GMP

Equity Research

Triton Minerals Ltd.[1,7]

BUY

TON-ASX

April 1, 2015

Last: **A$0.54**

▲ Target: **A$0.90**

Binding offtake and strategic alliance

Long-term offtake de-risks TON's Mozambique Graphite Project

A 20-year, >US$2bn contract that is exclusive through East Africa with one of the world's significant graphite players, Yichang Xincheng Graphite Co., is arguably a game changer for Triton. We see this as the first of several offtake agreements for the company's flexible and likely low cost Triton's Mozambique Graphite (TMG) product. TMG looks likely to be produced from both the world's largest resource at Nicanda Hill and from Ancuabe where extremely coarse flake has been discovered.

Strategic Alliance may fast-track project with further synergies

A strategic alliance with an experienced graphite producer and potential offtaker will assist the development of TMG and could lead to future offtake discussions with AMG. One of the advantages with TMG is the ability to "cherry pick" the world's largest resource at Nicanda Hill and very coarse flake at Ancuabe to suit a wide range of customers.

AMG's expertise and granted mining concession at Ancuabe with a small plant on site provides opportunities to fast track production at TMG.

Triton looks undervalued compared to Syrah Resources

Triton's Nicanda Hill project is adjacent to fellow ASX listed Syrah Resources' Balama Project. Syrah (ASX:SYR) is currently valued 3.33x Triton on the ASX. We compare the two companies and conclude that this market valuation seems strange given TON's larger resource at slightly better grade graphite and vanadium, better offtake agreement, strategic alliance with AMG and the otherwise similar qualities between the two projects.

Maintain BUY with an increased price target of A$0.90/sh

We have updated our SOTP valuation on Triton. Our target price has raised A$0.03/share. This reflects a slight reduction in our risking to NAV (from 0.55x NAV to 0.6xNAV) as a result of reduced offtake risk. We have also factored in a minimum price of US$1,000/t for large and jumbo flake pricing. Much of the upside from today's announcement was already factored into our model as we believed offtake achievable at TMG.

Whilst fast-tracked and coarse flake production from Ancuabe is now a possibility, this has not yet been factored into our valuation.

What's Changed	Old	New
Rating	BUY	n.c
Target (A$)	$0.87	$0.90
Graphite Production 2016E (kt)	6.44	6.44
Graphite Production 2017E (kt)	67.28	67.28
Graphite Production 2018E (kt)	163.80	163.80

Share Data	
Share o/s (mm, basic/f.d. itm)	330.4
52-week high/low (A$)	0.86/0.088
Market cap (A$m)	$178.39
EV (A$m)	$177.09
Net debt (m)	$0.00
Projected return	68%
NAV0%/share	$1.35
NAV10%/share	$0.90
P/NAV0%	0.40
P/NAV10%	0.60

Financial Data

YE Dec. 31	FY16E	FY17E	FY19E
Graphite production (kt)	6	67	164
Cash costs (US$/t)	$219	$219	$219
Capex (US$m)	-$111	-$1.0	-$1.0
Free cashflow (A$m)	-$138	$13	$43
EPS	$0.00	$0.02	$0.08
CFPS	-$0.00	$0.04	$0.13
P/E	0.00	22.69	6.88
P/CF	0.00	13.85	4.09
EV/EBITDA	435.00	9.28	2.91

All figures in A$ unless otherwise noted

Current Chart   Previous Research

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Binding offtake

Triton Minerals has announced the execution of a binding off-take agreement with Chinese graphite products specialist Yichang Xincheng Graphite Co.Ltd (YXGC) for Triton's Mozambique Graphite (TMG). Further, Triton has exclusive rights to supply graphite to YXGC from Mozambique, Madagascar, Malawi and Tanzania.

A minimum total contract value of US$2,000,000,000 is assured by a floor price of US$1,000/tonne, with the full contract revenue determined by the future sale price as set by the applicable graphite market price.

With the execution of the long term off-take agreement with YXGC, Triton is now positioned to continue with the rapid development towards large scale production of TMG in order to provide a greater commercial flexibility by providing a varied range of high-purity graphite flake sizes for more end users.

Figure 1. Key terms of the binding off-take

Term	20 years
Amount	100,000 tonnes of graphite concentrate per year, annualised over term, scaling up from initial production
Sale Price	Graphite Market Price
Minimum Sale Price	US$1,000 per tonne of graphite concentrate
Minimum Contract Revenue	US$2,000,000,000 (2 Billion Dollars)
Minimum Flake Size	150µm
Graphite Purity	90% Total Graphitic Carbon
Moisture Content	Less than 1%
No Restriction	Triton is not restricted in selling TMG to other parties
Exclusivity of Supply	YXGC will only source graphite concentrate from Mozambique, Madagascar, Malawi and Tanzania exclusively from Triton
Condition Precedents	Within 36 months of signing Agreement the follow conditions apply: • Triton receiving all relevant government approvals • Triton commissioning a processing plant or plants • Triton achieving commercial production of Material to the satisfaction of Triton • Triton providing YXGC notice of its intention to commence deliveries of Material

Source: TON

Our view

Significant de-risking

This is an excellent result for Triton and a potential game changer. It almost seems too good to be true, but we take comfort from the fact that this is a binding offtake agreement. We have long stated that binding offtake, once achieved, will significantly de-risk the project as it provides confidence of a market in a sector where future supply threatens to outpace current demand. The quantity and longevity of the offtake agreement is substantial and represents half the annual production modelled in TON's recent Scoping Study. The size and term of this contract also indicates that the sector spectators may be under estimating the actual size of the traditional and new graphite market demand.

Competitive pricing with exclusivity in East Africa

Importantly, pricing is competitive and has a stated floor price of US$1,000/t which looks set to provide very healthy margin's given the scoping study forecast cost of US$315/t FOB to the Port of Pemba. Unlike many offtake agreements held by fellow East African potential developers' Triton is not restricted in selling its TMG product to other Chinese and global offtakers as well as YXGC. In addition, YXGC represents a well-established graphite player and is not just starting out in the sector. This distinguishes YXGC from other potential offtakers and also provides a significant vote of confidence in Triton's TMG potential. In addition, the agreement provides TON with exclusivity in East Africa.

TMG production likely from Nicanda Hill and Ancuabe

One potential challenge facing TON will be providing 100,000 tonnes of such coarse material. Whilst the large resource at Nicanda Hill allows for cherry picking the coarser flake parts of the resource, inevitably the company will need to mine and process some of the finer material and production costs could escalate somewhat, although we believe the finer flake material is likely to find a market given its wide ranging potential use and low cost.

However, the indications from Ancuabe, where recent test work showed that 85% of graphite flakes exceed 212µm, are that significant amounts of coarse flake material can be produced to complement Nicanda Hill product. Consequently this agreement is a fantastic result for the company and we expect further offtake agreements to follow.

Lower purity specifications provide scope for lower cost coarser flake

The test work completed by YXGC reportedly showed that TMG "performed well beyond their highest expectations." Metallurgical test work on TMG has returned purity levels of 97%TGC, the requirement in the agreement for TON to provide material at just 90%TGC will allow the company to reduce the degree of grinding required. This will benefit costs and likely improve flake size recovery.

Strategic alliance with AMG Mining

Triton has signed a binding agreement to form a strategic alliance with AMG Mining AG (AMG) through the AMG subsidiary of GK Ancuabe Graphite Mine, SA (GK).

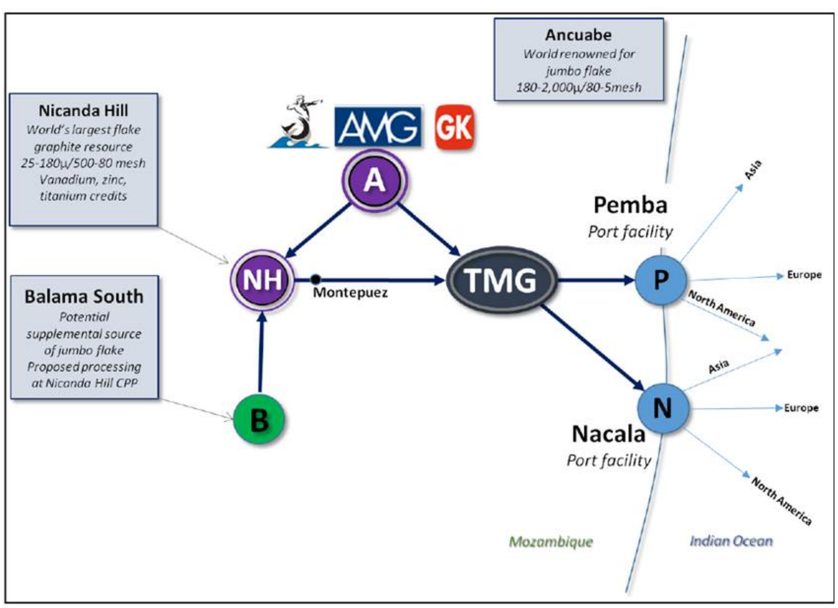
The strategic alliance between AMG and Triton is for an initial exclusive period of two years during which the parties will collaborate on the exploration, identification and development of graphite occurrences in the Ancuabe district, within the Province of Cabo Delgado in Mozambique.

The combined project area is located approximately 45km directly west from the Regional Capital and Port of Pemba with sealed road access. GK's Mozambique assets include permitted mining concession 4C that encompasses a functional graphite producing plant (on care and maintenance) and associated mining and production infrastructure. Triton's exploration tenure completely surrounds this mining concession.

Our view

This is a good result for Triton. GK have a plant and permitted mining concession at Ancuabe which could potentially assist in Triton's integrated development of the Triton Mozambique graphite (TMG). The company plans to develop a low cost and diversified product range through "cherry picking" from the world's largest graphite resource at Nicanda Hill and very coarse flake material from Ancuabe. GK's and parent AMG's experience in the sector will be very beneficial to Triton and a growing relationship with a global critical materials company that produces graphite products certainly bodes well for future development and possible offtake. The alliance also benefits GK as Triton looks to have discovered coarse flake graphite that is associated with a large electromagnetic anomaly in tenements that surround GK's small plant.

Figure 2. TMG conceptual integrated development business model



Source: TON

Opportunity for near term production

The recently signed agreement with GK at Ancuabe may well open up additional offtake opportunities, but importantly, it could also provide a more rapid pathway to production with an operational production facility and permitted mining license already in existence, rather than the original standalone facility at Nicanda Hill as originally indicated in the Scoping Study. A drilling programme at Ancuabe is expected to commence later this quarter. The programme is likely to be designed to define further substantial coarse flake graphite resources to complement the larger but likely smaller flake resource at Nicanda Hill.

Triton is now positioned to develop its Ancuabe project as part of its larger TMG project without fear of interference from other hopeful developers in Mozambique.

Peer comparison with Syrah Resources

Triton's Nicanda Hill project is adjacent to fellow ASX listed Syrah Resources' (not covered) Balama Project. The following table summarises the two ASX listed companies with very similar resources, able to utilize the same infrastructure in the same operating environment.

One of the key differences between the two companies is market capitalisation. Syrah is currently valued 3.33x Triton on the ASX. This seems strange given TON's larger resource at slightly better grade graphite and vanadium, better offtake and otherwise similar qualities as shown below.

Ton's offtake is for 20 years (not three). Ton has also secured a floor price of US$1,000/t and signed offtake for 100ktpa rather than SYR's 80ktpa. As outlined above, Triton is not restricted in selling its TMG product to other Chinese and global offtakers as well as YXGC. In addition, YXGC represents a well-established graphite player and is not just starting out in the sector. This distinguishes YXGC from other potential offtakers and also provides a significant vote of confidence in Triton's TMG potential. In addition, the agreement provides TON with exclusivity in East Africa.

Syrah has a mining license and has completed a vanadium study, but given the similar geology and location of the two projects it's seems likely that TON will achieve both. In our view, TON looks undervalued compared to its neighbour.

Figure 3. Comparison with neighbouring Syrah resources (ASX:SYR)

Mine Plan	Triton	Syrah
Market capitalisation (A$m)	180	600
Enterprise value (A$m)	178	585
Forecast Annual Production (Kt)	210	220
Resource (Bt)	1.6	1.2
Resource Grade (%)	10.7	10.2
First production*	2016	2016
Mining Licence	N	Y
Development Stage	Feasibility	Feasibility
Offtake		
Binding offtake (ktpa)	100	80
Graphite offtaker	Y	N
Exclusive China purchase	N	Y
Exclusive E. Africa production	Y	N
Term of offtake (years)	20	3
Pricing	Market	Market
Floor price (US$/t)	1,000+	None
Purity required (%)	90	92
Flake Size Required	100% above 150 microns	90% above 150 microns
Scoping Study Capex (A$m)**	110	92
Vanadium Resource grade (%)	0.27	0.23
Vanadium Study completed?	N	Y

*Source: GMP research. *our estimate. **graphite only scoping study. + review should market price drop below US$650/t*

Upcoming news flow

- Metallurgical test work results for Ancuabe – 2Q15
- TMG feasibility study - ongoing
- Funding discussions - ongoing
- Further offtake discussions – ongoing

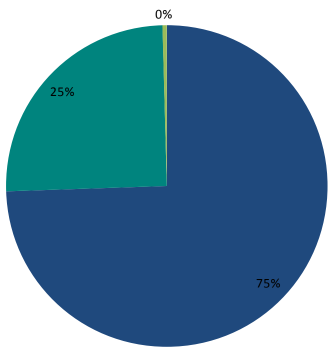
Ticker	TON
Recommendation	**BUY**
Target Share price (A$)	0.90
Current Share price (A$)	0.54
Implied Return (%)	68%
P/NAV (x)	0.40

Financial Yr. End	31 December
Shares on issue (m)	330.4
Market Cap (A$)	178.4
Enterprise Value (A$)	177.1
Cash (A$)	1.3
Project IRR (%)	31%

Valuation

Asset	Discount rate	NAV "X" Factor	NAV Target (A$)	Target Price (A$)
Balama North Project	10%	0.60 X	$222.5	$0.67
Exploration Upside	n.a	n.a	$75.0	$0.23
Cash	n.a	n.a	$1.3	$0.00
Total NAV			**$298.8**	**$0.90**

Valuation Split (%)



Profit & Loss (A$m)

A$M	FY2018	FY2019	FY2020	FY2021
Revenue	$41.3	$111.6	$184.4	$184.4
Cost of Sales	$18.4	$44.9	$57.7	$57.7
Gross Profit	**$22.8**	**$66.7**	**$126.6**	**$126.6**
EBITDA	$19.1	$60.8	$118.6	$118.6
Net Profit before tax	$17.3	$56.9	$115.4	$118.5
Tax Payable	(-$5.1)	(-$16.8)	(-$33.8)	(-$33.8)
Profit after tax	**$12.1**	**$40.1**	**$81.6**	**$84.7**

Balance Sheet

	FY2018	FY2019	FY2020	FY2021
Assets				
Cash	$6.6	$31.3	$102.6	$190.5
PPE & Exp. & Dev.	$162.5	$157.4	$149.4	$141.7
Total Current Assets	$6.6	$31.4	$102.6	$190.6
Total Assets	**$171.4**	**$152.8**	**$203.5**	**$267.7**
Liabilities				
Senior Debt	$0.0	$0.0	$0.0	$0.0
Total Current Liabilities	$0.3	$0.3	$0.3	$0.3
Total Liabilities	**$2.3**	**$2.3**	**$2.3**	**$2.3**

Ratios and Key Financial Data

	FY2018	FY2019	FY2020	FY2021
EPS (AUDc)	2.4c	7.9c	16.0c	16.6c
FCFPS (A$)	2.5c	8.5c	17.0c	17.5c
P/E ratio (x)	22.7	6.9	3.4	3.3
P/FCF (x)	21.4	6.3	3.2	3.1
EV/EBITDA (x)	9.3	2.9	1.5	1.5
Current ratio (x)	26.5	125.5	410.5	762.5
Shares on Issue (M)	510.0	510.0	510.0	510.0

Reserve and Resources Statement (100% of Project)

Status	Tonnes (Mt)	Grade (%)	TGC (t)	EV / t
Total Reserves	-	-	-	-
M&I only	328.0	0.11	36,080,000	$4.9
Total Resource	1457.0	0.11	155,754,000	$1.1
Production	47.0	12%	5,239,665	$34

Cashflow Generation

	FY2018	FY2019	FY2020	FY2021
Cashflow generated	$12.9	$43.6	$86.5	$89.5
Equity Placement	$0.0	$0.0	$0.0	$0.0
Debt Funding	$0.0	$0.0	$0.0	$0.0
Capital Expenditure	$1.3	$1.3	$1.3	$1.3

Production Profile (TGC tonnes) (100% of Project)

Operation	FY2018	FY2019	FY2020	FY2021
Balama North Project	67,275	163,800	210,600	210,600
Total	**67,275**	**163,800**	**210,600**	**210,600**

Directors & Management

Chairman	Alan Jenks
CEO	Brad Boyle
Executive Director	Alfred Gillman

Major Shareholders

Directors	14.0%
Top 20	46.0%

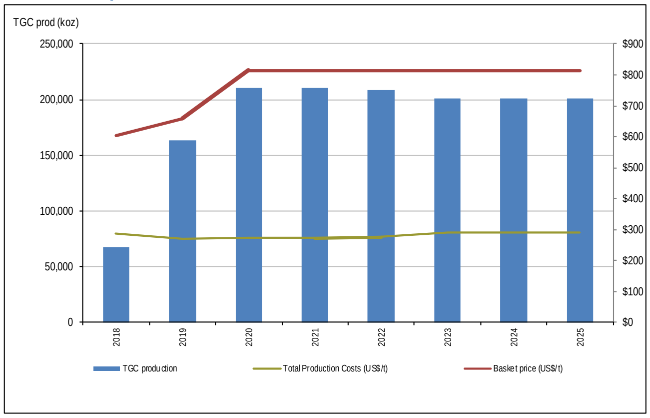
Cash Cost (US$)

USD / t	FY2018	FY2019	FY2020	FY2021
BasketPrice	$605	$659	$814	$814
C1 Cash costs	$219	$219	$219	$219
C3 Production Cost	$287	$271	$273	$273
FOB Pemba Cost	$344	$328	$330	$330
Landed Cost	$401	$385	$387	$387

Basket Price Dynamics(US$)

USD / t	Jumbo	Large	Medium	Small
Flake Size (basket Distribution)	5%	12%	20%	27%
2017	$1,555	$1,000	$521	$476
2018	$2,596	$1,000	$500	$481
2019	$3,573	$1,000	$508	$487
Long Term	$6,175	$1,165	$517	$493

Forecast GraphiteProduction



Source: Company data, GMP estimates

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