

## Australian Equity Research

23 January 2017

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### SPECULATIVE BUY

unchanged

**PRICE TARGET** A\$1.00↑

from A\$0.90

Price (23-Jan) A\$0.78

Ticker BLK-ASX

52-Week Range (A\$):	0.25 - 1.18
Avg Daily Vol (M) :	1.3
Market Cap (A\$M):	222
Shares Out. (M) :	284.9
Net Debt (Cash) (A\$M):	25.3
Enterprise Value (A\$M):	247
Cash (A\$M):	10.7
Long-Term Debt (A\$M):	(36.0)
NAV / Shr (AUC):	1.00
Major Shareholders:	Hunter Hall - 13%

FYE Jun	2016A	2017E	2018E	2019E
Gold Production (000oz)	0	60	106	108
All in Sustaining Cost (Gold) (US \$ / oz)	-	1,044	758	798
EBITDA (A\$M)	(9.6)↓	26.5↓	73.7↑	73.8↓
Previous	(7.7)	33.0	71.8	77.2
Net Income Adj (A\$M)	(8.0)	14.7↓	46.9↑	49.2↓
Previous	-	18.3	44.9	49.4



Source: FactSet

Priced as of close of business 23 January 2017

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.

## Raising Target Price

### DecQ'16 report

**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.**

The DecQ'16 marked the transition from developer to producer for BLK, with production rates now at the ~100kozpa nameplate run rate. The company also continues to report solid exploration success, with a recent update increasing the Resource inventory to 63Mt at 3.2g/t for 6.4Moz (49% M&I). An Expansion Study investigating how to best utilise the considerable sulphide resource and existing BIOX circuit is nearing completion, with outcomes expected in February 2017. Initial findings have demonstrated the potential for an additional 100-150koz of production from the Wiluna sulphides, which could come on line reasonably quickly given the existing infrastructure and push group production beyond 200kozpa. We maintain our SPEC BUY and raise our TP to A\$1.00 (previously A\$0.90), with cash generation, ongoing exploration and Expansion Study outcomes all meaningful catalysts in the short term.

**DecQ'16 production in line, FY17 guidance slightly trimmed.** Gold production of 8.8koz (previously released) was in line with our expectations with the month of December a notable step-change in production rates towards hitting nameplate (100kozpa). BLK has also advised that subsequent to the end of the DecQ'16, commercial production has been achieved and the operation is cashflow positive. FY17 guidance has been trimmed slightly to 60-70koz (previously 64-75koz), which is in line with our previous estimate of 59.5koz, and current forecast of 60koz. Cash at the end of the DecQ was A\$10.7m (lower than our expected A\$19.5m) with the variance largely a result of higher than forecast waste movements (YTD strip ratio 14:1 vs our forecast 10:1), coupled with some additional modifications to the crushing circuit.

**Expansion Study on the Wiluna sulphides due February 2017.** Outcomes from the Wiluna sulphide Expansion Study are expected in the near term, with the proposed mine plan now focusing on developing a 1.5Mtpa sulphide circuit. Initial results indicate the Wiluna underground would have 2 of the existing 5 declines in operation at any point in time, supplemented by high grade +2.5g/t open pit material that has been delineated in the recent Resource updates. We expect that key capital items will be a new crushing, grinding and flotation circuit, with ore then processed by the existing BIOX and leaching circuits. BLK has indicated that the proposed processing scenario could support an additional 100-150koz of production, with commissioning possible by late 2018. At this stage, key capital and operating parameters remain unknown, but we expect to see positive outcomes in the forthcoming Expansion Study, and have materially increased our nominal exploration/project value to A\$90m (previously A\$50m).

**Resource base continues to grow.** The combined Matilda/Wiluna Resource has increased to 63Mt at 3.2g/t for 6.4Moz (previously 6Moz) with 49% in the Indicated category. All Resources are within a 20km radius of the Wiluna Gold Plant, and the key for BLK is now optimizing the Resource base, to grow the existing Mineral Reserve which stands at 7Mt at 2.5g/t for 560koz.

**Valuation.** Our A\$1.00/sh price target (previously A\$0.90/sh) is based on an NPV5% for the Matilda gold project, net of corporate and other adjustments.

**FINANCIAL SUMMARY**

Blackham Resources

ASX:BLK

Analyst: Tim McCormack  
Date: 23/01/2017  
Year End: June

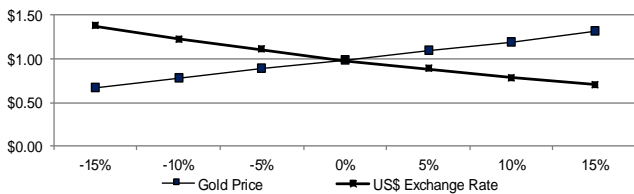
Rating: **SPEC BUY**  
Target Price: **\$1.00**

Market Information		
Share Price	A\$	0.78
Market Capitalisation	A\$m	222.2
12 Month Hi	A\$	1.17
12 Month Lo	A\$	0.25
Average daily turnover (3 month)	m	1,341
Issued Capital	m	284.89
ITM Options	m	32.43
Fully Diluted	m	317.32

Valuation		A\$m	A\$/share
Matilda	NPV @ 5%	259.89	0.82
Exploration & Projects		90.00	0.28
Corporate		-16.59	-0.05
Forwards (inc spot deferred)		1.18	0.00
Cash & Liquid investments		10.69	0.03
Debt		-36.00	-0.11
Unpaid Capital		7.97	0.03
TOTAL NAV		317.15	1.00
Price:NAV			0.78
NAV at Spot US\$1,213/oz, AUDUSD \$0.76			0.75
Target Price			1.00

Assumptions	2016a	2017e	2018e	2019e
Gold Price (US\$/oz)	1,168	1,227	1,195	1,219
AUD:USD	0.734	0.742	0.727	0.723
Gold Price (A\$/oz)	1,591	1,654	1,644	1,686

**Valuation Sensitivity**



Production Metrics		2016e	2017e	2018e	2019e
<b>Matilda</b>					
Gold production (koz)		0	59.9	106.3	108.4
AISC (A\$/oz)		0	1,407	1,042	1,104

Resources & Reserves		Mt	Grade	Moz
<b>Matilda gold project - Resources</b>				
Measured		0.2	2.1	0.0
Indicated		31.0	3.1	3.1
Inferred		32.0	3.2	3.3
<b>Resources</b>		<b>63.0</b>	<b>3.2</b>	<b>6.4</b>

Matilda gold project - Reserves		Mt	Grade	Moz
Proved		0.2	1.90	0.01
Probable		6.8	2.50	0.55
<b>Reserves</b>		<b>7.1</b>	<b>2.50</b>	<b>0.56</b>

**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		37.30	13.0%

**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
<b>Revenue</b>	0.0	97.6	175.0	182.8
Operating Costs	0.0	-62.9	-88.5	-95.2
Royalties	0.0	-4.8	-7.6	-6.9
Corporate & O'heads	-8.5	-3.4	-3.7	-3.8
Exploration (Expensed)	-1.2	0.0	-1.5	-3.1
<b>EBITDA</b>	<b>-9.6</b>	<b>26.5</b>	<b>73.7</b>	<b>73.8</b>
Dep'n	0.0	-3.6	-6.4	-6.5
<b>EBIT</b>	<b>-9.6</b>	<b>22.9</b>	<b>67.3</b>	<b>67.3</b>
Net Interest	1.6	-1.9	-0.2	2.9
Tax	0.0	-6.3	-20.1	-21.1
<b>NPAT</b>	<b>-8.0</b>	<b>14.7</b>	<b>46.9</b>	<b>49.2</b>
Abnormals	0.0	0.0	0.0	0.0
<b>NPAT (reported)</b>	<b>-8.0</b>	<b>14.7</b>	<b>46.9</b>	<b>49.2</b>

Cash Flow (A\$m)	2016a	2017e	2018e	2019e
Cash Receipts	0.4	97.6	175.0	182.8
Cash paid to suppliers & emp	-2.0	-72.9	-99.8	-105.9
Tax Paid	0.0	-9.7	-20.1	-21.1
Net Interest	0.3	-1.9	-0.2	2.9
<b>Operating Cash Flow</b>	<b>-1.4</b>	<b>13.0</b>	<b>54.9</b>	<b>58.8</b>
Exploration and Evaluation	-12.8	-9.0	-6.0	-6.0
Capex	-6.1	-46.8	-8.2	-11.5
Other	-1.2	5.9	0.0	0.0
<b>Investing Cash Flow</b>	<b>-20.2</b>	<b>-49.9</b>	<b>-14.2</b>	<b>-17.5</b>
Debt Drawdown (repayment)	22.0	5.1	-21.6	-11.5
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
<b>Financing Cash Flow</b>	<b>48.8</b>	<b>28.9</b>	<b>-21.6</b>	<b>-11.5</b>
Opening Cash	8.3	31.9	23.9	43.0
Increase / (Decrease) in cash	27.3	-8.0	19.0	29.8
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>35.5</b>	<b>23.9</b>	<b>43.0</b>	<b>72.8</b>

Balance Sheet (A\$m)	2016a	2017e	2018e	2019e
Cash + S/Term Deposits	31.9	23.9	43.0	72.8
Other current assets	1.2	33.3	58.3	61.4
<b>Current Assets</b>	<b>33.2</b>	<b>57.2</b>	<b>101.3</b>	<b>134.1</b>
Property, Plant & Equip.	43.2	86.4	88.2	93.2
Exploration & Develop.	26.6	35.6	40.2	43.4
Other Non-current Assets	1.6	0.0	0.0	0.0
Payables	16.4	7.9	14.1	14.9
Short Term debt	0.1	21.6	11.5	0.0
Long Term Debt	29.6	11.5	0.0	0.0
Other Liabilities	24.4	64.5	83.4	86.0
<b>Net Assets</b>	<b>34.1</b>	<b>73.8</b>	<b>120.7</b>	<b>169.9</b>
Shareholders Funds	52.4	77.4	77.4	77.4
Reserves	4.9	4.9	4.9	4.9
Retained Earnings	-23.1	-8.4	38.5	87.7
<b>Total Equity</b>	<b>34.1</b>	<b>73.8</b>	<b>120.7</b>	<b>169.9</b>

Ratios & Multiples	2016a	2017e	2018e	2019e
EBITDA Margin	nm	27%	42%	40%
EV/EBITDA	nm	8.7x	2.6x	2.0x
Op. Cashflow/Share	-\$0.01	\$0.05	\$0.19	\$0.21
P/CF	-145.9x	17.1x	4.1x	3.8x
EPS	-\$0.03	\$0.05	\$0.16	\$0.17
EPS Growth	nm	nm	220%	5%
PER	-22.8x	15.1x	4.7x	4.5x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-23%	20%	39%	29%
ROIC	-12%	19%	61%	60%
Debt/Equity	87%	16%	0%	0%
Net Interest Cover	-35.1x	6.9x	37.7x	323.5x
Book Value/share	\$0.13	\$0.26	\$0.42	\$0.60
Price/Book Value	5.8x	3.0x	1.8x	1.3x
EV/FCF		-6.3x	4.7x	3.6x

Source: Company report, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: January 23, 2017, 14:30 ET

Date and time of production: January 23, 2017, 05:46 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 01/23/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	595	61.40%	37.14%
Hold	280	28.90%	17.50%
Sell	31	3.20%	22.58%
Speculative Buy	63	6.50%	71.43%
	969*	100.0%	

\*Total includes stocks that are Under Review

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

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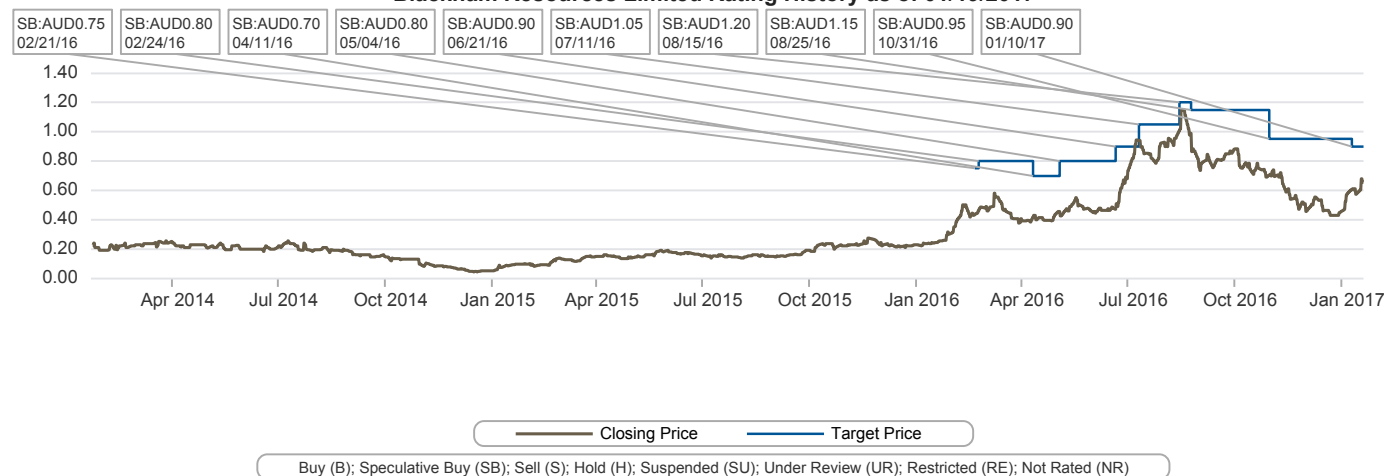
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**Blackham Resources Limited Rating History as of 01/19/2017****Online Disclosures**

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