Altona Mining Ltd (AOH.ASX)

28 April 2011

Outokumpu Site Visit.

Event:

- We recently attended a site visit to the Outokumpu copper project located in South East Finland.

Details:

- The Luikonlahti processing plant is in good condition with a replacement value of ~$100m. Commissioning is planned for 3Q 2011 and production by 1Q 2012.
- The Kylylahti mine development is well advanced with 550 linear metres completed. First ore expected to be encountered Sept/Oct 2011.
- Local area is well serviced by infrastructure with extensive sealed roads providing access to mine and plant.
- Local governments are very supportive of the Outokumpu project due to high local unemployment (~15%) resulting in funding assistance for training of the local workforce.

Recommendation:

- **We reiterate our BUY on AOH with a price target of $0.80, which represents a ~135% premium to the current share price.**
- After our site visit to Finland, we are confident in the strength of the Outokumpu project being delivered on time and budget early 2012.
- We highlight the Outokumpu project will be delivered at the peak of the copper price market with very low capex for plant refurbishment that otherwise would have cost ~$100m to develop.
- AOH is also progressing the Roseby project in Queensland which has the potential to host 1.5mt of contained copper and is currently undergoing an aggressive drilling campaign.
- Our price target is set broadly in line with our risked DCF of $0.81/share, which incorporates a valuation of A$140m ($0.27) for Outokumpu and A$181m ($0.35) for Roseby.
- Despite having >1Mt of contained Cu resources and fully funded to commence production at Outokumpu in early 2012, AOH is the cheapest ASX listed copper stock on an US$EV/lb resource basis, trading at just US$0.04/lb.

Metals & Mining

Rating	BUY
Previous	BUY

Share Price ($)	$0.34
52 week low/high ($)	0.08/0.45
Price Target ($)	**$0.80**
Previous ($)	0.80
Valuation ($/share)	**$0.81**
Methodology	DCF
Risk	High

Capital Structure	
Shares on issue (m)	472.1
Market Cap ($m)	**160.5**
Net Debt/(Cash) ($m)	-70.0
EV ($m)	**90.5**
Options on issue (m)	4.0
12mth Av Daily Volume ('000)	1,160

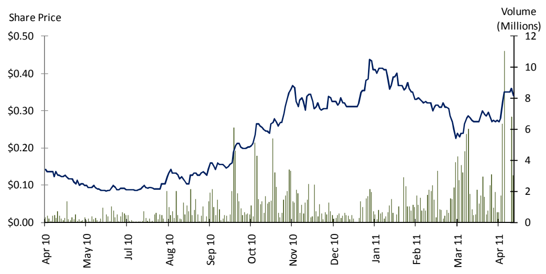
Board	
Kevin Maloney	Chairman
Alistair Cowden	Managing Director
Peter Ingram	Non Executive Director
Heikki Solin	Non Executive Director
Fiona Harris	Non Executive Director
Jason Brewer	Non Executive Director

Major Shareholders	
Tulla Resources Group	7.5%
Perpetual	7.0%

Key Financials

Year to Dec	2010a	2011e	2012e	2013e
Revenue ($m)	0.0	0.0	32.4	79.5
EBITDA ($m)	-7.1	-8.5	16.0	51.7
NPAT rep ($m)	5.5	-8.0	13.3	45.3
NPAT adj ($m)	-9.1	-8.0	13.3	45.3
EPS adj (¢)	-4.1	-2.4	2.6	8.9
PER (x)	-8.3	-14.4	13.0	3.8
EV/EBITDA (x)	-12.8	-10.7	5.6	1.8
Op Cashflow ($m)	-7.5	-7.9	15.9	46.6
Capex ($m)	-0.3	-32.3	-9.1	-126.0
FCF ($m)	-7.8	-40.2	6.8	-79.4

Share Price Graph



Foster Stockbroking acted as Co-Lead Manager to the $70m equity issue conducted in February 2011 by Altona Mining Ltd. Foster Stockbroking received a fee for this service.

Altona Mining Ltd (AOH.ASX)

Full Year Ended 30 June

Profit & Loss ($m)	2010a	2011e	2012e	2013e
Revenue	0.0	0.0	32.4	79.5
Other Revenue	0.0	0.0	0.0	0.0
Revenue	**0.0**	**0.0**	**32.4**	**79.5**
Operating costs	4.8	0.0	7.8	19.3
Exploration costs	0.0	5.0	5.0	5.0
Corporate costs	2.3	3.5	3.5	3.5
EBITDA	**-7.1**	**-8.5**	**16.0**	**51.7**
EBITDA margin (%)	nm	nm	49.5	65.0
D & A	0.1	0.0	4.6	4.7
EBIT	**-7.2**	**-8.5**	**11.4**	**47.0**
EBIT margin (%)	nm	nm	35.3	59.1
Net Interest exp / (income)	2.0	-0.4	-1.8	1.7
Associates	0.0	0.0	0.0	0.0
Profit before tax	**-9.2**	**-8.0**	**13.3**	**45.3**
Tax exp / (benefit)	-0.2	0.0	0.0	0.0
NPAT pre minorities	**-9.1**	**-8.0**	**13.3**	**45.3**
Minoritiy Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	**-9.1**	**-8.0**	**13.3**	**45.3**
Significant items	14.5	0.0	0.0	0.0
NPAT reported	**5.5**	**-8.0**	**13.3**	**45.3**
NPAT adjusted *	-9.1	-8.0	13.3	45.3
WA # Shares (m)	222.2	339.8	506.2	506.8
EPS adj ¢	-4.1	-2.4	2.6	8.9

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow ($m)	2010a	2011e	2012e	2013e
EBITDA	**-7.1**	**-8.5**	**16.0**	**51.7**
Net Interest exp / (income)	-2.0	0.4	1.8	-1.7
Tax	0.2	0.0	0.0	0.0
Δ Working Capital	-1.2	0.1	-2.0	-3.5
Other	2.7	0.0	0.0	0.0
Operating Cashflow	**-7.5**	**-7.9**	**15.9**	**46.6**
Capex	-0.3	-32.3	-9.1	-126.0
Net Acquisitions	18.1	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0
Other	-2.0	0.0	0.0	0.0
Investing Cashflow	**15.9**	**-32.3**	**-9.1**	**-126.0**
Equity proceeds	3.7	66.8	0.3	0.8
Debt proceeds	0.0	0.5	0.0	90.0
Debt repayment	-1.1	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	**2.7**	**67.3**	**0.3**	**90.8**
Net Cashflow	11.1	27.1	7.0	11.3
Free Cashflow	**-7.8**	**-40.2**	**6.8**	**-79.4**

Balance Sheet ($m)	2010a	2011e	2012e	2013e
Cash	12.7	39.8	46.8	58.1
Receivables	1.6	2.2	3.2	3.7
Inventories	0.0	1.0	2.0	4.9
PPE	13.6	46.0	50.5	171.7
Exploration	25.7	25.7	25.7	25.7
Other	1.5	1.4	2.5	2.5
Total Assets	**55.1**	**116.0**	**130.6**	**266.7**
Payables	1.3	2.6	2.6	2.6
Provisions	1.5	1.4	2.4	2.4
Tax liabilities	0.0	0.0	0.0	0.0
Debt	12.9	0.0	0.0	90.0
Other	0.0	0.0	0.0	0.0
Total Liabilities	**15.7**	**4.0**	**5.0**	**95.0**
Reserves and capital	78.6	159.0	159.2	159.2
Retained earnings	-39.3	-47.3	-34.1	11.2
Minorities	0.0	0.0	0.0	0.0
Total Equity	**39.3**	**112.0**	**125.6**	**171.6**

Source: Company; FSB estimates

Capital Structure	
Shares on Issue (m)	472.1
Market Cap ($m)	**160.5**
Net Debt/(Cash) ($m)	-70.0
EV ($m)	**90.5**

Key Metrics	2010a	2011e	2012e	2013e
PER (x)	-8.3	-14.4	13.0	3.8
EV/EBITDA (x)	-12.8	-10.7	5.6	1.8

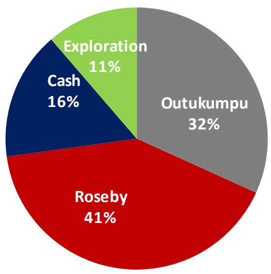
Key Assumptions	2011e	2012e	2013e	2014e
Copper Price (US$/lb)	$3.96	$4.38	$4.25	$3.75
Gold Price (US$/oz)	$1,322	$1,400	$1,475	$1,375
Zinc Price (US$/lb)	$1.04	$1.08	$1.03	$0.98
AUD/USD	0.98	0.98	0.93	0.88

Production Summary	2011e	2012e	2013e	2014e
Copper Production (t)	0	3,271	7,851	27,951
Gold Production (oz)	0	3,336	8,006	12,634
Zinc Production (t)	0	665	1,595	1,595
C1 cash costs (US$/lb)	$0.00	$1.06	$1.03	$1.33

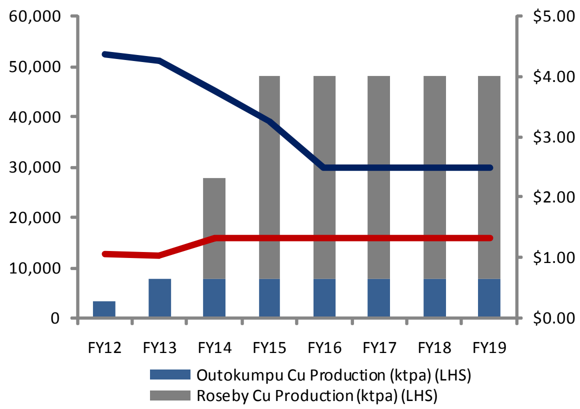
Cu Resource	Mt	Cu %	Cont (kt)
Outokumpu	17.8	0.87%	155
Roseby	132.5	0.68%	901
TOTAL	**150.3**	**0.70%**	**1,056**

Valuation Summary	NPV ($m)	P/NPV	$/Share
Roseby	362	0.50	$0.35
Outukumpu	175	0.80	$0.27
Net cash/(debt)	70	1.00	$0.13
Exploration	50	1.00	$0.10
Unpaid capital	3	1.00	$0.01
Corporate costs	-25	1.00	-$0.05
TOTAL	**636**		**$0.81**

Valuation Split



Production and Cost Profile



OUTOKUMPU SITE VISIT

Overview

- We recently completed a site visit to the Outokumpu copper project located in South East Finland, 400km NE of the capital Helsinki. The site visit was hosted by Mikko Keranen (Mill Manager), Jarmo Vesanto (General Manager Finland), Seppo Tuovinen (Mine Manager) and Heikki Solin (Non-Executive Director).

Project Access & Infrastructure

- The Luikonlahti processing plant is accessed by sealed roads, with excellent infrastructure in place given it is an existing plant being refurbished.
- The Kylylahti mine is accessed by sealed roads which will be upgraded to deal with an increase of trucking traffic. The mine is ~40km away from the Luikonlahti processing plant.
- There is a 2km paved road to the mill site leading from the national highway. A national rail line is 1.5kms from the plant and a disused rail spur to the concentrate shed requires refurbishment to be re-established.
- Concentrates will be shipped to either Boliden's Harjavalta copper smelter 470km or to Kokkola Port 350kms via rail (rail spur would require refurbishment) or truck haulage.

The Luikonlahti Processing Plant

- Our visit to the plant indicated the plant is in good condition with no signs of structural damage. The plant purchase came with a fully operating lab and a well supplied warehouse.
- Plant refurbishment is well advanced and reconfigured to take ore from the Kylylahti mine with a capacity of 550ktpa expandable up to 1mtpa. The plant is configured to 3 SAG mills (2 on site) using pebbles and a Cu recovery of 91.5%.
- ROM pad will be increased in size to accommodate larger trucks.
- Primary crusher, secondary crusher and screens are all refurbished and ready.
- New electrical system and controls will be installed replacing old hardware and control units.
- Flotation cells, hopers and Larox filters have been relocated and installed.
- Earthworks for ore and tailings pad are almost finished including water ponds.
- Tailings dams already in place with no historical issues from previous operations.
- Plant is expected to be fully commissioned by 3Q 2011 with product testing in Nov 2011. First production expected in 1Q 2012.

Figure 1: SAG Mill and flotation cell in the background at the Luikonlahti processing plant

Source: FSB

Figure 2: Primary crusher and conveyor belt at the Luikonlahti processing plan

Source: FSB

The Kylylahti Underground Mine

- We visited the Kylylahti underground mine which will be a stope and filling operation with a main decline of 5.5x5.5 metres. Waste rock from the decline will be used for filling at an initial stage.
- Development of the decline is currently at 550 linear metres. Underground drilling is advancing at an average rate of 53m per week with no geotechnical issues to date. AOH expects to encounter first ore in Sept/Oct 2011.
- Current decline development has been contracted for the first 1,000 metres of drilling including some of the initial ore. Negotiations are in place to extend this contract for a further 1,000 metres which could grant more time for training of AOH personnel, leading to increased production rates when two teams are extracting ore from two different levels.

Figure 3: Underground development at the Kylylahti underground mine

Source: FSB

Water & Power Supply

- The Luikonlahti processing plant has power infrastructure in place with the plant already connected to the grid. Water supply and management is in place with water treatment and recycling a high priority to meet government standards.
- There is plenty of water supply at the Kylylahti mine site. Since there is no processing at site only PH is controlled. Power supply comes from 10 kw lines that can increase to 20kw or a possible upgrade to the 110kw line that runs next to the mine site.

Exploration

- Regional exploration exists with the Kuhmo project which has a JORC of 6mt @0.55% Ni.
- The Ni exploration potential in the area is encouraging. However, the area is constrained by processing infrastructure.
- Should the current drilling campaign deliver a new Ni discovery, scoping studies may commence on a new plant for the area. News from this campaign are expected in 3Q 2011.

Local Government and Services

- The local governments are very supportive of the Outukumpu project where local unemployment sits at ~15%. AOH has received $5.6m of funding to assist with the training of the local people to use underground equipment.
- Given the mining history of the area, there are several mining services companies in the town of Outukumpu. Engineering work and industrial parts can be obtained from the Finnish market or outsourced from neighbouring Sweden.

Tenements & Regulatory Issues

- There are no land issues at the Luikonlahti processing plant with all water controls in place. Road access has been granted by the local government.
- All mining and environmental permits are in place for the Kylylahti mine and the environmental permit amendment for the Luikonlahti plant is expected to be completed in June 2011 and there are no land issues at site.

Our price target of $0.80 represents upside of ~135% to the current share price.

RECOMMENDATION

- **We reiterate our BUY on AOH with a price target of $0.80, which represents a ~135% premium to the current share price.**
- After our site visit to Finland, we are confident in the strength of the Outokumpu project being delivered on time and budget early 2012.
- We highlight the Outokumpu project will be delivered at the peak of the copper price market with very low capex for plant refurbishment that otherwise would have cost ~$100m to develop.
- AOH is also progressing the Roseby project in Queensland which has the potential to host 1.5mt of contained copper and is currently undergoing an aggressive drilling campaign.
- Our price target is set broadly in line with our risked DCF of $0.81/share, which incorporates a valuation of A$140m ($0.27) for Outokumpu and A$181m ($0.35) for Roseby.
- Despite having >1Mt of contained Cu resources and fully funded to commence production at Outokumpu in early 2012, AOH is the cheapest ASX listed copper stock on an US$EV/lb resource basis, trading at just US$0.04/lb.

FOSTER STOCKBROKING DIRECTORY

Name	Department	Phone	Email
Stuart Foster	Dealing	+61 2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	Dealing	+61 2 9993 8130	kevin.massey@fostock.com.au
Trenton Brown	Dealing	+61 2 9993 8161	trenton.brown@fostock.com.au
Tolga Dokumcu	Operating	+612 9993 8144	tolga.dokumco@fostock.com.au
George Mourtzouhos	Operating	+612 9993 8136	george.mourtzouhos@fostock.com.au
Martin Carolan	Equity Capital Markets	+61 2 9993 8168	martin.carolan@fostock.com.au
Mark Hinsley	Equity Capital Markets	+61 2 9993 8166	mark.hinsley@fostock.com.au
Andreas Kouremenos	Research	+61 2 9993 8142	andreas.kouremenos@fostock.com.au
JP Vargas de la Vega	Research	+61 2 9993 8152	jp@fostock.com.au
Toni Addison-Lafferty	Research	+61 2 9993 8163	toni.addisonlafferty@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Specific disclosure: Foster Stockbroking and/or associated parties have received fees in the past 12 months for services provided to AOH in respect of the February 2011 equity capital raising.