

# Blackthorn Resources Limited BTR (\$0.46)

**Recommendation: SPECULATIVE BUY**

## Undervalued Base Metals Play with Upside

Analyst: Simon Tonkin

### OUR VIEW

Blackthorn Resources (BTR) has a minority interest (39.9%) in a high grade zinc mine in Burkina Faso, a 100% owned Iron Ore Copper Gold (IOCG) project in Zambia and 100% owned Gold/Base Metals exploration tenure in Burkina Faso. The high grade Perkoa zinc project is currently under construction by operator Glencore International AG (50.1%) and is scheduled to move into the production phase beginning with commissioning in the second half of 2012. The mine has reserves of 6.3Mt at 13.9% Zn and expects to produce on average 90,000tpa of zinc. There is potential to add silver and lead to zinc production at Perkoa, and increase capacity is currently under investigation. In addition, BTR owns 100% the Mumbwa IOCG exploration project in Zambia where a JORC resource of 87Mt at 0.94% Cu for 817.8kt Cu (1.8Bib) has been defined. Recently the company has released some outstanding drill results which returned 282m at 1.05% Cu Eq. between 178.3m and 461m including 60m at 2.58% Cu between 324m and 384m. Finally, BTR has 100% owned tenements in Burkina Faso where it is targeting VMS base metals targets close to Perkoa and gold within its northern tenements. We rate Blackthorn a Speculative Buy and calculate a preliminary valuation of \$0.74-\$1.04/sh based on precedent transactions and copper pounds in the ground.

### Investment Highlights

- Solid High Grade Zinc Project.** Construction has commenced at the Perkoa zinc mine with decline development over 400m from the portal and 75% of the surface infrastructure complete. The mine is a solid high grade zinc project which has reserves of 6.3Mt at 13.9% Zn and expects to produce on average 90,000tpa of zinc; C1 cash costs were estimated at ~\$0.68/lb prior to Glencore taking control. With zinc supply/demand expected to move into deficit in 2014 BTR is well positioned to take advantage of higher zinc prices. In addition, there have been a number of high grade silver hits with associated lead from a 14-hole drill program which had Glencore submit a revised investment proposal to increase mill throughput by 40% to 1Mtpa and modify the process plant to separate Ag/Pb and Zinc concentrates. BTR is currently reviewing the proposal and is expected to make a decision in mid-November. In 2010, Glencore acquired its 50.1% stake in the Perkoa zinc project though providing US\$50m in project equity. This values BTR's 39.9% at US\$39.8m (A\$38.7m). Glencore is also providing US\$30m in project financing for the zinc project. A term sheet has also been agreed for Glencore to fund BTR share of incremental capital for the Ag/Pb expansion.
- Outstanding Copper Project in Zambia.** Former BHP/BTR JV project now 100% BTR. The project has a JORC compliant inferred resource at Kitumba of 87Mt at 0.95% Cu for 817.8kt Cu. In October, BTR released first results from its Phase V drill program with hole S36-023 returning 282.7m at 1.05% Cu from 178.3m including 60m at 2.58% Cu between 324 and 384m. Gold assays from the hole are expected to be available in early November. The project appears to have some good potential for an open pit scenario and higher grade underground potential. Further drilling and resource delineation is underway to progress the project.
- Solid Management Team to Drive Development.** BTR has a solid management team to drive development and discovery. It is headed up by Scott Lowe as Managing Director who is a mining engineer and has held senior management roles at BHP and Peabody. Adama Barry a geologist is the country manager for Burkina Faso and has been involved in the Perkoa zinc mine for 10 years. Derek Pang is the Senior Geologist with 15 years experience.
- Looks Undervalued on Preliminary Valuation \$0.74-\$1.04/sh.** We have based our preliminary valuation on 1) the price that Glencore paid for its 50.1% 2) A value of \$0.02-0.04/lb Cu the Zambia resource. We will look to provide a full model once we have visited site in 2012.
- Catalysts.** Ongoing Drill Results Zambia/Burkina, mid-2012 First Production from Perkoa.

### Management & Shareholders

Directors	Position
Bill Cash	Chairman
Scott Lowe	Managing Director
Nicki Bowman	Non-Executive Director
Mike Oppenheimer	Non-Executive Director
Peter Kalkandis	Non-Executive Director

Shareholders	Holding (%)
Glencore	13.0
North Sound	8.1
JP Morgan	7.1
F Brewer	6.8
S Jones	5.0
<b>Top 20</b>	<b>40.0</b>

### Company Statistics & Performance

Shares on issue (m)	122.9	3mth ADT (\$m)	0.022
ITM Options (m)	4.9	EV (\$m)	44.6
Market Cap. (\$m)	58.8	Debt est (\$m)	0.0
52 week range	\$0.38 - \$0.73	Cash est (\$m)	14.2

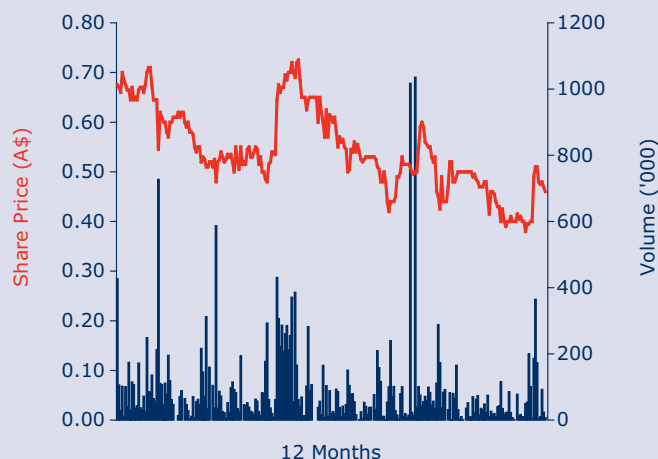


Figure 1: BTR Model

BTR EV Calculation	
Share Price	0.46
Shares on Issue	122.9
Options ITM	4.9
Mkt Cap	58.8
Cash	14.1
Unpaid Capital	2.2
Debt	0
EV	42.5
Valuation (Base Case)	EV\$m Comment
Perkoa Zinc Project	39.8 Glencore paid \$50m for 50.1%
Mumbwa Copper Project	36 \$0.02/lb of 1.8Blb Cu resource
BF Gold Project	2
	77.8 <span style="float: right;">\$0.74/sh</span>
Valuation (Upside Case)	EV\$m Comment
Perkoa Zinc Project	39.8 Glencore paid \$50m for 50.1%
Mumbwa Copper Project	72 \$0.04/lb of 1.8Blb Cu resource
BF Gold Project	5
	116.8 <span style="float: right;">\$1.04/sh</span>

Figure 2: Project Portfolio

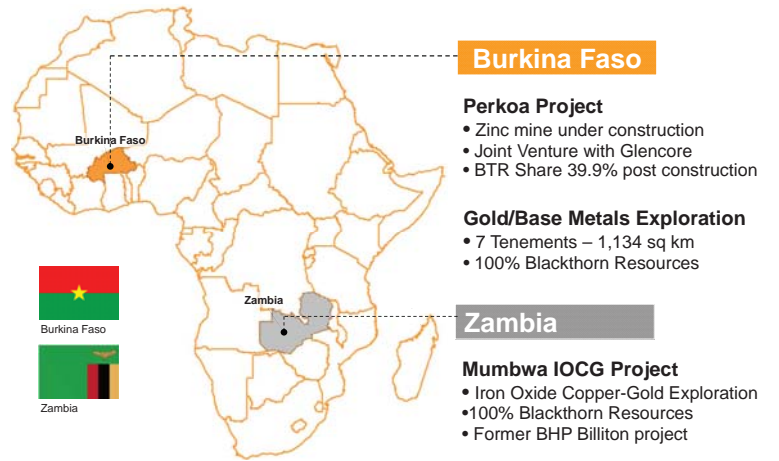


Figure 3: Logistics and Transport

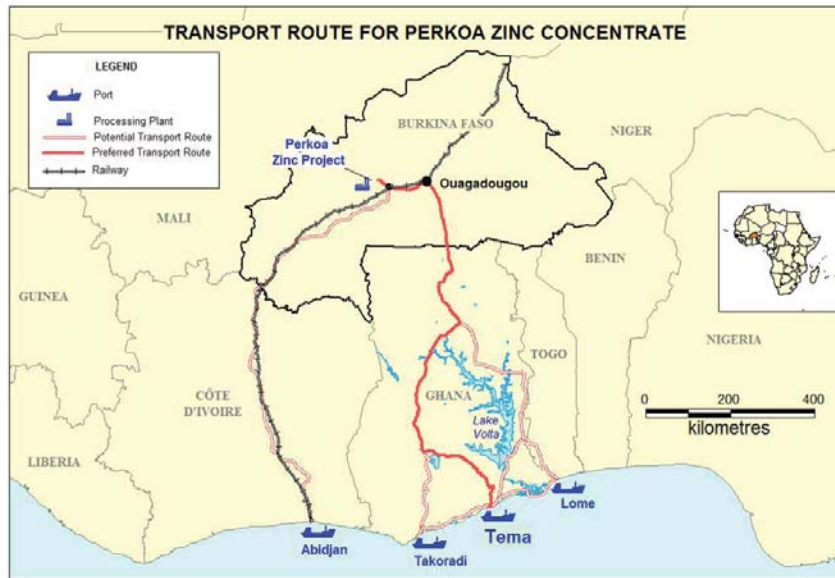
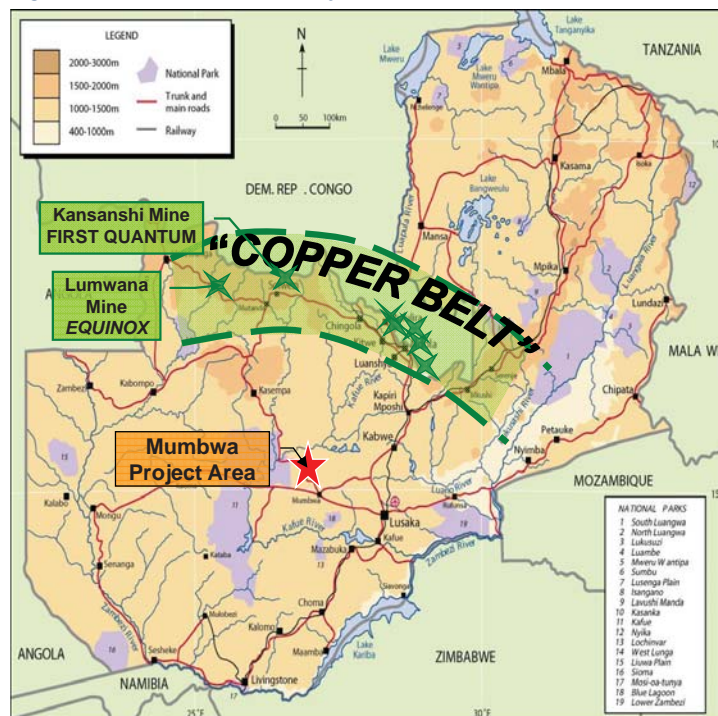


Figure 4: Mumbwa - Zambia Project Location Plan



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