

Energia Minerals Ltd (ASX.EMX)

Uranium in Australia with upside in Italy

12 June 2013

Recommendation

Spec. BUY

Company Data

Market Cap	\$4.6m
Shares/options on issue	176.3m/32.2m
Price	\$0.026
12mth Price Range	\$0.02-\$0.058
Sector	Materials
Enterprise value	\$2.9m
Cash (MarQ13)	\$1.7m
Debt (MarQ13)	\$0.0m

Major Shareholders

UEQ Investments Pty Ltd	22.38%
Carbon Energy	16.45%
Lujeta Pty Ltd	10.60%

Analyst Trent Allen

Authorisation Rex Adams

EMX Share Price



EMX is focused on developing its 16.7Mlb U₃O₈ resource at Carley Bore in WA, ahead of potential ISR production. Near term value drivers should be resource upgrading, and feasibility studies. There is potential for regional consolidation of uranium assets.

Key points

Uranium resource: Carley Bore (Carnarvon Basin, WA): 16.7Mlbs U₃O₈ with Exploration Target for another 15-25Mlbs U₃O₈.

Drilling: Carley Bore, July-August 2013.

Project pipeline: Advanced base metal and uranium assets in Italy and grassroots exploration in Australia.

Takeover bid: offer by Cauldron Energy shows corporate appeal and potential for asset consolidation.

Investment View

EMX is a Speculative Buy, on the basis of its low market capitalisation of \$4.5m as compared to our conservative valuation of \$18.5m (\$0.105/sh).

This valuation gap can be closed in the near to medium term by increasing the Carley Bore uranium resource through infill drilling and exploration, and de-risking the project by undertaking further feasibility studies.

Bringing Carley Bore into production using low-cost In Situ Recovery (ISR) will require upgrading the current Inferred resource of 16.7Mlbs U₃O₈ to an Indicated classification and optimisation of the mining plan. Increasing the resource to +30Mlb, as indicated by the current Exploration Target, would increase the robustness of the project. There is also potential for regional consolidation of uranium assets in the Carnarvon Basin, with the possible development of Paladin Energy's nearby 24Mlb Manyingee deposit.

EMX is getting little or no recognition from the market for its base metal and uranium assets in Italy, but this could change if exploration targets and historic mineralisation can be elevated to JORC resource status (base metal target at Gorno of 0.5-0.9Mt Pb+Zn and uranium target at Val Vedello of 15-30Mlb of U₃O₈), possibly with the involvement of a JV partner.

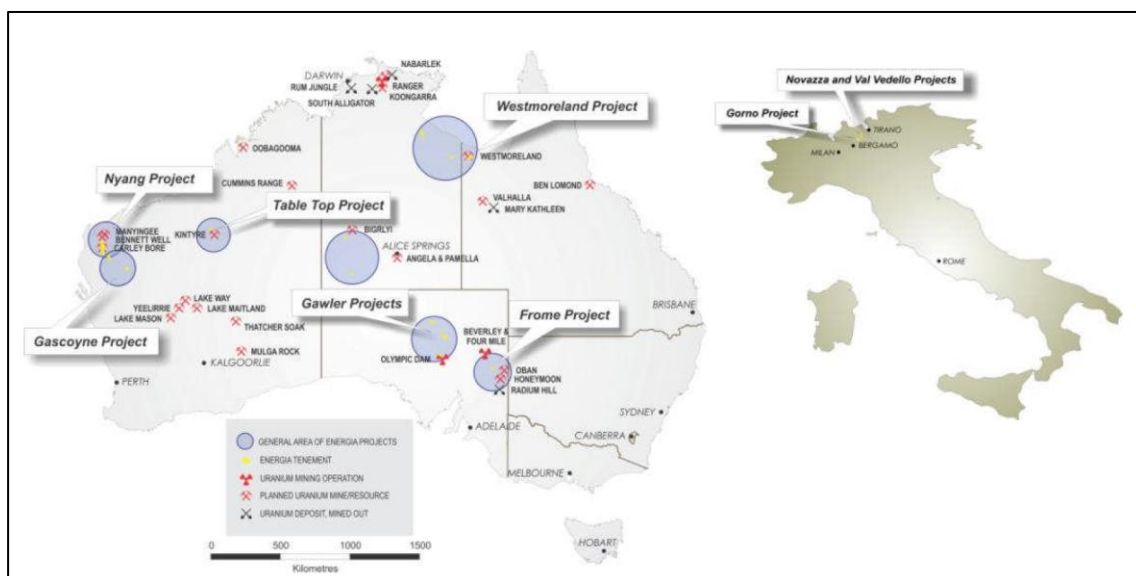
EMX's value is leveraged to the uranium price. We have an optimistic long-term view of uranium, with new reactor builds and increasing energy demand expected to push contract prices to +\$75/lb U₃O₈ (current \$57/lb).

Energia Minerals Ltd (EMX)

Summary

EMX is focused on uranium exploration and development in WA. Its flagship project is Carley Bore, which has a uranium resource of 16.7Mlbs U₃O₈ with exploration upside to +30Mlbs. A recent Scoping Study of uranium production at Carley Bore proposes output of 1.4Mlbspa U₃O₈ over seven years by In Situ Recovery (ISR). ISR can be a highly cost-effective recovery method for uranium, and accounts for 45% of global production. The company is under a takeover bid by Cauldron Energy (CXU).

Figure 1: EMX project location map.



Source: EMX

Valuation

Table 2 shows that EMX’s uranium sector peers are trading at an average EV/resource of A\$0.72/lb U₃O₈, with the highest premium given to those with production (current or near term, e.g. PDN at \$3.15/lb).

An industry average of ~\$0.70/lb U₃O₈ provides a valuation and price target for EMX of A\$18m or \$0.10/sh undiluted (Table 1). This is supported by a recent Independent Expert’s valuation of \$0.18/sh (range \$0.09-\$0.26/sh).

EMX is currently being valued by the market at \$0.17/lb U₃O₈, so even in a difficult uranium market there is upside from growing the Carley Bore resource by infill drilling and exploration, and de-risking via feasibility studies, permitting and project funding. The Italian base metal and uranium projects and Australian exploration portfolio are valued at a nominal \$2m, so there is significant potential for these assets to contribute to a revaluation of EMX.

Potential share price drivers

- Drilling at Carley Bore, for resource upgrade-expansion and hydrogeological understanding ahead of ISR tests (rotary mud drilling) in 2H13.
- Optimised scoping and feasibility studies to de-risk and refine Carley Bore economics.
- Likely regional consolidation of Carnarvon uranium assets via M&A or JV (EMX, CXU, PDN), with or without a revised bid for EMX by CXU.
- Advancement of Italian uranium and base metal assets, possibly under JV.

Table 1: EMX valuation

VALUATION (SOTP) – Mid-Range Case					
Assets (U ₃ O ₈ , A\$m)	Uranium (Mlbs)	Multiple (A\$/lb)	\$m	Undil \$/sh*	Dil \$/sh*
+ Carley Bore resources	16.7	0.70	12	0.07	0.06
+ Exploration Target	20 (15-25)	0.35	7	0.04	0.035
+ Other projects		(nominal)	2	0.01	0.005
+ Cash (JunQ13F)			1.5	0.01	0.01
- Debt (JunQ13F)			0	0	0
- Corporate OH			4	0.02	0.02
Total			18.5	0.105	0.09

Notes: \$/sh valuations rounded to nearest half cent (0.05). All options currently out of the money. Source: BOEQ

Table 2: Uranium sector, comparable companies to EMX

Enterprise value and resource comparisons for ASX listed uranium companies				
Company (ASX code)	EV/Resource (A\$/lb U ₃ O ₈)	Market Cap (A\$m)	Resource (Mlbs U ₃ O ₈)	Grade (ppm U ₃ O ₈)
Paladin Energy Ltd (PDN)	3.15	987.5	500	694
Peninsula Energy Ltd (PEN)	1.33	85.7	52	490
Toro Energy Ltd (TOE)	1.19	73.9	61	450
Cauldron Energy Ltd (CXU)	1.09	18.4	16	270
Laramide Resources Ltd (LAM)	0.95	54.6	62	748
Alliance Resources (AGS)	0.75	40.9	18	3300
Deep Yellow Ltd (DYL)	0.48	60.9	115	264
Energy & Minerals Aust. (EMA)	0.46	14.1	62	500
Berkley Resources Ltd (BKY)	0.22	46.6	76	424
Black Range Minerals Ltd (BLR)	0.17	18.3	91	600
Uranex Ltd (UNX)	0.13	7.0	46	181
Bannerman Resources Ltd (BMN)	0.12	21.7	213	194
ACAP Resources Ltd (ACB)	0.03	13.9	352	153
Aura Energy Ltd (AEE)	0.01	13.5	857	155
Average (unweighted)	0.72			
Energia Minerals Ltd (EMX)	0.17	4.5	17	330

Source: BOEQ

Nyang Project

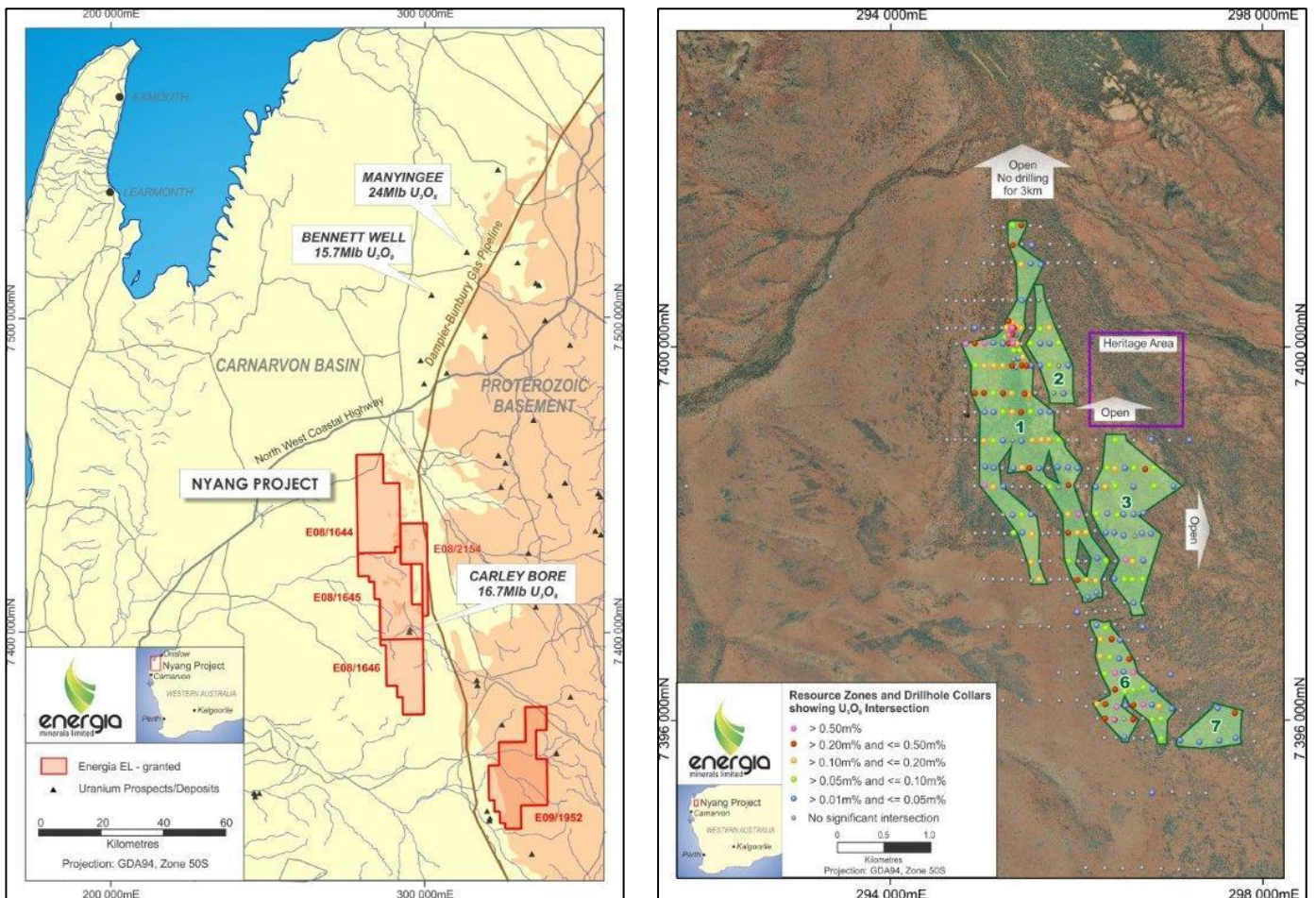
Overview

The Nyang Project (960km NNW of Perth and 150km E of Exmouth) is located in the Carnarvon Basin Uranium Province of WA, about 8km W of the Dampier to Bunbury gas pipeline. Nyang (1143km² comprised of four ELs) includes the **Carley Bore Deposit**, which currently has a resource of 23Mt @ 330ppm U₃O₈ for contained 16.7Mlb U₃O₈ (Nov'12). The Carnarvon Basin region also hosts the high grade Manyingee Deposit (24Mlbs @ 815ppm U₃O₈, ASX.PDN) and the Bennett Well Deposit (15.7Mlbs @ 270ppm U₃O₈, ASX.CXU), which are located ~100km N of Carley Bore.

Geology

Uranium mineralisation at Nyang occurs as roll front or tabular deposits within Mesozoic palaeochannels at the eastern margin of the Carnarvon Basin. The Carley Bore Palaeochannel extends for ~60km north-south; overall, gravity surveys have defined 95 strike kilometres of channels, of which 6km have been systematically drill tested. The uranium-prospective host rock is the permeable Birdrong Sandstone (angular quartz sands or sandstone with minor feldspar and muscovite), which is capped by impervious Muderong Shale. Source rocks are thought to be uranium-enriched Proterozoic granitoids of the Gascoyne Complex, which the Basin adjoins and overlies.

Figure 2 (a, b): Nyang Project location map, left; and Carely Bore resource outline, right.



Source: EMX

Resource status

The current JORC-qualifying Mineral Resource of 16.7Mlb U_3O_8 is all of Inferred status and defined at a 150ppm U_3O_8 cut-off. The resource has a strike length of 6km and is up to 2km wide. The majority of the uranium-bearing sands lie at 50-60m below surface, which is relatively shallow compared to other ISR projects. Mineralised intervals are wide, with recent intersections of up to 10m @ 545ppm U_3O_8 . There is a higher grade (490ppm U_3O_8) component of the resource in Zone 6 or “Bull Run”. We expect the Inferred resource could be upgraded to an Indicated classification relatively cheaply.

Exploration

Drilling is planned to further test ISR / hydrogeological potential and upgrade some of the Carley Bore resource from Inferred status to Indicated (rotary mud drilling and aircore, 5000m program starting July 2013). The known resource is open to the north and east. EMX has an Exploration Target at Carley Bore of an **additional** 15-25Mt grading 300-500ppm U_3O_8 (or ~15-25Mlbs U_3O_8), so there is strong potential for a combined +30Mlbs resource inventory.

Project history

Uranium was discovered in the Carley Bore area by Minatome, in the early 1980s. The Nyang Project assets were acquired by Carbon Energy Ltd (ASX.CNX), which spun out EMX as a dedicated uranium play in 2009. A maiden resource estimate was released in July 2010.

Scoping Study

Outcome

The study focused on the potential to develop a low-cost In Situ Recovery (ISR) uranium operation at Carley Bore. It was conducted by Coffey Mining and released in May 2013, but later retracted by the company because it was based on an Inferred Resource, as opposed to a higher confidence Indicated or Measured resource (refer ASX release 17 May 2013).

The study considered a potential mineral inventory of 19Mt @ 360ppm for 15.1Mlbs U_3O_8 within the Inferred resource, based on two cut-offs: 500kg of U_3O_8 contained within a 25m by 25m block; and a lower limit of 200ppm U_3O_8 . The proposed rate of production was 1.4Mlbspa U_3O_8 over seven years. Pre-production CAPEX was about \$115m.

Work is to continue on further optimisation including potential high grading in the first years of production to optimise cash flow.

ISR: Metallurgy and hydrogeology

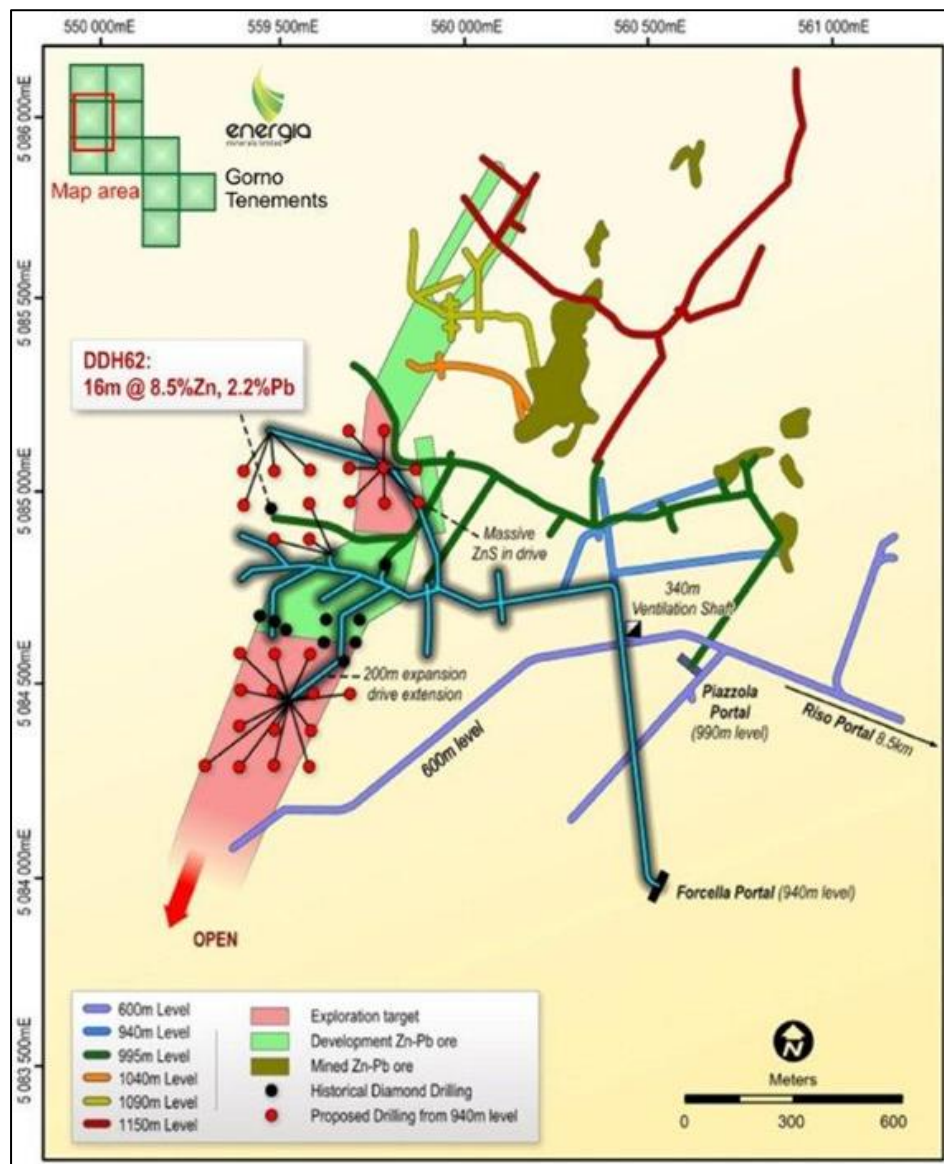
Extensive testing has provided support for ISR as a method of extraction at Carley Bore. The average metallurgical recovery is 90% over 48 hours (after bottle roll tests on 10 composite samples). Acid consumption is low, at 8kg/tonne. Test pumping has showed permeabilities are comparable to those of other sandstone-hosted ISR deposits. Further testing is expected as part of ongoing feasibility studies. Overall recoveries of 65-70%, including mining recovery, are typical of ISR operations.

Other mineral projects

Italy: uranium and base metals

Gorno and Val Camonica Projects (base metals): Located in the Lombardia region of northern Italy. There are seven granted ELs, five at Gorno and two at Val Camonica, and a further five applications at Gorno. Gorno hosts a Mississippi Value Type (MVT) Zn-Pb-Ag deposit that was mined pre-1985 by Samim (now ENI). Production was a considerable +800kt Zn from ore grading 5-6% Zn+Pb. EMX has compiled data from the historic mine and submitted a two-year plan of further work. This plan includes restoring underground access (currently 230km of development) to assess remaining mineralisation and establish a JORC resource. The cost to access the mine’s upper level (400 metres above the treatment plant) and to carry out a 6,500m underground diamond drilling program is estimated to be €2.17m. There is an Exploration Target of 10-15Mt grading 5-6% Zn + Pb (i.e. 0.5-0.9Mt Zn+Pb). **EMX is seeking a JV partner for the development.**

Figure 3: Gorno lead-zinc mine, old workings and underground drilling sites.



Source: EMX

Novazza and Val Vedello Projects (uranium): Also located in the Lombardia region of northern Italy, under application. Each covers known uranium mineralisation discovered by Italian government-owned company AGIP SpA (now ENI SpA). Energia is planning a due diligence process including assessment of historic work. There is an Exploration Target at Val Vedello of 15-30Mlb U₃O₈.

Australia: uranium

Aside from Nyang, EMX has a portfolio of early stage exploration assets in known uranium provinces.

Tabletop Project (WA, 194km²): eastern Pilbara region, 15km NW of the Kintyre uranium deposit (62Mlb U₃O₈) in an area that's also prospective for copper and gold. The tenement is under application; access is subject to negotiations with the Traditional Owners (the Martu people) and completion of a heritage agreement.

Gawler Project (SA): Located in the Gawler Craton which hosts the world-class Olympic Dam deposit. One tenement at Hidden Swamp, prospective for IOCG-U deposits.

Frome Project (SA, 204km²): SE of Lake Frome, 445km from Adelaide. A gravity survey (2010) has identified two possible channel features that could host sandstone roll front deposits.

Westmoreland Project (QLD, 565km²): 50km E of the NT border and 20km east of Westmoreland deposit (52Mllbs U₃O₈; ASX.LAM). On-site exploration for basement U-Au is yet to start. QLD recently lifted a ban on uranium mining.

Corporate

Takeover bid by CXU

In March 2013, Cauldron Energy Ltd (ASX.CXU) announced a 1:8 (CXU:EMX) all-scrip takeover offer for EMX. CXU holds the Bennett Well Project, which is 100km from Carley Bore. The bid was an opportunistic attempt to unify the two companies' uranium assets, leveraging a strong 2H12 jump in CXU's share price that was driven by base metal exploration in SA. At the time of the offer, CXU was priced at \$0.27/sh so the implied value of EMX was \$0.034/sh, a 30% premium to market. Subsequently, CXU has slid to \$0.12/sh and the offer now represents an unattractive 40% discount.

In May 2013, on the basis of an independent valuation, EMX advised shareholders to reject the offer as being neither fair nor reasonable. Three major EMX shareholders plus directors (combined 51.97%) have indicated they will reject the offer. CXU is yet to alter or withdraw its bid, which is subject to a minimum 90% acceptance. A successful merger of the two groups will ultimately be determined by the respective values of Carley Bore and Bennett Well.

Funding

Cash at the end of MarQ13 was \$1.7m, including \$0.685m on exploration/evaluation and \$0.213m on admin, with no debt. Forecast spend in JunQ13 \$0.8m. Finalisation of a Research and Development Tax Incentive for FY2012 based on metallurgical and hydrogeological studies undertaken, should return \$480k in JunQ13, so cash at the end of FY2013 should be ~\$1.3m.

Board and Management

Tony Iannello: Non Executive Chairman

Kim Robinson: Managing Director

Max Cozijn: Non Executive Director

Ian Walker: Non-Executive Director

Bryn Jones: Non-Executive Director

Jamie Armes: CFO and Company Secretary

Capital structure

Shares: 176.30m

Options: 32.15m

Major shareholders

UEQ Investments Pty Ltd (22.38%)

Carbon Energy Ltd (16.45%)

Lujeta Pty Ltd (10.6%).

Risks of investment

EMX is a Speculative investment. Specific risks to the company and its projects include but are not limited to the following.

Asset: the flagship project, Carley Bore, is still at the level of a Scoping Study, so there are risks in terms of exploration and resource expansion, and project economics.

Financial: Working capital will be required in the next 12 months but money markets are tight.

Political: EMX's main assets are located in Australia and Italy – political and sovereign risks are low but the permitting and approvals process could lead to unforeseen delays.

Commodity: EMX's market capitalisation is leveraged to the uranium price, which is currently sitting at a five-year low – the uranium market is expected to recover but the timing of such a recovery is uncertain.

Analyst

Trent Allen

12 June 2013

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The author of this report has a beneficial interest of nil shares in Energia Minerals Limited.