and put downward pressure on the share price.
- Timing delays could occur due to delays turning around assay results and metallurgical results.
- Additional timing delays could occur from the changing of drill contractors.
- Capital costs could be significantly underestimated by OML and KAS.
- Operating costs could be different to OML's forecasts.
- Further exploration is not successful, therefore limiting upside risk.
- Adverse exchange rate movements
- Mine life becomes less than OML forecasts.

Financial summary

Kasbah Resources Limited (KAS)

Year ending June

Profit & Loss Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Operating Revenue	0	0	0	13	155
Operating Expenses	0	0	0	(5)	(68)
Mining Operating Profit Before Tax ¹	0	0	0	8	87
Other Income - Asset Sales & Rent	0	1	1	1	1
Other Expenses	(6)	(11)	(16)	(5)	(7)
EBITDA	(6)	(11)	(15)	4	81
Depreciation & Amortisation	0	0	0	(1)	(9)
EBIT	(6)	(11)	(15)	3	72
Net Interest Income	0	0	0	(1)	(4)
Pre-Tax Profit	(6)	(11)	(15)	1	68
Tax Expense	0	0	0	0	0
Reported NPAT	(6)	(11)	(15)	1	68
Adjustments (after-tax)	0	0	0	0	0
Normalised NPAT	(6)	(11)	(15)	1	68
EBITDA Margin (%)	na	na	na	23%	46%
Effective tax Rate (%)	0%	0%	0%	0%	0%
EPS Reported (cps)	(2.71)	(2.84)	(3.62)	0.26	11.93
EPS Normalised (cps)	(2.71)	(2.84)	(3.62)	0.26	11.93
EPS growth (%)	na	na	na	na	4486%
DPS - Total (cps)	0	0	0	0	0
Payout Ratio - Ordinary Divs (%)	na	na	na	na	na
Franking - Total (%)	na	na	na	na	na

Cash Flow Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Pre-Tax Operating Cash Flow	(1)	(3)	(3)	5	79
Tax Paid On Operating Activities	0	0	0	0	0
Operating Cash Flow	(1)	(3)	(3)	5	79
Exploration & Development	(4)	(8)	(12)	(2)	(2)
Property, Plant & Equipment	(0)	(1)	(2)	(89)	(24)
Tax Paid On Investment Activities	0	1	1	1	1
Other Investing Items	0	1	1	1	1
Investing Cash Flow	(4)	(8)	(13)	(90)	(25)
Inc/(Dec) in Equity	5	30	0	40	0
Dividends Paid	0	0	0	0	0
Financing Costs	0	(2)	0	0	0
Debt Draw down/(Repayment)	0	0	0	60	(45)
Financing Cash Flow	5	29	0	100	(45)
Inc/(Dec) in Cash	(1)	18	(16)	14	9

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash & Deposits	4	22	6	20	29
Receivables	0	0	0	2	19
Other Current Assets	0	0	0	1	14
Property, Plant & Equipment	0	1	1	88	102
Exploration & Development	1	1	1	1	1
Investments	0	0	0	0	0
Other Non Current Assets	0	0	0	0	2
Total Assets	5	24	9	112	167
Payables and other current Liabilities	1	1	1	2	26
Short Term Debt	0	0	0	12	3
Long Term Debt	0	0	0	48	12
Other Non Current Liabilities	0	0	0	1	9
Total Liabilities	1	1	1	63	50
Total Equity	5	24	8	49	117
Net Debt (Cash)	(4)	(22)	(6)	40	(14)

Major Shareholders	Million	(%)	Date
African Lion	46.2	12.7%	Dec-10
IFC (World Bank)	46.3	12.7%	Dec-10
Transamine	15.0	4.1%	Nov-10

Source: Kasbah Resources Limited, Ord Minnett estimates.

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Tin Price (US\$/t)	16,153	24,144	32,500	33,750	35,000
US\$/A\$	0.88	0.98	1.09	1.04	0.92

Tin Production (tonnes)	FY10A	FY11E	FY12E	FY13E	FY14E
Achmmach Tin (underground)	0	0	0	0	3,388
Achmmach Tin (openpit)	0	0	0	385	998

Total	0	0	0	385	4,386
Cash Cost incl royalty (US\$/t)	na	na	na	na	12,472

JORC Resource Estimates	Status	kt	kt	kt
Reserves		Proved	Probable	Total
Achmmach Tin (underground)	Mine	na	na	na

Resources (Includes Reserves)*	Measured	Indicated	Inferred	Total
Achmmach Tin (underground)	Mine	-	17	37
Achmmach Tin (openpit)	Explor.	-	-	-
Tamlalt Gold Project	Explor.	-	-	-
Total		-	17	37

*As at December 2010

Leverage	FY10A	FY11E	FY12E	FY13E	FY14E
Net Debt/Equity	-81%	-93%	-76%	82%	-12%
Net Debt/Total Assets	-70%	-90%	-67%	36%	-8%
Interest Cover (x)	na	na	na	2.0	16.8

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	-6.8	-6.5	-5.1	71.1	1.6
Price/Op Cash Flow	na	na	na	14.5	0.9
EV*	na	46	62	137	83
EV/EBITDA	na	na	na	33.3	1.0
EV/EBIT	na	na	na	46.8	1.2

* Enterprise value forecasts for each financial period inclusive of any forecast issued capital increases

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Achmmach Tin (underground)	166	0.32	187	0.35
Achmmach Tin (openpit)	6	0.01	62	0.12
Tamlalt Gold Project	2	0.00	10	0.02

Corporate	(6)	(0.01)	(6)	(0.01)
Options	0	0.00	0	0.00
Cash	22	0.04	22	0.04
Future Equity Raised (Discounted)	36	0.07	36	0.07
Total	226	0.43	310	0.59

Valuation	Base: \$0.43	Upside: \$0.59
Discount of share price to valuation	132%	218%

Per share valuation sensitivity to:

+/- 10% move in tin price	\$0.12
+/- 10% move in the \$US/\$A rate	\$0.04

Current price	\$0.19
Recommendation	Buy
Risk rating	High
12-month price target	\$0.50

Notes: 1. Mining operating profit before tax is the direct mining contribution.
2. May not add because of dilution effects.

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BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%. Investors may add to existing holdings, or initiate holdings on share price weakness.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down 15%. Investors should consider selling into share price strength.
SELL	The stock's total return is expected to lose 15% or more.
RISK ASSESSMENT	Classified as High, Medium or Low, denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, volatility, nature of its operations and other relevant quantitative and qualitative criteria.

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