



TALISMAN MINING LIMITED

TLM (\$0.20)

SPEC BUY

# Cashflow Approaching; Market Discounting Tax Losses

Analyst: Simon Tonkin

## Our View

Talisman Mining Limited (TLM) is awaiting cashflows from the Springfield JV (TLM 30%) where Sandfire Resources (SFR) is currently developing the Monty mine which is expected to deliver first ore in the December Q. SFR has reported that the project is slightly ahead of schedule and under budget. Based on our assumptions we estimate free cash flow (pre-tax) to TLM of \$85.7m over the projects 30-month life. Importantly, TLM has \$44m in tax losses which means that it is unlikely to pay tax over the current life at Monty. We see significant upside through further near mine discoveries at Monty with numerous untested targets identified for follow-up. Importantly, TLM has a well-respected exploration team who work in partnership with SFR. Therefore, TLM is well placed to benefit from any future discoveries on the JV ground. In addition, the Company has been expanding into the Lachlan Fold Belt where exploration is underway. TLM also holds the Sinclair Nickel Project and associated mine infrastructure.

## Investment Highlights

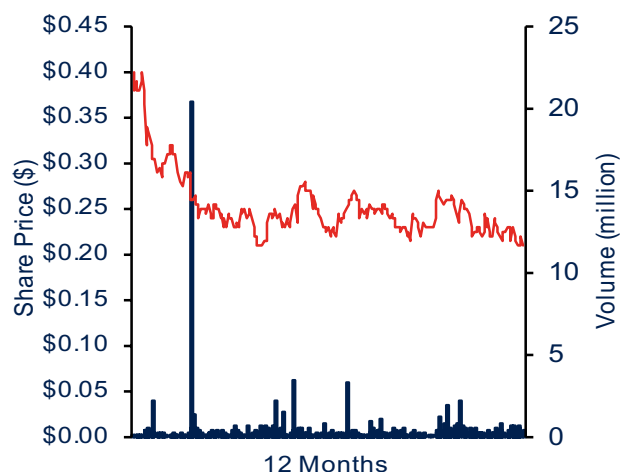
- ▶ **Cashflows from Monty Approaching.** TLM is eagerly awaiting first cash flow from its Springfield JV (TLM 30%) where Sandfire Resources (SFR) is currently developing the Monty mine which is expected to deliver first cash flow within the next 12 months. Importantly, SFR and TLM have agreed to an Ore Sales Agreement (OSA) whereby TLM is paid for its share once Monty ore is delivered to a purpose built weigh bridge at the Degruessa mine located 10km away. The agreement is structured in such a way that the Ore Treatment Fee (OTF) is transparent and commercial. Importantly, TLM has essentially secured the use of the Degruessa processing plant without the need to build a standalone plant which would likely be at a significantly higher cost. TLM has secured a US\$20m Project Finance Facility from Taurus Mining Finance Fund which should cover its \$22m upfront commitment.
- ▶ **Further Upside at Monty.** We see significant upside through further near mine discoveries at Monty with numerous untested targets identified for follow-up. Importantly, TLM has a well-respected exploration team who work in partnership with SFR. Therefore, TLM is well placed to benefit from any future discoveries on the JV ground.
- ▶ **Expanding into the Lachlan Fold Belt, NSW.** TLM has continued to expand its control over the highly prospective gold and base metals region in the central Lachlan fold belt. Exploration has commenced with a number of targets identified with RC and diamond drilling planned, geochem augur drilling, detailed geological and structural mapping and geophysical surveys.
- ▶ **Valuation \$0.53/sh.** We have determined a Net Asset Value (NAV) of \$0.53/sh for TLM. We have based our Monty valuation of \$49m or \$0.26/sh (post-tax) in accordance with the Monty Feasibility Results released on 6 April 2017 using our pricing estimates. The Monty feasibility looked at a 30-month mine life producing 74kt Cu and 38.3koz of Au (100%). We have adjusted for \$8m (TLM \$2.4m) in capital cost savings as outlined in its Dec Q report.
- ▶ **Sinclair Nickel Project.** Sinclair will need higher sustained nickel prices (\$8-10/lb) to look at development. Importantly, there is existing processing plant and infrastructure with a replacement value of >\$120m. TLM may look at doing deals with other parties to use the plant.

## Investment Summary

Year End June 30	2017A	2018F	2019F	2020F
Reported NPAT (\$m)	(8.7)	(7.0)	28.9	51.4
Recurrent NPAT (\$m)	(8.7)	(7.0)	28.9	51.4
Recurrent EPS (cents)	(4.7)	(3.8)	15.6	27.7
EPS Growth (%)	na	na	na	78.0
PER (x)	(4.6)	(5.7)	1.4	0.8
EBITDA (\$m)	(8.8)	(6.5)	37.2	63.5
EV/EBITDA (x)	(3.2)	(8.0)	0.7	(0.6)
Capex (\$m)	1.5	16.0	8.4	2.4
Free Cashflow	(8.6)	(27.9)	27.4	61.5
FCFPS (cents)	(4.7)	(15.0)	14.7	33.1
PFCF (x)	(4.6)	(1.4)	1.5	0.6
DPS (cents)	0.0	0.0	0.0	2.0
Yield (%)	0.0	0.0	0.0	9.3
Franking (%)	100.0	100.0	100.0	100.0

## Company Statistics & Performance

Shares on Issue (m)	185.7	3mth ADT (\$m)	0.079
ITM Options (m)	0.0	EV (\$m)	29.9
Market Cap. (\$m)	36.9	Debt est (\$m)	0.0
52 Week Range	\$0.21 - \$0.40	Cash est (\$m)	7.0





Valuation	A\$m	A\$/sh
Monty (post tax)	49	0.26
Sinclair	12	0.06
Exploration	16	0.09
Forward Sales	0	0.00
Equity Investment	0	0.00
Corporate	(10)	(0.05)
Unpaid Capital	0	0.00
Tax Losses	23	0.13
Debt	0	0.00
Cash	7	0.04
NAV @ 8% Discount Rate	98	0.53
Price Target	98	0.53

#### Directors

Name	Position
Jeremy Kirkwood	Chairman
Dan Madden	Managing Director
Alan Senior	Non Executive Director
Brian Dawes	Non Executive Director
Karen Gadsby	Non Executive Director

Commodity Assumptions	2017A	2018E	2019E	2020E
A\$:US\$	\$0.75	\$0.75	\$0.73	\$0.72
Copper (US\$/lb)	\$2.45	\$3.08	\$3.16	\$3.20
Lead (US\$/lb)	\$0.96	\$1.12	\$1.13	\$1.12
Zinc (US\$/lb)	\$1.15	\$1.50	\$1.55	\$1.52
Silver (US\$/oz)	\$17.86	\$16.65	\$16.88	\$17.40
Gold (US\$/oz)	\$1,258	\$1,302	\$1,334	\$1,350

Profit & Loss (A\$m)	2017A	2018E	2019E	2020E
Sales Revenue	0.0	0.0	64.7	110.2
Other Income	0.0	0.0	0.0	0.0
Operating Costs	(0.6)	0.0	(23.5)	(42.5)
Exploration Exp.	(5.1)	(4.2)	(2.0)	(2.1)
Corporate/Admin	(3.0)	(2.3)	(2.0)	(2.1)
EBITDA	(8.8)	(6.5)	37.2	63.5
Depn & Amort	(0.3)	0.0	(6.9)	(12.5)
EBIT	(9.1)	(6.5)	30.2	51.0
Net Interest	0.4	(0.5)	(1.3)	0.4
Operating Profit	(8.7)	(7.0)	28.9	51.4
Tax expense	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Abnormals	0.0	0.0	0.0	0.0
NPAT	(8.7)	(7.0)	28.9	51.4

Normalised NPAT	(8.7)	(7.0)	28.9	51.4
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Production Summary	2017A	2018E	2019E	2020E
Monty (attributable)				
Cu Metal Contained (kt)	0.0	0.0	6.7	11.3
Cu Metal Production (kt)	0.0	0.0	6.4	10.8
payable				
Gold Metal Contained (koz)	0.0	0.0	1.7	2.8
Gold Metal Production (koz)	0.0	0.0	1.6	2.5
payable				
C1 Cash Cost (A\$/lb)	\$0.00	\$0.00	\$1.28	\$1.42
Total Cash Cost (A\$/lb)	\$0.00	\$0.00	\$1.99	\$2.16

Reserves & Resources				
Reserves	(Mt)	(%, g/t)	(kt,koz)	Attrib.
Monty (as at March 2017)				
Copper	0.9	8.70	80	24
Gold	0.9	1.40	42	13

#### Monty Mine Plan

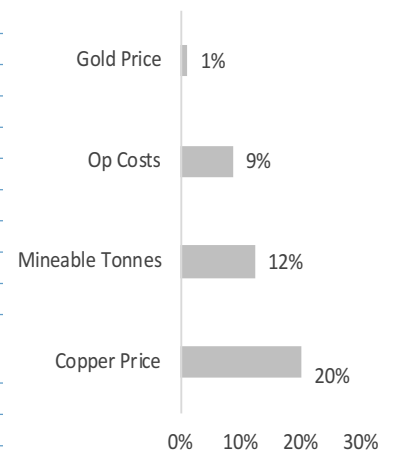
Copper	0.8	9.40	74	22
Gold	0.8	1.50	38	11

#### Resources

##### Monty (as at June 2017)

Copper	1.05	9.40	99	30
Gold	1.05	1.6	55	17

% Change In DCF Valuation from a 10% change in:



Cash Flow (A\$m)	2017A	2018E	2019E	2020E
Receipts from Customers	0.0	0.0	64.7	110.2
Payments to Suppliers	2.7	2.3	25.5	44.6
Net Interest	5.0	(0.5)	(1.3)	0.4
Payment for Exploration	0.5	8.9	2.0	2.1
Tax	0.0	0.0	0.0	0.0
-Working Capital Increase/(Decrease)	0.0	0.2	0.0	0.0
Operating Cashflow	(7.2)	(11.9)	35.8	63.9
- Capex (+asset sales)	1.5	16.0	8.4	2.4
- Other investing cashflow	0.0	0.0	0.0	0.0
Free Cashflow	(8.6)	(27.9)	27.4	61.5
- Dividends (ords & pref)	0.0	0.0	0.0	1.9
+ Equity raised	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	19.7	0.8	(16.7)
Net Change in Cash	(8.6)	(8.2)	28.2	42.9
Cash at End Period	11.6	7.7	35.9	78.8
Net Cash/(Debt)	11.6	(12.0)	15.4	75.0

Balance Sheet (A\$m)	2017A	2018E	2019E	2020E
Cash/Bullion	11.6	7.7	35.9	78.8
Total Assets	31.0	43.7	77.5	112.1
Total Debt	0.0	19.7	20.5	3.8
Total Liabilities	9.4	29.1	34.1	20.9
Shareholders Funds	21.6	14.6	43.5	91.2

#### Copper Exploited

