

Blackham Resources Ltd (BLK) | Matilda DFS Update

Rating: **BUY**
 Target Price: **\$0.75**
 Projected Return: **54%**

¹ 12 month target

Company Statistics

	\$M
Share Price (AUD\$)	0.485
Market Cap (AUD\$)	98
Enterprise Value (AUD\$)	102
Issued Shares (mil)	202.8
Options & Con Notes (mil) (unlisted)	44.6
Cash and liquid investments	9.5
Debt	13.5

Earnings Summary

FY Yr. End	2015e	2016e	2017e	2018e
Revenue (\$AU)	0	0	117	161
EBITDA (\$AU)	N/A	N/A	43	48
NPAT (\$AU)	N/A	N/A	36.8	42.2
EV/EBITDA			0.35	0.39

Share Price



Company Description

Blackham Resources Ltd is a WA gold exploration and development having just completed a robust definitive feasibility study to recommence gold production at its Matilda Gold Project in Q3, 2016.

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Study adds significant mine life and improves quality of mining inventory - Further Upside Exists

Investment Summary

Blackham Resources has completed a Definitive Feasibility Study (DFS) on the Matilda Gold Project and is another step closer to recommencing production at the Wiluna Processing Facility. The DFS has provided a mine life of 7+ years, with substantially improved mining inventory. Underpinned by a large tenement position and a growing gold resource Blackham will emerge in the September qtr 2016 as a producer of over 100,000 ozs of gold per year with the potential to grow both mine life and production.

Investment Highlights

- BW valuation lifted to 75 cents per share based on 8 years mine life and AUD \$1600 gold price
- Recent drilling is not yet in mine plan. Ongoing drilling will expand Resources and Reserves increasing mine life towards ten years with the real possibility of increasing gold output in the medium term from a potentially large at Matilda with the addition of several new gold loads identified as yet unexplored
- On track for gold production in September Quarter 2016 to re-establish >100,000ozpa gold production
- Tenements of 780km2 surrounding the Wiluna Processing Facility with a total gold resource of 4.7million oz

Investment Recommendation

BUY Rating on an increased price target of \$0.75

Our price target reflects an 54% premium to the recently traded price and is based on a risked NPV derived from our DCF model of the Matilda Gold Project assuming an eight year mine life.

Risks associated with the Matilda Gold Project are rapidly reducing as DFS work together with ongoing drilling progresses. Redevelopment is fully funded and the target price is based on the completion of Blackham Board approval to formally commence engineering work for recommencement of production.

The DFS demonstrates that re-commencement of gold production with a low capital cost refurbishment of the Wiluna Processing Facility can be achieved by September 2016

Resource drilling is ongoing. Recently announced results not in the DFS will add to the mine life as resources continue to be upgraded prior to production start.

BW expects that by the time production re-starts later this year the mine life will be at close to ten years and growing.

Definitive Feasibility Summary

Blackham Resources has released the results of its much anticipated definitive feasibility study for its Matilda Gold Project. Most of the results were largely in line with the assumptions made in our PFS release dated 24th November 2015. At an AUD Gold price of \$1600, The Project will generate \$62m of EBIT per year in the first 5 years of its mine life. The increased quality of the resource (mining inventory of 8.3Mt at 2.9 g/t, including reserves of 6.1Mt @2.5 g/t) significantly de-risks the project.

DFS Highlights

- Mining Inventory 8.3Mt @ 2.9g/t for 767,000oz
- Reserves 6.1Mt @ 2.5g/t for 481,000oz
- Initial Life of Mine +7 years
- Average Annual Production 101,000ozpa (over 1st 5 years)
- LOM C1 Cash Costs A\$850/oz or US\$600/oz
- Annual EBITDA @ \$1,600/oz A\$58M (Yr1) & A\$62M (5yr Avg)
- Pre-Production Capital Costs A\$32M
- Project Cash Flow* A\$234M
- NPV_{7%} before corp & tax* A\$170M
- Payback* 12 months
- IRR before corp & tax* 150%

Gold Price Sensitivity

Gold Price Sensitivity	A\$1,500/oz ¹	A\$1,600/oz ²	A\$1,700/oz ³
Project Cash Flow	\$171	\$234	\$296
• NPV _{7%} before corp & tax	\$121	\$170	\$219
• Payback (months)	14	12	9
• IRR before corp & tax	102%	150%	211%
• EBITDA (1 st 5years average)	\$52M	\$62M	\$72M

Source : Blackham Resources DFS Update 24th February 2016

Due to BLK's +7year minelife, near term production and large resource outside the mine plan that it is still working on BLK offers more leverage to increase in A\$ gold price than most its peers.

Valuation Change

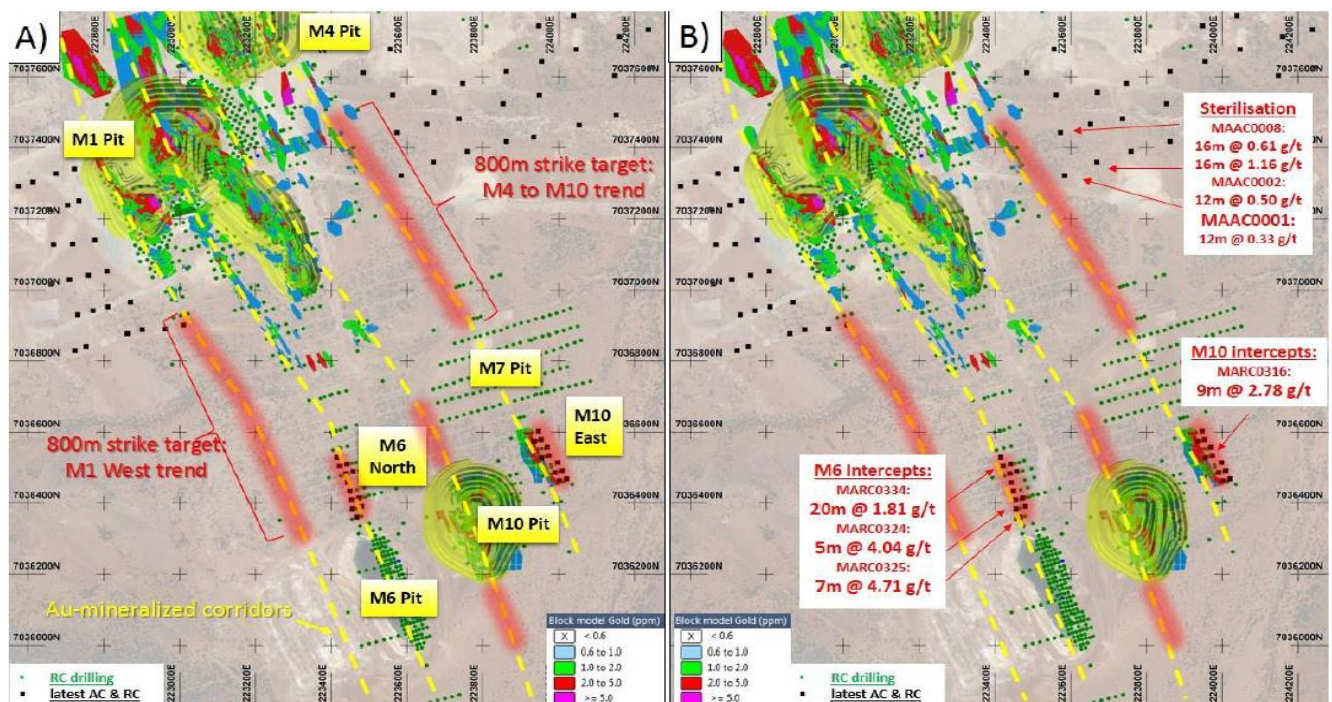
Following Blackhams release of the Definitive Feasibility Study at the Matilda Gold Project we have revised our DCF valuation at A\$1600 per ounce gold price on a fully diluted after tax basis, net of the project debt to \$0.75 (75 cents) per share.

This includes modest upside from the stated DFS to 8 years life coming from the recent drilling announced at Matilda. Timing for this value to be realised is progressive share price increase as the company moves to plant commissioning in about August this year. . We have applied a discount of 15% to the valuation to allow for commissioning risk. however, valuation is still expected to rise prior to commissioning as Blackham announces additional mine life from ongoing drilling.

EBITDA in year 1 (2017) of \$AU43M reflects a September start and effectively only a 9 month year, in the second year of production (2018) EBITDA is expected to be \$AU48M which includes some expensed underground development. We expect NPAT in 2017 of \$36.8m and 2018 of \$42.2m, reflecting no tax payable in the first 5 years of production.

Meaningful upside to the DFS mine life exists identified by recent drilling

Importantly, new structures have been recognised at Matilda (as we foreshadowed in our earlier research following the site visit in August 2015). There has been almost no drilling (except shallow RAB) outside the recently revised Matilda DFS pit shell but when drilled these, now four identified parallel, gold hosting structures with cross splay structures defining high grade plunging gold shoots, are expected to significantly expand the Matilda gold resource.



Source: Blackham Exploration Update 22nd February 2016

Blackham have stated that much of the target area has no drilling and a large RC program will be needed to fully test these structures. BW expect this to be commenced later this year and anticipate that a complete drill out over some 4km of strike will at least double open pit mineable ore at Matilda providing substantial upside to mine life and our current valuation.

Improved quality of mining Inventory substantially increases confidence in mine plan

The recently released DFS has resulted in a changed and enhanced mining inventory so that published mine life is now just over seven years. The quality of the mining inventory ounces has also improved since the PFS with a larger mineable resource (up 44%) and higher recoveries from the Matilda (88% to 93%) and Williamson (87% to 95%) mines that provide the bulk of the early years base load feed to the process plant. An important part of this improved recovery will come from the addition of a gravity circuit as part of the plant refurbishment.

		PFS Production		DFS Production		LOM	
		Average	LOM	Average	LOM	Variance	%
Mine life	mths		57		88	31	54%
Mine life	yrs		4.8		7.3	2.6	54%
Tonnes Milled	t	1,272,000	6,040,000	1,235,000	8,270,000	2,230,000	37%
Processed Grade	g/t	2.8	2.8	2.9	2.9	0.1	4%
Recovery	%	86%	86%	87%	87%	1%	1%
Production Ounces	oz	98,000	465,000	101,000	668,000	203,000	44%

Source: Blackham Resources DFS Update 24th February 2016

Regional Exploration on Blackhams Ground to Provide Further Upside

In the Lake Way area, 19km from the process plant, drilling has significantly enlarges the Williamson mineable resource and further exploration drilling is expected to grow this resource. In addition the nearby Carroll - Prior trend suggests another large gold mineralised system that could provide a long term base feed for Blackham.

Blackham has also commenced a further 2,700m underground drill programme into the Golden Age middle orebody with the aim of extending the resource further east along strike to add further high grade ore into the mine plan prior to production. Its maiden drill programme in to Golden Age in July was successful in confirming the high grade nature of this free milling quartz reef.

Blackham have an enviable ground position in the Wiluna region. There are three major gold mineralisation styles across the tenements. The typical WA sheared greenstone free milling gold systems (Matilda, and Williamson/Lake Way), high grade Quartz reefs (Golden Age and Galaxy) and the later cross cutting fault system that hosts the refractory gold.

Mining Centre	Measured			Indicated			Inferred			Total 100%		
	Mt	g/t Au	Koz Au	Mt	g/t Au	Koz Au	Mt	g/t Au	Koz Au	Mt	g/t Au	Koz Au
Matilda Mine	0.2	2.1	13	7.4	1.8	426	5.3	1.7	285	12.9	1.8	724
Golden Age				0.4	4.5	62	0.7	3.5	88	1.1	4.4	150
Galaxy				0.4	3.0	38	0.4	2.2	28	0.8	2.6	66
Williamson Mine				3.3	1.6	170	3.8	1.6	190	7	1.6	360
Regent				0.7	2.7	61	3.1	2.1	210	3.9	2.2	270
Bulletin				0.8	3.1	80	1.6	3.5	180	2.4	3.3	260
East Lode				1.0	5.2	170	2.3	4.7	340	3.3	4.8	510
West Lode				1.4	5.5	240	2.8	5.2	460	4.2	5.3	700
Henry 5 - Woodley - Bulletin Deeps				2.1	5.9	400	0.8	4.6	120	2.9	5.6	520
Burgundy - Calais				1.3	6.0	250	0.3	5.7	60	1.6	6.0	310
Happy Jack - Creek Shear				1.5	5.9	290	1.3	4.8	200	2.9	5.4	490
Other Wiluna Deposits				0.8	4.3	106	1.5	4.0	195	2.3	4.1	301
Total	0.2	2.1	13	21	3.4	2,293	24	3.1	2,356	45	3.2	4,661

Source : Blackham Resources DFS Update 24th February 2016

Conclusion

After consolidating the surrounding tenements then buying the Wiluna plant and associated tenements in 2014 Blackham has concentrated on developing sufficient free gold resources to enable a low risk restart of the process plant. Whilst the company has now announced its DFS with sufficient mineable inventory to support a 7 year life. BLK was successful in completing this feasibility in a condensed time frame 7 months after receiving the funding package. BW anticipate that this will grow with more drilling such that within the next one to two years Blackham will be looking at both expanding production and a much longer mine life.

As such Blackham provides a unique opportunity of being fully funded to a production start within months. As such our current valuation has considerable upside with little downside risk.

Maintain BUY

Upgrade to \$0.75 price target

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