

# Macphersons Resources Limited MRP (\$0.28)

**Recommendation: SPECULATIVE BUY**

## Funding the key in the short term

Analyst: Tim McCormack

### OUR VIEW

A softening silver price has forced MRP to rationalise its production profile for the Nimbus mine near Kalgoorlie. Positively, the emerging project is now one that can withstand silver prices as low as \$12/oz by concentrating on higher grades from underground mining. In silver equivalent terms, Nimbus will be one of the highest grade mines in Australia and, by deferring large scale open pit mining, cash flows are improved over early years of operation. In the broader term MRP also aims to bring on line a heap leach, utilising excess primary crushing capacity and ore from the nearby Boorara gold deposit. The capital requirement for the project is ~\$60m, therefore, we see funding clarity as a key short term catalyst for the Company.

### Investment Highlights

- Financing decision in three months:** We understand MRP is in the process of short listing potential financiers and is aiming to have a funding solution in place within three months. The Company has indicated a mix of debt and equity as the preferred route for funding the ~\$60m capital requirement. Red Kite, the Company's major shareholder, has a first right to fund the project.
- Production within 12 months of funding:** Presuming a funding solution can be locked away in the next three months, MRP has indicated that mining and plant commissioning could be underway by mid 2014. The first meaningful year of production should see 2-2.5Moz of silver, 2-2.5kt of zinc and ~2koz of gold produced. Production will increase from thereon as the heap leach is incorporated into the circuit. At this stage the feasibility study has indicated all-in cash costs of \$12-16/oz silver equivalent for years 2-5 of mining with the principal debt repaid by the end of year three.
- Once underground things may change:** At this stage, MRP has only based underground development on the current ore reserve of 1.1Mt at 297g/t for 10.8Moz of silver eq. We appreciate that drilling out any sub-vertical shear hosted deposit is not cost effective from surface and see good potential for the reserve base to grow significantly through a concerted underground drilling program. Numerous lodes (both measured and indicated) grading between 55-400g/t silver eq. are situated around the existing reserve and will be easily accessible from the proposed underground infrastructure. As is the case with many high grade Western Australian deposits, capturing these additional ounces will likely push out the mine life significantly.
- Well leveraged to silver prices:** The current pit optimisations and mine plans have been derived using conservative commodity and FX assumptions which include silver \$19.80/oz, gold \$1,240/oz, zinc \$1,830/t, mercury \$96,300/t and AUD/USD \$0.916. We estimate that for every \$1/oz increase in the silver price LOM cash flow increases by ~\$10m.
- Exploration news flow in late 2013:** MRP has been fortunate in the granting of government funding for three holes which will be drilled in late 2013. The Company plans to target down dip extensions of the Nimbus resource and demonstrate the potential for additional mine life at depth.
- Catalysts:** 1) Funding solution 2) Finalise feasibility study outcomes 3) Timely production ramp up 4) Exploration results.

### Directors & Shareholders

#### Directors

Ashok Parekh  
Morrie Goodz  
Jeffrey Williams

#### Position

Executive Chairman  
Managing Director  
Non-Executive Director

#### Shareholders

Board and Management  
RK Mine Finance

#### Holding (%)

37.0  
8.5

### Company Statistics & Performance

Shares on issue (m)	250.2	3mth ADT (\$m)	0.04
ITM Options (m)	0.0	EV (\$m)	53.6
Market Cap. (\$m)	60.0	Debt est (\$m)	0.0
52 week range	\$0.12 - \$0.45	Cash est (\$m)	6.4

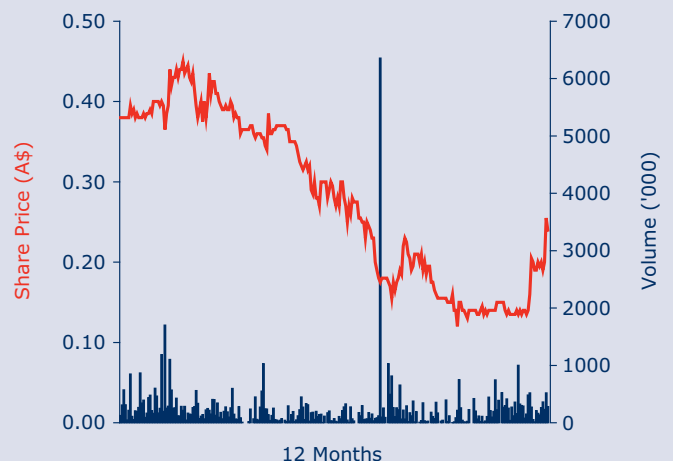


Figure 1: Resource and production targets

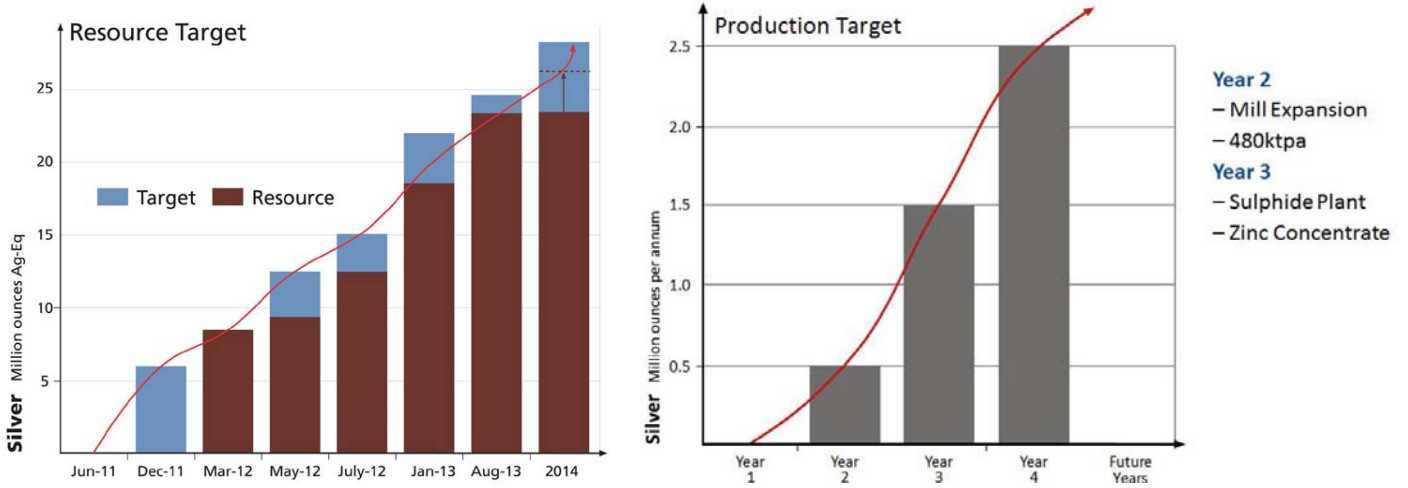


Figure 2: Optimised pit shells and planned underground infrastructure at Nimbus

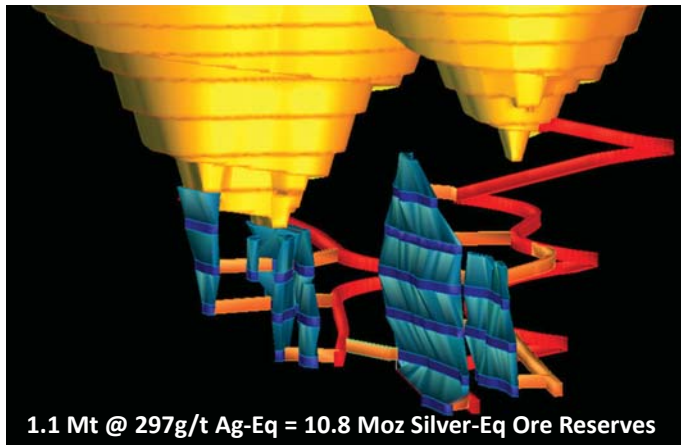
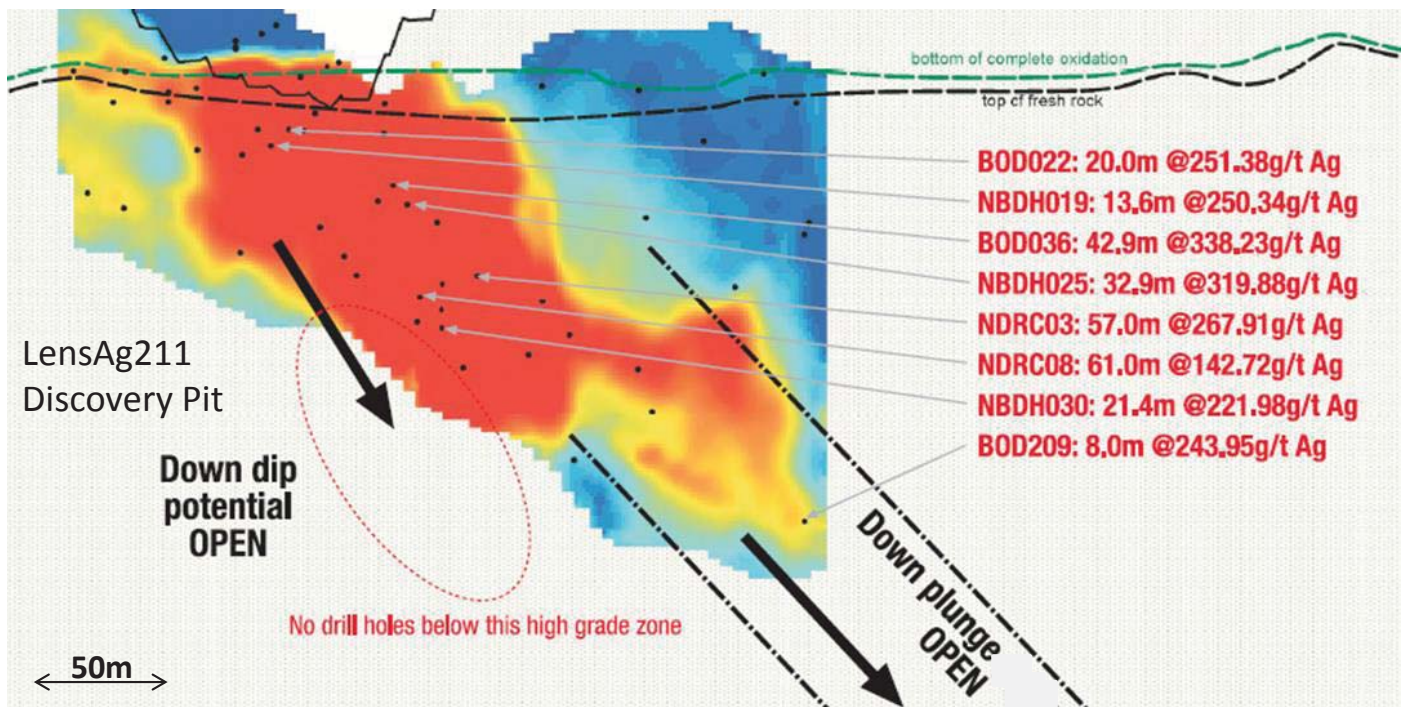


Figure 3: Key inputs to the feasibility study

Commodity	Model Price (USD) Used in Mine Design & Schedule 01 <sup>st</sup> July 2013	Current Price (USD) 09 <sup>th</sup> September 2013	Change (not included)
Silver	\$19.80/oz	\$23.85/oz	+20%
Gold	\$1240/oz	\$1389/oz	+12%
Mercury	\$96,300/t	\$104,500/t	+9%
Zinc	\$1830/t	1860/t	+2%
AUD FX	\$0.9160	\$0.9186	NC
Commodity	All In Cash Cost /oz (AUD)/LOM Years 2 – 5		
Silver-Eq	\$12 - \$16/oz		
Gold-Eq	\$600 – 1050/oz		
Modelled Payback	During Year 2 – 3		

Figure 4: Exploration potential down dip of the current Nimbus resource envelope



## Research

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