

# Company Review

Ord Minnett Research

Thursday, 30 June, 2011

## Kasbah Resources Limited

### Don't mind the Gap

Kasbah Resources Limited (KAS) has announced the first section of drill results from the Gap zone, at its Achmmach Tin Project in Morocco. These first pass results had been keenly awaited and haven't disappointed. They represent the first set of true resource extension drilling between the current JORC resources at Achmmach, with Ord Minnett Ltd (OM) expecting further results in the next few weeks. Key points are:

- The drill results are important as they represent the first set of results from drilling into the Gap zone at the Achmmach Project. 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).
- The outstanding results include drillhole AD100, 14.2m @ 3.2% tin (Sn) from 318.8m and drillhole AD095D1, which includes 15m @ 1.0% Sn from 128m. These are excellent tin grades, well above the current resource grade of 0.8%. The drilling results are extremely encouraging, with the grade and widths of tin intersections significantly higher than expected.
- Further assays are pending from an additional three holes previously drilled into the Gap.

OML's base case valuation of Kasbah remains \$0.48 per share with an upside valuation of \$0.64 per share. OML's 12-month price target is unchanged at \$0.55 per share. Although Morocco has not shown signs of political or civil unrest the climate across northern Africa is volatile and at least temporarily must be considered a key risk to an investment in Kasbah. Of note, Morocco is holding a referendum on constitutional reform on July 1, 2011 which will be a significant political event and could lead to some short term civil unrest in country.

#### Key Financials

Year-end June (A\$)	FY10A	FY11E	FY12E	FY13E	FY14E
Tin Price (\$US/t)	16,153	23,519	32,500	33,750	35,000
Sales Revenue (\$M)	0.0	0.0	0.0	48.0	155.7
Op. Profit Before Tax <sup>1</sup> (\$M)	0.0	0.0	0.0	28.2	85.2
Reported NPAT (\$M)	(6.0)	(10.3)	(15.2)	18.3	67.1
Normalised NPAT (\$M)	(6.0)	(10.3)	(15.2)	18.3	67.1
Reported EPS (¢)	(2.7)	(2.7)	(3.7)	3.7	13.7
Normalised EPS (¢)	(2.7)	(2.7)	(3.7)	3.7	13.7
Op. Cash Flow Per Shr (¢)	(0.5)	(0.7)	(0.8)	4.9	15.8
Total Dividends (¢)					
Normalised P/E (x)	(9.7)	(9.5)	(7.1)	7.0	1.9
EV/EBITDA	na	na	na	6.1	1.2
Price/Op. Cash Flow (x)	na	na	na	4.0	1.2
Normalised ROE (%)	-129%	-42%	-73%	26%	49%

Source: Iress, Company Data, Ord Minnett Est. Share price: \$0.215, June 29 2011.

KAS \$0.215

Recommendation

Buy

Risk Assessment  
High

#### Metals & Mining – Tin

Luke Smith

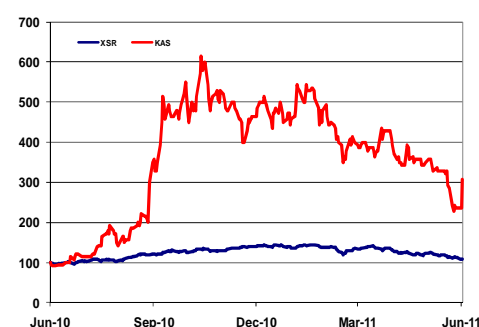
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#### Kasbah Resources Limited

ASX Code	KAS
52 week range	\$0.05 - \$0.44
Market Cap (\$M)	78
Shares Outstanding (M)	364.3
Av Daily Turnover (\$M)	0.8
ASX All Ordinaries	4579
ASX Small Resources	5207
Net Cash Mar11 (\$M)	25

#### Relative price performance



Source: Iress

#### Consensus earnings

	FY11F	FY12F
NPAT (C)*	-	-
NPAT (OM)	(10.3)	(15.2)
EPS (C)	-	-
EPS (OM)	(2.7)	(3.7)

Source: Iress (Only 1 other estimate)

## Projects

### Achmmach

Kasbah has announced the first drill results from the Gap Zone at its Achmmach Tin Project in Morocco. The results are excellent, surprising on the upside. The outstanding results include drillholes:

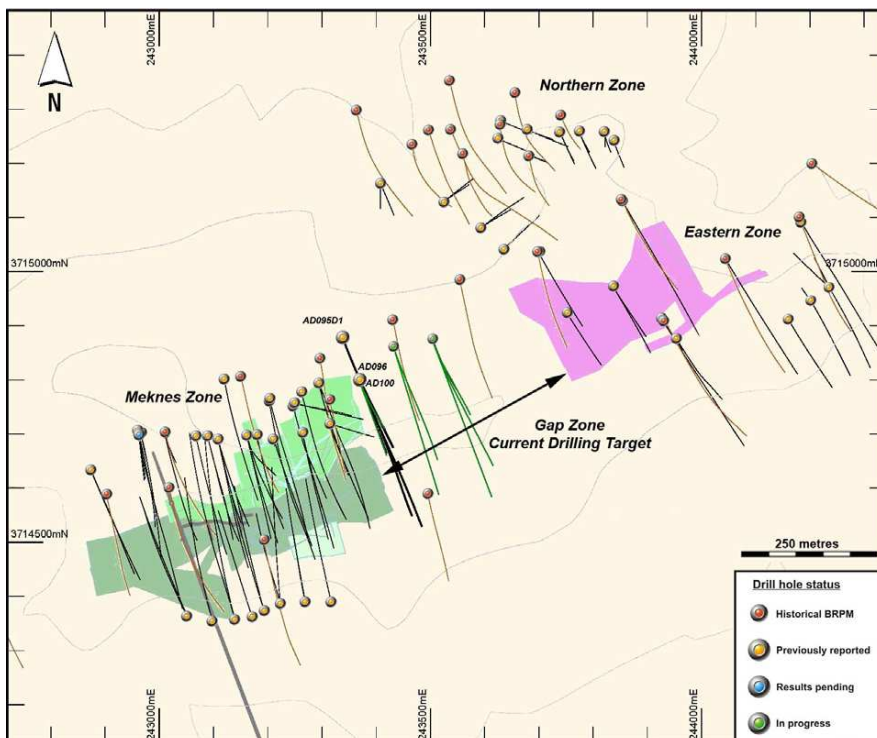
- AD100, 14.2m @ 3.2% tin (Sn) from 318.8m, and
- AD095D1, which includes 15m @ 1.0% Sn from 128m.

These are excellent tin grades, well above the current resource grade of 0.8%. The drilling results are extremely encouraging, with the grade and widths of tin intersections significantly higher than expected.

These results are the start of the drilling campaign into the Gap zone, with the goal of transforming the Achmmach Tin Project into a prized, long life asset with considerable potential for an underground mine to be developed.

The Gap zone is the 350 metre wide zone that sits between the current JORC resources of the Meknes and the Eastern zones (see figure 1). 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).

**Figure 1: Plan View of current JORC resources and the Gap Zone**



Source: KAS

Drilling at the Achmmach project is likely to be delayed by 2 to 3 weeks due to the underperformance of the drilling contractor. Kasbah has changed drilling contractors with a domestic drilling contractor expected to start drilling mid July. Kasbah is likely to appoint a major international drilling contractor in the near future and we would see this as a significant positive move by Kasbah. With the above highly encouraging results indicating a much larger system present at Achmmach, there is many months of drilling ahead, warranting an expansion to the drill program.

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 4: Timeline**

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

Source: OM

## Financial Forecast

As at 31 March 2011, Kasbah had \$25.4 million in cash and no debt. 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. These estimates result in Kasbah remaining 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 fallen more than 20% since mid-April on the London Metals Exchange, which OM believes is likely the result of fund selling that has influenced all the metals. The price of tin on the LME is now approximately US\$25,000 per tonne.

Critically, the underlying physical demand for tin has not changed over this period with prices for tin within China remaining around US\$30,000 per tonne. World production is still forecast to be less than consumption in 2011 with OM envisaging a strong tin market until at least 2014.

## Moroccan Referendum

On July 1, 2011, a referendum will be held in Morocco in relation to diluting the powers held by the King of Morocco and instituting a new constitution based upon democratic reforms. This is a referendum which has been instigated by the King in a proactive move to push Morocco more towards a constitutional democracy. The following is an excerpt from King Mohamed VI speech given earlier this month.

“ the nation's First Servant accomplishes his civic duty, and votes “Yes” to the draft Constitution which will be submitted to the people via referendum, it is because of a firm conviction that this draft Constitution duly takes into account the democratic principles, development-oriented institutions and mechanisms of good governance required; and because it safeguards the rights and dignity of all Moroccans, in keeping with the principles of equality and the rule of law.”

The draft constitution to be voted on in the referendum tomorrow is widely accepted as a significant positive move by the Moroccan King and one that should receive overwhelming support at the polls.

## 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.
- Transferring of the licence could take longer than anticipated which would cause possible delays to the development timeline and increase the perceived sovereign risk.
- Capital costs could be significantly underestimated by OM and KAS.
- Operating costs could be different to OM's forecasts.
- Further exploration is not successful, therefore limiting upside risk.
- Weather-related events causing delay and or damage to projects.
- 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	48	156
Operating Expenses	0	0	0	(20)	(70)
Mining Operating Profit Before Tax <sup>1</sup>	0	0	0	28	85
Other Income - Asset Sales & Rent	0	1	1	1	2
Other Expenses	(6)	(11)	(16)	(5)	(7)
<b>EBITDA</b>	<b>(6)</b>	<b>(10)</b>	<b>(15)</b>	<b>24</b>	<b>80</b>
Depreciation & Amortisation	0	0	0	(3)	(9)
<b>EBIT</b>	<b>(6)</b>	<b>(10)</b>	<b>(15)</b>	<b>21</b>	<b>71</b>
Net Interest Income	0	0	0	(2)	(4)
<b>Pre-Tax Profit</b>	<b>(6)</b>	<b>(10)</b>	<b>(15)</b>	<b>18</b>	<b>67</b>
Tax Expense	0	0	0	0	0
Reported NPAT	(6)	(10)	(15)	18	67
Adjustments (after-tax)	0	0	0	0	0
<b>Normalised NPAT</b>	<b>(6)</b>	<b>(10)</b>	<b>(15)</b>	<b>18</b>	<b>67</b>
EBITDA Margin (%)	na	na	na	43%	45%
Effective tax Rate (%)	0%	0%	0%	0%	0%
EPS Reported (cps)	(2.69)	(2.74)	(3.68)	3.73	13.70
EPS Normalised (cps)	(2.69)	(2.74)	(3.68)	3.73	13.70
EPS growth (%)	na	na	na	na	267%
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)	24	77
Tax Paid On Operating Activities	0	0	0	0	0
<b>Operating Cash Flow</b>	<b>(1)</b>	<b>(3)</b>	<b>(3)</b>	<b>24</b>	<b>77</b>
Exploration & Development	(4)	(7)	(12)	(2)	(2)
Property, Plant & Equipment	(0)	(1)	(1)	(90)	(24)
Tax Paid On Investment Activities	0	1	1	1	2
Other Investing Items	0	1	1	1	2
<b>Investing Cash Flow</b>	<b>(4)</b>	<b>(8)</b>	<b>(12)</b>	<b>(91)</b>	<b>(25)</b>
Inc/(Dec) in Equity	5	30	11	30	0
Dividends Paid	0	0	0	0	0
Financing Costs	0	(2)	0	0	0
Debt Draw down/(Repayment)	0	0	0	50	(35)
<b>Financing Cash Flow</b>	<b>5</b>	<b>29</b>	<b>11</b>	<b>80</b>	<b>(35)</b>
<b>Inc/(Dec) in Cash</b>	<b>(1)</b>	<b>18</b>	<b>(4)</b>	<b>12</b>	<b>18</b>

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash & Deposits	4	22	18	30	48
Receivables	0	0	0	6	19
Other Current Assets	0	0	0	4	14
Property, Plant & Equipment	0	1	1	87	101
Exploration & Development	1	1	1	1	1
Investments	0	0	0	0	0
Other Non Current Assets	0	0	0	0	2
<b>Total Assets</b>	<b>5</b>	<b>24</b>	<b>20</b>	<b>128</b>	<b>185</b>
Payables and other current Liabilities	1	1	1	7	26
Short Term Debt	0	0	0	10	3
Long Term Debt	0	0	0	40	12
Other Non Current Liabilities	0	0	0	3	9
<b>Total Liabilities</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>61</b>	<b>50</b>
<b>Total Equity</b>	<b>5</b>	<b>23</b>	<b>19</b>	<b>68</b>	<b>135</b>
Net Debt (Cash)	(4)	(22)	(18)	20	(33)

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	23,519	32,500	33,750	35,000
US\$/A\$	0.88	0.97	1.00	0.95	0.91

Tin Production (tonnes)	FY10A	FY11E	FY12E	FY13E	FY14E
Achmmach Tin (underground)	0	0	0	616	3,388
Achmmach Tin (openpit)	0	0	0	770	963

<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,386</b>	<b>4,351</b>
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Cash Cost incl royalty (US\$/t)	na	na	na	11,144	12,912
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JORC Resource Estimates	Status	kt	kt	kt
<b>Reserves</b>		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.	-	-	-
<b>Total</b>		-	17	37

\*As at December 2010

Leverage	FY10A	FY11E	FY12E	FY13E	FY14E
Net Debt/Equity	-81%	-94%	-92%	29%	-24%
Net Debt/Total Assets	-70%	-91%	-87%	15%	-18%
Interest Cover (x)	na	na	na	9.0	19.2

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	-8.0	-7.8	-5.8	5.8	1.6
Price/Op Cash Flow	na	na	na	3.3	1.0
EV*	na	57	70	124	72
EV/EBITDA	na	-5.5	-4.6	5.2	0.9
EV/EBIT	na	-5.5	-4.6	6.0	1.0

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

Valuation	Base Case		Upside Case	
	\$M	\$ per share <sup>2</sup>	\$M	\$ per share <sup>2</sup>
Achmmach Tin (underground)	170	0.35	181	0.37
Achmmach Tin (openpit)	5	0.01	67	0.14
Tamlalt Gold Project	2	0.00	10	0.02
<b>Total</b>	<b>233</b>	<b>0.48</b>	<b>313</b>	<b>0.64</b>

Corporate	(7)	(0.01)	(8)	(0.02)
Options	12	0.02	12	0.02
Cash / (debt)	51	0.10	51	0.10
<b>Total</b>	<b>233</b>	<b>0.48</b>	<b>313</b>	<b>0.64</b>

Valuation	Base:	\$0.48	Upside:	\$0.64
Discount of share price to valuation		121%		198%

Per share valuation sensitivity to:

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

Current price	\$0.22
Recommendation	Buy
Risk rating	High
12-month price target	\$0.55

Notes: 1. Mining operating profit before tax is the direct mining contribution.

2. May not add because of dilution effects.

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## Guide to Ord Minnett Recommendations

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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