

Energia Minerals Ltd

(EMX \$0.047) Speculative Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	22 nd April 2016	\$0.115/sh

Gorno Zinc Scoping Study

Investment case

Energia has completed a scoping study enroute to fast-track development of the Gorno Zinc Project. We are confident the project will be viable commercially and technically. The historical operating records make Gorno lower than average risk to mine development. Energia is adequately funded through to feasibility completion. We are especially excited about the outlook for zinc where a structural deficit looms. Energia's board has a track record for delivering value, evidenced recently with the sale of the under-appreciated Carley Bore Uranium Project to Paladin.

Key points

Energia, using independent consultants Jorvik, has completed a scoping study on the 100% owned Gorno Zn-Pb Project located in northern Italy.

The study follows the maiden JORC compliant mineral resource estimate for the Colonna Zorzone orebody above 550mRL which was detailed in March. It comprises:

- 3.9mt grading 6.1% Zn and 1.6% Pb, approx 70% Inferred.

The resource forms part of an overall exploration target including the zone below 550mRL, and the previously mined Colonna Fortuna orebody. The overall exploration target comprises:

- 7-11mt grading 7%-10% Zn+Pb

Energia has committed Gorno to a Definitive Feasibility Study by end 2016. Energia has \$10m in cash and investments (PDN shares) with which it will use to fund the feasibility study.

Energia intends to finance and develop Gorno in 2017 coincident with an expected upturn in Zn price.

Energia is unable to detail the findings of the scoping study as ASX has recently tightened its rules on disclosure of such studies which are based on a high proportion of Inferred (JORC) resource.

Euroz has made its own estimates of what a mining operation at Gorno might look like:

- Mining & Processing: 0.5mtpa;
- Grade: Zn 6.1%, Pb 1.6%;
- Recovery: Zn 95%, Pb 90%;
- Metal Produced: Zn 30ktpa, Pb 8ktpa;
- Life of Mine: +10yrs;
- Operating Costs: €75/t or US\$0.65/lb payable Zn;
- Startup Capex: €45m;
- EBITDA: ~A\$40mpa, assuming Zn price of US\$1.25/lb.

Gorno has many endearing features that mitigate typical development hurdles. These include:

- Concentrate quality is excellent in benign carbonate host rock;
- Mining is above the water table;
- Ore haulage is downhill;

Energia Minerals	Year End 30 June	
Share Price	0.047	\$/sh
Issued Capital		
Ordinary	609.0	m
Options (O-O-M)	36.9	m
Total Diluted	609	m
Mkt Capital'n	29	\$m
Enterprise Value	25	\$m
Debt	0	\$m
Cash	4	\$m
Turnover	1.1 m sh per day	
12 mth Hi-Lo	6.3-1.7cps	
Balance Date	June 30th	

Directors

A Burns	Ex Chair
K Robinson	MD
M Cozijn	Fin Dir
M Cardaci	NE Dir

Shareholders

Directors	30.4%
Zero Noms	11.6%

Details

Lvl 2, 20 Kings Pk Rd, West Perth
 ph: +618 9321 5000
www.energiaminerals.com

Share Price Chart



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This analyst declares that he has a beneficial interest in Energia Minerals Ltd.

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- Mine development is largely already in place;
- Tailings can be deposited in existing underground voids;
- Process water quality is excellent;
- Gorno is an already disturbed site, and is nearby to the existing Ponte Nossa industrial complex, which includes a Zn oxide refinery;
- Transport infrastructure is very well developed;
- Historical operating data proving mining and processing and marketing performance.

Overall we believe the Gorno Zn concentrate product quality will present a strategic advantage. Smelters will bid highly (relatively) to secure this quality concentrate to blend with other low quality concentrate acquired at a discount.

We believe that Energia may potentially enhance Gorno project with detailed metallurgical test work, especially wrt metal recovery, ore sorting and underground crushing.

Further, Zn & Pb grade is higher in areas of more closely spaced drilling, ie Indicated resource (7.0% Zn & 1.9%Pb) is higher grade than Inferred resource (5.9% Zn & 1.6% Pb). Should this trend continue as Inferred is upgraded to Indicated in coming months, further value enhancement is possible.

This 6,000m drilling program is expected to be completed, leading to a revised resources estimate by Sep'16.

Gorno Zinc (Italy) - Mineral Resources			
	tonnes	grade Zn+Pb	Zn eq cont
	mt	%	mt
Col. Zorzone above 550mRL			
Indicated	1.0	8.9	87
Inferred	2.9	7.3	214
Total	3.9	7.7	301
Col. Fortuna (Expln Tgt)			
	1-2	6-7	0.1-0.2
Col. Zorzone <550RL (ET)			
	2-3	7-10	0.2-0.3
Total	7-11	7-10	0.5-1.1

Valuation		
Gorno	A\$m	56
Carley Bore	A\$m	0
Other Expl'n	A\$m	7
Corporate	A\$m	-2
Working Cap'l	A\$m	6
Debt	A\$m	0
Cash	A\$m	4
Total	A\$m	70
Total	A\$/sh	0.115

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Gorno - Euroz estimate of cashflow potential									
		FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Zinc	US/lb	1.00	1.15	1.25	1.25	1.20	1.10	1.10	1.10
Lead	US/lb	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00
A\$1.0=US\$		0.75	0.75	0.76	0.77	0.77	0.77	0.77	0.77
Euro:US\$1		1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Ore Mined	mtpa	0.00	0.35	0.50	0.50	0.50	0.50	0.50	0.50
Prod'n Zn	kt	0	20	29	29	29	29	29	29
C1 Cash Costs	US\$/lb	0.12	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Revenue	A\$m	0	66	100	99	96	89	89	89
EBITDA	A\$m	0	24	40	40	36	29	29	29
EBIT	A\$m	0	14	31	31	27	21	21	21
Capex	A\$m	70	3	3	3	3	3	3	3
Net CF (pretax)	A\$m	-70	21	37	37	33	26	26	26
NPV (10% posttax)	A\$m	62							
IRR (AT, ungeared)	%	30%							

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Zn Market

Euroz believes the Zn market is set to strengthen through the next 24-36 months.

Evidence supporting our view is:

- The Zn price has significantly outperformed other base metals since the low in mid January;
- Zn inventory on LME is at multi year lows, and continuing to decline;
- Spot Zn treatment charges are falling due to a deficit in the concentrate market, from ~US\$200/t to ~US\$130/t.

The Zn price outlook is driven by supply curtailment from mine closures because of geological and economic reasons. Some 10% of annual supply has been withdrawn from the 14mtpa market. This deficit is temporarily being supplied through stocks held at suppliers, consumers, LME, SHFE.

The closures of Century (450ktpa), Lisheen (170ktpa), Glencore (500ktpa), Nyrstar (50ktpa) have all occurred in the last six months. Further, low prices and Chinese controls on small scale production is limiting Chinese supply which is around 50% of the market.

The closure of Century and Lisheen is due to depletion of resources and therefore is permanent. These mines will not re-open at any Zn price.

New Zn supply has been grossly under-invested globally during the last decade, in part due to poor returns in prior periods. Consequently a period of supply tightness now looms.

The tightness has been exacerbated by the prolonged global aversion to risk assets over the last 5 years, and the liquidation of long positions held by investors in financial distress, eg Glencore liquidated 0.3-0.4mt of metal in inventory September 2015 during its balance sheet crisis (Glencore stated that it would liquidate US\$1.5b of inventory, thought to be dominantly zinc).

Euroz' assumed Zn price deck is shown below, and compared with consensus forecasts (Bloomberg):

While our Zn price expectations are above consensus, we note that specialised industry consultants have forecast even more bullish scenarios. We suspect our forecasts will eventually prove too conservative.

Zinc Forecasts	2016	2017	2018	2019	2020
	CY	CY	CY	CY	CY
Zinc Spot	0.8693*				
Euroz	0.85	1.10	1.20	1.25	1.25
Red River Resources *	1.00	1.20	1.23	1.24	1.19
Bloomberg Consensus	0.80	0.86	0.89	0.91	

*Forecast price from Re-Start Study announced 10/15.

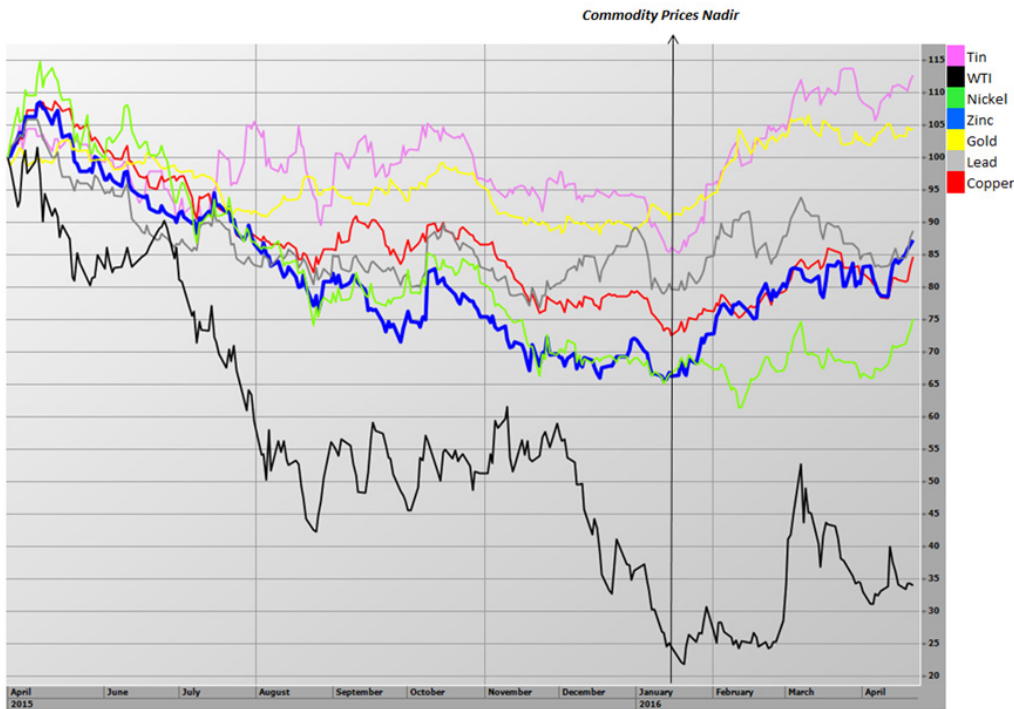
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Commodity Prices-Relative Performance



Source: IRESS

Zinc has outperformed most commodities since the nadir in mid-January.



Source: IRESS

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Contact Details

Euroz Securities Limited +61 8 9488 1400

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Julian Lake - Associate Analyst	+61 8 9488 1470
Matthew Gavshon - Associate Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Nicholas Blakiston - Associate Adviser	+61 8 9488 1473

Private Client Advisers

Brian Bates - Head of Private Clients	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Steve Grove - Associate Director	+61 8 9488 1410
Jamie Mann - Associate Director	+61 8 9346 0301
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Nick Dempster - Investment Adviser	+61 8 9346 0357
Richard Gardner - Investment Adviser	+61 8 9488 1444
Duncan Relf - Investment Adviser	+61 8 9346 0322
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Steve Wood - Investment Adviser	+61 8 9346 0305

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