

***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 unrisksed 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.**

**Disclaimer & Disclosure of Interests.** Foster Stockbroking Pty Limited has prepared this report. This document contains general securities advice only. In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Foster Stockbroking is not aware that a recipient intends to rely on this report and is not aware of the manner in which it will be used by the recipient.

Investors must obtain personal financial advice from their investment advisor to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment.

The views expressed in this report are that of the analyst named on the cover page, and no part of compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports.

Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any

recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change. Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may affect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant company.

Specific disclosure: The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by AOH at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.

**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.**