



Period ending Wednesday 4th April 2018 – ASX Resource Companies

BREAKAWAY RESEARCH PORTFOLIO UPDATE - 4TH APRIL 2018

Recommendations/ Deals/ Listings/ Resource Updates/ Drilling Results; Drilling Underway/ Production/ Existing Projects/ Existing Projects in the Resources Sector

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IN THIS REPORT

Breakaway Research has updated both its portfolios with the addition of two stocks. These are as follows:

- Lower Risk Portfolio – addition of Alumina Limited
- Speculative Portfolio – addition of Silver City Minerals Limited

The new portfolio along with description of these companies and investment rationale are presented below.

PORTFOLIO UPDATES

Lower Risk Portfolio Update

As mentioned, we have added Alumina Limited (ASX Code: AWC) to the *Low Risk Portfolio* which now comprises the following stocks (*see page 2*). The table also includes individual stock returns based on a comparison of the current stock price and the stock price at the time of our first Buy recommendations for each stock adjusted for dividend distributions. (*see page 2*)

Speculative Portfolio Update

As mentioned, we have added Silver City Minerals (ASX Code: SCI) to the *Speculative Portfolio* which now comprises the following stocks (*see page 5*). We have also provided the individual stock returns in a similar manner to the *Low Risk Portfolio*.

BREAKAWAY LOWER RISK PORTFOLIO

The *Lower Risk Portfolio* list stocks which Breakaway Research assesses as generally large enough to have a number of producing operations, have market capitalisations that is generally in excess of \$500m and a more resilient balance sheet in comparison to companies in the other portfolios. Breakaway Research considers that the companies listed in the portfolio have the right exposure to the current momentum in the sector and/or are likely to surprise on the upside.

Company	ASX Code	Share Price (as at 3 rd April 2018)	Return Since Purchase	Market Capitalisation (\$M)	Main Commodity Exposures	Rationale
Senex Energy	SXY	0.43	33%	550	gas/oil	Exposure to onshore oil and gas assets in the Cooper and Surat basins. Exposure to Eastern Australian gas crisis.
Evolution Mining	EVN	3.12	31%	4,858	Au	Australian diversified gold producer which is pro-active
Oz Minerals	OZL	9.09	-9%	2,787	Cu	Copper play (Prominent Hill, SA) with portfolio of growth projects
Sandfire	SFR	7.53	17%	1,205	Cu	Copper play (DeGrussa, WA) with active management
South32	S32	3.28	11%	20,568	Al, Mn, Zn, Pb, Ag, Met Coal	Diversified portfolio of assets in 'industrial' commodities, particularly leveraged to steel and aluminium demand
Western Areas	WSA	3.25	-1%	827	Ni	Strong leverage to the nickel price
Whitehaven Coal	WHC	4.42	-10%	4,320	Coal	NSW dominantly thermal coal producer
Alumina Limited	AWC	2.36	0%	6,796	Alumina (linked to aluminium price)	Bauxite mining and alumina production in Australia and overseas

ALUMINA BACKGROUND

Alumina Limited has an investment in bauxite mining and alumina refining through its 40% interest in Alcoa World Alumina & Chemicals (AWAC), in joint venture with Alcoa. The AWAC joint venture was formed in 1994 and our partnership with Alcoa dates back to 1961. Alumina was one of the companies formed by the demerger of WMC in 2002

AWAC has interests in 8 alumina refineries and 5 bauxite mines and operates an aluminium smelter in Victoria, Australia. The operations span five continents and its integrated global network strategically positions AWAC to supply alumina to the world smelting markets, with options to expand low-cost production facilities in the future.

Reasons for our Buy recommendation are as follows:

- Recent rainfall in Brazil leading to unplanned water discharges has led to the world's largest refiner curtailing production and which bodes well for the short-term alumina price. The Alunorte refinery owned by Norsk Hydro has a production capacity around 6 Mtpa alumina but actual production has been curtailed to around 3 Mtpa.
- Chinese – US trade war tariffs are more likely to be beneficial to US produced aluminium and with a significant proportion smelted from AWAC alumina.
- The earnings, cash flow and dividend metrics look attractive, particularly as spot prices. We are particularly impressed with our forecast +9% fully franked dividend yield going forward.

Alumina Summary Financials

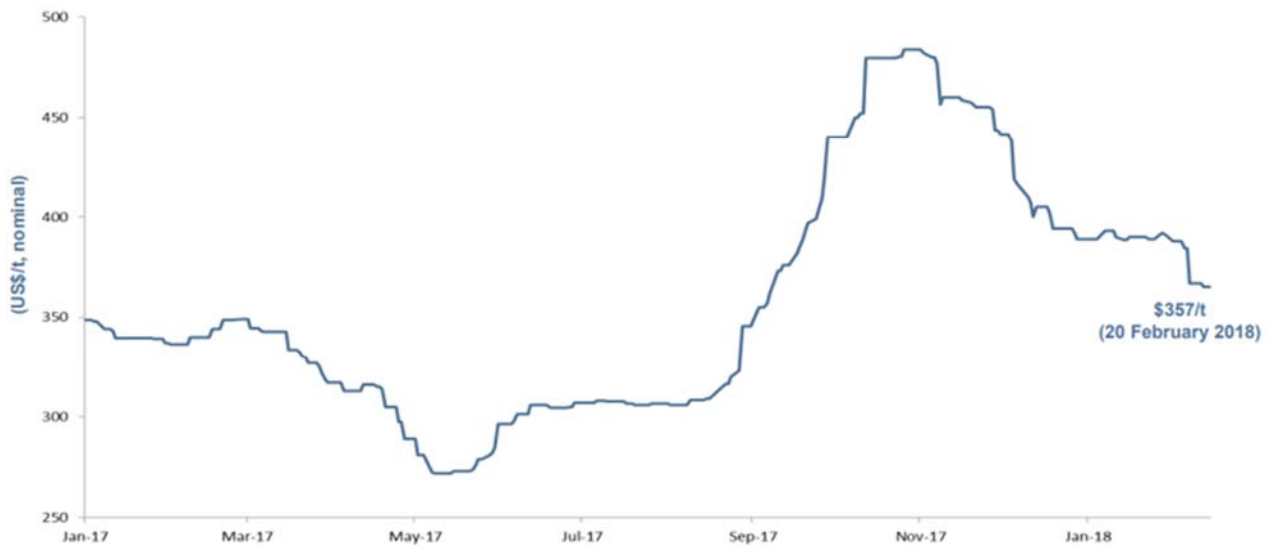
Year ending 31 December		2016a	2017a	2018	2019	2020
Net Profit After Tax (underlying)	A\$m	-30.2	339	726	572	560
AWAC distribution to Alumina	A\$m	184.8	263.1	198		
EPS	A\$ cps	0.029	0.126	0.25	0.20	0.19
Dividend per share	US\$ cps	0.06	0.135	0.173	0.172	0.15
Free Cash Flow Per Share	A\$ cps	0.055	0.117	0.277	0.232	0.197
P/E	times	81.4	18.7	9.4	11.9	12.1
P/CFPS	times	43.3	20.2	8.5	10.2	12.0
Dividend yield		3.3%	7.4%	9.5%	9.5%	8.3%

Based on A\$2.36 share price, AUD/USD = 0.77

Recent Alumina Price

We may be at the low point in alumina prices with the Norsk Hydro curtailment (representing around 3% of world supply).

2017 average price \$354/t (high \$484/t, low \$272/t)



BREAKAWAY SPECULATIVE PORTFOLIO

The *Speculative Portfolio* comprise stocks which offer special situations where recent drilling results or other exploration activities, commodity exposure and/or momentum could generate significant above market returns. However, the companies/projects have a higher level of risk than the companies recommended in the *Lower Risk Portfolio* described above.

Company	ASX Code	Share Price (as at 3 rd April 2018)	Return Since Purchase	Market Capitalisation (\$M)	Risk	Main commodity exposure	Rationale
Doray Minerals	DRM	0.295	40%	113	Medium	Au	Australian gold producer with two WA operations: the Deflector Gold/Copper Mine and the Andy Well Gold Mine.
Highlands Pacific	HIG	0.091	0%	77	Medium	Cu, Au, Ni	Exposure to world class copper, gold and nickel projects in PNG.
Kidman Resources	KDR	2.00	295%	697	High	Li	Advancing a world class lithium project in WA
Lepidico	LPD	0.04	186%	138	High	Li	Lithium 'game-changer' technology
Panoramic Resources	PAN	0.48	23%	221	High	Ni, Co	Selected Co play, diversified nickel operations
Peel Mining	PEX	0.60	224%	136	High	Au, Cu, Pb/Zn	Exploration in the Cobar region, NSW. Recent discoveries including Mallee Bull highlight the potential of the area
Platina Resources	PGM	0.115	-4%	32	High	Sc, PGM, Co, Ni	Strategically located in NSW near Clean Teq's Sunrise project with a similar style of mineralisation.
S2 Resources	S2R	0.165	-8%	42	High	Au, Cu, Ni, PGM	Aggressive explorer with proven track record. WA and Finland focus.
West African Resources	WAF	0.375	50%	227	Medium	Au	Its Sanbrando Gold Project in Burkino Faso is being developed and moving towards 150koz pa production in 2019.
Silver City Minerals	SCI	0.043	0%	11	High	Cu	Copper Blow is a IOCG project near Broken Hill. Exploration to-date has been promising and there is spare mill capacity nearby at Broken Hill.

SILVER CITY MINERALS (ASX CODE: SCI, PRICE 4.3 CENTS)

Breakaway Research has covered Silver City Minerals under our commissioned research products for some months now and its exploration activities have advanced where we would like to add the stock to our *Speculative Portfolio*.

Silver City Minerals is exploring a new 'IOCG' target called the Copper Blow project which is around 20 km from Broken Hill. It has completed an initial 15-hole programme which has demonstrated potentially economic copper and gold mineralisation which also exhibits depth continuity.

Copper Blow has been segregated into North and South zones based on the location of magnetic high zones. Drilling in the North zone has revealed broad mineralized zones with a highlight being Drillhole 18CB054 reporting:

- 41 m @ 1.3 % copper & 0.40 g/t gold from 183.8 m

In contrast drilling in the South Zone has generally revealed higher grade but narrower zones including Drill Holes CB09 and 17CB041 reporting:

- 11.8 m @ 6.7% copper and 1.92 g/t gold,
- 4 m @ 6.1% copper, 4.23 g/t gold, 13 g/t silver and 220 ppm cobalt

The broad intersection reported in the North zone is highly encouraging as it suggests increasing widths of higher grade mineralisation with depth. Testing whether the higher-grade zone does in fact increase in width as the mineralization gets deeper will be an exciting aspect of the forthcoming drilling. In addition, the drilling will also test the magnetic low area between the North and the South Zones where mineralisation has not previously considered to occur.

While exploration has focused on the southern end of the 4 km magnetic trend, there is no reason why the rest of the belt should not be as prospective below the surface as the southern portion.

Copper Blow is held in a Joint Venture structure with CBH Resources contributing 25% of the funding in proportion to its equity position but has no special rights to ore processing or offtake. Both CBH Resources and Perilya have processing plants within trucking distance at nearby Broken Hill. This leaves SCM in a strong negotiating position to secure competitive processing costs.

Reasons for our Buy recommendation are as follows:

- 'Economic' grades and widths have already been demonstrated in some of the drilling
- The development economics can be considerably lower given there are two processing plants (Perilya and CBH Resources) only 20 km away in Broken Hill
- The Company has commenced a new follow up drilling programme

PORTFOLIO HYPOTHETICAL PERFORMANCE

The hypothetical returns on the Low Risk and Speculative portfolios are -3% and 52% respectively.

The -3% return for the Low Risk Portfolio reflects legacy stock performances such as FMG and RSG which were purchased at the height of the market in February 2017 at the time of inception but have never recovered. These loss-making legacy positions are likely to be eradicated with the existing portfolio moving forward.

Our expectations that there would be strong movements in base metals in recent months has proved correct and we expect this to continue – particularly in the second half of 2018.

The 52% return for the Speculative Portfolio remains encouraging and we are continually reviewing the portfolio to 'lock in' profits when we believe a stock has run its course and unlikely to outperform the market any further.

Hypothetical Portfolio Returns	4 th April 18	15 th Feb 17	Performance
Lower Risk Portfolio			-3%
Speculative Portfolio			52%
Mining and Energy Index Performance			
S&P/ASX 200 Resources	3906.7	3595.0	9%
S&P/ASX 300 Metals & Mining	3449.0	3204.8	8%
S&P/ASX 200 Energy	8754.1	9220.8	-5%
S&P/ASX All-Ordinaries Gold	4826.8	4707.8	3%
Global Mining Index Performance			
S&P/TSX Global Mining	69.4	72.15	-4%
FTSE 350 Mining	17300	17138	1%
AIM Basic Resources	2465	2740	-10%
Commodity Indices Performance			
CRB Index	197.26	193.63	2%
LME Index	3204.80	2904.20	10%
S&P GSCI	2612.60	2412.30	8%
Broad Market Indices Performance			
DJIA	24033.4	20611.86	17%
FTSE-100	7030.5	7302.41	-4%
S&P/ASX 200	5751.9	5809.10	-1%
Global Majors			
BHP	28.78	26.54	8%
RIO	74.70	68.40	9%

Please note that past performance may not be a guide to future portfolio performance.

BREAKAWAY RESEARCH

Breakaway Research Pty Ltd

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Austex Mining Principal Rob Murdoch is an Australian geologist who has specialised in the management of junior resource companies for 30 years. His experience enables Rob to provide a quick and valid assessment on the potential of impact of many announcements, for example those involving new discoveries, drill results or resource upgrades and tracks the progress of companies on their various exploration or development projects.

Austex maintains an extensive database on all ASX listed resource companies, their corporate situations and the status of their various projects. This database helps to identify industry and investment trends which may not be apparent otherwise. Breakaway Research is extremely pleased to be able to utilise Rob's extensive experience in both corporate and technical capacity to assist in identifying resource investments that will directly benefit our subscribers.



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