

## **Barrick/Equinox deal receives clearance by Zambian Authorities – Best exposure to copper to be found in TGS, AOH and RXM**

- Following Barrick's recent announcement that unconditional approval has been granted by the Zambian Commission, the takeover of Equinox (EQN.ASX) at C\$8.15/sh is set to proceed. Barrick now owns ~85% of the outstanding EQN shares on issue. We note the offer closes at 5pm Toronto time on 14 June, unless extended.
- Given the ~\$7b in cash consideration to be paid out to EQN shareholders together with the removal of one of the largest copper producers listed on the ASX and TSX, now is the time to seek out Cu exposure to replace EQN.
- **Our preferred picks in the sector are:**

### **PRODUCER: Tiger Resources Ltd (TGS.ASX; \$0.46; BUY PT \$0.80)**

- Recently commenced first production at the Kipoi Project (TGS – 60%) in the DRC in Africa.
- ~40ktpa Cu production profile for 3 years (~22ktpa in FY11) at operating costs of US\$0.40/lb which, on our numbers, will throw off >\$400m in free cash and be used to fund a much larger Stage 2 SX-EW operation to produce 50ktpa+ Cu.
- First sales from Stage 1 are expected to be announced in the near term.
- The DRC has stabilized in recent years following a free election in 2006 and adoption of a new and modern mining code which has generated significant interest from the majors – Freeport, Glencore, Ivanhoe, Lundin and Vale all have significant investments in the region.
- We note Vale's recent \$1.1b bid for Metorex (whose Ruashi project is located ~50kms from Kipoi) has received further approval from Industrial Development Corp, one of Metorex's major shareholders, bringing acceptance levels up towards ~40%.

### **DEVELOPER: Altona Mining Ltd (AOH.ASX; \$0.34; BUY PT \$0.80)**

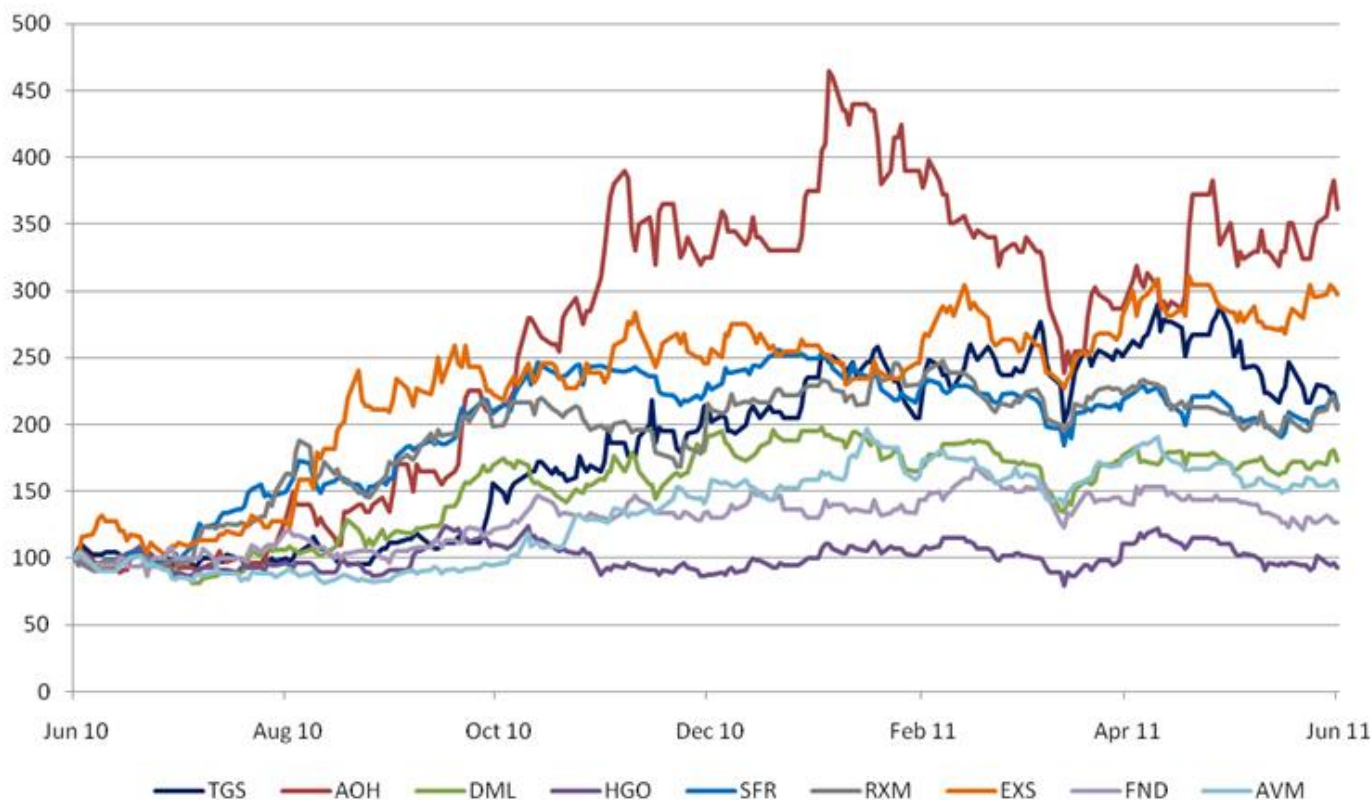
- We recently initiated on AOH and have been to site at Outokumpu.
- We consider the market cap of less than \$200m (with ~\$70m in cash) to represent compelling value given the target production profile of >50ktpa Cu from two projects in low sovereign risk jurisdictions (Finland and Australia).
- First production is expected at the underground Outokumpu Project in Finland early next year (~8ktpa Cu) with leverage to a significant resource and project at Roseby in the Cloncurry region. With current resources of ~900kt of contained Cu, Roseby is one of the largest Cu inventories in Australia not in the hands of a major.
- An updated Feasibility Study is expected to be released early next year at Roseby highlighting a likely production profile of 35ktpa – 45ktpa Cu for capex of \$250m - \$300m.
- A 25km RC drilling program at Roseby has commenced, targeting a resource upgrade of at least 50% towards 200Mt. We expect first result from the drill program, and potentially the first of numerous resource upgrades, later this month.
- Xstrata's move on Exco Resources' Cloncurry Copper Project highlights the value of AOH's large landholding in the region. We note recent media commentary concerning a rival Ivanhoe takeover bid for Exco (Ivanhoe own ~22% of Exco), although both companies have since hosed down that speculation.

### **EXPLORER: Rex Minerals Ltd (RXM.ASX; \$2.70; BUY PT \$4.04)**

- Preliminary studies have commenced for a two stage operation at the Hillside Project in South Australia beginning with a large scale open pit operation to access near surface oxide material and processed by SX-EW to produce copper cathode.

- Drilling continues to deliver high grade intersections at shallow depth, demonstrating the potential for a lower strip ratio and improved project economics for the first stage open pit.
  - The second stage would follow with the mining of the larger primary sulphide system at depth and treated via conventional flotation to produce a copper-gold concentrate.
  - With 8 drill rigs on site at Hillside, the deposit remains on track to be drilled out by July 2011. The total resource target at Hillside remains 1.5Mt - 2.8Mt of contained copper at 0.7% Cu.
  - Drilling of new exploration targets on RXM's licence holding is also expected to generate plenty of news flow in the near term given strong geomagnetic signatures.
- In the graph below we have benchmarked the small-mid cap ASX listed copper stocks on share price performance over the last 12 months. AOH and EXS have been the standout performers, which is no surprise given the recent takeover bid from Xstrata for EXS and AOH's large landholding in the Cloncurry region. AOH has also undergone considerable change over the last 12 months following the Universal/Vulcan merger and \$70m capital raising. **We believe AOH will continue to re-rate strongly through 2HCY11 as the Roseby resource continues to grow towards 200Mt and production comes online at Outokumpu 1HCY12.**
  - What becomes apparent from the graph is that **TGS has underperformed against the peer group** despite TGS making key announcements in recent months including:
    - i. Maiden 200kt resource at Sase;
    - ii. Target resource of at least 1.5Mt of contained Cu at Kipoi; and
    - iii. First production for Kipoi Stage 1 achieved on time and within budget.
  - The TGS share price hit \$0.64 in late April when the Cu price was trading around US\$4.25/lb and the Company had yet to announce first production at Kipoi. Since April the Cu price has come off ~5% to US\$4.04/lb, while the share price has come off almost 30% to \$0.46.
  - **We believe TGS can outperform strongly in the near term** given first production has been announced, corporate activity amongst the majors in the DRC is gaining momentum and global funds looking for new exposure to copper production following EQN's removal from the ASX and TSX (TGS is also dual listed).

**RELATIVE SHARE PRICE PERFORMANCE (LAST 12MTHS) – ASX LISTED CU PEER GROUP (%)**



Source: IRESS, 2/6/11

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