

Australian Equity Research

13 December 2016

Tim McCormack | Analyst | Canaccord Genuity (Australia) Ltd. | tim.mccormack@canaccord.com.au | +61.8.6216.2088

Larry Hill | Associate Analyst | Canaccord Genuity (Australia) Ltd. | larry.hill@canaccord.com.au | +61.2.9263.2745

SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.95

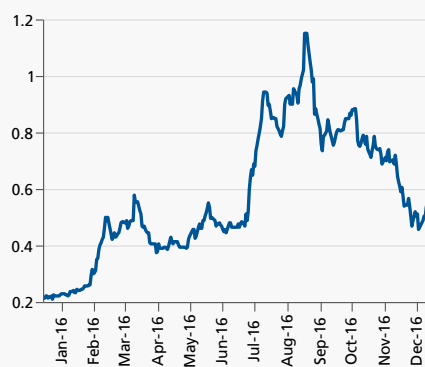
unchanged

Price (13-Dec) A\$0.53

Ticker BLK-ASX

52-Week Range (A\$):	0.21 - 1.18
Avg Daily Vol (M) :	1.3
Market Cap (A\$M):	151
Shares Out. (M) :	284.9
Enterprise Value (A\$M):	171
Cash (A\$M):	20.0
Long-Term Debt (A\$M):	(36.0)
NAV /Shr (5%) (A\$):	0.95
Major Shareholders:	Hunter Hall - 16.1%

FYE Jun	2016A	2017E	2018E	2019E
Gold Production (000oz)	0	60	104	108
All in Sustaining Cost (Gold) (US \$ /oz)	-	1,008	802	824
EBITDA (A\$M)	(9.6)	34.3	77.2	80.3
Net Income Adj (A\$M)	(8.0)	20.4	50.0	54.4



BLK
Source: FactSet

Blackham Resources (BLK:ASX) is developing the Matilda Gold Project in Western Australia. First gold pour is expected in the 2H 2016 with a significant resource base likely to support production of ~100kozpa for an initial 5 years.

Company Update

Resource increases to 6Moz

Canaccord Genuity (Australia) Limited has received a fee as the Lead Manager and Sole Bookrunner to the Blackham Resources Limited Placement of ~25 million shares at A\$1.00 per share to raise ~A\$25 million in August 2016.

BLK has grown the Wiluna/Matilda resource base to 6Moz (previously 5.1Moz), and is beginning to paint a clearer picture of the production growth potential beyond the current ~100kozpa free-milling gold operation. An Expansion Study, investigating how to best utilise the existing BIOX circuit and considerable sulphide resource base is underway, and we expect the latest open pit resources to form an important part the proposed production profile. BLK has previously highlighted the potential for the Wiluna sulphides to add an additional 75-130kozpa of production, which could see overall production push towards ~200kozpa in the medium term. We maintain our SPEC BUY recommendation, with nameplate production, resource/reserve updates and Expansion Study outcomes all meaningful catalysts for the 1H 2017.

Open pit resources the bulk of the upgrade. The maiden East/West open pit resource of 8.6Mt at 2.5g/t for 700koz accounted for most of the additional resource base. Mineralisation has been re-modelled above a 0.3g/t lower-cut, and reported within an A\$1,800/oz optimised pit shell, with 59% reporting to the Indicated resource category. Further potential upside to the East/West resource includes, possible linking of the East/West pit and North pit, and mineralisation has also been identified between the East and West lodes. Further open pit resource upgrades are likely in early 2017, which will incorporate recently completed drilling at the Happy Jack, Bulletin, Creek Shear and Moonlight deposits. We expect the new open pit resources to serve as base load ore feed for the Wiluna sulphide Expansion Study.

High grade underground wins also important. The Golden Age resource (free milling underground), which is currently being mined grew by 21% to 1.4Mt at 4.3g/t for 191koz (previously 158koz). Golden Age provides an important grade sweetener to the current production blend over the next 3 years, and conversion of the additional resource to reserve will be an important catalyst. Additional underground sulphide resources that increased as part of the overall update included Bulletin (now 2.8Mt at 4.3g/t for 392koz) and Essex (now 666kt at 4.5g/t for 97koz) and these will be worked into the Expansion Study.

Gold production ramping up, hedging closed out. BLK provided a snapshot of gold production from its last gold pour (done weekly), where ~2koz was recovered. FY17 production guidance of 65-75koz, points to a strong 2H, especially when considering that we forecast DecQ'16 (1st production Q) of 9.6koz. BLK also recently closed out 41.2koz of its hedging profile at an average price of A\$1762/oz, realising A\$6.3m in cash. The company now only has 12.8koz forward sold at A\$1701/oz, and is largely exposed to the prevailing spot gold price. We expect BLK to finish the DecQ'16 with ~A\$20m in cash, with debt repayments not scheduled until the end of the March 2017.

Valuation. Our A\$0.95/sh price target (unchanged) is based on a NPV5% for the Matilda gold project net of corporate and other adjustments.

FINANCIAL SUMMARY

Blackham Resources

ASX:BLK

Analyst: Tim McCormack
Date: 13/12/2016
Year End: June

Rating:
Target Price:

SPEC BUY
\$0.95

Market Information

Share Price	A\$	0.53
Market Capitalisation	A\$m	151.0
12 Month Hi	A\$	1.17
12 Month Lo	A\$	0.21
Average daily turnover (3 month)	m	1.265
Issued Capital	m	284.89
ITM Options	m	32.43
Fully Diluted	m	317.32

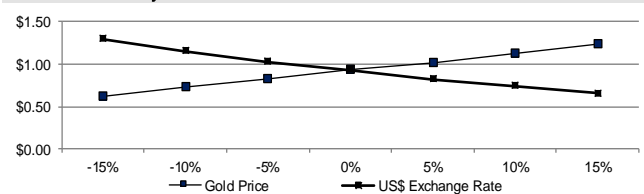
Valuation

	A\$m	A\$/share
Matilda NPV @ 5%	267.82	0.84
Exploration & Projects	50.00	0.16
Corporate	-17.29	-0.05
Forwards (inc spot deferred)	1.87	0.01
Cash & Liquid investments	20.04	0.06
Debt	-36.00	-0.11
Unpaid Capital	7.97	0.03
TOTAL NAV	294.41	0.93
Price:NAV		0.57
NAV at Spot US\$1,159/oz, AUDUSD \$0.75		0.65
Target Price		0.95

Assumptions

	2016a	2017e	2018e	2019e
Gold Price (US\$/oz)	1,168	1,298	1,292	1,305
AUD:USD	0.734	0.760	0.752	0.746
Gold Price (A\$/oz)	1,591	1,707	1,718	1,749

Valuation Sensitivity



Production Metrics

	2016e	2017e	2018e	2019e
Matilda				
Gold production (koz)	0	59.5	104.0	108.4
AISC (A\$/oz)	0	1,327	1,066	1,106

Resources & Reserves

	Mt	Grade	Moz
Matilda gold project - Resources			
Measured	0.2	2.1	0.0
Indicated	24.0	3.4	2.3
Inferred	24.0	3.1	2.4
Resources	48.0	3.3	5.1
Matilda gold project - Reserves			
Proved	0.2	1.90	0.01
Probable	6.8	2.50	0.55
Reserves	7.1	2.50	0.56

Directors & Management

Name	Position
Milan Jerkovic	Non-Executive Chairman
Bryan Dixon	Managing Director
Alan Thom	Executive Director
Greg Miles	Non-Executive Director
Peter Rozenauers	Non-Executive Director

Substantial Shareholders

	Shares (m)	%
Hunter Hall	45.80	16.1%

Source: Canaccord Genuity estimates

Company Description

Blackham Resources (BLK:ASX) is developing the Matilda Gold Project in Western Australia. First gold pour is expected in the 2H 2016 with a significant resource base likely to support production of ~100kozpa for an initial 7 years.

Profit & Loss (A\$m)

	2016a	2017e	2018e	2019e
Revenue	0.0	100.1	178.7	189.6
Operating Costs	0.0	-57.4	-88.5	-95.2
Royalties	0.0	-5.0	-7.8	-7.2
Corporate & O'heads	-8.5	-3.4	-3.7	-3.8
Exploration (Expensed)	-1.2	0.0	-1.5	-3.1
EBITDA	-9.6	34.3	77.2	80.3
Dep'n	0.0	-3.6	-6.2	-6.5
EBIT	-9.6	30.7	71.0	73.8
Net Interest	1.6	-1.6	0.5	3.9
Tax	0.0	-8.7	-21.4	-23.3
NPAT	-8.0	20.4	50.0	54.4
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-8.0	20.4	50.0	54.4

Cash Flow (A\$m)

	2016a	2017e	2018e	2019e
Cash Receipts	0.4	100.1	178.7	189.6
Cash paid to suppliers & emp	-2.0	-67.6	-100.0	-106.1
Tax Paid	0.0	-10.1	-21.4	-23.3
Net Interest	0.3	-1.6	0.5	3.9
Operating Cash Flow	-1.4	20.8	57.8	64.1
Exploration and Evaluation	-12.8	-9.0	-6.0	-6.0
Capex	-6.1	-44.8	-8.2	-11.6
Other	-1.2	6.3	0.0	0.0
Investing Cash Flow	-20.2	-47.5	-14.2	-17.6
Debt Drawdown (repayment)	22.0	2.3	-21.6	-8.6
Share capital	25.0	25.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	1.8	-1.3	0.0	0.0
Financing Cash Flow	48.8	26.0	-21.6	-8.6
Opening Cash	8.3	31.9	31.2	53.2
Increase / (Decrease) in cash	27.3	-0.7	22.0	37.9
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	35.5	31.2	53.2	91.1

Balance Sheet (A\$m)

	2016a	2017e	2018e	2019e
Cash + S/Term Deposits	31.9	31.2	53.2	91.1
Other current assets	1.2	33.9	59.7	63.9
Current Assets	33.2	65.1	112.8	154.9
Property, Plant & Equip.	43.2	84.5	86.5	91.5
Exploration & Develop.	26.6	35.7	40.3	43.4
Other Non-current Assets	1.6	0.0	0.0	0.0
Payables	16.4	8.1	14.5	15.5
Short Term debt	0.1	21.6	8.6	0.0
Long Term Debt	29.6	8.6	0.0	0.0
Other Liabilities	24.4	67.4	87.0	90.5
Net Assets	34.1	79.5	129.5	183.9
Shareholders Funds	52.4	77.4	77.4	77.4
Reserves	4.9	4.9	4.9	4.9
Retained Earnings	-23.1	-2.7	47.3	101.7
Total Equity	34.1	79.5	129.5	183.9

Ratios & Multiples

	2016a	2017e	2018e	2019e
EBITDA Margin	nm	34%	43%	42%
EV/EBITDA	nm	4.4x	1.4x	0.7x
Op. Cashflow/Share	-\$0.01	\$0.07	\$0.20	\$0.22
P/CF	-99.1x	7.3x	2.6x	2.4x
EPS	-\$0.03	\$0.07	\$0.18	\$0.19
EPS Growth	nm	nm	145%	9%
PER	-15.5x	7.4x	3.0x	2.8x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-23%	26%	39%	30%
ROIC	-12%	26%	64%	65%
Debt/Equity	87%	11%	0%	0%
Net Interest Cover	-35.1x	9.5x	47.0x	710.1x
Book Value/share	\$0.13	\$0.28	\$0.45	\$0.65
Price/Book Value	4.0x	1.9x	1.2x	0.8x
EV/FCF		-5.6x	2.4x	1.3x

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Investment Recommendation

Date and time of first dissemination: December 13, 2016, 14:30 ET

Date and time of production: December 13, 2016, 05:22 ET

Target Price / Valuation Methodology:

Blackham Resources Limited - BLK

We base our valuation on a DCF analysis (NPV5%) of the Matilda gold project.

Risks to achieving Target Price / Valuation:

Blackham Resources Limited - BLK

Funding risk

- As stated in the Corporate and Finance section of this report, we view any significant delays or cost over runs may see the company need to access additional capital. While this does present some funding risk, considering the low level of gearing, we see no impediment to BLK accessing additional funding via an extension to the existing facility or through a new debt arrangements. Further, we can make no assurances that accessing capital won't be done without further dilution to shareholders.

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 conversion of Inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

- Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical, scheduling and other technical issues. Any increase in costs from those outlines in the PFS could reduce the profitability and free cash generation from the operating assets considerably and negatively impact our valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which could also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

- As with any mining company, BLK is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 12/13/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	581	60.90%	35.63%
Hold	280	29.35%	17.86%
Sell	29	3.04%	20.69%
Speculative Buy	64	6.71%	73.44%
	954*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

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

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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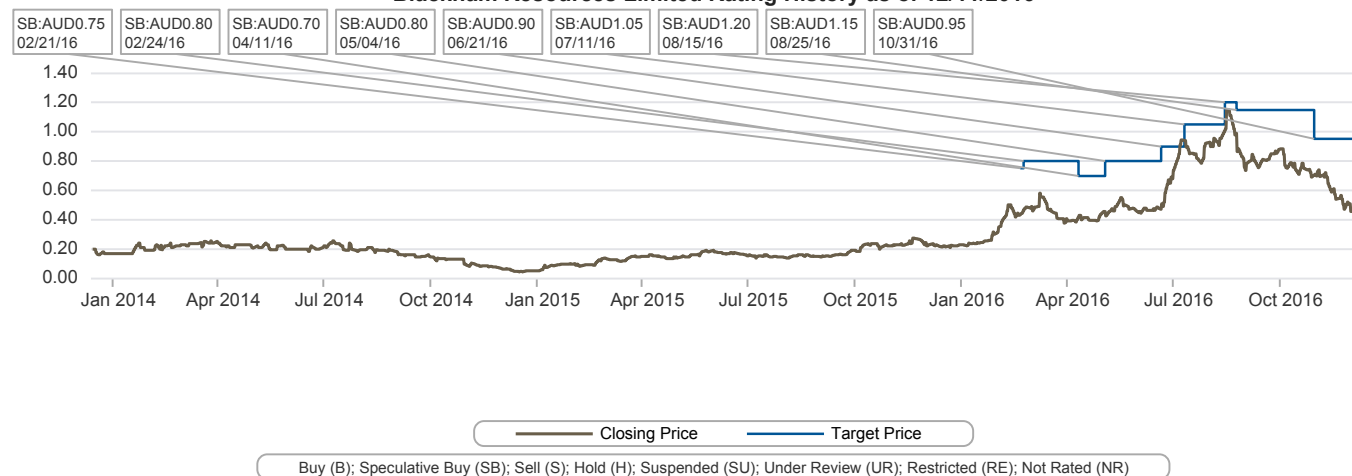
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