

9 Sep 2014

IRONBARK ZINC LTD (IBG)

Upside is still enormous if zinc prices keep going up

Zinc prices have had a significant rally in the past few months, and many sell-side commodity analysts expect the rally to continue.

Ironbark Zinc Limited is developing the very large Citronen zinc project in Greenland. Due to the scale of the project (large production and long mine life), the upside leverage to zinc prices is very significant. We estimate every 1 cent that zinc rises above US\$1/lb adds 0.7-1.5cps to our valuation.

Our base case valuation (NPV₁₂) of IBG is \$0.27. The Company is engaged with China Non-Ferrous Corp (NFC) for potential financing. The MOU encompasses a 70% debt funding proposal brokered through Chinese banks and provides NFC with a right to buy a 19.9% direct interest at the project level. However, our base valuation assumes a traditional financing agreement (ie no project divestment to NFC), and hence we assume equity dilution. Our base case dilution is significant because we also assume equity is raised at low prices (~19cps). More likely though, it is possible that equity could be raised at significantly higher levels should the share price factor in high zinc prices ahead of such a raising. Fig 1 presents this case.

The table shows our base case valuation (assuming large dilution) and two more optimistic scenarios. Our "Lower Bull Case" valuation assumes the project is funded 100% equity, but at prices closer to the full project value. Our "Maximum Bull Case" valuation assumes the project is funded entirely with debt (or funded with internal cash flow from a larger company).

Upcoming news flow...

- September Qtr 2014: Lodging of mining licence application;
- Dec Qtr 2014 or March Qtr 2015: Granting of mining licence;
- March or June Qtrs 2015: Financing negotiations completed;
- June Qtr 2015: Some early site works could begin;

Retain Speculative Buy recommendation.

Despite a decent rally in the share price, there remains significant upside if zinc prices rise in line with the upper end of expectations, in our view. We maintain our Speculative Buy recommendation.

Fig. 1: IBG leverage to long term zinc prices

Zinc Price per lb		Base Case (aggressive dilution)		Lower Bull Case (100% equity funded)		Maximum Bull Case (100% debt funded)	
AUD*	USD	IBG Val. (A\$/shr)	New Shares (m)	IBG Val. (A\$/shr)	New Shares (m)	IBG Val. (A\$/shr)	New Shares (m)
0.65	0.60		n/a		n/a		0
0.76	0.70		n/a		n/a		0
0.86	0.80		n/a		n/a		0
0.97	0.90		n/a		n/a		0
1.08	1.00	\$ 0.03	5415	\$ 0.01	32126	\$ 0.25	0
1.19	1.10	\$ 0.19	964	\$ 0.18	2456	\$ 0.50	0
1.30	1.20	\$ 0.28	790	\$ 0.38	1293	\$ 0.75	0
1.40	1.30	\$ 0.35	728	\$ 0.58	879	\$ 1.00	0
1.51	1.40	\$ 0.43	696	\$ 0.79	667	\$ 1.25	0
1.62	1.50	\$ 0.50	676	\$ 1.01	537	\$ 1.50	0
1.73	1.60	\$ 0.57	663	\$ 1.24	450	\$ 1.75	0
1.84	1.70	\$ 0.64	654	\$ 1.47	387	\$ 2.00	0
1.94	1.80	\$ 0.71	647	\$ 1.70	339	\$ 2.25	0
2.05	1.90	\$ 0.78	641	\$ 1.93	302	\$ 2.50	0
2.16	2.00	\$ 0.85	637	\$ 2.17	272	\$ 2.74	0

AUD/USD* 0.93

Source: Hartleys. Valuations based on a 12% discount rate.

Share Price	\$0.150
Valuation	\$0.27
Price Target (12 month)	\$0.34

Brief Business Description:

Very large zinc development project in Greenland

Hartleys Brief Investment Conclusion

Deposit is large and implies long mine life. Marginally economic on consensus estimated zinc prices, very economic at industry (the upper end of sell-side consensus) forecasted prices.

Chairman & MD

Peter Bennetto (Non Executive Chairman)

Jonathan Downes (Managing Director)

Major Shareholders

Nyrstar Int	22.1%
Glencore Xstrata	9.5%
L1 Capital	7.6%

Company Address

Level 1, 350 Hay St
Subiaco, WA, 6008

Issued Capital	441.6m
- fully diluted (no conv. Notes)	447.6m

Market Cap	A\$66.2m
- fully diluted	A\$67.1m

Cash (30 Sep 14e)# A\$3.7m

Cash (30 Sep 14e) notes drawn A\$53.7m

Debt (30 Sep 14e)# A\$0.0m

EV A\$62.5m

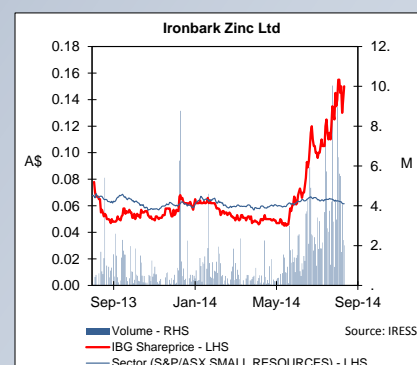
EV/Resource Zn A\$0.0053/lb

EV/Reserve Zn -

Prelim. (A\$m)	FY15e	FY16e	FY17e
Prod (kt Zn eq)	0.0	0.0	84.4
Op Cash Flw	-2.2	-14.2	36.7
Norm NPAT	-2.2	-31.6	32.1
CF/Share (cps)	-0.5	-3.4	2.2
EPS (cps)	-0.6	-3.7	2.4
P/E	-28.6	-4.4	6.7

	Zn	Pb
Resources (Billion lb)	11.9	1.2
Reserves (Billion lb)	0.0	0.0

we assume convertible notes are never drawn



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Hartleys has completed a capital raising in the past 12 months for Ironbark Zinc Limited ("Ironbark"), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Ironbark, for which it has earned fees and continues to earn fees. Analyst has a beneficial interest in IBG. See back page for details.

Ironbark Zinc Ltd IBG		Share Price \$0.150				9 September 2014 Speculative Buy																																																																																																																																																																																																												
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Market Capitalisation - ordinary but assumes notes are converted A\$83m						Jonathan Downes (Managing Director) Subiaco, WA, 6008																																																																																																																																																																																																												
Net Debt (cash), ex undrawn US\$50m notes -\$4m						Adrian Byass (Executive Technical Director) Ph +61 8 6461 6350																																																																																																																																																																																																												
Market Capitalisation - fully diluted A\$67m						Gregory Campbell (Executive Engineering Director) Fax +61 8 6210 1872																																																																																																																																																																																																												
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Fig. 1: Hartleys Cost Assumptions

	Underground only			Open Pit			Total		
	Total	US\$/t ore	US\$/t Zn eq	Total	US\$/t ore	US\$/t Zn eq	Total	US\$/t ore	US\$/t Zn eq
Mine life	11			3			14		
Ore grade Zn	36.1			9.9			46.0		
grade Pb	5.8%			3.1%			5.2%		
Payable Zn Mlb	3,522			500			4,022		
Payable Pb Mlb	198			60			258		
Payable Zn eq Mlb*	3,700			554			4,255		
Mining	975	27.0	0.26	69	7.0	0.12	1,044	22.7	0.25
Processing	508	14.1	0.14	165	16.8	0.30	673	14.6	0.16
Overheads (inc corporate)	507	14.0	0.14	102	10.4	0.18	609	13.3	0.14
Logistics	361	10.0	0.10	99	10.0	0.18	460	10.0	0.11
Royalties	207	5.7	0.06	32	3.3	0.06	239	5.2	0.06
Smelter fees	576	16.0	0.16	83	8.4	0.15	659	14.3	0.15
Operating Costs	1,991	55.1	0.54	336	34.1	0.61	2,327	50.6	0.55
+ logistics	2,352	65.1	0.64	435	44.1	0.78	2,786	60.6	0.65
+ royalties	2,558	70.8	0.69	467	47.4	0.84	3,025	65.8	0.71
+ smelting	3,135	86.8	0.85	550	55.8	0.99	3,684	80.1	0.87
TOTAL CASH COSTS	3,135	86.8	0.85	550	55.8	0.99	3,684	80.1	0.87

* assume Zn / Pb price ratio of 111%

Source: Hartleys

PRICE TARGET

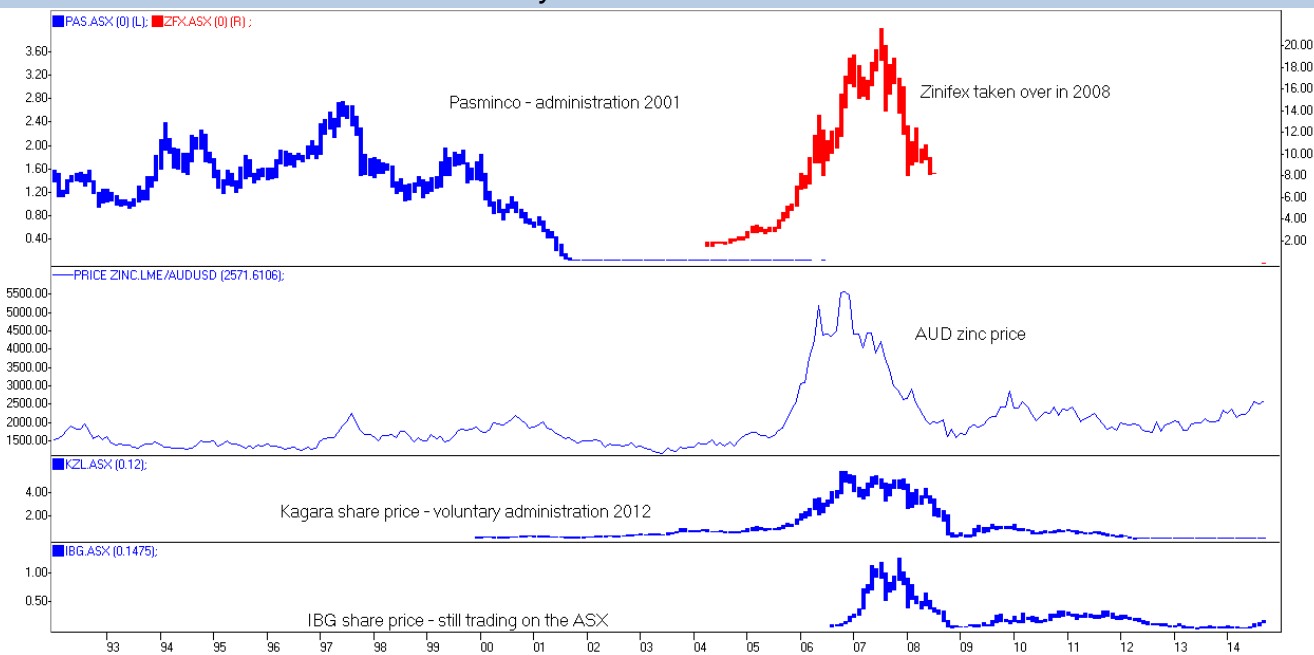
We have increased our price target to \$0.34 (from \$0.26).

Fig. 2: Price Target Methodology

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case, assuming significant equity dilution	13%	\$0.27	\$0.27
NPV at spot commodity and fx prices	30%	\$0.24	\$0.24
NPV using spot fx, but zinc prices a US\$1.37/lb	5%	\$0.50	\$0.53
NPV upper end consensus profile	5%	\$0.55	\$0.58
AUD zinc price calls (1.9Mt over 12yrs, avg strike @A\$0.92/lb)	17%	\$0.47	\$0.47
Net cash	25%	\$0.01	\$0.01
NPV using spot fx, but zinc prices at US\$1.60/lb, <u>no equity dilution</u>	5%	\$1.75	\$1.96
Risk weighted composite		\$0.33	
12 Months Price Target		\$0.34	
Shareprice - Last		\$0.150	
12 mth total return (% to 12mth target + dividend)		127%	

Source: Hartleys

Fig. 3: Companies with high exposure to zinc prices are very volatile, but have an ability to “rocket” from the bottom of a zinc cycle



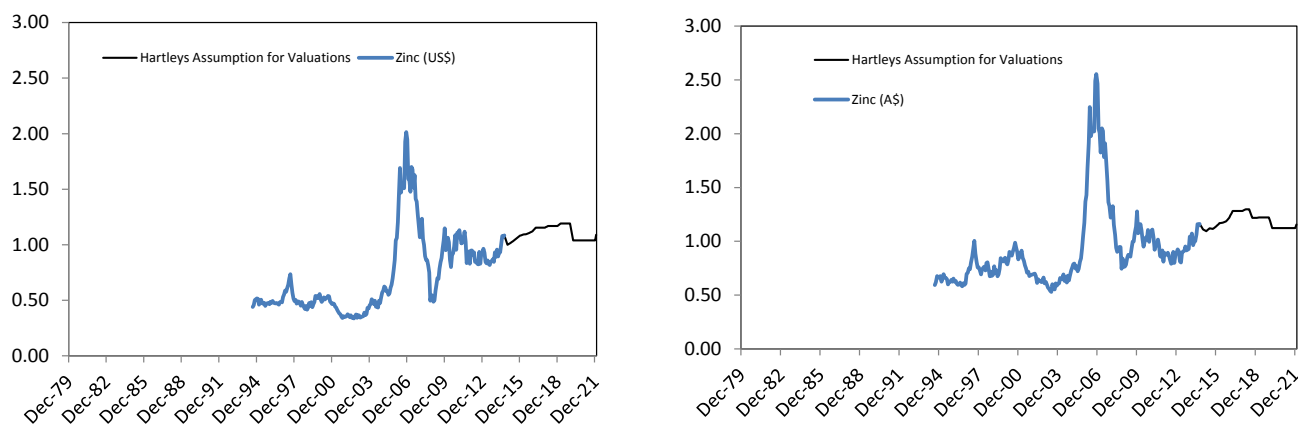
Source: Hartleys, IRESS

Fig. 4: Zinc price revisions

Assumptions for valuations	Unit	Spot	Forecasts						Revision					
			FY15e yr avg	FY16e yr avg	FY17e yr avg	FY18e yr avg	FY19e yr avg	Long run assump.	FY15e yr avg	FY16e yr avg	FY17e yr avg	FY18e yr avg	FY19e yr avg	Long run assump.
US\$/A\$	/A\$	0.925	0.91	0.94	0.91	0.90	0.97	0.93	0.0%	0.0%	0.0%	0.0%	3.6%	2.0%
Zinc (US\$)	/lb	1.08	1.01	1.08	1.13	1.16	1.18	1.04	3.2%	4.8%	4.0%	3.3%	8.9%	0.4%
Zinc (A\$)	/lb	1.17	1.11	1.15	1.24	1.29	1.22	1.12	3.2%	4.8%	4.0%	3.3%	5.1%	-1.5%
Lead (US\$)	/lb	0.99	1.01	1.05	1.07	1.09	1.09	0.94	0.3%	1.2%	1.1%	0.7%	5.2%	-4.8%
Lead (A\$)	/lb	1.07	1.11	1.11	1.17	1.21	1.13	1.01	0.3%	1.2%	1.1%	0.7%	1.6%	-6.7%

Source: Hartleys, IRESS

Fig. 5: Zinc Price assumptions



Source: Hartleys, Bloomberg

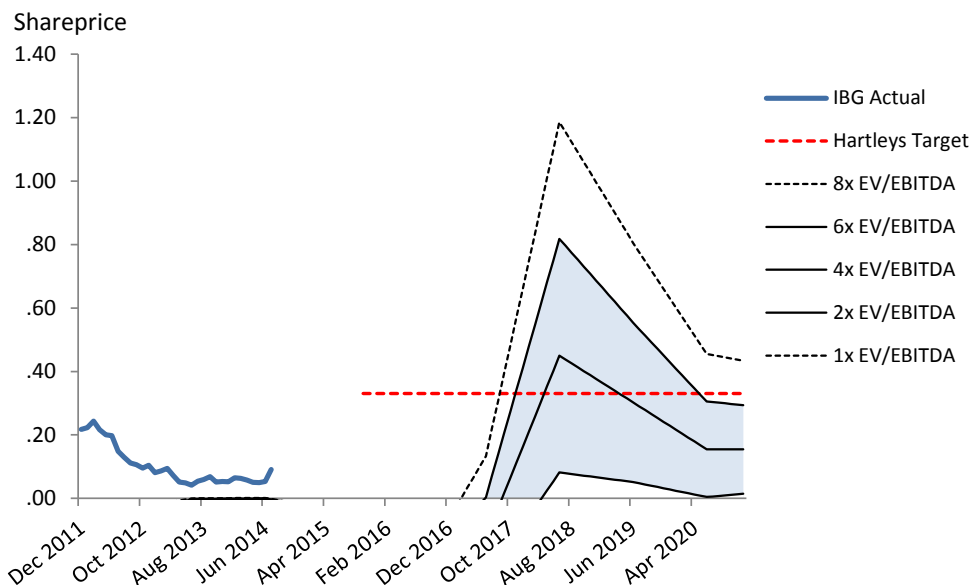
Fig. 6: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Fourteen year mine life	Low	Upside	The current high grade resource implies a mine life of >15years.
Zinc price rises	Moderate	Meaningful	Our zinc price assumptions imply prices rise over coming years.
Large proportion of capex is funded with debt	Moderate to high	Not meaningful	The long mine life should support debt funding
Conservatively, we don't assume NFC exercises its right to purchase 19.9% of the project.	Moderate	Upside	We assume the project equity is financed by IBG shareholders, and they do not receive an equity injection from a "farm-out"
Limited value for exploration and other projects	Moderate	Upside	The other assets may have exploration success
Conclusion			<i>IBG still has funding risk, which reduces as zinc prices increase (in our view). Consequently, we view IBG as leveraged to rising zinc prices.</i>

Source: Hartleys

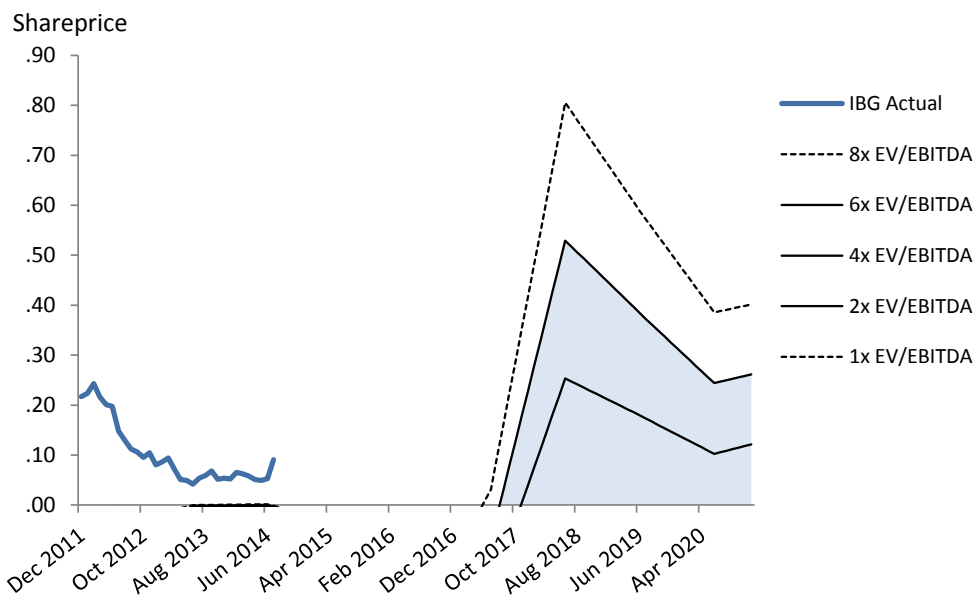
EV/EBITDA BANDS

Fig. 7: Using Hartleys base case commodity forecasts



Source: Hartleys Estimates, IRESS

Fig. 8: Using spot commodity prices



Source: Hartleys Estimates, IRESS

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Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Ironbark, for which it has earned fees and continues to earn fees.

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