

Takeover activity in the copper sector

Investment Highlights

- Today Jinchuan Group, one of China's largest state-owned miners, started a bidding war with Vale, the Brazilian mining giant. The target company is a small South Africa-based copper miner, Metorex Ltd (MTX: JSE) whose main asset is in the Democratic Republic of Congo.
- We compare the MTX-Jinchuan transaction (highlighted in red) to the Australian small to mid-cap copper companies on our relative valuation metrics summarised in Figure 1. Figure 3 shows that the current Jinchuan offer price for MTX is pitched below the average for the Australian listed comparables, making the Australian sector look expensive (despite the 62% premium to the pre-Vale offer price offer by Jinchuan).
- Of the two Australian copper companies with African Projects, TGS looks expensive with a smaller resource, and DML looks cheap with a larger resource (Figures 2-5). Relative valuation also shows that the two cheapest Australian copper producers on the EV/resource scale (Figure 4) are ABY and KZL (both not strategic). The two cheapest copper explorers/developers on the EV/resource scale (Figure 5) are AOH and HAV - which actually have good sized resources but lower grades.

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Figure 1: Company Data

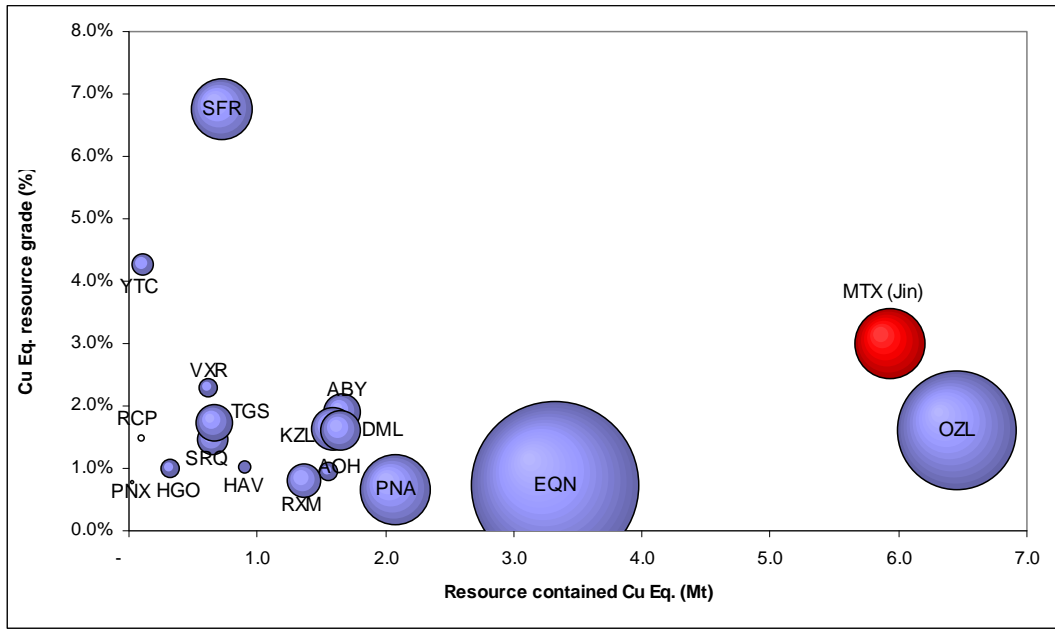
Company	Code	Price (A\$)	Resource			EV/resource (A\$m/CuEq t)		
			EV (A\$m)	Cu Eq Grade	Cu Eq (Mt)	Explorer/developer	Producers	All
Altona Mining	AOH	0.3	84.2	0.9%	1.6	54		54
Havilah Resources	HAV	0.7	54.9	1.0%	0.9	61		61
Redbank Copper	RCP	0.0	10.4	1.5%	0.1	111		111
Venturex Resources	VXR	0.1	85.2	2.3%	0.6	138		138
Metorex	MTX (Pre)	0.8	836.9	3.0%	5.9		141	141
Metorex - Vale offer	MTX (Vale)	1.0	1099.1	3.0%	5.9		185	185
Aditya Birla Minerals LTD	ABY	1.5	342.5	1.9%	1.7		206	206
Rex Minerals	RXM	2.5	287.9	0.8%	1.4	211		211
Metorex - Jinchuan offer	MTX (Jin)	1.2	1318.8	3.0%	5.9		222	222
Discovery Metals	DML	1.2	412.6	1.6%	1.7	249		249
Hillgrove Resources	HGO	0.3	92.4	1.0%	0.3	286		286
Kagara Ltd	KZL	0.6	476.4	1.6%	1.6		299	299
Straits Resources	SRQ	0.8	245.6	1.5%	0.6		378	378
Phoenix copper Ltd	PNX	0.1	8.7	0.8%	0.0		392	392
Oz Minerals	OZL	13.5	3538.0	1.6%	6.4		549	549
Tiger Resources	TGS	0.5	370.0	1.7%	0.7		557	557
Panaust	PNA	4.0	1252.7	0.7%	2.1		604	604
Equinox	EQN	7.9	7259.0	0.7%	3.3		2182	2182

Source: Patersons

Notes

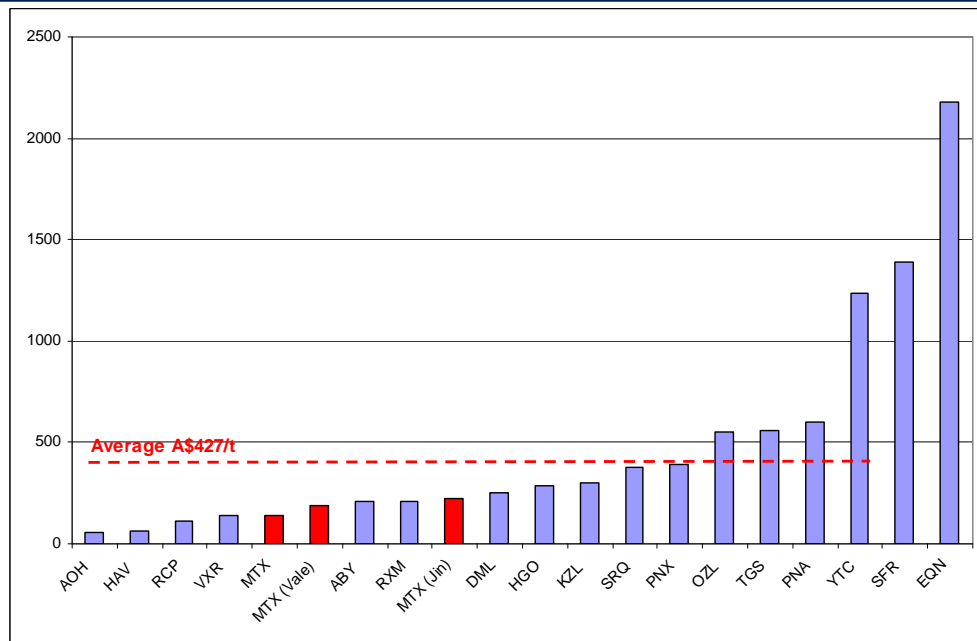
- Enterprise Values (EV) and copper equivalent (CuEq.) calculations are based on stock and metal prices on 6 July 2011. Stock prices and debt/cash for Metorex are quoted in ZAR but were converted using AUD/ZAR @ 7.22.
- MTX appears three times in the Figures and each EV is based on: the pre-offer stock price: MTX (Pre), the Vale offer price: MTX (Vale) – at a 34% premium to pre-offer price, and the Jinchuan offer price: (MTX Jin) – at a 62% premium to the pre-offer price.

Figure 2: CuEq. Resource grade vs. contained Cu eq. (bubble size is EV) for copper explorers/developers and producers.



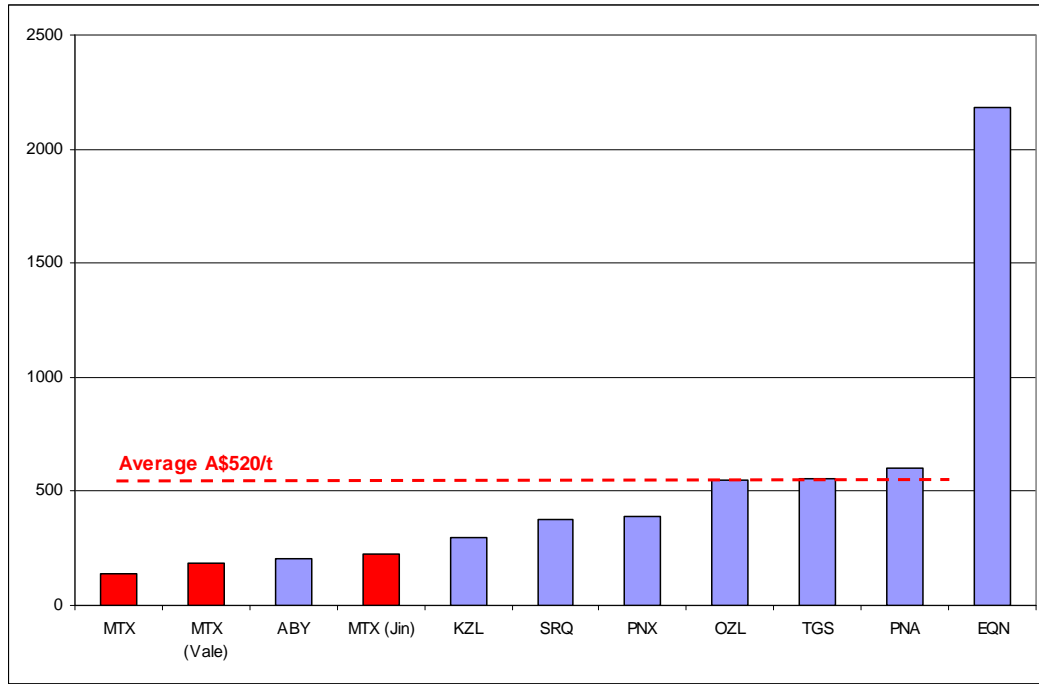
Source: Patersons

Figure 3: EV/Resource for copper explorers/developers and producers.



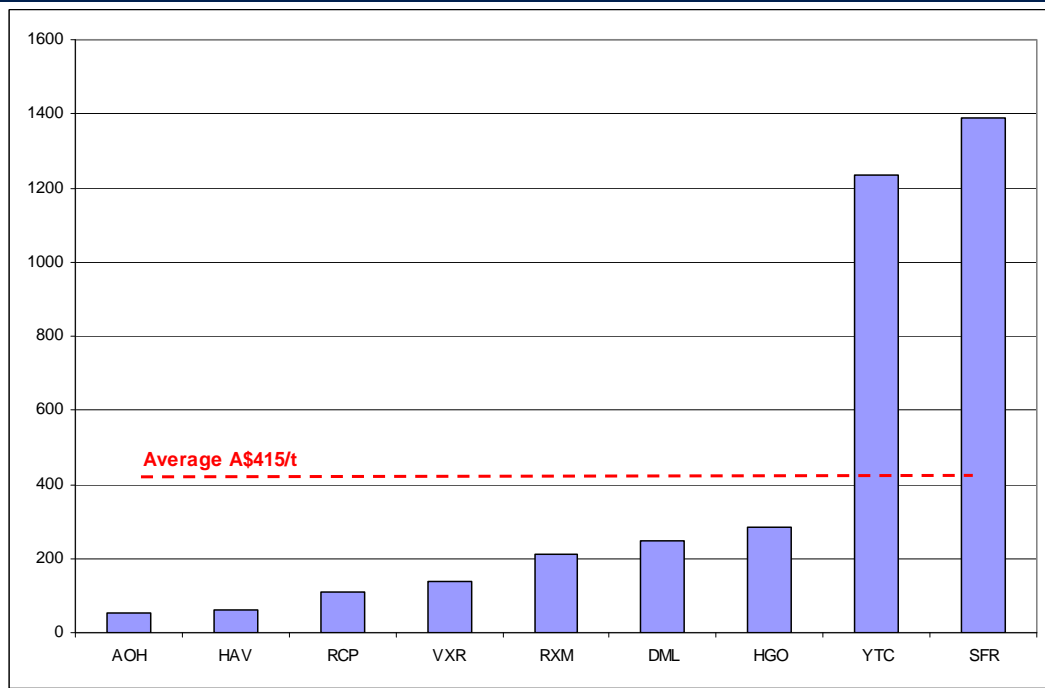
Source: Patersons

Figure 4: EV/Resource for copper producers.



Source: Patersons

Figure 5: EV/Resource for copper explorers/developers.



Source: Patersons

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