

11 January 2019

Orion Minerals Ltd (ORN)

BUY

Share Price: A\$0.02

Scoping Study provides clarity for Prieska development Target Price: A\$0.11

ORN released its scoping study results for Prieska in late December 2018 following a JORC Resource upgrade. The Resource upgrade provides a strong foundation for the Prieska development, which now includes 18.5Mt in the Indicated category at 3.6% Zn and 1.2% Cu. Phase 1 of the project, excludes any open pit mining, historical pillar extraction and covers only two thirds of the current Resource, which remains open down dip and along strike. We revise our base case assumptions to include the results of the scoping study, which incorporates a higher production rate of 2.4Mtpa (1.2Mtpa previously) albeit with slightly higher capex and opex numbers, and includes the value of any future open pit plus pillar extraction at Prieska late in the mine life. We maintain our BUY recommendation and revise our target price to A\$0.11/sh (A\$0.12/sh previously) factoring in up to 7% additional dilution to help fund the equity component of the development.

Key Points from Announcement

- Scoping study results for phase 1 of the Prieska Zinc-Copper project has been released following a JORC Resource upgrade.
- JORC Resource now sits at 28.7Mt at 3.8% Zn, 1.2% Cu including an Indicated Resource of 18.5Mt at 3.6% Zn and 1.2% Cu. This is an exceptional conversion rate from inferred to indicated, at a cost of less than A\$1.20/t.
- Initial 10-year mining scenario can be achieved assuming a Resource to Reserve conversion of ~80%.
- Mine production of 2.4Mtpa, producing 70kt to 80kt of zinc and 22kt of copper in concentrates per annum.
- Scoping study capex is A\$376m including 20% contingency. Petra forecasts a 36% all-in-sustaining margin including corporate costs and a payback period of less than 3 years from first production.

A year of significant progress

- ORN has made significant progress during the year, which included a JORC Resource upgrade, Mining Right Application lodged and an 85,000m in-fill drilling program completed.
- ORN also made substantial progress with Bankable Feasibility Study, including a preliminary mine design and schedule, completion of additional metallurgical test work, as well as advancement of its near-mine and regional exploration program.

Key Dates Ahead

- Prieska Investor Site visits Feb 19.
- BFS, Mining Right and EA approvals Q2 2019.

Company Data

Shares – ordinary (M)	1,874
Dilution (M)	441
Total (fully diluted) (M)	2,315
Market capitalisation (\$M)	46
12 month low/high (\$)	0.02/ 0.05
Average monthly turnover (\$M)	0.43
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year end June	2019F	2020F	2021F	2022F	2023F
Revenue (\$M)	-	-	-	126	333
Costs (\$M)	(2)	(2)	(3)	(76)	(207)
EBITDA (\$M)	(2)	(2)	(3)	50	126
NPAT (\$M)	(3)	(4)	(4)	19	52
EPS (¢ps)	(0)	(0)	(0)	1	2
PER (x)	(13)	(9)	(9)	4	1
Op. Cashflow (\$M)	(5)	(3)	(4)	23	90
OCFPS (¢ps)	(0)	(0)	(0)	1	3
POCFPS (x)	(7)	(13)	(9)	3	1
Enterprise Value (\$M)	56	77	158	254	213
EV / EBITDA (x)	(27)	(35)	(46)	5.1	1.7
Payout Ratio (%)	-	-	-	-	-
Dividends (¢ps)	-	-	-	-	-
Yield (%)	-	-	-	-	-

ORN – 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 Pty Ltd acted as joint lead manager and bookrunner for ORN's placement of \$11m at \$0.037/share on 21 June 2018, for which a fee and options were received.

Craig Brown

+61 2 9239 9629

Analysis

Orion Minerals Ltd (ORN.ASX)													
10-Jan-19						Share Price	(\$)	A\$0.02					
						Issued shares	(M)	1874					
						Other	(M)	441					
						Fully Diluted*	(M)	2221	*Excludes 94m OTM options with Mar-19 expiry				
						Equity Raise Assumption	(M)	1115					
						Mkt Cap.	(\$M)	A\$44M					
Year End June													
PROFIT & LOSS		2019F	2020F	2021F	2022F	2023F	ASSUMPTIONS	2019F	2020F	2021F	2022F	2023F	
Revenue	A\$M	0	0	0	126	333	Zinc (US\$/t)	2,866	2,866	2,646	2,646	2,646	
Operating Costs	A\$M	0	0	0	-72	-204	Zinc (US\$/lb)	1.30	1.30	1.20	1.20	1.20	
Other	A\$M	-2	-2	-3	-4	-4	Copper (US\$/t)	6,614	6,614	6,614	6,614	6,614	
EBITDA	A\$M	-2	-2	-3	50	126	Copper (US\$/lb)	3.00	3.00	3.00	3.00	3.00	
							Gold (US\$/Oz)	1,305	1,275	1,250	1,225	1,200	
D&A	A\$M	0	-1	0	-16	-35	Silver (US\$/Oz)	20	20	20	20	20	
EBIT	A\$M	-2	-4	-3	33	91	AUD/USD	0.72	0.72	0.72	0.73	0.73	
Net Interest	A\$M	-1	-1	-1	-12	-18	KEY RATIOS						
Pre-Tax Profit	A\$M	-3	-4	-4	22	73	PER	x	(13)	(9)	(9.1)	3.5	1.3
							EV/EBITDA	x	(27)	(35)	(46.2)	5.1	1.7
Tax	A\$M	0	0	0	-3	-20	EPS	¢	(0)	(0)	(0)	0.6	1.6
Net Profit	A\$M	-3	-4	-4	19	52	EPS Growth	%	0%	51%	-4%	-357%	179%
							CFPS	¢	(0)	(0)	(0)	0.7	2.7
Abnormal	A\$M	0	0	0	0	0	PCFR	x	(7)	(13)	(9)	2.9	0.7
Reported Profit	A\$M	-3	-4	-4	19	52	FCF Yield	%	-21%	-87%	-291%	-205%	91%
							DPS	¢	0	0	0	0	0
Dividends Paid	A\$M	0	0	0	0	0	Div Yield	%	0%	0%	0%	0%	0%
Minority Interest	A\$M	0	0	0	0	0	Payout Ratio	%	0%	0%	0%	0%	0%
							Gearing ND/E	%	60%	11%	86%	149%	82%
							Interest Cover	x	3	(5)	(5)	3	5
							EBITDA Margin	%	nm	nm	nm	nm	38%
							Enterprise Value	\$	56	77	158	254	213
							ROA	%	-10%	-6%	-2%	9%	16%
							ROE	%	-14%	-7%	-4%	15%	30%
							Eff Tax rate	%	0%	0%	0%	13%	28%
							OPERATIONAL PERFORMANCE						
							2019F	2020F	2021F	2022F	2023F		
Net Op Cash Flow	A\$M	-4	-2	-3	38	129	Ore milled						
Net Interest	A\$M	-1	-1	-1	-12	-18	Prieska	0	0	0	0.9	2.4	
Tax Paid	A\$M	0	0	0	-3	-20	Grade - Zinc	%	0	0	0	3.8%	3.8%
Operating Cash Flow	A\$M	-5	-3	-4	23	90	Grade - Copper	%	0	0	0	1.2%	1.2%
							Grade - Gold	g/t	0	0	0	0.0	0.0
Net Capex	A\$M	-4	-36	-125	-114	-50	Grade - Silver	g/t	0	0	0	0.0	0.0
Exploration	A\$M	0	0	0	0	0	Zinc in concentrate	Kt	0	0	0	27.6	76.2
Net proceeds A&D	A\$M	0	0	0	0	0	Copper in concentrate	Kt	0	0	0	8.5	23.4
Investing Cash Flow	A\$M	-4	-36	-125	-114	-50	Gold	oz	0	0	0	0	0
<i>Free cash flow</i>		-10	-39	-129	-91	40	Silver	oz	0	0	0	0	0
Net Borrowings	A\$M	12	7	91	187	146	Zn Equivalent	Kt	0	0	0	48.9	134.8
Dividends	A\$M	0	0	0	0	0	Average Revenue (A\$/lb)		0	0	0	1.17	1.12
Equity Issues	A\$M	8	45	0	0	0	AISC Cash Costs (A\$/lb)		0	0	0	0.71	0.70
Other	A\$M	0	0	45	-4	0	Margin (A\$/lb)		0	0	0	0.46	0.42
Financing Cash Flow	A\$M	19	52	136	182	146	Saleable Production (Kt)						
Net IncreaseCash	A\$M	10	14	7	91	187	2019F	2020F	2021F	2022F	2023F		
							Zn Equivalent						
							Zinc	0	0	0	27.6	76.2	
							Copper (Zn Eq)	0	0	0	21.2	58.6	
							Gold (Zn Eq)	0	0	0	0.0	0.0	
							Silver (Zn Eq)	0	0	0	0.0	0.0	
							Total	0	0	0	48.9	134.8	
							Revenue Split						
							Zinc	0%	0%	0%	57%	57%	
							Copper	0%	0%	0%	43%	43%	
							EBITDA (A\$M)						
							2019F	2020F	2021F	2022F	2023F		
							Prieska	0	0	0	53	129	
							Corporate & Other	-2	-2	-3	-4	-4	
							Total	-2	-2	-3	50	126	
							NPV (+1Yr) Attributable						
							A\$M					A\$/sh.	
							Prieska				291	0.09	
							Prieska open pit plus pillars				56	0.02	
							Jacomynspan and regional exploration				33	0.01	
							Fraser Range				20	0.01	
							Corporate costs				-36	-0.01	
							Net Cash (Debt)				-14	-0.00	
							Total				350	0.11	

Source: Petra Capital

Scoping Study assumptions – Phase 1

ORN has released its scoping study results for phase 1 of the Prieska Zinc-Copper Project. The study is based on low-level accuracy technical and economic assessments ($\pm 35\%$ accuracy) and is insufficient to support estimation of Ore Reserves at this time. Further evaluation work in the form of a Bankable Feasibility Study is being completed, which we expect the results of these in the 2Q of CY19. The Scoping Study capex is estimated at A\$376m including contingency of A\$63m.

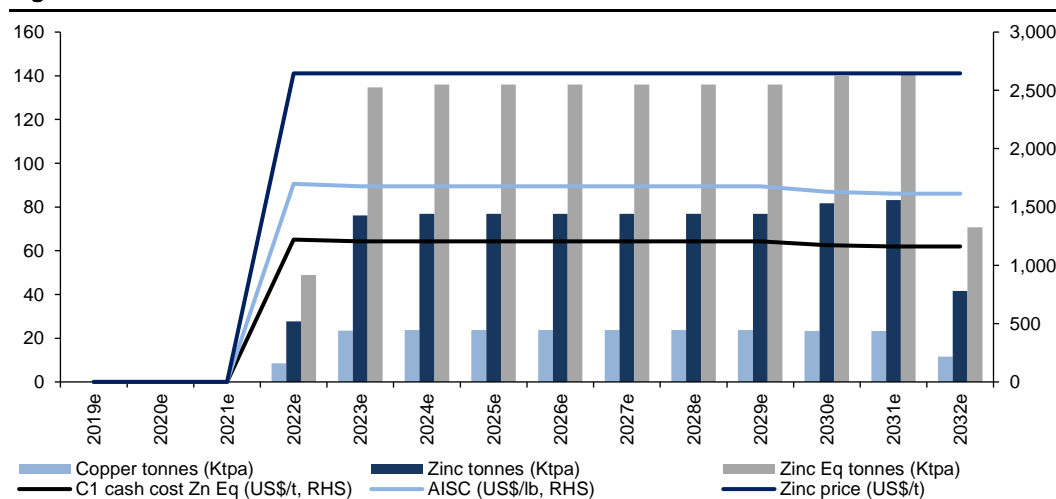
ORN may look at ways to substitute a portion of the equity required through potential offtake arrangements. We have factored up to 7% additional dilution than previous assumptions to help fund the equity component of the development at Prieska. We assume a A\$45m equity raise alongside a potential offtake or forward sales agreement assumed to be A\$45m, would meet the required 30%, under a 70/30 debt to equity assumption.

Figure 1: Prieska Assumptions

Current Resource	28.73Mt @ 3.8% Zn, 1.16% Cu, for 1.084Mt Zn, 334Kt Cu
Mining Inventory	23.6Mt @ 3.8% Zn, 1.16% Cu
Production Profile	2.4Mtpa, 76Ktpa Zn, 24Ktpa Cu
Initial Mine life	10 years
LOM Zn output (payable)	573Kt
LOM Cu output (payable)	218Kt
Capex	A\$376m
Opex	C1 - US\$0.55/lb LOM, AISC - US\$0.76/lb after by-product credits
Assumptions	Long term price: Zn \$1.20/lb, Cu \$3.00/lb, AUD/USD 0.73
Payabilities Zn, Cu	84%, 95.8%
NSR Zn, Cu (inc TC/RC's)	74%, 94%
NPV (after tax)	12.5%, A\$291m
Tax rate	28%
Royalties Zn, Cu	4%, 5%
IRR (after tax)	28.6%
Payback period	3 years
Economic Interest	73.3%

Source: Scoping Study & Petra Capital estimates

Figure 2: Production Schedule



Source: Petra Capital estimates

Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Research (Resources):	Peter Chilton	+61 (0)2 9239 9634	pchilton@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	David Fraser	+61 (0)2 9239 9633	dfraser@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Jamie Campbell	+61 (0)2 9239 9620	jcampbell@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Michael Casey	+61 (0)2 9239 9608	mcasey@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent. Petra Capital Pty Ltd acted as joint lead manager and bookrunner for ORN's placement of \$11m at \$0.037/share on 21 June 2018, for which a fee and options were received.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: www.globalalliancesecurities.com) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.