

Kibaran Resources Limited

Another piece slotting into place

By the end of 2015, KNL had secured binding 10-year graphite offtake and sales agreements with European customers for ~75% of the group's +40,000tpa planned capacity at its Epanko Graphite Project (KNL 100%) in Tanzania. On 1 February 2016, KNL announced that it had signed a non-binding MoU with Japanese commodities trader Sojitz Corporation for the bulk of the remaining 10,000tpa. In response to a 31 May 2016 ASX Price and Volume Query, KNL noted that at a company presentation delivered last week at the Resources Rising Stars Conference in Brisbane, it stated that it was **preparing to finalise a binding sales contract with Sojitz.**

A successful binding offtake agreement with Sojitz is important as:

- It provides additional independent endorsement of the quality and commercial appeal of the Epanko graphite.
- It effectively insulates KNL from the graphite spot market (as the bulk of output is contracted out).
- It exposes KNL to the Asian (Japan, S.Korea) Li-ion battery supply chain, and the higher-value added graphite market (spherical and expandable graphite).
- **It could, we suggest, act as the incentive to bring debt financiers "over the line". KNL is currently in advanced negotiations with KfW-Bank (completing due diligence on a US\$40m project debt facility), and with Nedbank (expression of interest in a US\$30m project debt facility).**

Target price (risk-adjusted): unchanged at A\$0.30ps

We maintain a risk-adjusted target price of A\$0.30ps and a Speculative Buy recommendation. We see scope for our target price to increase significantly as our 40% risk discount unwinds when financing is secured, and project construction commences. In addition, we have attached a significant discount to KNL's second graphite project (Merelani-Arusha) which could potentially increase group production to ~150ktpa, while we have not attached any value to KNL's downstream graphite product manufacturing strategy.

Key Financials

Year-end June	FY15A	FY16E	FY17E	FY18E	FY19E
Graphite price (US\$/t)	na	na	na	1,150	1,150
Total costs (US\$/t)	na	na	na	-654	-658
AUD:USD exchange rate	na	na	na	1	0.80
Production / sales (tonnes)	na	na	na	21098	31,646
Revenue (A\$m)	0.0	0.0	0.0	30.3	45.5
EBITDA (A\$m)	-5.8	-2.0	-2.5	13.1	19.5
Operating profit (A\$m)	-5.8	-2.0	-2.5	11.1	15.5
EBITDA margin (%)	na	na	na	na	43%
Normalised NPAT (A\$m)	-5.8	-1.9	-2.5	7.8	8.8
EPS Reported (A\$)	-0.03	-0.01	-0.01	0.02	0.03
EPS Normalised (A\$)	-0.03	-0.01	-0.01	0.02	0.03
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
PER (x)	na	na	na	9.4	8.3
Net debt / (cash) (A\$m)	-5	-1	77	67	63
Capex (A\$m)	-3	-4	-100	-1	-12

Source: IRESS, Company Data, State One Stockbroking. Share price: \$ 0.225 Jun 02, 2016

2 June 2016

KNL A\$0.225 (TP A\$0.30)

Recommendation
Speculative Buy

Risk Assessment
Higher

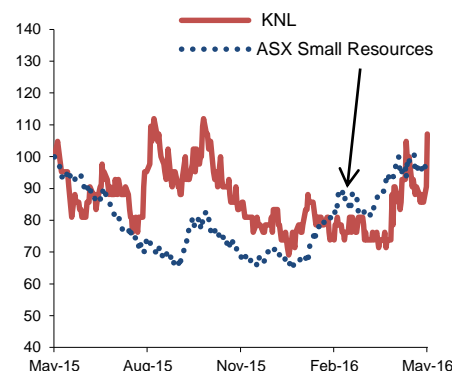
Resources – Graphite

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Kibaran Resources Limited

ASX Code	KNL
52 week range	A\$0.15-A\$0.24
Market Cap (A\$m)	41
Shares Outstanding (m)	183
Av Daily Turnover (shares)	426k
ASX All Ordinaries	5,401
FY16E BV per share (A\$)	0.07
EPS FY16E (A\$)	-0.01
Net Debt/(Cash) FY16E (A\$m)	-1

Relative price performance



Source: IRESS

Financial Statements

Kibaran Resources Limited

Year ending June

Profit & Loss Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	0.0	0.0	0.0	30	46
Mining/Hauling	0.0	0.0	0.0	(5)	(8)
Processing	0.0	0.0	0.0	(9)	(13)
Corporate/Royalty/Other	(5.8)	(2.0)	(2.5)	(3)	(5)
EBITDA	(5.8)	(2.0)	(2.5)	13	19
Depreciation & Amortisation	0.0	0.0	0.0	(2)	(4)
Operating profit	(5.8)	(2.0)	(2.5)	11	15
NOI	0.0	0.0	0.0	0	0
EBIT	(5.8)	(2.0)	(2.5)	11	15
Interest income	0.0	0.1	0.0	0.1	0.2
Interest expense	0.0	0.0	0.0	0.0	(3.1)
Tax expense	0.0	0.0	0.0	(3)	(4)
Reported NPAT	(5.8)	(1.9)	(2.5)	8	9
Normalised NPAT	(5.8)	(1.9)	(2.5)	8	9

EBITDA Margin (%)	na	na	na	na	43%
Operating profit margin (%)	na	na	na	na	34%
EPS Reported (A\$)	(0.03)	(0.01)	(0.01)	0.02	0.03
EPS Normalised (A\$)	(0.03)	(0.01)	(0.01)	0.02	0.03
EPS growth (%)	nm	nm	nm	nm	13%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Average no. of shares (m)	145	208	271	327	327
Year-end no. of shares (m)	182	216	327	327	327

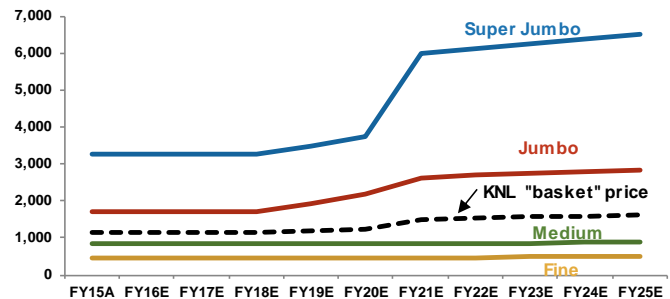
Cash Flow Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
EBITDA	(5.7)	(2.0)	(3)	13	19
Investment in working capital	(0.3)	0.1	0	(3)	(2)
Tax expense	0.0	0.0	0	0	0
Operating Cash Flow	(6.0)	(1.9)	(3)	10	18
Capex	(2.8)	(3.5)	(100)	(1)	(12)
Other investments	0.0	0.0	0	0	0
Investing Cash Flow	(2.8)	(3.5)	(100)	(1)	(12)
Net interest received / (paid)	0.0	0.1	0	0	(3)
Debt draw down / (repayment)	0.0	0.0	80	(3)	(3)
Dividends paid	0.0	0.0	0	0	0
Equity raised / (repaid)	11.2	2.0	25	0	0
Financing Cash Flow	11.2	2.1	105	(2)	(5)
Non-operating & Other	1.7	0.0	0	0	0
Inc(Dec) in Cash	4.1	(3.3)	2	7	1

Balance Sheet (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Cash & Equivalents	4.6	1.3	3	10	12
Receivables	0	0	0	5	7
Inventories	0	0	0	3	5
Other Current Assets	0	0	0	0	0
PPE and Exploration & Development	8	11	111	110	117
Deferred tax asset	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	12	13	115	128	140
Payables and other current Liabilities	0.2	0.2	0.2	8	14
Short Term Debt	0	0	5	3	0
Long Term Debt	0	0	75	75	75
Other Non Current Liabilities	0	0	0.0	0	0
Total Liabilities	0	0	80	86	89
Total Equity	12	12	34	42	51
Net Debt (Cash)	(5)	(1)	77	67	63

Key Shareholders	%	Date
Strategic Resource Management	7.9	
JP Morgan Nominees	4.9	Sep-15
Talisman Capital	2.9	

Source: Company, IRESS, State One Stockbroking forecasts

Forecast Graphite Price Profile (US\$/t): FY15-FY25E



Operational Fcasts	FY15A	FY16E	FY17E	FY18E	FY19E
Mill throughput ('000t)	na	na	na	218	326
Graphite production (tonnes)	na	na	na	21,098	31,646
Average Realised Price (US\$/t)	na	na	na	1,150	1,150
Mining cost (US\$/t)	na	na	na	(99)	(101)
Haulage cost (US\$/t)	na	na	na	(93)	(95)
Processing cost (US\$/t)	na	na	na	(332)	(339)
Admin & Royalty cost (US\$/t)	na	na	na	(129)	(123)
Total cost (US\$/t)	na	na	na	(654)	(658)
EBITDA margin (US\$/t)	na	na	na	496	492
EBITDA margin (%)	na	na	na	43%	43%
AUD:USD exchange rate	na	na	na	0.80	0.80

Epango Resources (JORC)	Status	Mt	Grade (%)	Graphite (t)
Reserves	P&P	10.9	8.6	938,000
Other	M, I, & Inf.	12.4	10.1	1,256,000
Resources	M, I, & Inf.	23.3	9.4	2,194,000

P&P = Proved and Probable, M, I, & Inf. = Measured, Indicated, and Inferred

Leverage	FY15A	FY16E	FY17E	FY18E	FY19E
Net Debt/Equity	cash	cash	223%	159%	124%
Gearing (ND/ND+E)	cash	cash	69%	61%	55%
Interest Cover (x)	na	na	na	na	5.4

Valuation Ratios (x)	FY15A	FY16E	FY17E	FY18E	FY19E
Normalised P/E	na	na	na	9.4	8.3
Price/OP Cash Flow	-7	-21	-16	4	2
Book value per share (A\$)	0.07	0.06	0.11	0.13	0.16
EV/EBITDA	-6	-20	-47	8	5
ROE (%)	-47%	-15%	-7%	19%	17%

NPV _{10%} Valuation	(A\$m)	(A\$/diluted share)	Per Resource t
Epango Reserve/Mine Inventory	189	0.58	206
Epango Non-Mine Inventory	13	0.04	10
Epango Resources	202	0.62	92
Merelani-Arusha Resources	6	0.02	5
Tanga Graphite Project (nominal)	3	0.01	
Kagera Nickel Project (nominal)	3	0.01	
Exploration upside (nominal)	0	0.00	
Enterprise value	213	0.65	
Epango Project Debt	(75)	(0.23)	
Epango Project Equity Issue	25	0.08	
Equity value	163	0.50	

Risk-weighting (funding/execution/timing etc)

40%

Risk-adjusted target price

0.30

Note: Non-Mine Inventory at Epango, and Resources at the early-stage Merelani-Arusha Project, are valued at deep discounts to our estimated NPV for the Epango Project.

Valuation

Epanko Project

Our estimated (post-tax) NPV₁₀ for the Epanko Project's Reserve of 935kt of graphite (10.9Mt ore @ 8.6% TGC) is A\$189m. This compares to KNL's July 2015 BFS estimate of US\$197m (pre-tax).

Figure 1: Epanko Project NPV

Year	1	2	3	4	5	6	Year	Project		
Financial Year (end-June)	2016	2017	2018	2019	2020	2021	2022	2023	6 to 25	Total
Mine inventory - opening (Mt)	10.90	10.90	10.90	10.68	10.36	9.92	9.49	9.05		-
Mine inventory - closed (Mt)	10.90	10.90	10.68	10.36	9.92	9.49	9.05	8.62		-
Ore mined & processed (Mt)	-	-	0.22	0.326	0.435	0.435	0.435	0.435	7.40	10.55
TGC Grade (%)	10%	10%	10%	10%	10%	10%	10%	10%		8.70%
Contained Graphite (t)	-	-	21,750	32,625	43,500	43,500	43,500	43,500	602,475	917,850
Plant recovery	97%	97%	97%	97%	97%	97%	97%	97%		-
Recovered Graphite (t)	-	-	21,098	31,646	42,195	42,195	42,195	42,195	584,401	890,315
ARF (US\$/t)	1,150	1,150	1,150	1,150	1,200	1,250	1,500	1,530		1,709
AUD:USD exchange rate	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80		-
ARF (A\$/t)	1,534	1,534	1,438	1,438	1,500	1,563	1,875	1,913		2,137
Gross revenue (A\$m)	-	-	30	46	63	66	79	81	1,371	1,902
Product discount (grade/quality)	0%	0%	0%	0%	0%	0%	0%	0%		-
Net revenue (A\$m)	-	-	30	46	63	66	79	81	1,371	1,902
Costs - Waste Mining (A\$m)	-	-	(1)	(2)	(3)	(3)	(3)	(3)	(6)	(8)
Costs - Ore Mining (A\$m)	-	-	(1)	(2)	(3)	(3)	(3)	(3)	(6)	(8)
Costs - Ore Haulage (A\$m)	-	-	(2)	(4)	(5)	(5)	(5)	(5)	(11)	(15)
Costs - Ore Processing (A\$m)	-	-	(3)	(13)	(14)	(14)	(14)	(14)	(30)	(41)
Costs - Admin (A\$m)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(8)	(11)
Costs - Royalty (A\$m)	-	-	(1)	(1)	(2)	(2)	(2)	(2)	(4)	(5)
Total cash costs (A\$m)	(2)	(3)	(17)	(26)	(30)	(30)	(31)	(32)	(66)	(90)
EBITDA (A\$m)	(2)	(3)	13	19	34	36	48	49	706	1,001
Tax (@ 30% Corporate Tax)	-	-	(4)	(6)	(10)	(11)	(14)	(15)	(21)	(30)
EAT (A\$m)	(2)	(3)	9	14	24	25	34	34	494	699
Equity Funding (A\$m)	2	25	-	-	-	-	-	-		
Debt funding (A\$m)	-	75	-	-	-	-	-	-		
Project capex (A\$m)	(3.5)	(100)	-	(11)	-	-	-	-	(5)	(120)
Sustaining capex (incl. expl)	-	-	(1)	(1)	(1)	(1)	(1)	(1)	(11)	(16)
Project cashflow (A\$m)	(4)	(3)	9	2	23	24	33	34	478	666
Discount rate	10.0%									
PV of cash flow (A\$m)	189									
Assumptions	2016	2017	2018	2019	2020	2021	2022	2023		
Strip ratio (w:o)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00		
Overburden cost (US\$/t waste)	4.60	4.69	4.79	4.88	4.98	5.08	5.18	5.28		
Ore mining cost (US\$/t ore)	4.60	4.69	4.79	4.88	4.98	5.08	5.18	5.28		
Haulage costs (US\$/t ore)	8.70	8.87	9.05	9.23	9.42	9.61	9.80	9.99		
Processing cost (US\$/t ore)	31.00	31.62	32.25	32.90	25.00	25.50	26.01	26.53		
Royalties (%)	3%	3%	3%	3%	3%	3%	3%	3%		
AUD:USD	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80		
Corporate tax rate	0%	0%	30%	30%	30%	30%	30%	30%		

Source: Company, State One Stockbroking forecasts

Key NPV assumptions include:

- 1) Production commencing in July 2017 (FY18E),
- 2) Mill throughput of 435kt per annum, and a LOM of 25 years (for 10.9Mt LOM throughput = Epanko Reserve),
- 3) First 15 years of production grading 10% TGC, with last 10 years of production grading 6.5% TGC, for a LOM Reserve grade of 8.6% TGC, and LOM plant recovery of 97%,
- 5) Graphite concentrate basket price of US\$1,150/t in FY18E (maiden production year) rising to US\$1,500/t in FY22E on the back of a forecast increase in Jumbo and Super Jumbo flake prices (>300 microns & >500µ respectively). Prices are subsequently maintained at FY22E levels (in real terms), ie, prices are escalated at 2%pa from FY22E.

6) LOM exchange rate maintained at a forecast AUD1:USD0.80,

7) Unit costs estimated at US\$655/t of concentrate in FY18/FY19E, falling to US\$560-570/t in FY20E on the back of lower processing (power) costs when operations are connected to the local power grid (with the diesel generators then acting as back-up power).

8) Pre-production capex of A\$100m (based on BFS capex estimates of US\$77.5m); we assume an additional US\$7-8m in capex will be required in FY19E to connect operations to the power grid.

Group equity value

Underpinned by our Epanko Project NPV of A\$189m, we calculate KNL's enterprise value at A\$213m (A\$0.65 per fully-diluted share). Adjusting for net project debt of A\$50m, we calculate KNL's equity value at A\$163m or A\$0.50 per fully-diluted share.

NPV-derived equity
value: A\$0.50ps

Figure 2: KNL equity value

	(A\$m)	(A\$ per share)	(A\$/t)	Resource (Mt TGC)
Epanko Reserve/Mine Inventory	189	0.58	206	0.918
Epanko Non-Mine Inventory	13	0.04	10	1.276
Epanko Resources	202	0.62	92	2.194
Merelani-Arusha Resources	6	0.02	5	1.140
Tanga Graphite Project (nominal)	2.5	0.01		
Kagera Nickel Project (nominal)	2.5	0.01		
Exploration upside (nominal)	0	0.00		
Enterprise value	213	0.65		
Epanko Project Debt	-75	-0.23		
Epanko Project Equity Issue	25	0.08		
Equity value	163	0.50		
<i>Discount (for funding/execution/timing etc.)</i>		<i>40%</i>		
Risk-adjusted target price		0.30		

Shares on issue (million)	183
Options (million)	33
Shares issued for Project Equity (million)	111
Fully diluted no. of shares (million)	327

Current share price (A\$)	0.23
Upside to risk-adjusted TP	33%

Source: State One Stockbroking forecasts

Note: We assume the US\$75m (A\$100m) of pre-production capex is funded via 75% project debt and 25% equity. We assume the equity is issued (in FY17E) at the current share price of A\$0.225 = 111m shares.

Note: Epanko non-mining inventory valued at 95% discount to Epanko mining inventory NPV, Merelani-Arusha Resources valued at a 97.5% discount to Epanko mining inventory

Target price and Recommendation

Attaching a 40% discount for funding/timing/execution etc. risks, our risk-adjusted target price for KNL is A\$0.30ps.

At the current share price, we calculate that KNL offers a one-year return of ~33%. **Recommendation: Speculative Buy (Higher risk).**

Recommendation:

Speculative Buy
(Higher risk)

Risks

Risks to our earnings profile and target price include, but are not limited to:

- Commodity price (graphite) and AUD:USD exchange rate volatility,
- LOM grade volatility and/or lower than expected grades,
- Recovery rates and actual recovered flake sizing relative to expected (BFS) metallurgical results,
- Production start-date (largely dependent on the timing of project funding and the subsequent development schedule),
- Operating (mining and processing) costs, and sustaining capex levels,
- KNL's working capital profile - particularly prior to first revenue receipts, and/or if operations are delayed or underperform - may require an equity or debt financing top-up.

10% variance in
graphite price = 40%
impact on target price

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