



SECTOR: GOLD

COMPANY UPDATE

Auzex Resources Ltd | AZX AU

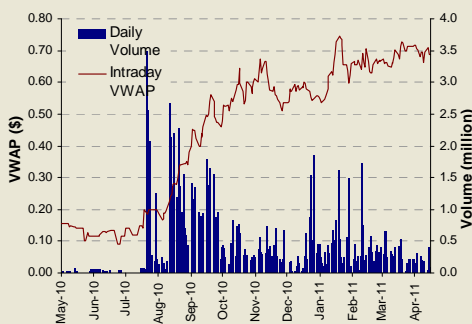
BUY

Waiting for a resource upgrade

Last Price	A\$	0.68
52 week hi/low	A\$	0.76/0.09
Market cap	A\$m	74.2
Cash	A\$m	6.5
Debt	A\$m	0.00
Enterprise Value	A\$m	67.7
Shares on issue (undiluted)	m	95.0
Options	m	14.1
Shares on issue (fully diluted)	m	109.1
Price Target	A\$	\$1.01
Valuation (DCF WACC 8%)	A\$	\$110.7

Key forecasts		2011F	2012F	2013F	2014F
Year end 30 Jun					
Revenue	\$m	0.1	1.0	67.6	213.6
EBITDA	\$m	(2.2)	(2.1)	45.6	147.2
NPAT	\$m	(2.3)	(2.2)	31.3	96.6
EPS	c	(2.1)	(1.4)	16.1	49.6
PER	X	na	na	4.2	1.4
Div Yield	c	na	na	na	na
Franking	%	0.0	0.0	0.0	0.0
ROA	%	na	na	28.6	44.2
ROE	%	na	na	32.9	50.4
EV/EBITDA	x	na	na	2.9	0.2

Share price performance



Source: Bloomberg

Jonathon Senior  
Analyst  
(+61 3) 8660 7276  
[jonathon.senior@stonebridgegroup.com.au](mailto:jonathon.senior@stonebridgegroup.com.au)

AZX is a Gold explorer with a JORC Resource upgrade imminent. We provide an update on the company's recent activities including a proposed AIM listing, spin-off of exploration assets and \$25M capital raising in response to the hostile takeover approach from its 50% JV partner in the Bullabulling Gold Project in WA, GGG Resources plc (GGG) and highlights from its March 2011 Quarterly Report:

Key Points

- AZX has fired the latest shot in the defence of the hostile takeover made for it by 50% JV partner in its flagship Bullabulling Gold Project, GGG by announcing its intention to seek an AIM listing, a spin-off of its exploration assets, and a \$25M capital raising, all subject to shareholder approval.
- AZX's March 2011 Quarterly Activities report again highlighted the significant potential to expand the potential resource and possible mine life at Bullabulling. Drilling results completed during the quarter have continued to confirm and expand the current resource model and include new high grade intersections. Approximately 22% of reported mineralisation sections are outside the current resource model. Management commented that an updated JORC compliant reportable resource would be available in the June Quarterly.
- All the new holes drilled have intersected mineralisation that is similar in grade and widths to the historic drilling and of note were the results from Bonecrusher that confirmed similar mineralisation five kilometres along strike from the main resource area which has the potential to add to the resource base of the project given the footwall lodes found to the south have not been tested in this area.
- We have conducted analysis that illustrates significant potential upside (\$0.24/share in the event of a 400,000oz increase to AZX's 50% share) to our current valuation should the resource upgrade eventuate.

Investment View

- We retain a positive view on AZX, with a resource upgrade imminent. AZX's management have significant experience with several low grade gold projects in the Australasian region during the 1990's and are more than capable of bringing AZX's flagship asset Bullabulling into production in a timely manner.
- Uncertainty surrounding the future ownership structure of the Bullabulling Gold Project following the hostile takeover approach from GGG has caused significant distraction from a market perspective and the sooner this is resolved the sooner AZX will trade closer to what we believe is fair value. The GGG bid has little chance of success in our view in its current form given the complete absence of any premium for control or articulated development strategy for Bullabulling. Indeed the bid price for AZX is now equivalent to \$0.71/share (assuming GGG share price of 33.5p and £1.52GBP:\$1AUD exchange rate), reflecting a 2.8% premium to the current AZX share price and a 30% discount to our pre-Bullabulling resource upgrade valuation of \$1.01/share.

Price Target

We maintain our BUY Recommendation of AZX with a price target of \$1.01/share (fully diluted), based on a 25% risk adjusted DCF valuation of A\$105 million for 50% of the Bullabulling Project. As mentioned above, significant potential upside to our valuation exists in the event of a material resource upgrade.

Price Catalyst

- Resource upgrade and initial maiden JORC Reserve which are expected in the 3<sup>rd</sup> quarter.
- Resolution of the ownership structure of the Bullabulling Gold Project.



## Recent company highlights

### Takeover latest

AZX has fired the latest shot in the defence of the hostile takeover made for it by 50% JV partner in its flagship Bullabulling Gold Project, GGG, by announcing its intention to seek an AIM listing, a spin-off of its exploration assets, and a \$25M capital raising, all subject to shareholder approval.

Through an AIM listing, AZX hopes to gain better access to overseas capital and the main purpose of undertaking a \$25M capital raising (which it has stated it intends to complete at a price substantially above the current implied bid price) is to progress exploration and development of Bullabulling. The AZX Board have stated they see it as prudent to have the financial capacity to rapidly develop Bullabulling via a 194,000 metre drill campaign that has been lodged with the WA Mines Department and a proposed drill program to test the potential for deeper high grade mineralisation.

The spin off of its exploration assets is proposed via an in-specie distribution to AZX shareholders. They include the Khartoum Tin project, Kingsgate Moly project, Klondyke/Seven Hills Gold project, Runningbrook Copper-Gold project, Galala Range Moly-Tungsten-Gold project and the Lyell Gold project (58% AZX share) in New Zealand. We have previously ascribed a \$0.04/share valuation to these assets but note the upside potential of them, in particular the Lyell Gold project in New Zealand which is targeting a 3000m long Gold soil anomaly. The Lyell Goldfield in the past has produced approximately 96,500oz of Gold from an underground operation at average grades of 17g/t. AZX considers there is potential for a shallow open cut deposit targeting 2-3g/t.

Our belief is that uncertainty surrounding the future ownership structure of the Bullabulling Gold Project following the hostile takeover approach from GGG has caused significant distraction from a market perspective and the sooner this is resolved the sooner AZX will trade closer to what we believe is fair value.

The GGG bid has little chance of success in our view in its current form given the complete absence of any premium for control or articulated development strategy for Bullabulling. Indeed the bid price for AZX is now equivalent to \$0.71/share (assuming GGG share price of 33.5p and £1.52GBP:\$1AUD exchange rate), reflecting a 2.8% premium to the current AZX share price and a 30% discount to our pre-Bullabulling resource upgrade valuation of \$1.01/share. AZX has stated it continues to offer the GGG Board the opportunity for discussions in relation to alternatives for the consolidation of Bullabulling.

### Drilling program – all points towards a resource upgrade

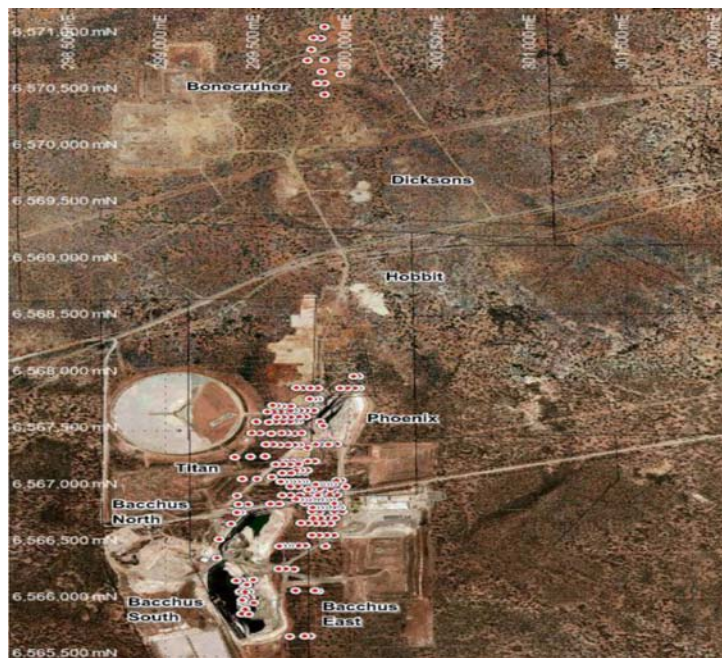
AZX's March 2011 Quarterly Activities report again highlighted the significant potential to expand the potential resource and possible mine life at Bullabulling. Drilling results completed during the quarter have continued to confirm and expand the current resource model and include new high grade intersections. Approximately 22% of reported mineralisation sections are outside the current resource model. Management commented that an updated JORC compliant reportable resource would be available in the June Quarterly.

AZX completed its planned resource drilling program during the quarter with total drill production to date 30,854m from 227 holes since commencement, including pre-collars for metallurgical diamond drill holes. For the three months to the end of March 15,575 metres was drilled in 105 holes which focussed on in-fill drilling new mineralisation found at Titan and Bacchus East, and testing of historical mineralisation south and north of Phoenix, Bacchus South and reconnaissance drilling at Bonecrusher, which is located at the northern end of the Bullabulling mineralised trend.

A drill plan showing the location of QAQC and infill drilling in the main resource areas and holes targeting the high grade mineralisation in the Bacchus Deeps area is shown in the picture below. Red filled drill collar symbols are completed holes.



**Figure 1: Bullabulling Drill Plan**



Source: AZX

Results again showed a number of new zones of mineralisation being intersected outside the resource model both below and along strike from known mineralisation. Highlights included 1m at 23.80 g/t Au from 34m, 3m at 9.33 g/t Au from 158m, 2m at 8.41 g/t Au from 94m, 1m at 11.75 g/t Au from 128m, 1m at 12.05 g/t Au from 62m, 3m at 6.77 g/t Au from 155m, 7m at 24.46 g/t Au from 36m, including 1m at 164 g/t Au from 38m, 5m at 7.59 g/t Au from 78m, 6m at 7.35 g/t Au from 90m and 2m at 13.29 g/t Au from 29m.

All the new holes drilled have intersected mineralisation that is similar in grade and widths to the historic drilling and of note were the results from Bonocrusher that confirmed similar mineralisation five kilometres along strike from the main resource area which has the potential to add to the resource base of the project given the footwall lodes found to the south have not been tested in this area.

These results of the drilling program mentioned above combined with the grade tonnage curves at various cut off grades confirm the potential for a high tonnage low grade mining operation. Assuming an all in production cost per tonne of \$23, 93% recovery and A\$1200/ounce gold price (\$38.60/g) equates to a cut-off grade of ~0.6g/t at which level a further ~300,000oz of sits compared to the current 0.7g/t cut off grade.

**Figure 2: Bullabulling Grade Tonnage Curve**

Bullabulling Grade Tonnage Curve, Surface (200 RL) to 120m depth (315 RL)			
Gold cut-off g/t Au	Tonnes	Average Grade Au g/t	Contained Ounces
1	22,202,000	2.06	1,468,400
0.9	26,739,000	1.87	1,606,500
0.7	41,517,000	1.48	1,981,600
0.6	54,231,000	1.29	2,245,900
0.5	75,013,000	1.08	2,611,800
0.4	107,094,000	0.89	3,071,800
0.3	162,171,000	0.71	3,683,200

Source: AZX

In view of the fact that approximately 22% of reported mineralisation sections are outside the current resource model and similar in grade and widths to the historic drilling and that a lower cut off grade appears economic as shown above we have undertaken a sensitivity analysis in the table below looking at the impact of various levels of possible resource upgrade (between 200,000 and 600,000 tonnes) on our assessment of AZX's Enterprise Value (EV). We have used an EV/Resource multiple of \$67/tonne in line with AZX's current trading multiple and current capital structure of 109.1M fully diluted shares.



**Figure 3: Potential impact of resource upgrade on AZX EV**

Resource Upgrade ('000 tonnes) - AZX 50% share	200	300	400	500	600
Incremental EV @ \$67/tonne (\$M)	13.4	20.1	26.8	33.5	40.2
Incremental EV/share (\$)	0.12	0.18	0.24	0.31	0.38

Source: Stonebridge

Our current valuation of \$1.01/share is based off the current reported JORC compliant mineral resource is 41,517,000 tonnes at 1.48 g/t Au (or 1.98 million ounces contained gold) at a 0.7 g/t Au cut off to a depth of 315m RL, approximately 120m below surface. What the above analysis shows is that there is significant potential upside (i.e \$0.24/share in the event of a 400,000oz increase to AZX's 50% share) to our current valuation should the resource upgrade eventuate of the magnitudes we have illustrated above.



# Financial Summary

Year end June	2011F	2012F	2013F	2014F
<b>PROFIT &amp; LOSS SUMMARY (A\$M)</b>				
Sales revenue	0.0	0.0	67.4	211.9
Other revenue	0.09	1.0	0.1	1.7
Operating Costs	0.0	0.0	(17.9)	(61.7)
Exploration Expense	(0.2)	(0.2)	(0.2)	(0.2)
Corporate & Admin	(2.1)	(2.9)	(3.8)	(4.5)
<b>EBITDA</b>	<b>(2.2)</b>	<b>(2.1)</b>	<b>45.6</b>	<b>147.2</b>
Depreciation	(0.1)	(0.1)	(2.8)	(9.2)
<b>EBIT</b>	<b>(2.3)</b>	<b>(2.2)</b>	<b>42.8</b>	<b>138.0</b>
Interest Expense	0.0	0.0	(1.7)	0.0
Pre-tax profit	(2.3)	(2.2)	41.2	138.0
Tax expense	0.0	0.0	(9.9)	(41.4)
Net income	(2.3)	(2.2)	31.3	96.6
Abnormals	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(2.3)</b>	<b>(2.2)</b>	<b>31.3</b>	<b>96.6</b>
<b>CASHFLOW SUMMARY (A\$M)</b>				
NPAT	(2.3)	(2.2)	31.3	96.6
Int, Tax, Expl Expensed	0.2	0.2	11.8	41.6
Int, Tax, Expl Incurred	(0.7)	(0.8)	(2.6)	(42.3)
Depreciation/Amortisation	0.1	0.1	2.8	9.2
Working Capital (Inc)/Dec	0.1	0.0	(3.7)	(2.0)
Other	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>(2.5)</b>	<b>(2.7)</b>	<b>39.6</b>	<b>103.1</b>
Capex(net of asset sales)	(3.6)	(29.6)	(57.9)	(4.5)
Disposals/(Acquisitions)	0.0	0.0	0.0	0.0
Other investing cash flows	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>(6.1)</b>	<b>(32.3)</b>	<b>(18.3)</b>	<b>98.6</b>
Dividends	0.0	0.0	0.0	0.0
New Equity	7.2	48.5	0.0	0.0
Debt Drawdown/(Repay)	0.0	0.0	5.0	(5.0)
<b>Net Cash Inc/(Dec)</b>	<b>1.1</b>	<b>16.2</b>	<b>(13.3)</b>	<b>93.6</b>
FX impact on cash	0.0	0.0	0.0	0.0
Cash at End Period	1.4	17.6	4.3	97.9
<b>Net Cash/(Debt)</b>	<b>1.4</b>	<b>17.6</b>	<b>(0.7)</b>	<b>97.9</b>
<b>BALANCE SHEET (A\$M)</b>				
Cash	1.4	17.6	4.3	97.9
Receivables	1.0	1.0	5.4	17.1
Inventories	0.0	0.0	3.7	11.7
<b>Total current assets</b>	<b>2.4</b>	<b>18.7</b>	<b>13.4</b>	<b>126.7</b>
Property, Plant & Equip.	4.0	33.4	83.1	78.4
Expl, eval & development	10.8	11.4	12.0	12.6
Other non-current assets	1.0	1.0	1.0	1.0
<b>Total non-current assets</b>	<b>15.8</b>	<b>45.8</b>	<b>96.1</b>	<b>92.0</b>
<b>Total assets</b>	<b>18.2</b>	<b>64.5</b>	<b>109.5</b>	<b>218.7</b>
Payables	0.0	0.1	8.1	25.6
Short-term debt	0.0	0.0	0.5	0.0
Other current liabilities	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>0.0</b>	<b>0.1</b>	<b>8.6</b>	<b>25.6</b>
Long-term debt	0.0	0.0	4.5	0.0
Other non-current liabilities	0.3	0.3	0.4	0.9
<b>Tot non-current liabilities</b>	<b>0.3</b>	<b>0.3</b>	<b>4.9</b>	<b>0.9</b>
<b>Total liabilities</b>	<b>0.3</b>	<b>0.4</b>	<b>13.5</b>	<b>26.5</b>
<b>NET ASSETS</b>	<b>17.9</b>	<b>64.0</b>	<b>96</b>	<b>192.2</b>
Contributed equity	27.3	75.8	75.8	75.8
Retained profits	(10.4)	(12.3)	19.0	115.3
Minority interests	1.1	1.1	1.1	1.1
<b>EQUITY</b>	<b>17.9</b>	<b>64.0</b>	<b>96</b>	<b>192.2</b>

Year end June	2011F	2012F	2013F	2014F
<b>Shares Outstanding</b>				
Basic   M	97.2	194.7	194.7	194.7
Other   M	12.3	0.0	0.0	0.0
Fully diluted   M	109.5	194.7	194.7	194.7
<b>RATIOS AND MULTIPLES</b>				
<b>Income</b>				
Revenue growth   %	na	na	na	214.3
EBITDA growth   %	na	na	na	222.6
EBITDA margin   %	na	na	67.7	69.4
EBIT margin   %	na	na	63.6	65.1
Net interest cover   x	na	na	25.4	na
<b>Balance Sheet</b>				
ROA   %	na	na	28.6	44.2
ROE   %	na	na	32.9	50.4
Net debt/equity   %	(8.0)	(27.4)	0.8	(51.1)
Net debt/(debt+equity)   %	(8.7)	(37.8)	0.7	(104.5)
<b>Valuation metrics</b>				
Market cap   M	64.6	130.9	130.9	130.9
Net debt (cash)   \$M	(1.4)	(17.6)	0.7	(97.9)
Options   \$M	9.6	1.2	1.2	1.2
Enterprise value   \$M	72.7	114.5	132.8	34.2
<b>EV/EBITDA   x</b>	<b>na</b>	<b>na</b>	<b>2.9</b>	<b>0.2</b>
EPS   c	(2.1)	(1.4)	16.1	49.7
P/E   x	na	na	4.2	1.4
FCF / Share   c	(6.4)	(16.8)	(9.5)	51.2
<b>Price / FCF   x</b>	<b>na</b>	<b>na</b>	<b>(7.1)</b>	<b>1.3</b>
Dividend Yield   %	0.0	0.0	0.0	0.0
Franking   %	0.0	0.0	0.0	0.0
<b>Economic Assumptions</b>				
Gold Price   US\$/oz Au	1,443	1,452	1,493	1,416
Exchange Rate   US\$/A\$	0.90	1.01	0.90	0.90
<b>Production Assumptions</b>				
<b>Bullbulling</b>				
Tonnes	na	na	4400.00	15000.00
Gold Grade   g/t Au	na	na	1.34	1.34
Gold Recovery   %	na	na	90.00%	90.00%
Gold   oz Au	na	na	42,523	144,963
Capex   A\$m	7.00	55.50	107.00	8.00
Operating Cost   US\$/oz Au	na	na	724.00	741.00
<b>Resources</b>				
	<b>Tonnes</b>	<b>Grade</b>	<b>Ounces</b>	
Bullbulling	41,517,000	1.48	1,981,381	
<b>Total</b>			<b>1,981,381</b>	
<b>VALUATION</b>				
<b>NPV by project</b>		<b>(A\$M)</b>	<b>A\$/share</b>	
Bullbulling Gold Project		105.2	0.96	
Khartoum Tin Project		2.0	0.02	
Kingsgate Moly Project		2.0	0.02	
Corporate		(5.8)	(0.05)	
Options		3.2	0.03	
Cash		4.2	0.04	
Debt		0.0	0.00	
<b>NPV @ 8%</b>		<b>110.7</b>	<b>1.01</b>	



## CONTACTS

### Head Office

Level 27, Governor Phillip Tower  
1 Farrer Place  
SYDNEY NSW 2000  
T +61 2 8336 7700  
F +61 2 8336 7800

E [info@StoneBridgeGroup.com.au](mailto:info@StoneBridgeGroup.com.au)

### Adelaide

Suite 5, 148 Greenhill Road  
Parkside  
ADELAIDE SA 5063  
T +61 8 8291 1111

### Gold Coast

Level 11, 50 Cavill Avenue  
SURFERS PARADISE QLD 4217  
T +61 7 5504 2111

### Melbourne

Level 13, 8 Exhibition Street  
MELBOURNE VIC 3000  
T +61 3 8660 7222

### Perth

Level 6, 105 St Georges Terrace  
PERTH WA 6000  
T +61 8 6436 3111

### Sydney

Level 27, Governor Phillip Tower  
1 Farrer Place  
SYDNEY NSW 2000  
T +61 2 8336 7700

[WWW.STONEBRIDGEGROUP.COM.AU](http://WWW.STONEBRIDGEGROUP.COM.AU)

### Stonebridge Securities Limited

ABN 92 067 161 755  
ASX Market Participant  
AFSL 238148



## Important Notice

### Analyst Certification

As at the time of writing this report, the author did not hold shares in **Auzex Resources (AZX)**.

### Provider of this publication

This publication has been prepared by StoneBridge Group Limited (ABN 92 067 161 755) (**StoneBridge**) (AFSL 238148). StoneBridge makes the statements in this Important Notice Section for itself and on behalf of each of its related bodies corporate and their respective officers, agents and employees from time to time (collectively, the StoneBridge Group). This publication is provided only on the following basis. If you retain and use this publication, each member of the StoneBridge Group relies on your acceptance on this basis.

### Information in this publication

References in this publication to data may rely on third parties over which StoneBridge has no control and for which StoneBridge accepts no responsibility. Whilst all of the information and statements contained in this publication have been prepared with all reasonable care, no responsibility or liability is accepted by any member of StoneBridge for any errors or omissions or misstatements however caused or arising.

Any opinions, forecasts or recommendations reflect the judgment and assumptions of StoneBridge on the basis of information as at the date of publication and may later change without notice.

This publication is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any securities recommendation contained in this publication is unsolicited general information only. StoneBridge is not aware that any recipient intends to rely on this publication and StoneBridge is not aware of the manner in which a recipient intends to use it. In preparing this publication, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors must obtain specific individual financial advice from their investment advisor to determine whether recommendations contained in this publication are appropriate to their personal investment objectives, financial situation or particular needs before acting on any such recommendations.

Investment in securities involves risk. Past performance of securities is no assurance of future performance. Investors should take advice on the basis of current information relevant to their particular circumstances, and have regard to the risk that the future performance of investments will differ from past performance.

This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of StoneBridge.

All intellectual property rights in this report are, and at all times remain, the property of StoneBridge Group Limited, unless otherwise attributed.

### Liability for this publication

Each member of the StoneBridge Group excludes to the full extent permitted by law all liability of whatever kind, whether in negligence, tort, contract or under fiduciary duties strict liability or otherwise, for any loss or damage of any kind (including without limitation indirect, incidental or consequential loss or damage, whether reasonably foreseeable or not) however arising in relation to the publication of this document, including any reliance on it or making any transaction in respect of any securities or strategy mentioned in it.

### StoneBridge's Interests

Stonebridge's has been engaged to provide ECM advisory services to AZX and will receive a fee for doing so. Total fees include a monthly cash payment of \$10,000. StoneBridge Group during 2010 acted as lead manager for AZX on capital raisings and as a result received fees and options for doing so. Stonebridge received a capital raising fee of 5.5% of the total amount raised for equity raisings over the past 12 months.

Additionally, Stonebridge has been engaged to provide M&A advisory services to AZX for which it receives fees at a commercial rate.

Each member of the StoneBridge Group may, from time to time hold positions in any securities included in this report (or derivatives of them) and may buy or sell such securities or derivatives or engage in other transactions involving such securities or derivatives, as principal or as agent for clients. A member of the StoneBridge Group from time to time may earn brokerage, fees or other benefits from securities mentioned in this publication or derivatives of them. These will be disclosed, as required, in the ordinary course of providing financial services.

The StoneBridge Group has or may receive, whether directly or indirectly, commissions, fees, benefit or advantage, whether pecuniary or otherwise in connection with making any recommendation contained in this report. A member of the StoneBridge Group or a consultant to it, may from time to time perform paid services for the companies whose securities are the subject of recommendations in this report.

Under no circumstance, however, has any member of the StoneBridge Group been influenced, either directly or indirectly, in making any recommendation contained in this report

### Other important information

This Important Notice must be read in conjunction with the Legal Notice which can be located at <http://www.StoneBridgeGroup.com.au>. Further information is available on request.

© StoneBridge Group Limited 2011

### Recommendation Structure

**SPECULATIVE BUY:** >30% absolute return over the next 12 months but carries significantly higher risk than its sector.

**BUY:** > 15% absolute return over the next 12 months.

**HOLD:** requires a 5-15% total return over the next 12 months.

**SELL:** absolute return is forecast to be less than 5% over the next 12 months.

**RESTRICTED:** The company is currently restricted from making an investment recommendation on the firm due to ECM, Corporate Finance or M&A advisory.