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Shaw Research

Blackthorn Resources (BTR)

Buy

Geoff Muers

BHP JV is a Win-Win

Current Price A\$ps	0.69
Target Price A\$ps*	1.20
Previous target price	1.00

Net Cash (est) A\$10M

Event

BHP-Billiton is farming into BTR's Mumbwa project in Zambia, with 3-rigs on site completing deep drilling of geophysical targets, following up encouraging anomalism which has been likened to alteration at Olympic Dam. BHP is testing 14 anomalies, on average up to 1000m deep. Results are pending.

BTR has an existing JORC copper resource of 345Mt @ 0.47% Cu (1.62Mt) with a high grade core of 87Mt @ 0.94% Cu. Should BHP elect to proceed further with the Mumbwa JV following this current phase of exploration, they can move from 40% to 60% by paying around A\$11.5m to BTR for past expenditure.

If BHP withdraw? The entire project falls back to BTR. A win-win situation.

Whilst BTR is not pure-play copper, due to other portfolio assets, and the JV does complicate any valuation, it is clear the stock has underperformed other **copper-plays with resources in pre-development, up on average 90% in the last 4 months.**

Recommendation

Our current risk-adjusted valuation of BTR is upgraded to A\$1.22ps, applying a US\$0.05/lb valuation to the copper resource (BTR 60%) and our risk-weighted DCF valuation for the Perkoa Zinc project in Burkina Faso (BTR, 40%). We have applied an A\$0.96 exchange rate for our US\$ translation. Our DCF pre the US\$80m to complete the project is about US\$200m, or US\$280m on a funded basis. Glencore are providing the funding, and we are using a valuation of A\$188m risk-adjusted (completion 2011).

We are attracted to BTR for the copper potential, in an environment of rising copper prices combined with rising equity prices of copper hopefuls. BTR's share price is yet to respond, and in our view, they are well placed. **If BHP discover a large, world-class project, this is positive for BTR's valuation. If BHP walk away, BTR will retain the project 100%**, and free to conduct further drilling to increase the size/scope of existing copper resources with a view to establishing a potentially economic project. We have modelled a conceptual NPV on a 10Mtpa open-cut mine, and whilst clearly leveraged to copper, at current prices the project would be extremely robust (*potential US\$600m NPV at US\$3.00/lb copper or 1:1 NPV/capex, conceptually*). At US\$2.55/lb longer term (vs US\$3.80/lb spot) the project appears more marginal.

Despite this, investors are not paying for the copper, as the valuation of BTR looks underpinned by both the Perkoa stake (worth A\$75m allowing for 75% of our NPV) and cash (A\$10m+). This provides upside for investors on both the gold exploration in Burkina Faso (IAM's 90kozpa Essakane mine recently commissioned nearby) and the unfolding copper story in Zambia.

We upgrade our recommendation on BTR to a BUY due to the relative underperformance against copper stocks in recent months, and the 44% discount to our current risk-adjusted valuation. Our price target is increased to A\$1.20ps (was A\$1.00ps).

Reasons to Buy:

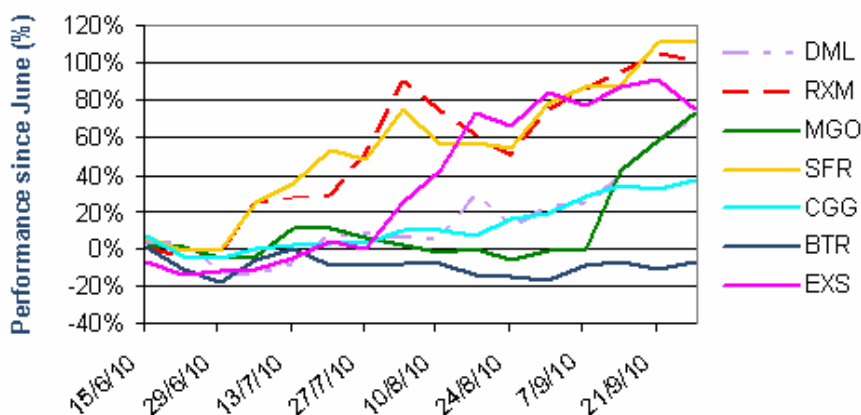
- Massively underperformed peer group in 2010 (see chart);
- BHP & Glencore funding on key projects sees limited cash-burn;
- Market value underpinned by zinc project/cash. Upside from copper project and gold exploration;
- Well regarded management team, led by Scott Lowe (ex-BHP);
- Trading at a 44% discount to our assessed fair value.

Appraised Valuation (BTR)

	\$/share*	A\$m
Perkoa (40%)	0.67	75.4
Mumbwa (60%)	0.70	78.2
Gold Projects	0.07	8.0
Other Exploration	0.02	2.0
Net Cash (debt) Est.	0.09	10.0
Corporate	-0.33	-36.4
Total	1.22	137.1

* Est. Diluted shares (112m) inc options. Allows for 25% discount to NPV for Perkoa construction risk. A\$ 0.96/US\$

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RISK STATEMENT The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw advisor before making any investment decision.

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