

Triton Minerals^{1,7}

BUY

TON-ASX

May 19, 2015

 Last: **A\$0.36**
 ▼ Target: **A\$0.87**

Funded for DFS and drilling jumbo flake

Oversubscribed A\$12m capital raising to fund drilling and DFS

Triton completes an oversubscribed A\$12.0 million placement to a Hong Kong cornerstone investor, institutional groups and sophisticated investors. Funding should enable Triton to rapidly progress the Definitive Feasibility Study at Nicanda Hill and commence its predevelopment early works program. Funding will also allow Triton to undertake an initial drilling at Ancuabe.

Signs JVs to develop enhanced product

Triton has signed two binding joint venture agreements with Yichang Xincheng Graphite Co., Ltd (YXGC) to develop and produce graphite enhanced products in Mozambique and China. The two JV companies, will source Triton Mozambique Graphite (TMG) graphite concentrate exclusively, to develop a wide range of high-value graphite enhanced products. The plant in Mozambique will produce 10ktpa of enhanced product. The plant in China will produce 100ktpa of enhanced product

Market leading flotation results from Ancuabe

Flotation test results show that Ancuabe is capable of producing very, very coarse flake material that will easily meet the specs of the 100kt binding offtake. 72% of the graphite material is classified as jumbo flake size, >300µm (+50 mesh). Flotation results show 92.1% of the graphite flakes in the samples were larger than 150 µm (+100 mesh). Graphite is readily liberated through simple off the shelf technology and likely low cost. TON are drilling Ancuabe this quarter and this is when we will get a feel for just how much of this high quality material is available.

Maintain BUY with price target of A\$0.87/sh

We have updated our SOTP valuation on Triton. Our target price has fallen back slightly on the back of dilution through the recent share issue. The vertical integration option to produce enhanced graphite product can be viewed as upside on our valuation. The encouraging flake size results from Ancuabe will be modelled when drilling has confirmed the quantity of coarse and jumbo flake material available.

What's Changed	Old	New
Rating	BUY	n.c
Target (A\$)	\$0.93	\$0.87
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)	364.7
52-week high/low (A\$)	0.86/0.096
Market cap (A\$m)	\$131.28
EV (A\$m)	\$119.28
Net debt (m)	\$0.00
Projected return	141%
NAV0%/share	\$1.29
NAV10%/share	\$0.87
P/NAV0%	0.28
P/NAV10%	0.41

Financial Data	FY16E	FY17E	FY19E
YE Dec. 31			
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	\$0.07
CFPS	-\$0.00	\$0.04	\$0.12
P/E	0.00	16.37	4.96
P/CF	0.00	10.19	3.01
EV/EBITDA	292.99	6.25	1.96

All figures in A\$ unless otherwise noted

 Current Chart

 Previous Research

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JV signed

Triton has signed two binding joint venture agreements with Yichang Xincheng Graphite Co. Ltd (YXGC) to develop and produce graphite enhanced products in Mozambique and China. Highlights include;

- The two JV companies, will source Triton Mozambique Graphite (TMG) graphite concentrate exclusively, to develop a wide range of high-value graphite enhanced products.
- The 70% Triton owned, Mozambique JV has been established to produce high value expandable graphite, flexible graphite sheet, refined battery grade graphite and other enhanced graphite products.
- The 49% Triton owned, China JV has been established to focus initially on producing high strength graphite composite sheets
- The plant in Mozambique will produce 10ktpa of enhanced product
- The plant in China will produce 100ktpa of enhanced product

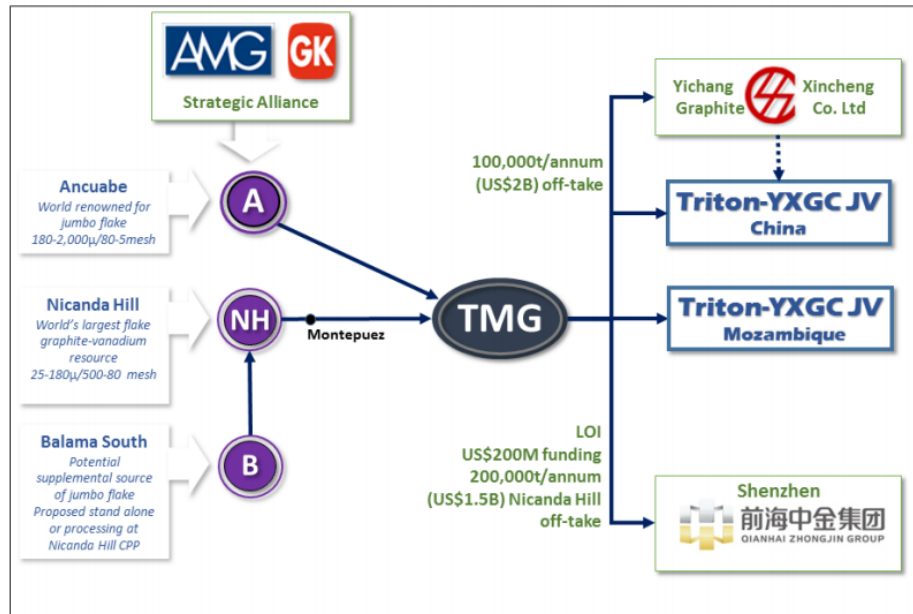
Our view

- This is a positive and outlines the strength of the relationship with Yichang whom TON already has 100ktpa binding offtake with.
- This agreement on vertical integration is likely to be actioned once the company is well and truly up and running with its original TMG concentrate operation
- Should both operations be set up then an additional 160ktpa of TMG product will be required taking TMG output potentially up to 460ktpa making it a very big producer benefiting from Yichang's proprietary technology.
- The Mozambique plant will be viewed favourably in Mozambique and likely assist their progress there. This plant will likely cost US\$10m.
- The china plant is dependent on demand growth, but gives an indication that a major producer expects it to grow. It will likely cost US\$60m.

A great result as it cements TON's relationship with Yichang and indicates Yichang anticipates future demand growth. We believe the setting up of a plant in Mozambique will have favourable political repercussions. But the company still needs to get the initial project up and running and the best path to that is the LOI with Shenzhen.

TON is now well positioned with a strategic alliance with AMG at Ancuabe and a 100ktpa 20 year binding offtake and enhanced product JV agreement with Yichang. TON has also signed an LOI with Shenzhen for 200ktpa and ~\$200m debt/equity funding. Should both offtake agreements become binding and the vertical integration plants be developed, TON will need to produce 460ktpa from TMG.

Figure 1. Sources of product and markets for TMG



Source: TON

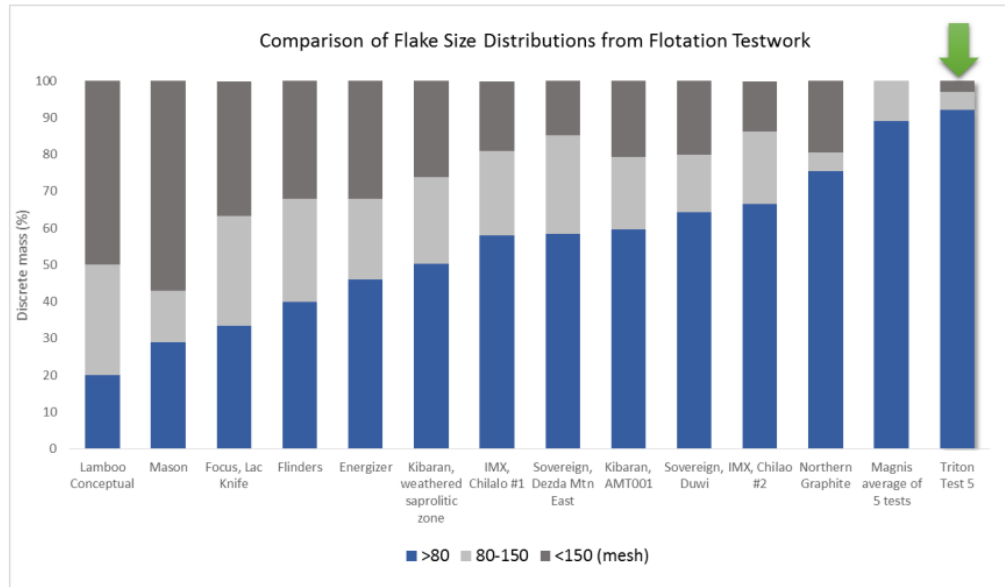
Market leading flotation test results

Flotation test results show that Ancuabe is capable of producing very, very coarse flake material that will easily meet the specs of the 100kt binding offtake.

- 72% of the graphite material is classified as jumbo flake size, >300µm (+50 mesh)
- Flotation results show 92.1% of the graphite flakes in the samples were larger than 150µm (+100 mesh)
- Graphite readily liberated through simple off the shelf technology and likely low cost

TON are drilling this quarter and this is when we will get a feel for just how much of this high quality material is available. Based on this one sample, flake size results at Ancuabe look better than those of TON's peers.

Figure 2. Comparison of flake size distribution with peers.



Source: TON

Upcoming news flow

- TMG Feasibility study - ongoing
- Further funding and offtake discussions – ongoing

Ticker	TON
Recommendation	BUY
Target Share price (A\$)	0.87
Current Share price (A\$)	0.36
Implied Return (%)	141%
P/NAV (x)	0.28

Financial Yr. End	31 December
Shares on issue (m)	364.7
Market Cap (A\$)	131.3
Enterprise Value (A\$)	119.3
Cash (A\$)	12.0
Project IRR (%)	31%

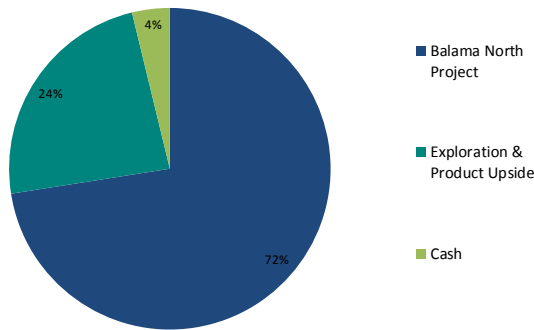
Valuation

Asset	Discount rate	NAV "X" Factor	NAV Target (A\$)	Target Price (A\$)
Balama North Project	10%	0.60 X	\$229.6	\$0.63
Exploration & Product Upside	n.a	n.a	\$75.0	\$0.21
Cash	n.a	n.a	\$12.0	\$0.03
Total NAV			\$316.6	\$0.87

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

Valuation Split (%)



Balance Sheet

Assets

A\$m	FY2018	FY2019	FY2020	FY2021
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

A\$m	FY2018	FY2019	FY2020	FY2021
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

EPS (AUDc)	2.2c	7.3c	14.8c	15.4c
FCFPS (A\$)	2.3c	7.9c	15.7c	16.2c
P/E ratio (x)	16.4	5.0	2.4	2.3
P/FCF (x)	15.4	4.6	2.3	2.2
EV/EBITDA (x)	6.2	2.0	1.0	1.0
Current ratio (x)	26.5	125.5	410.5	762.5
Shares on Issue (M)	551.9	551.9	551.9	551.9

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	\$3.3
Total Resource	1457.0	0.11	155,754,000	\$0.8
Production	47.0	12%	5,239,665	\$23

Cashflow Generation

A\$m	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%

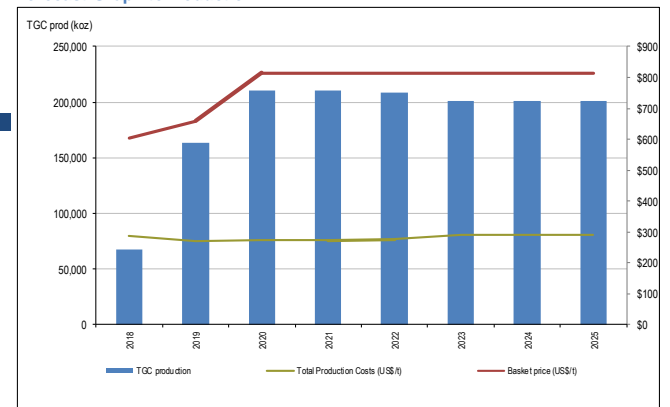
Cash Cost (US\$)

USD / t	FY2018	FY2019	FY2020	FY2021
Basket Price	\$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 Graphite Production



Source: Company data, GMP estimates

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