Altona Mining Ltd (AOH.ASX, $0.32/sh, Mkt Cap $146m) – Positive Implications for AOH following Xstrata's $175m bid for Exco's Copper Project in Mt Isa. Initial thoughts. BUY (PT $0.80).

Event:

- Xstrata Copper and Exco Resources (EXS.ASX) have entered into an agreement whereby Xstrata will acquire EXS' Cloncurry Copper Project (CCP) in Mt Isa for $175m.

Key Details:

- Xstrata, via its wholly owned subsidiary Mount Margaret Mining Pty Ltd, has entered into an Asset Purchase Agreement to acquire the CCP from Exco for $175m.
- The CCP includes the E1, Monakoff and Monakoff East deposits which total ~400kt of contained Cu.
- The agreement is subject to a range of approvals including EXS shareholder, FIRB and Queensland Government.
- The EXS Board has endorsed the CCP asset sale as being in shareholders' best interests, offering a greater return on equity compared with the alternative stand-alone development, which would have required significant equity and debt capital raisings to fund the project development.
- Ivanhoe Australia (22%), JP Morgan (9%) and WH Soul Pattinson & Co (8%) are the largest shareholders in EXS.

Analysis:

- The CCP is the closest known sulphide copper deposit to Xstrata's large Ernest Henry Mine, where an underground operation worth almost $550m is being developed to extend the mine life to 2024 and produce 50ktpa Cu and 70kozpa Au in concentrate from 2012.
- A previous Feasibility Study completed at the CCP highlighted a 10 year mine life producing 25ktpa Cu concentrate at a cash cost of US$1.50/lb. The estimated capex for a 'stand alone' development was ~A$200m with first production expected in early 2013.
- In our view, the deal makes sense as it fast tracks production to late 2011 (rather than 2013), enabling the project to capture higher forecast copper prices and reduces capex significantly given the CCP ore can be used as additional feed at the Ernest Henry operation.
- The acquisition by Xstrata provides a strong endorsement and commitment by a major to the Mt Isa region, where AOH's 100% owned Roseby Project is located with 900kt of contained copper resources.

- We believe AOH's current focus on exploration and completion of an updated and optimised Feasibility Study at Roseby will greatly assist in extracting full value should Xstrata exercise its option on Roseby. We highlight management's goal of increasing the current 900kt resource at Roseby by >50% by the end of 2011.
- Applying the CCP acquisition metric of A$438/t to Roseby's current resource of ~900kt results in a valuation of ~$390m, which is in line with our unrisked NPV of ~$360m for Roseby.

Recommendation:

- **We recently initiated on AOH with a BUY and a price target of $0.80, which represents a ~160% premium to the current share price.**
- AOH has two quality projects across low sovereign risk jurisdictions, >1Mt of contained Cu resources and significant exploration upside at both Roseby in Queensland and Outokumpu in Finland.
- A recently completed $70m equity issue was heavily over-subscribed at $0.31. With the stock currently trading at $0.32 and now fully funded until first production at Outokumpu, we consider the investment opportunity to be highly compelling.
- Despite having >1Mt of contained Cu resources and fully funded to commence production at Outokumpu in early 2012, AOH is the cheapest ASX listed copper stock on an US$EV/lb resource basis, trading at just US$0.04/lb.

Recommendation: BUY AOH, PT $0.80.

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