

17 February 2012

Alkane Resources

ALK

\$1.10/share

Update highlights positive momentum

BUY

ALK has released a company update following a recent overseas roadshow and presentation at the Toronto rare earths conference. Key takeaways are (i) ALK's Dubbo Zirconia Project (DZP) is of high quality and very advanced compared to peers (ii) feedback from UK and US investors was positive (iii) initial MOUs with customers for rare earths are expected next month and (iv) robust financial numbers (~A\$300mpa EBITDA) from the DFS are expected to be confirmed this quarter. We recommend buying ALK with 340% upside to NPV of A\$4.85/share.

DZP – a world class project

- Very few global peers have working flow sheets.
- ALK has successfully operated a pilot plant for 4 yrs.
- Current resources equate to a 74 year mine life.
- The market is becoming aware of the progress and quality of the DZP.
- Strong economics of DZP to be confirmed in March.
- Strong upside exists from near term MOUs.

Rare Earth MOUs

- Demand for rare earths from customers remains high.
- ALK is assessing JV and toll treatment arrangements.
- MOUs likely to provide stronger revenue than forecast reflecting higher quality end products.
- ALK's rare earths will not be processed in China.
- MOU finalisation targeted by end of March.

DZP Funding – several options exist

- Strong interest from offtakers to acquire project equity.
- ALK believe 10% sell-down could provide +\$250M.
- Strong interest from govt agencies to provide debt.
- Up to \$700M in funding likely from offtakers and debt.
- Alkane reviewing options for McPhillamys (Mar qtr).
- ALK's 49% stake could attract >\$100M.

Newsflow ahead

- Q1 2012 – Updated financials DZP.
- Q1 2012 – Drilling results Tomingley & Galwadgere.
- Q1 2012 – Rare earth MOUs.
- Q1 2012 – Resource update Tomingley.
- Q1 2012 – Tomingley project approval and financing.
- Q3 2012 – DZP EIS submitted.
- Q1 2013 – DZP approval and financing.
- Q2 2013 – First production Tomingley.
- Q2/3 2014 – First production Dubbo.

Company Data

Shares - ordinary	269.0M
Options	0M
Total (fully diluted)	269.0M
Market Cap	\$295.9M
12 month low/high	\$0.89 / \$2.73
Average monthly turnover	\$53.4M

Financial Summary – 1Mtpa rates

Year end Dec	2010A	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.2	0.0	0.0	41.5	341.9	617.4
Costs (\$M)	1.5	2.2	2.5	25.9	147.4	253.3
EBITDA (\$M)	-2.1	-2.2	-2.5	15.6	194.5	364.1
NPAT (\$M)	-1.8	-2.3	-6.2	-26.7	73.3	187.7
EPS (¢ps)	-0.7	-0.9	-2.3	-9.9	27.3	69.8
PER (x)	na	na	na	na	4.0	1.6
Cashflow (Gross-\$M)	-1.2	-2.3	-6.2	-18.7	133.6	280.6
CFPS (¢/sh)	-0.5	-0.9	-2.3	-7.0	49.7	104.3
PCFPS (x)	na	na	na	na	2.2	1.1
Enterprise Value (\$M)	244	299	400	1165	1155	897
EV / EBITDA (x)	na	na	na	74.6	5.9	2.5

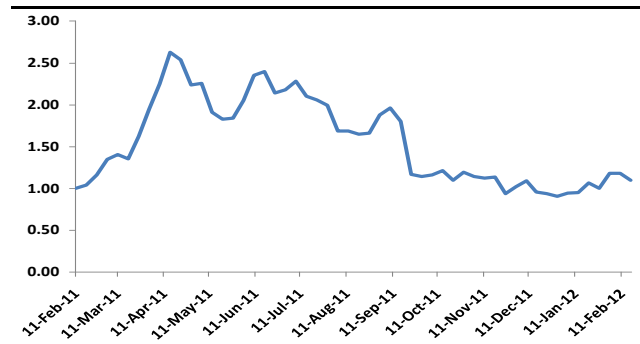
Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Abbotsleigh	70.9	26.4%

Board

Director	Position	Executive	Independent
Ian Chalmers	MD	Executive	-
John Dunlop	Chairman	Non-Exec	Independent
Ian Gandel	Director	Non-Exec	Independent
Tony Lethlean	Director	Non-Exec	Independent

Alkane Resources – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 20M shares at \$1.05/share in February 2011, raising A\$21.0M. A fee was received.

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Analysis

ALKANE RESOURCES (ALK AU) (ALKNY OTCQX) 17-Feb-12 Year End 31 Dec							Share Price (\$) 1.10 Iss. Shares (M) 269.0 Iss. Options (M) 0.0 Mkt Cap. (\$M) 295.9								
PROFIT & LOSS							RESOURCES								
Sales Revenue	\$M	0.0	0.0	0.0	41.5	341.9	617.4	Tomingley Gold (NSW)							
Other Income	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	11.3	11.3	11.3	10.8	9.8	8.8
Operating Costs	\$M	1.5	2.2	2.5	25.9	147.4	253.3	Grade (gold)	g/t	1.8	1.8	1.8	1.8	1.8	1.9
Exploration	\$M	0.8	0.0	0.0	0.0	0.0	0.0	Contained Gold	oz	661,212	661,212	661,212	634,688	581,639	528,590
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	McPhillamys Gold (NSW)							
EBITDA	\$M	(2.1)	(2.2)	(2.5)	15.6	194.5	364.1	Tonnes	Mt	91.9	91.9	91.9	91.9	91.9	91.9
Depreciation & Amort.	\$M	0.0	0.0	0.0	7.9	28.9	44.0	Grade (gold)	g/t	1.0	1.0	1.0	1.0	1.0	1.0
EBIT	\$M	(2.1)	(2.2)	(2.5)	7.7	165.6	320.2	Contained Gold	Moz	2.96	2.96	2.96	2.96	2.96	2.96
Net Interest	\$M	(0.3)	0.1	3.7	34.3	60.8	52.1	Dubbo Zirconia (NSW)							
Pre-Tax Profit	\$M	(1.8)	(2.3)	(6.2)	(26.7)	104.8	268.1	Tonnes	Mt	73.2	73.2	73.2	73.2	72.7	71.7
Tax	\$M	0.0	0.0	0.0	0.0	31.4	80.4	Zirconium (ZrO ₂)	%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Niobium	%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Net Profit	\$M	(1.8)	(2.3)	(6.2)	(26.7)	73.3	187.7	Yt + REE	%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Abnormal	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Contained product	Mt	2.4	2.4	2.4	2.4	2.4	2.4
Reported Profit	\$M	7.8	(2.3)	(6.2)	(26.7)	73.3	187.7	ATTRIBUTABLE PRODUCTION							
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	oz	-	-	-	24,668	49,335	49,335
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	DZP - ZrO ₂ products	t	0	0	0	0	8,036	16,715
Retained Earnings	\$M	(16.6)	(19.0)	(25.2)	(51.8)	21.5	209.2	DZP - Niobium	t	0	0	0	0	1,617	3,363
CASH FLOW							REVENUE								
Revenue	\$M	0.0	0.0	0.0	41.5	341.9	617.4	Tomingley Gold	\$M	0.0	0.0	0.0	41.5	79.5	75.5
Costs	\$M	(1.5)	(2.2)	(2.5)	(25.9)	(147.4)	(253.3)	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	262.4	541.9
Net Interest	\$M	0.3	(0.1)	(3.7)	(34.3)	(60.8)	(52.1)	Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	(31.4)	Total	\$M	0.2	0.0	0.0	41.5	341.9	617.4
Gross Cash Flow	\$M	(1.2)	(2.3)	(6.2)	(18.7)	133.6	280.6	COSTS							
Net Capex	\$M	(1.0)	(25.0)	(95.0)	(746.0)	(123.6)	(22.9)	Tomingley Gold	AS\$/oz	0	0	0	930	930	930
Exploration	\$M	(7.8)	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	\$M	0.0	0.0	0.0	22.9	45.9	45.9
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	98.0	203.9
Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Other	\$M	1.5	2.2	2.5	3.0	3.5	3.5
Free Cashflow	\$M	(9.9)	(27.3)	(101.2)	(764.7)	10.1	257.7	Total	\$M	1.5	2.2	2.5	25.9	147.4	253.3
Equity Issues	\$M	0.0	20.0	0.0	0.0	0.0	0.0	CAPEX							
Net Borrowings	\$M	0.0	20.0	100.0	765.0	0.0	(200.0)	Tomingley Gold	\$M	2.0	10.0	45.0	46.0	2.3	2.3
Net Investments	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Dubbo Zirconia	\$M	0.0	15.0	50.0	700.0	121.3	20.6
Surplus Cash Flow	\$M	(0.3)	12.6	(1.2)	0.3	10.1	57.7	Other	\$M	-1.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							DEPRECIATION								
Cash	\$M	4.6	17.2	16.0	16.2	26.3	84.0	Tomingley Gold	\$M	0.0	0.0	0.0	7.9	16.3	16.7
Other Current	\$M	0.4	8.0	8.0	8.3	13.7	15.4	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	12.6	27.2
Total Current	\$M	5.0	25.2	24.0	24.5	40.0	99.5	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Assets	\$M	2.1	27.1	122.1	860.1	954.8	933.8	Total	\$M	0.0	0.0	0.0	7.9	28.9	44.0
Exploration	\$M	39.3	36.0	38.0	38.0	36.0	36.0	EBITDA							
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	\$M	0.0	0.0	0.0	18.6	33.6	29.6
Other	\$M	0.5	0.5	0.5	0.5	0.5	0.5	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	164.4	338.1
Total NC Assets	\$M	41.8	63.6	160.6	898.6	991.3	970.3	Other	\$M	-2.1	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	\$M	46.8	88.8	184.5	923.2	1,031.3	1,069.8	Total	\$M	-2.1	0.0	0.0	18.6	198.0	367.6
Total Debt	\$M	0.0	20.0	120.0	885.0	885.0	685.0	HEDGING							
Current Liab	\$M	1.1	1.1	1.1	1.1	32.5	81.5	Gold hedged	oz	0	0	0	0	0	0
Non Current Liab	\$M	0.2	4.5	6.5	6.8	10.2	11.9	Hedged price	US\$/oz	0	0	0	0	0	0
TOTAL LIAB	\$M	1.3	25.6	127.6	892.9	927.7	778.4	Hedged price	AS\$/oz	0	0	0	0	0	0
NET ASSETS	\$M	45.6	63.2	57.0	30.3	103.6	291.3	Sales hedged	%	0%	0%	0%	0%	0%	0%
SH/HLDRS FUNDS	\$M	45.6	63.2	57.0	30.3	103.6	291.3	Ave. deliverable price	US\$/oz	1226	1594	1750	1600	1450	1300
RATIO ANALYSIS							ASSUMPTIONS								
EPS	¢	(0.7)	(0.9)	(2.3)	(9.9)	27.3	69.8	Exchange Rate	AS\$/US\$	0.92	1.04	1.02	0.95	0.90	0.85
PER	x	na	na	na	na	4.0	1.6	Gold Price	US\$/oz	1226	1594	1750	1600	1450	1300
EPS Growth	%	0.8	18.9	167.6	328.7	(375.0)	155.9	Gold Price	AS\$/oz	1333	1526	1716	1684	1611	1529
EBITDA per share	¢	-0.8	-0.8	-0.9	5.8	72.3	135.4	Zirconia price	US\$/kg	6.00	7.00	11.00	12.00	11.50	11.00
EBITDA Multiple	x	-119.3	-134.5	-118.4	19.0	1.5	0.8	LREE Price	US\$/kg	35.00	35.00	35.00	55.00	45.00	40.00
EV/EBITDA	x	na	na	na	74.6	5.9	2.5	YHREE Price	US\$/kg	50.00	110.00	110.00	100.00	90.00	80.00
CFPS	¢	(0.5)	(0.9)	(2.3)	(7.0)	49.7	104.3	90 day Bank Bills	%	4.68	4.95	5.00	5.25	5.25	5.25
PCFR	x	na	na	na	na	2.2	1.1	10 Yr Bond rate	%	5.38	5.12	5.00	5.50	5.50	5.50
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	Interest Rate Charged	%	5.88	5.62	5.50	6.00	6.00	6.00
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	VALUATION							
Franking	%	0	0	0	0	0	0	Tomingley Gold	ASM						
Payout Ratio	%	0%	0%	0%	0%	0%	0%	Dubbo Zirconia	AS\$ps						
Gearing D/E	%	na	4.5	182.6	2,867.3	828.5	206.3	McPhillamys	AS\$ps						
Interest Cover	x	6.5	na	na	0.2	2.7	6.2	Other	AS\$ps						
EBITDA Margin	%	na	na	na	37.6	56.9	59.0	Net Cash (Debt)	AS\$ps						
EBIT Margin	%	na	na	na	18.4	48.4	51.9	Total	AS\$ps						
Return On Assets	%	(4.6)	(2.5)	(1.4)	0.8	16.1	29.9								
Return On Equity	%	(4.0)	(3.7)	(10.9)	(88.0)	70.8	64.4								
Eff Tax rate	%	0	0	0	0	30	30								

Source: Petra Capital

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