Altona Mining (AOH)

Company Data	
Name	Altona Mining
Date	19/07/2011
Analyst	David Nowacki
Code	AOH
Number of Shares Outstanding	518,687,704
Options (Dilutive Only)	0
Market Price	$0.31
Market Cap (Diluted)	$160,793,188
Industry	Materials
Buy Price	$0.31
Valuation	$0.59
Implied Gains	88.70%
Dividend Yield	NA

Overview

Altona Mining (AOH) was created as a result of a merger between Vulcan Resources and Universal Resources Limited. The new combined company has a focus on the exploration and development of copper, gold and zinc deposits. Altona Mining currently has two main projects Outokumpu and Roseby Copper. Outokumpu is 100% owned by Altona, the project is located in Eastern Finland and involves the refurbishment of an existing processing plant at Luikonlahti as well as the development of a simple underground mine at Kylylahti.

The Roseby Copper project also 100% owned is located in Australia north of Cloncurry near Mt Isa, an area which is home to world class copper, zinc and silver mines. The project contains one of the largest copper inventories in Australia that is not owned by one of the majors and is positioned next to the high grade Dugald River zinc project. The company has a large presence in the Mt Isa region with a land holding of over 2000km2. Additionally Altona is also looking into the potential of a third project focusing on Nickel. Its 100% owned subsidiary Kuhmo Nickel has an endowment of 33,000t of nickel with copper, cobalt and PGE credits, located 300km from Outokumpu.

Value Proposition

Prior to the Financial Crisis Vulcan Resources had been working on the development of a new mine and mill at Kylylahti. Activities were placed on hold until the purchase of the Luikonlahti plant was completed out of bankruptcy. The purchase dramatically improved the economics of the project, as it allowed the company to avoid the cost of a 90 million Euro new plant. This change in events allowed Altona to speed up studies and produce a final robust Definitive Feasibility Study (DFS).

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Outokumpu Positive Cash Flow on the Way

The Outokumpu field has produced some 2 billion Ib copper and 1 million Oz gold from 3 mines between 1914 and 1989.

The Outokumpu project has a JORC Resource of 8.4Mt @ 1.3% Cu, 0.7 g/t /Au, 0.6%Zn and Reserve of 4.3Mt @ 1.6% Cu, 0.7 g/t /Au, 0.5%Zn. The project has an expected mine life of 8-9 years with cash costs expected to be around US$1.33/Ib. The Outokumpu field has produced some 2 billion Ib copper and 1 million Oz gold from 3 mines between 1914 and 1989.

Altona Mining is currently in the process of completing the plant refurbishment and mine development. The project is expected to produce 8,000tpa copper, 8,400ozpa gold and 1600tpa zinc. Production should begin at the end of 2011 with first commercial shipments in early 2012. The company also has a simple staged plan to increase the Outokumpu operation from 550,000 tonnes of ore production per annum to 1 million tonnes per annum. Outokumpu is expected to generate an average of $29 million in EBITDA over the life of the mine.

Roseby Potential Upside

The companies Roseby project has a large resources in place of 132.5Mt @ 0.7% Cu, 0.06g/t Au which translates to 900,000t of copper.

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The study is based on 3 large open pit mines and provides for annul production of 100,000tpa of copper concentrate containing 26,000tpa of copper and 7,000 oz/pa of gold. Cash costs have been estimated at US$1.42/Ib. The capital cost required for the project is A$217 million.

However the fundamentals at Roseby have changed since the prior engineering resources studies were completed. Higher copper prices together with the potential for a resources upgrade have made bulk mining and a low cut off grade more feasible. Therefore the company plans to produce a new mine plan and investigate the possibility of increasing the 5 mtpa processing facility originally envisioned.

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Altona Mining

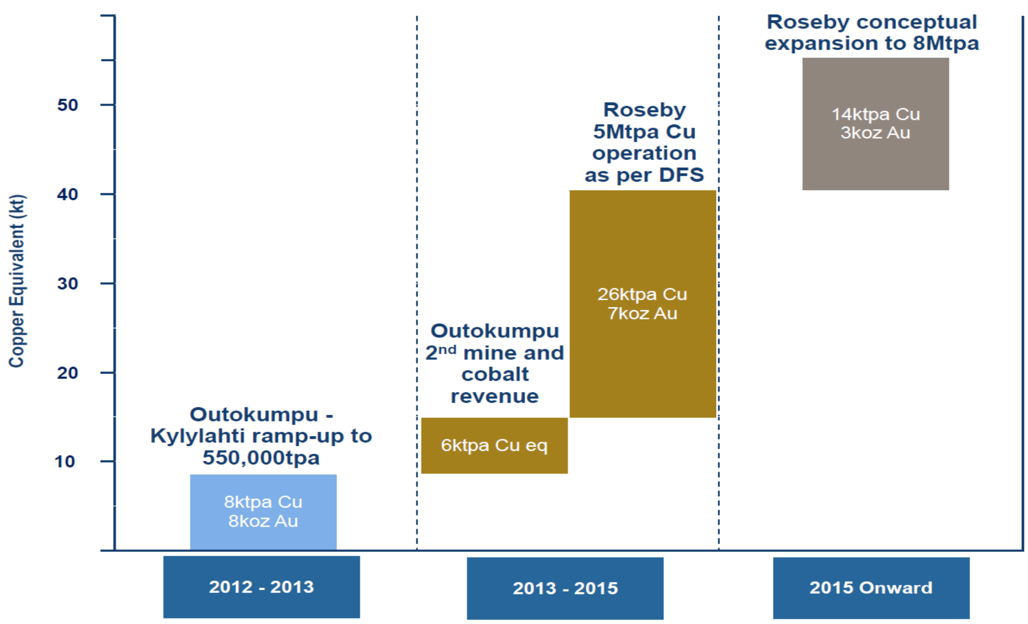
Based on the data collected so far the company believes that Roseby holds significant potential for a resource upgrade.

Altona has launched a new Definitive Feasibility Study to improve on the 2009 results which it hopes to complete by the first quarter of 2012. Based on the data collected so far the company believes that Roseby holds significant potential for a resource upgrade.

On the 25th of May the company began a 25,000m reverse circulation drilling program at Roseby. Management has also said that in conjunction with the drilling program the company will undertake a complete review of all existing resource estimates.

The program has a goal of increasing the current global resource to 200Mt of ore at grades close to current estimates. This would translate to approximately 1.47 million tonnes of copper which would equal to a 42% increase in the companies resource.

Altona Mining Conceptual Production Growth



Source ***Altona Mining2011***

Macro Risks

We think the major risk lies on the macro front with the current Chinese property bubble

As with any new project numerous risks exist. Having said that, we believe Outokumpu has a low risk profile due to a number of factors, primarily, most permits are in place, the underlying land is owned by the company, there is no construction risk as the plant already exists, the technical risk is low since the plant has previously treated similar ore for over fifteen years, the mining operation will be simple, all infrastructure is in place including rail, road, power and water and there is low Sovereign risk in Finland.

We think the major risk lies on the macro front with the current Chinese property bubble. A large proportion of Chinese GDP, which some have estimated as high as 50% is fixed infrastructure investment. Increasing inflation has forced Chinese authorities to lift interest rates in China and increase the requirements for reserves of the countries' banks.

Increasing inflation has forced Chinese authorities to tighten monetary policy

If the authorities go too far with tightening monetary policy it could cripple Chinese domestic demand which we believe would translate to lower global commodity prices. While we are not forecasting a hard landing for China it is a risk that we think is currently not being given much weight by the markets.

Copper Prices Outlook Strong

estimated 2010, 250 000metric tonne deficit is expected to increase to 380 000 tonne in 2011

Over the last year copper prices have trended higher with the spot price increasing by 49%. The consensus is for prices to remain strong with the International Copper Study Group forecasting copper demand in 2011 to exceed global growth in copper production. The group has also said that the estimated 2010, 250 000metric tonne deficit is expected to increase to 380 000 tonne in 2011.

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Copper Forecast To 2012

Regions (1000 t)	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Africa	1,315	1,428	1,655	857	1,082	1,249	285	277	303
N.America	1,915	2,173	2,433	1,690	1,843	1,953	2,182	2,270	2,355
Latin Amrica	7,031	7,383	7,617	3,893	3,997	4,077	632	652	675
Asean-10	1,089	863	844	534	567	601	748	775	806
Asia ex Asean/CIS	1,661	1,750	1,904	7,591	7,930	8,620	11,054	11,601	12,196
Asia-CIS	491	506	532	413	468	515	96	100	104
Europe Others	758	790	812	2,613	2,706	2,778	3,332	3,429	3,491
Oceania	826	843	857	1,053	1,072	1,087	856	865	900
TOTAL	1,011	1,097	1,250	417	499	509	128	132	135
TOTAL	16,097	16,833	17,904	19,061	20,164	21,390	19,314	20,102	20,965
Adjustment for Primary Feed Shortage 1/						-169			
Allowance for Disruptions 2/					-439	-535			
World	16,097	16,833	17,904	19,061	19,724	20,686	19,314	20,102	20,965
% Change	0.93%	4.57%	6.37%	4.43%	3.48%	4.88%	6.76%	4.08%	4.30%
Refined Production Usage Balance							**-252**	**-377**	**-279**

Source ***ICSG 2011***

the company is now fully funded to production with $67.72million in cash and a $20m loan facility in place

Fully Funded to Production

A major point of importance in our view is the fact that the company is now fully funded to production with $67.72million in cash and therefore no further shareholder dilution should be necessary in the short term. The company's cash holdings exceed the estimated capital cost going forward of A$36.8 million, A$12.3 million for working capital (up to mid 2012) and 2.5 million euro allowance for overruns.

On the 19-07-2011 the company announced that it had executed documentation for a $20m loan facility with Credit Suisse AG. Prior to obtaining the facility Altona would have had to use its equity as a buffer for its Outokumpu project. The loan facility will give Altona the flexibility to pursue more aggressively its drilling program and definitive feasibility study at Roseby.

Catalysts

Altona Mining has commenced a 25,000m program at its Roseby project at the Blackard, Scalan and Legend deposits to extend its current resource. Xstrata a large multinational mining house has an option on Roseby which expires in June 2012. The option gives Xstrata the right to purchase 51% of the Roseby project at independently assessed market values. Xstrata is currently in the process of conducting its own exploration.

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We see the Xstrata option as a potential catalyst, since either the option will expire worthless and the company will have the ability to run and own the whole project or Xstrata will buy 51% providing Altona with significant cash flow to fund its share of Roseby. The projects current Net Present Value (NPV) is A$123 million.

Given the likelihood that the companies resource will be increased in the near term and the recent increases in copper prices we think the NPV of Roseby is most likely much larger than the reported figure.

We also like the fact that the chairman of Altona owns 7.5% of the outstanding shares and has recently made large purchases on the open market of 18.8 million share at $0.31 and 4.728 million shares at $0.305. Additionally other big recent institutional purchasers were Perpetual purchasing a 13.183 million block at 24 cents and L1 Capital taking an 8.45% stake.

Mining of the first ore is just months away, expected to begin in October 2011

In our view the biggest driver for the company will be the completion of its mine in Finland and the refurbishment of the Luikonlahti plant. Mining of the first ore is just months away, expected to begin in October 2011, with mill production and first revenue expected in 2012 February and March respectively. The companies move from an explorer and developer to a producer that generates positive cash flow should provide for a market rerating.

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Financial Performance and Valuation

investors are getting the Outokumpu project for free which we estimate has a NPV of $144m

For the half year ending December 2010 Altona Mining made a loss of $5,241,894 as compared to $3,436,066 for corresponding period 2009. After the completion of its capital raising we estimate that the company has Net Assets of around A$100 million which works out to a book value of 19 cents per share. This places the company on an estimated low price to book value of 1.63. Based on 518.7 million shares outstanding the company's Market Capitalization using 31 cents per share is $160.8 million.

Altona is well funded with $67.72 million in cash and has just converted its convertible notes into equity leaving it with a $20 million undrawn debt facility. We estimate Altona can earn $45 million in EBITDA in FY2013 which we expect to translate to earnings per share of 8 cents. This places the company on a forward FY2013 PE ratio of 3.8.

This multiple is very low compared to a number of rivals including PanAust, 9.25 and Equinox Minerals 9.02, even after discounting for Altonas smaller size.

we value Altona Mining at $304 million or 58.5 cents per share which provides us with an 88.7% margin of safety

We also consider the fact that the companies Roseby project has a current reported NPV of $123m. However we believe that this value is low due to the fact that a potential resource upgrade is on the horizon. While it is too early to know exactly what the true value of Roseby is we think our Roseby NPV estimate of $160 million is conservative.

This means investors are getting the Outokumpu project for free which we estimate has a NPV of $144m. Taking these values together we value Altona Mining at $304 million or 58.5 cents per share which provides us with an 88.7% margin of safety.

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Company Historicals Per Share Statistics	2002/06	2003/06	2004/06	2005/06	2006/06	2007/06	2008/06	2009/06	2010/06
Sales ($)	0	0	0	0	0	0	0	0	0
Cash Flow (cents)	-0.6	-10.5	-4.7	-5.1	-2.4	-1.5	-1.5	-1.1	-3
Earnings (cents)	-1.2	-6.1	-51.9	-29.1	-37.1	-16	-17	-3.7	-3.7
Dividends (cents)	0	0	0	0	0	0	0	0	0
Franking (%)	--	--	--	--	--	--	--	--	--
Capital Spending (cents)	-0.8	-35.8	-23.2	-22.9	-30	-18.3	-14.3	-1.6	-0.9
Book Value ($)	0.07	0.74	0.36	0.64	0.82	0.51	0.35	0.04	0.14
Shares Outstanding (m)	36.7	7.5	10.8	30.1	34.6	38.6	45.6	75.9	276.8
Avge Annual PE Ratio(%)	--	0	0	0	0	0	0	0	0
Relative P/E (%)	--	0	0	0	0	0	0	0	0
Total Return (%)	--	0	62.5	23.1	0	-40	-17.7	-77.7	-38
+/- Market (%)	--	0	40.2	-1.7	-24.2	-70.3	-5.6	-55.6	-51.7
+/- ASX sector (%)	--	--	--	--	--	--	--	--	--
Net Interest Cover	82.01	5.68	93.94	43.58	76.26	16.25	75.19	-3.34	-3.6
Net Gearing (%)	-0.6	-12.1	-30.4	-37.8	-44.9	-34.8	-20	298.3	0.4
Debt/Equity (%)	0	0.4	0.5	0.1	9.5	7.7	4.6	367.6	32.7
NTA	0.07	0.1	0.05	0.08	0.11	0.07	0.05	0	0.16
Market Cap (m)	0	5	11	36	42	28	27	10	23
Dividend Yield (%)	--	0	0	0	0	0	0	0	0

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