PAC PARTNERS
A business partner of PhillipCapital

Equity Research

COMPANY Rum Jungle Resources | RUM | $0.055/share | MCap $21m Date: 20 July 2015

RECOMMENDATION Spec, Buy | Very High Risk | $ 0.15/share target (from $0.14/target)

EVENT - Potential cash generator from ultra high grade quartz

KEY POINTS

- Initial testing of RUM's 100% "Dingo Hole" quartz indicates first Australian Ultra High Grade quartz.
- RUM has committed to spend $0.5m scoping out deposit scale & grade possible post mineral processing. We add $5m (5%) to valuation, and there is potential for significant cash flow from sale to existing EU, Asian or US player.
- RUM continues the final stages of attracting a cornerstone investor for small scale potassium magnesium potash manufacture, whilst also evaluating industry investment in its potash and phosphate projects.

FY'18F METRICS PER 22.3x | EV/EBITDA 6.5x | Yield 0%. Cash level June 2015 = $4.5m.

LINK TO FINANCIAL SUMMARY See below

DETAILS

Event:

RUM has provided more detail post successful initial testing of high grade "Dingo Hole" quartz deposit (within existing mineral exploration lease – mainly held for phosphate).

In previous quarterlies RUM has mentioned this high grade quartz opportunity, but not provided details.

RUM's deposit is claimed to be the first Australian quartz to pass Ultra High Grade impurity tests without mineral processing – see below and attached.

Impact:

Most of the high purity quartz is mined from a few US and EU mines and processed by vertically integrated companies, so RUM will be hoping to attract a JV partner. Potential for RUM to construct a small scale, very low capital start up that quarries small volumes of material, crushes, screens and transports in containers to Darwin utilising existing intermodal freight services on Central Australian railway. Dependent on ultimate impurity levels and required processing routes this material could be sold as an intermediate product to downstream processors.

- We estimate 2+mtpa high purity grade and <0.5mtpa ultra high purity grade (Ref: Quartz Corp) with price ranges US$300/t to US$5000/t (Ref: RUM)….~US$2bn to US$3bn revenue industry
- Demand is strong for semi-conductor and crucible use in telecommunications, optics, and renewable energy.

From initial RUM sampling and site trip we went on a few years ago, we estimate the deposit size to be 5mt (1km^2 at 5m thick with near surface), which could be surface mined at (say) 50kt/a and earn $45m pa (at an average price of $900/t, 30% at $2000/t and 70% at $400/t)

There is now a genuine opportunity for RUM to develop a cash generating quartz product with low capital expenditure and/or a deposit that can be sold to benefit Potash and Phosphate developments.

We place a nominal value of $5m (10x evaluation investment, 10% of annual project revenue) and take 50% through to 12 month price target, lifting DCF value 2c/share to 30c/share and PT 1c/share to 15c/share. There is scope to fact track larger value if the deposit is world class and sold/JV's to existing supplier of quartz.

Next Steps:

RUM is likely to commit ~$0.5m to take the following two steps that should quantify the scope of the quartz deposit:

- Mineral separation testing of the existing samples to see how much of the Aluminium can be removed, (<$100k of cost); and,
- Drilling out the shallow quartz deposit (1 to 2km^2 , ~$200k), follow-up testing pre and post mineral processing (~$100k), and $100k contingency

RUM can fund this scoping sampling and testing from $4.5m cash on hand.

View:

We recommend RUM as a Speculative Buy for three reasons:

1 - There is a realistic path to 50% cornerstone investment in potash resource and RUM led development of:

A- 100kt/a KMS project for just $93m; and;

B – Domestic demand for at least 100kt/a KMS and low cost distribution from South Australian rail hub.

2 - RUM also has globally scale potash and phosphate resources which, with investment from an existing industry player, could lead to an Asian and Australian fertiliser hub exporting sulphate of potash (SOP),phosphoric acid or ammonium phosphate fertilisers.

3 - RUM is also trading at a 65% discount to global EV/resource.

RUM is building up alternative funding arrangements, should the cornerstone investor take longer than planned.

This high grade quartz development is VERY EARLY STAGE, but could provide additional funding by attracting investment or being divested 100%. It is good to see that RUM has taken a measured approach to commercialising this non-core area, and is now getting some encouraging results with reasonable priced next steps to attract a JV investor.

Background:

Large high grade quartz producer

http://www.thequartzcorp.com/en/

Tests done on RUM Dingo Hole samples

The key test hurdle to have low impurity levels (aluminium, titanium and lithium) after mineral processing, and RUM's deposit is claimed to be the first Australian quartz to have passed this test.

- 4 complex GDMS tested samples:
  - all samples passed Lithium and Titanium high grade hurdles without any cleaning;
  - two samples passed Aluminium hurdle (one high grade, one low grade) without cleaning
- 30 simple ICP-SMS tests samples:
  - most samples passed Lithium and Titanium hurdles;
  - 9 passed Aluminium hurdle.

*Gas Discharge Mass Spectrometry (GDMS)

*Inductively coupled plasma mass spectrometry (ICP-SMS)

Should you have any queries, please do not hesitate to contact me on +61-3-8633-9864.

Paul Jensz

Director
Industrials Analyst

PAC Partners Pty Ltd.
Level 12, 15 William Street
Melbourne VIC 3000
Phone: +61 3 8633 9864   Mobile: +61 410 650909
pjensz@pacpartners.com.au
www.pacpartners.com.au

Rum Jungle Resources

Price	**$**	**0.055**
Market Cap		**$21 m**
NFPOS		**386 m**

PROFIT & LOSS ($m)

Y/E 30 Jun	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Sales	-	-	-	-	-	-	-	12	30	31	32	32
EBITDA	-	-	-	-	-	(3)	(3)	7	20	21	21	22
Depn	-	-	-	-	-	(0)	(2)	(5)	(4)	(4)	(4)	(3)
EBITA	(2.2)	(1.5)	(12.5)	(7.6)	(6.0)	(3.4)	(5.2)	1.9	16.1	16.9	17.7	18.4
EBIT	(2.2)	(1.5)	(12.5)	(7.6)	(6.0)	(3.4)	(5.2)	1.9	16.1	16.9	17.7	18.4
Net Interest	0.3	0.2	0.5	0.3	0.7	0.3	(1.1)	(0.3)	(2.4)	(0.8)	0.6	1.7
Income tax expense	-	-	-	-	1.1	0.6	1.6	(0.4)	(3.4)	(4.0)	(4.6)	(5.0)
Royalty					-	-	-	(0.2)	(2.1)	(2.4)	(2.7)	(3.0)
PAT including OEI	(46.6)	(43.3)	(12.0)	(7.3)	(4.2)	(2.4)	(4.7)	0.9	8.2	9.7	10.9	12.0
Adj NPAT	**(46.6)**	**(43.3)**	**(12.0)**	**(7.3)**	**(4.2)**	**(2.4)**	**(4.7)**	**0.9**	**8.2**	**9.7**	**10.9**	**12.0**
Non-recurring	(1.9)	(1.3)	-	-								
Reported NPAT	(1.9)	(1.3)	(12.0)	(7.3)	(4.2)	(2.4)	(4.7)	0.9	8.2	9.7	10.9	12.0

BALANCE SHEET ($m)

Y/E 30 Jun	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash	8.7	13.4	13.0	9.2	3.9	2.7	22.5	3.2	17.8	34.5	52.7	72.2
PP&E	0.4	1.0	1.2	1.1	1.1	4.3	23.3	43.6	40.2	37.2	34.5	32.1
Debtors & Inventory	0.3	0.2	0.2	0.3	-	-	-	2.6	6.5	6.7	6.9	7.0
Intangibles	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	19.3	24.9	22.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Total Assets	28.7	39.5	36.4	50.6	45.0	47.0	85.7	89	105	118	134	151
Borrowings	-	-	-	-	-	-	25.0	25.0	25.0	25.0	25.0	25.0
Trade Creditors	0.3	0.7	1.2	1.6	-	-	-	2.7	6.9	7.1	7.3	7.5
Other Liabilities	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Liabilities	0.4	0.7	1.2	1.7	0.1	0.1	25.1	27.8	32.0	32.2	32.4	32.5
NET ASSETS	28.4	38.8	35.1	48.9	44.9	46.9	60.7	61.6	72.6	86.2	101.7	118.7
OEI and Pref Shares	-	-	-	-	-	-	-	-	-	-	-	-
Shareholder Equity	28.4	38.8	35.1	48.9	44.9	46.9	60.7	61.6	72.6	86.2	101.7	118.7

CASHFLOW STATEMENT ($m)

Y/E 30 Jun	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Operating EBITDA	(2.2)	(1.5)	(12.5)	(7.6)	(6.0)	(3.0)	(2.7)	6.6	20.4	20.9	21.4	21.9
Interest & Tax Paid	0.4	0.3	0.5	0.3	0.7	0.3	(1.1)	(0.3)	(2.4)	(0.8)	0.6	1.7
Royalty					0.0	0.0	0.0	(0.2)	(2.1)	(2.4)	(2.7)	(3.0)
Working Cap.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.4)	(0.0)	(0.0)	(0.0)
Operating CF	(1.8)	(1.2)	(12.0)	(7.3)	(5.3)	(2.7)	(3.8)	5.8	15.6	17.7	19.2	20.5
Maintenance Capex	(0.2)	(0.8)	(0.3)	(0.1)	0.0	(1.0)	(1.5)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Free Cashflow (FCF)	(2.0)	(2.1)	(12.3)	(7.4)	(5.3)	(3.7)	(5.3)	4.8	14.6	16.7	18.2	19.5
Ord & Pref Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	(4.5)	(5.8)	(6.0)	(13.4)	0.0	(2.5)	(20.0)	(24.0)	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0
Equity	9.1	12.3	7.9	12.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.2)	(0.2)	(0.1)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment in Potash asset	0.0	0.0	0.0	0.0	0.0	5.0	20.0					
Net Cashflow	2.4	4.2	(10.4)	(7.7)	(5.3)	(1.2)	19.7	(19.2)	14.6	16.7	18.2	19.5

Divisional EBITDA	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Potash	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**8.5**	**21.7**	**22.2**	**22.5**	**22.8**
Sulphate of Potash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Potash Magnesium Sulphate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.5	21.7	22.2	22.5	22.8
Phosphates	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
DAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Phosphate Rock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distribution	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.4**	**1.3**	**2.0**	**2.0**	**2.0**	**2.0**
Eliminations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Corporate Cost	***-0.9***	***-1.3***	***-3.5***	***-4.3***	***-6.0***	***-3.0***	***-3.1***	***-3.2***	***-3.3***	***-3.3***	***-3.4***	***-3.4***
Total	0.0	-1.5	-12.5	-7.6	-6.0	-3.0	-2.7	6.6	20.4	20.9	21.4	21.9
Exploration	0.9	-0.1	-9.0	-3.3								

KEY ASSUMPTIONS

Long term US$:A$ = 0.80

Divisional EBITDA	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Gas Global Equivalent (US$/MMBtu)	5.50	6.00	6.24	6.49	6.75	6.92	7.09	7.27	7.45	7.64	7.83	8.02
North Territory Price (A$/GJ)					8.77	8.99	9.21	9.44	9.68	9.92	10.17	10.42
Ammonia (US$/mt FOB)	425	515	410	420	431	440	451	462	474	486	498	510
Potash (Chloride) (US$/mt FOB)	500	500	300	320	340	360	380	400	420	440	460	480
Sulphate of Potash - (US$/mt FOB)					750	769	788	808	828	849	870	892
Potassium Magnesium Sulphate (US$/mt FOB)					440	451	462	474	486	498	510	523
Phosphate Rock (US$/mt FOB)					121	124	127	130	133	137	138	140
DAP Price (US$/mt FOB)	590	554	482	450	475	500	513	525	538	552	566	580
US$:A$	0.92	0.96	1.00	0.92	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Production (kt/annum)	**2011A**	**2012A**	**2013A**	**2014A**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**
Sulphate of Potash (50% RUM)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Potassium Magnesium Sulphate (50% RUM)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20.00	50.00	50.00	50.00	50.00
Phosphate Rock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DAP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Rum Jungle Resources

Date: 20-Jul-15
Model Update: 20-Jul-15

KEY RATIOS

Y/E 30 Jun	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
EBITDA margin (%)								55.9%	67.7%	67.6%	67.4%	67.3%
EBIT Margin (%)								15.8%	53.3%	54.6%	55.7%	56.7%
Adj NPAT Margin (%)								8.1%	27.2%	31.2%	34.5%	37.1%
ROE (%) ave					-9.0%	-5.3%	-8.7%	1.6%	12.3%	12.2%	11.6%	10.9%
ROI (%) ave					-14.7%	-7.6%	-8.2%	1.9%	17.6%	18.9%	20.2%	21.5%
ROIC (%) ave												
NTA per share ($)					0.12	0.11	0.10	0.10	0.12	0.15	0.17	0.21
Eff Tax Rate (%)					20.0%	20.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Interest Cover (x)		-	-	-	-	-	-	-	-	-	-	-
Net Gearing (%)		-22.4%	-38.1%	-26.7%	-20.5%	-8.4%	36.7%	4.1%	30.0%	8.3%	-9.3%	-23.3%

VALUATION PARAMETERS

Y/E 30 Jun	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
EPS (c)	- **12.1**	- **11.2**	- **3.1**	- **1.9**	- **1.1**	(0.6)	(1.2)	0.2	2.1	2.5	2.8	3.1
PE (x)	- **0.5**	- **0.5**	- **1.8**	- **2.9**	- **5.0**	(8.7)	(4.5)	22.3	2.6	2.2	1.9	1.8
Enterprise Value ($m)	13	8	8	12	17	18	24	43	28	12	(6)	(26)
EV / EBITDA (x)						(6.1)	(8.8)	6.5	1.4	0.6	(0.3)	(1.2)
EV / EBIT (x)	(5.8)	(5.2)	(0.7)	(1.6)	(2.9)	(5.5)	(4.6)	23.1	1.8	0.7	(0.4)	(1.4)
Price / NTA	0.75	0.55	0.60	0.43	0.47	0.50	0.56	0.55	0.45	0.38	0.32	0.27
DPS (cps)	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)												
Free Cash / Share (c)	(1.2)	(1.1)	(5.5)	(2.4)	(1.4)	(1.0)	(1.4)	1.2	3.8	4.3	4.7	5.1
Price / FCF PS (x)	(4.6)	(5.0)	(1.0)	(2.3)	(4.0)	(5.7)	(4.0)	4.4	1.5	1.3	1.2	1.1

CORNERSTONE INVESTOR SCENARIO — DCF VALUATION

Small Commercial Scale Projects + Large Scale Resources			
Small scale commercial Potash Operation			
Funds from 50% sale of Potash Resource	25		
PV Forecast CF (15-17)	-22	Risk Free Rate	4.0%
PV Growth CF (18-20)	-16	Equity Risk Premium	8.5%
PV Steady (21-30)	14	Equity Beta	1.75
Large Scale - Potash Resource - 50%	50		
Large Scale - Phosphate Resource	50		
Transaction Fees	-1.5		
High Grade Quartz value	5.0		
Total	105	D / (D + MC)	41.4%
Debt	9	After Tax WACC	12.5%
NPV ($m)	114	Terminal WACC	0.0%
NPV per diluted share	0.30		

Term. WACC

Term.Growth	**10.49%**	**9.49%**	**8.49%**	**7.49%**
1.5%	$ 0.30	$ 0.30	$ 0.30	$ 0.30
2.0%	$ 0.30	$ 0.30	$ 0.30	$ 0.30
2.5%	$ 0.30	$ 0.30	$ 0.30	$ 0.30
3.0%	$ 0.30	**$ 0.30**	$ 0.30	$ 0.30
3.5%	$ 0.30	$ 0.30	$ 0.30	$ 0.30

GROWTH PROFILE (YoY) _E (YoY) LE (YoY)

Y/E 30 Jun	2011A	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Sales ($m)									156%	2%	2%	2%
EBITDA ($m)								-344%	211%	2%	2%	2%
EBIT ($m)									764%	5%	5%	4%
Adj. NPAT ($m)								-120%	766%	18%	13%	10%
Adj. EPS (cps)								**-120%**	**766%**	**18%**	**13%**	**10%**
DPS (cps)												

MAJOR SHAREHOLDERS

Washington H Soul Patt & Comp Ltd	14.2%
Farjoy	6.7%
Lion Selection Group	4.7%
Brispot Nominees	3.8%

DIRECTORS

David Muller	*Chairman*	Chris Tziolis	*MD*
Robert Annells	*Non-Exec*		
Jeffrey Landels	*Non-Exec*		

Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The following person(s) does hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

-the author of this report
-a member of the immediate family of the author of this report

Disclosure of Corporate Involvement

Recipients of PAC Partners Research Reports should carefully consider the Disclaimers and Disclosures made. In particular, regard should be made for any disclosure by PAC Partners, where it has provided corporate finance services to the company, which is the subject of the Research Report.

PAC Partners is paid a fee by RUM for providing research to wholesale investors.

Within the previous 36 months PAC Partners has raised equity for the Company described in this report.

PAC Partners and/or their associates do not own securities of the Company described in this report.

PAC Partners does and seeks to do business with companies covered in the research. PAC has received commissions from dealing in securities. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report.

For more information about PAC Partners please visit www.pacpartners.com.au