

**Analyst**

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## Aspire Mining Ltd (AKM)

### Further exploration success at Ovoot

**Recommendation**  
**Spec Buy** (unchanged)  
**Price**  
**\$0.49/sh**  
**Target (12 months)**  
**\$1.16/sh** (unchanged)

**Expected Return**

Capital growth	<b>139%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>139%</b>

**Company Data & Ratios**

Enterprise value	<b>\$250m</b>
Market cap	<b>\$262m</b>
Issued capital	<b>540m</b>
Free float	<b>23%</b>
Avg. daily vol. (52wk)	<b>2.0m</b>
12 month price range	<b>\$0.14-1.08/sh</b>
GICS sector	

**Materials**

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.59	0.65	0.15
Absolute (%)	-18.80	-26.92	216.67
Rel market (%)	-18.69	-17.03	227.09

**Absolute Price**



SOURCE: IRESS

### Step-out drilling continues to hit coal at the Ovoot Project

AKM has announced additional coal intersections at exploration drilling 5km to the northeast of its 331Mt Ovoot coking coal resource. This new discovery area now covers a 2km by 1km area and is open to the south, west and east. Best results are 16.5m of coal from 389m. Coal quality is yet to be determined. AKM's current resource is sufficient to support the planned 12Mtpa Ovoot coking coal project. This new discovery could potentially add another source mine and extend the project's life.

### Ongoing drilling at Ovoot through the winter months

AKM currently has five drill rigs operating at the Ovoot Project and we expect that exploration will continue at around this level through the winter months. We expect drilling to concentrate on the Ovoot Project Stage 1-2 reserve and also test the extent of the new discovery area. We also anticipate that AKM will use geophysical techniques to assist exploration.

### Next steps: Reserve and mining license application

By early 2012, AKM will announce an initial reserve for the Ovoot Project and lodge a mining license application. The Stage 1 pilot development is scheduled to commence from next year, producing up to 1Mtpa. On full development (2016), AKM aims to produce 12Mtpa of coal from the Ovoot Project. Market consultants Wood Mackenzie recently deemed hard coking coal as the appropriate price benchmark for Ovoot coal.

### Investment view - Spec Buy, price leverage, strategic appeal

Our AKM NPV is \$1.16/sh (13% discount rate) at long term hard coking coal prices of US\$180/t and currency of US\$0.85/A\$. At constant current spot prices and exchange rates (HCC US\$256/t at US\$0.98/A\$), our AKM NPV increases to \$3/sh. With tight hard coking coal supply-demand over the next few years, we see upside risk to our price forecasts. We also see significant strategic appeal in AKM's 100% owned Ovoot coking coal project. AKM is a speculative investment as it carries significant infrastructure risks.

**Earnings Forecast**

Year end	2011a	2012f	2013f	2014f
Sales (A\$m)	0.3	0.0	127.2	161.2
EBITDA (A\$m)	-5.0	-8.3	23.2	18.3
NPAT (reported) (A\$m)	-4.5	-4.9	6.1	4.3
NPAT (adjusted) (A\$m)	-5.2	-4.9	6.1	4.3
EPS (adjusted) (cps)	-0.9	-0.8	0.9	0.6
EPS growth (%)	na	na	na	na
PER (x)	-52.2x	-62.1x	55.1x	76.4x
FCF Yield (%)	-1.9%	-15.7%	0.7%	-58.4%
EV/EBITDA (x)	-50.3x	-30.1x	10.8x	13.7x
Dividend (cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	-25%	-9%	7%	2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Exploration success continues at Ovoot

## Further coal intersections at new Ovoot discovery area

AKM has announced additional coal intersections at a new coal discovery area within 5km of its Ovoot Project resource. While coal quality is yet to be determined, drilling has intersected hard bright coal, typical of coking coals. AKM had previously announced coal intersections at this new discovery area on 19 September 2011. This latest release included four previously unreported drill holes.

**Table 1 - New discovery area drill holes**

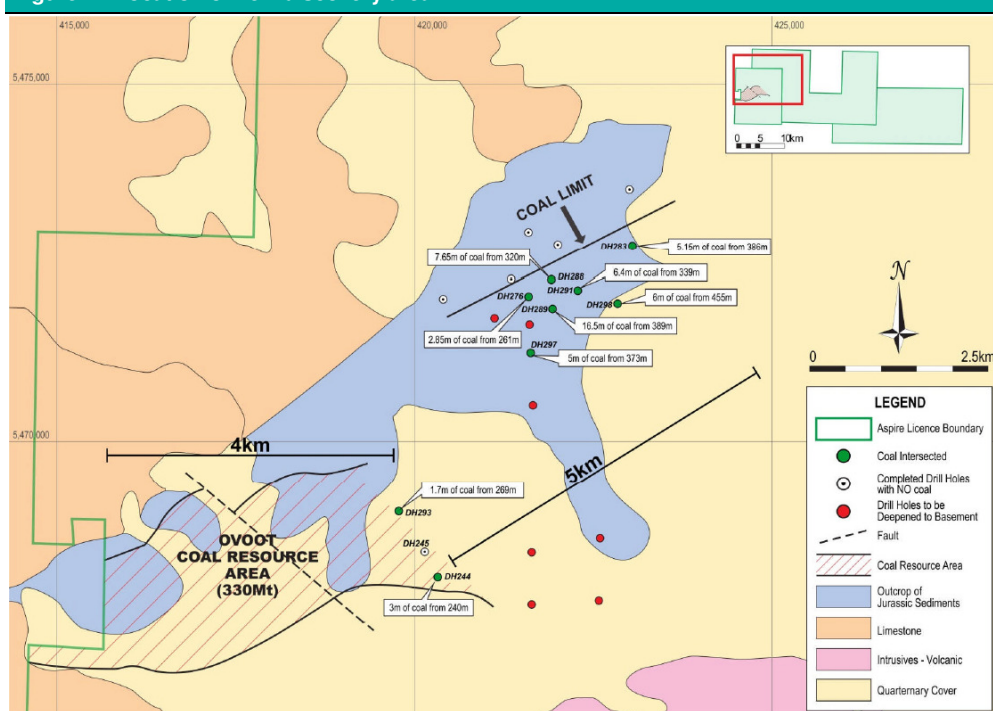
	Coal intersection (m)	From (m)
<b>New reported intersections from new discovery area</b>		
DH288	4.4	319
	3.2	325
DH289	4.6	389
	11.9	399
DH297	5.0	372
DH298	2.8	455
	3.2	460
<b>Reported 19 September 2011</b>		
DH291	2.9	338
	3.5	345

SOURCE: COMPANY DATA

## Positive for Ovoot Project scale and scope

The proximity of this discovery to the Ovoot Project is a positive. The discovery may eventually support an additional resource and source mine for the Ovoot Project, adding scale, blending opportunities and/or project life. AKM will continue exploration at the new discovery area during the winter months.

**Figure 1 - Location of new discovery area**



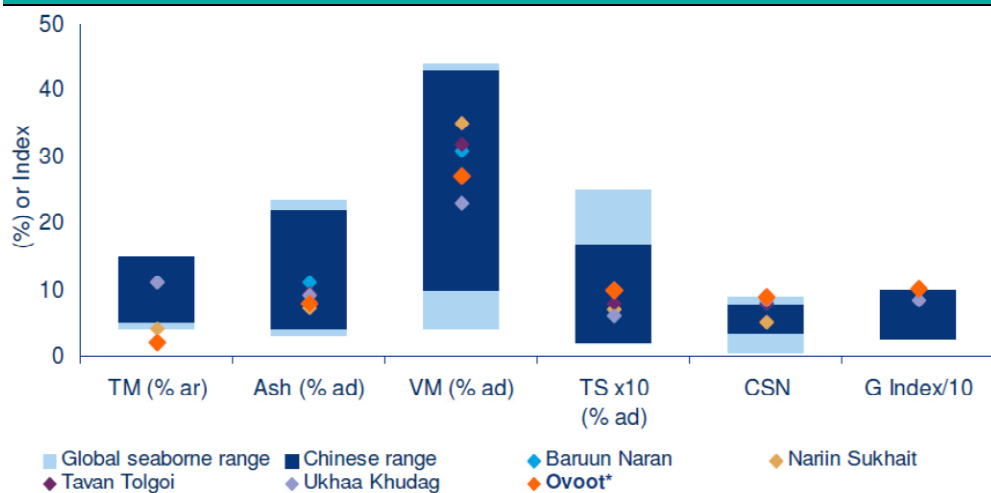
SOURCE: COMPANY DATA

### Wood Mackenzie confirms Ovoot coal’s high value properties

In late August 2011, AKM published the results from consultants Wood Mackenzie’s analysis of the Ovoot coal. The analysis confirmed that the Ovoot coal:

- would easily meet global seaborne market requirements;
- had strong caking, hard coking and blend carrying capacity; and
- pricing would be hard coking coal benchmark.

**Figure 2 - Ovoot coal quality comparison**



SOURCE: WOOD MACKENZIE, \* SUPPLIED BY AKM

### Coal price and currency forecasts

**Table 2: Bell Potter Securities coal price and currency forecasts**

		2010a	2011f	2012f	2013f	2014f	2015f	LT Real
Hard coking	US\$/t	191	289	250	230	225	208	180
Semi-hard	US\$/t	158	247	215	191	186	178	155
LV PCI	US\$/t	148	234	205	175	170	168	147
Semi-soft	US\$/t	141	226	175	148	143	138	120
Thermal	US\$/t	91	122	123	115	110	103	90
US\$/A\$	US\$/A\$	0.92	1.07	1.03	0.95	0.89	0.85	0.85

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Valuation and assumptions

## Valuation: Base case DCF of \$1.16/sh

Our base case valuation of AKM assumes:

- that AKM achieves production/sales rates of 12Mtpa product coal in the December 2017 quarter;
- that AKM pays for around two thirds (US\$1.1bn) of the total capex (US\$1.7bn) required to build the rail infrastructure for the project (i.e. a proportion of this rail is multi-user);
- Bell Potter Securities coal price and currency forecasts (Table 3); and
- AKM raises A\$60m at \$0.40/sh over the next 12 months to fund the development of Stage 1 of the Ovoot Project.

**Table 3: Bell Potter Securities coal price and currency forecasts**

		2010a	2011f	2012f	2013f	2014f	2015f	LT Real
Hard coking	US\$/t	191	289	250	230	225	208	180
Thermal	US\$/t	91	122	123	115	110	103	90
US\$/A\$	US\$/A\$	0.92	1.07	1.03	0.95	0.89	0.85	0.85

SOURCE: BELL POTTER SECURITIES ESTIMATES

## NPV scenarios: Leverage to long term coking coal prices

Table 4 shows calculated NPVs under flat coal price and currency scenarios. It highlights the significant leverage AKM has to coking coal prices. At constant current spot prices and exchange rates (HCC US\$256/t at US\$0.98/A\$), our AKM NPV increases to \$3/sh.

**Table 4: AKM NPV scenarios**

	160	170	180	190	200	210	220	230	250	300
Hard coking coal price US\$/t	160	170	180	190	200	210	220	230	250	300
Currency US\$/A\$	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>AKM NPV \$/sh</b>	<b>-0.74</b>	<b>-0.35</b>	<b>0.04</b>	<b>0.40</b>	<b>0.78</b>	<b>1.17</b>	<b>1.55</b>	<b>1.90</b>	<b>2.65</b>	<b>4.46</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Strategic value

We believe there is strategic value in AKM through its:

- large scale (330Mt), high quality Ovoot coking coal resource;
- potential to partner with major off-take customer (steel producer) to assist with financing the Ovoot Project;
- proximity to other potential minerals deposits, including the Burenhaan Phosphate project (a Mongolian Mineral Deposit of Strategic Importance); and
- implicit relationships/ties with major mining/minerals houses including Ivanhoe Mines/SouthGobi Resources (19.8% shareholder) and Noble Group (8.6% shareholder).

# Coal comps table

Table 5 - Coal comps table

	EV A\$m	Resource Mt	Reserve Mt	EV A\$/t	Key mines/project(s)
Aston Resources Limited (AZT)	2,136	576	280	3.71	Maules Creek (NSW), ramp-up 11Mtpa by 2016, 20% therm, 80% met
Aspire Mining Ltd (AKM)	370	331		1.12	Ovoot Project (Mongolia) targeting 12Mtpa met coal from 2017
Bandanna Energy Ltd (BND)	375	1,261	147	0.30	Springsure Creek (Bowen Basin) with 4Mtpa WICET capacity from 2014
Bathurst Resources Ltd (BTU)	505	73	10	6.93	Buller Coal Project (NZ) ramping up to 2Mtpa hard coking coal
Carabella Resources Ltd (CLR)	228	95		2.39	Mabbin Creek Complex (Bowen Basin) 3-5Mtpa met coal from 2015
Coalspur Mines Ltd (CPL)	1,026	1,458	260	0.70	Vista Coal Project (Canada) 9Mtpa thermal coal in BFS stage
Coalworks Ltd (CWK)	64	852		0.08	Vickery South JV (50%) 50Mt NSW met & thermal coal prospect
Cockatoo Coal Ltd (COK)	427	1,549	67	0.28	Baralaba (Bowen Basin) ramping up to 3.5Mtpa 90% PCI, 80% COK
Endocoal Ltd (EOC)	40	88		0.45	Orion Downs (Bowen Basin) thermal project requiring WICET Stage 2
Gloucester Coal (GCL)	1,463	279	76	5.25	Gloucester Basin (NSW) and Middlemount (Bowen Basin) mines Hughenden Project (Galilee) & recent Mongolian acquisitions
Guildford Coal Ltd (GUF)	388				
Gujurat NRE Coking Coal Ltd (GNM)	394	647	67	0.61	Wollongong met coal operations targeting 6Mtpa ROM by 2015
Kangaroo Resources Ltd (KRL)	535	4,623	656	0.12	Pakar Thermal Coal Project (East Kalimantan) ramping up to 20Mtpa
Macarthur Coal Ltd (MCC)	4,382	1,761	168	2.49	Bowen Basin met coal ramping up to 9.2Mtpa by FY14 (3.9Mt in FY11)
Metrocoal Ltd (MTE)	90	1,016		0.09	Bundi & Columboola thermal projects (Surat Basin)
New Hope Corporation Ltd (NHC)	3,306	2,048	656	1.61	New Acland mine and Elimatta Project (Brisbane/Surat Basins) Comet Ridge & Spring Creek prospects (Bowen Basin)
Newland Resources Ltd (NRL)	61				
Nucoal Resources NL (NCR)	227	505		0.45	Doyles Creek thermal project (NSW), 2015 ramp-up 4-5Mtpa
Resource Generation Ltd (RES)	81	2,271	539	0.04	Boikarabelo thermal project (South Africa), 15-20Mtpa potential
Rey Resources Ltd (REY)	52	536		0.10	Canning Basin (WA) 2Mtpa thermal 10-year potential from 2014
Stanmore Coal Ltd (SMR)	108	328		0.33	The Range thermal project (Surat), targeting 5Mtpa by 2015
Tigers Realm Coal (TIG)	95	248		0.38	Amaam coking coal project (NE Russia) 80%, 240-380Mt target
White Energy Company Ltd (WEC)	362	684	0	0.53	Coal briquette technology & South Australia Coal resource
Whitehaven Coal Ltd (WHC)	2,905	1,458	295	1.99	Gunnedah basin thermal & met coal mines producing >4mtpa
Xanadu Mining Limited (XAM)	59	327		0.18	Mongolia explorer in met coal JV with Noble Group
<b>Weighted average</b>				<b>0.86</b>	
<b>Weighted average - producers</b>				<b>1.12</b>	
<b>Weighted average - developers</b>				<b>0.49</b>	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Ovoot Project summary

## Proof of concept, infrastructure, haulage and customers

Stage 1 of the Ovoot Project is to highlight to markets that a larger-scale (Stage 2) development is feasible by:

- Identifying multiple potential routes to market – AKM have identified four;
- Showcasing the coal product to a potential customer base – to secure coal off-take;
- Building relationships with infrastructure and other service providers for construction and ongoing project operation; and
- Managing sovereign issues (coal crossing country borders, etc.).

The two stages of the Ovoot Project can be summarised as follows.

**Table 6: Project summary**

		Stage 1	Stage 2
Ramp-up from		2012	2016
ROM production	Mtpa	0.5-1.0	15
Yield	%	100%	80%
Product	Mtpa	0.5-1.0	12
		<b>ROM coking coal</b>	<b>Premium coking coal</b>
Closest rail load-out		Erdenet 560km from Ovoot	Ovoot

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

### Stage 1 development: 0.5-1.0Mtpa ROM coking coal from 2012

The scoping study for Stage 1 of the Ovoot Project is nearing completion. Stage 1 is a low capital intensity, higher operating cost trial operation. Stage 1 will mine around 0.5-1.0Mtpa ROM coking coal. This coking coal will then be trucked to the nearest rail siding (570km to Erdenet) for freight forwarding to Russian east coast ports, or to customers in Russia or China.

### Stage 2 development: 12Mtpa hard coking coal from 2016

The pre-feasibility study for the Stage 2 development is expected to commence in the September 2011 quarter and be completed by the end of 2011. AKM then plans to complete a bankable feasibility study by mid-2012.

Stage 2 involves a significant infrastructure build (wash plant and 570km rail line) and will mine 15Mtpa ROM coal for 12Mtpa of washed high quality coking coal. Product coal will be railed from the Ovoot Project to Russian east coast ports, or to customers in Russia or China.

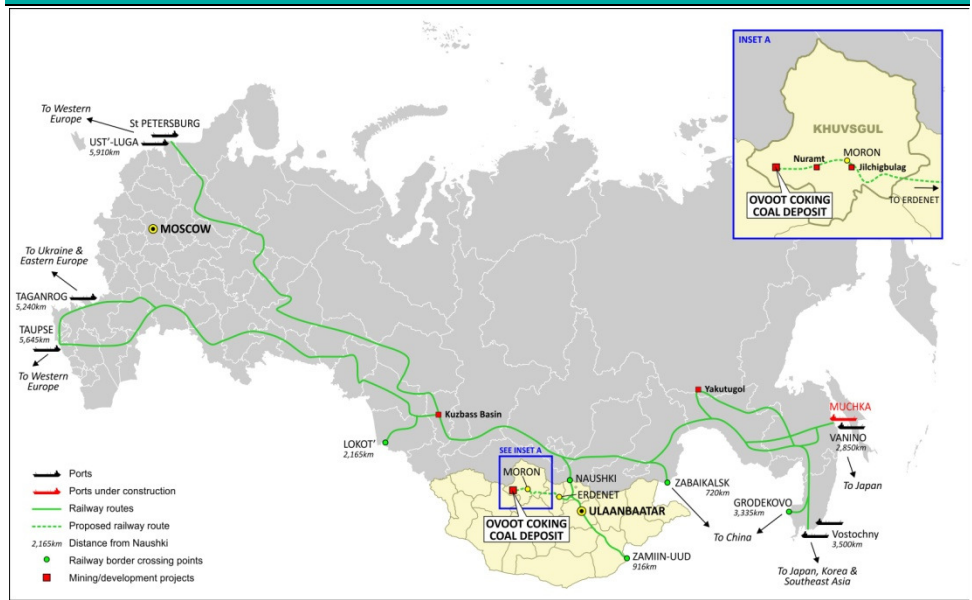
## Four potential routes to market for Ovoot coal

Through discussions with Russian rail providers and Mongolian infrastructure providers, AKM has identified four potential routes to market.

1. East coast Russian ports: Railing coal north along the trans-Mongolian railway, then across the trans-Siberian railway to east coast Russian ports;
2. South to the Chinese border: Railing coal south along the trans-Mongolian railway for sale at the Mongolian-Chinese border;
3. China via Manzhouli: Railing coal north along the trans-Mongolian railway then east to the Mongolian-Chinese border at Manzhouli (Inner Mongolia); and

- West to Europe: Depending on freight agreements, it may be viable to rail coal north along the trans-Mongolian railway then west along the trans-Siberian railway to markets in Europe.

**Figure 3 – Ovoot Project: distances to markets**



SOURCE: AKM

### Transport to port a key hurdle

The example in Table 7 calculates the freight distances to Vostochny Port (east coast Russia), one of the four routes to market identified by AKM. This route is likely to be the most direct point of access to the seaborne market (and therefore seaborne prices).

The analysis highlights the significant distances that Ovoot Project coal will have to travel, and the leverage of costs to rail tariffs. In Australia, Bowen Basin hard coking coal is railed 300-400km to port. In Canada, Peace River hard coking coal is railed around 1,000km to port. The rail distance from the Ovoot Project to Vostochny port is around 4,600km.

**Table 7: Transport**

		Stage 1	Stage 2
<b>Transport parameters</b>			
Distances			
Road Ovoot -> Moron	km	170	
Road Moron -> Erdenet	km	390	
Road total Ovoot -> Erdenet	km	560	
Rail Ovoot -> Moron	km		170
Rail Moron -> Erdenet	km		390
Rail total Ovoot -> Erdenet	km		560
<b>Example: Seaborne sales through Russia</b>			
Rail Erdenet -> Naushki (Mongolia-Russia border)	km	420	420
Rail Naushki -> Vostochny	km	3,500-3,800	3,500-3,800
Rail total Erdenet -> Vostochny	km	4,070	4,070
<b>Total Ovoot Project -&gt; Vostochny</b>	<b>km</b>	<b>4,630</b>	<b>4,630</b>

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

## Ovoot Project transport costs

The example in Table 8 examines FOB transport costs to Vostochny Port, the most direct point of access to the seaborne market (and therefore seaborne prices). The construction of the Ovoot Project to Erdenet rail line lowers transport costs by around US\$30/t.

We have used a conservative Russian freight tariff of US\$1.5/tkm. However, we understand that rates of less than US\$1.0/tkm have been negotiated by other users.

**Lowering Russian rail tariff assumptions to US\$1.0/tkm (from US\$1.5/tkm) reduces transport costs by around US\$20/t and increases our NPV base case NPV from \$1.16/sh to \$2.09/sh.**

**Table 8: Transport**

		Stage 1	Stage 2
<b>Transport tariffs</b>			
Mongolia road haulage rates	US\$/tkm	8.0	
Mongolia rail haulage rates	US\$/tkm	3.0	3.0
Russia rail haulage rates	US\$/tkm	1.5	1.5
<b>Transport costs</b>			
Mongolia road	US\$/t	44.80	
Mongolia rail	US\$/t	12.60	29.40
Russia rail	US\$/t	54.75	54.75
<b>Total transport</b>	<b>US\$/t</b>	<b>112.15</b>	<b>84.15</b>
Border charges	US\$/t	1.50	1.50
<b>Total transport + border charges</b>	<b>US\$/t</b>	<b>113.65</b>	<b>85.65</b>

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

## Mining costs: Low strip ratio an offset to rail distance

To AKM's advantage, the Ovoot Project has a low strip ratio when compared with Australian hard coking coal mines. AKM estimate that Stage 1 will have a strip ratio of around 3 (BCM:t). We estimate that some Australian hard coking coal operations in the Bowen Basin (E.g. BMA) are operating at strip ratios of 15-17:1 (BCM:t).

**Table 9: Mining**

		Stage 1	Stage 2
<b>Mining parameters</b>			
Strip ratio	bcm:t	3.0	5.5
Coal SG	t/bcm	1.35	1.35
Mining cost	US\$/bcm	4.00	3.00
<b>Mining and processing costs</b>			
Mining cost	US\$/t	14.96	23.40
Process/handling (screen)	US\$/t	2.00	
Process/handling (wash)	US\$/t		3.00
Admin	US\$/t	2.00	2.00
<b>Mine gate cost</b>	<b>US\$/t</b>	<b>18.96</b>	<b>28.40</b>
Transport cost	US\$/t	113.65	85.65
Port charges	US\$/t	10.00	10.00
<b>Total FOB cost excl royalties</b>	<b>US\$/t</b>	<b>142.61</b>	<b>124.05</b>
Royalties & charges	US\$/t	7.20	9.36
<b>Total FOB cost</b>	<b>US\$/t</b>	<b>149.81</b>	<b>133.41</b>

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES



## Project capital costs

We estimate modest capital costs of around US\$52m for Stage 1. For Stage 2, we estimate that site infrastructure (including coal wash plant) will have a capital cost of around US\$450m. The Stage 2 rail capital cost assumption in Table 10 is for the 180km rail link between the Ovoot Project and Moron. The assumptions follow consultation with AKM and reviews of similar projects under development (E.g. Mongolia Mining Corporation Ukhaa Khudag coking coal project).

**Table 10: Capital costs**

		Stage 1	Stage 2
Pre-strip	US\$m	6	
Road upgrade	US\$m	36	
Rail	US\$m		510
Wash plant	US\$m		300
Site infrastructure & mine development	US\$m	10	150
<b>Total</b>	<b>US\$m</b>	<b>52</b>	<b>960</b>
	US\$/tpa	69	80

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

### AKM partner in 50% of the Moron to Erdenet rail link

The Moron to Erdenet rail link will likely be used by other minerals projects and be of regional development importance. Therefore, we think it is likely that AKM will likely partner with the Mongolian Government and/or other potential users in the construction of the Moron to Erdenet rail link. This component accounts for around 390km of the total required rail infrastructure of 570km. We factor in AKM funding and owning 50% of this infrastructure and estimate the total capital cost (100%) US\$1.2bn. This infrastructure ownership appears as a negative (\$0.34/sh) in our NPV calculation.

# AKM capital structure

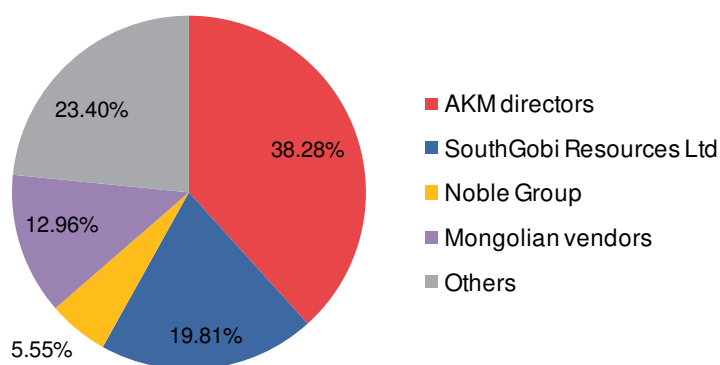
## AKM issued capital, market capitalisation & enterprise value

Table 11: Issued Capital, Market Capitalisation & Enterprise Value

Total issued shares m	540.6
Share price A\$	0.49
Market cap (undiluted) A\$m	262.2
Net cash A\$m	12.0
EV (undiluted) A\$m	250.2
Options m	247.7
Issued shares (diluted) m	788.3
Market cap (diluted) A\$m	382.3
Net cash + options A\$m	25.0
EV (diluted) A\$m	357.3
SOURCE: IRESS	

## AKM major shareholders

Figure 4 – AKM major shareholders



SOURCE: AKM



**Recommendation structure**

**Spec Buy:** Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

**Buy:** Expect >15% total return on a 12 month view

**Accumulate:** Expect total return between 5% and 15% on a 12 month view

**Hold:** Expect total return between -5% and 5% on a 12 month view

**Reduce:** Expect total return between -15% and -5% on a 12 month view

**Sell:** Expect <-15% total return on a 12 month view

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