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Cabral Resources (CBS)

June Quarterly - Aeromag complete

Recommendation
Spec Buy (Spec Buy)
Price
\$0.125
Target (12 months)
\$0.27 (unchanged)

Expected Return

Capital growth	124.0%
Dividend yield	0%
Total expected return	124.0%

Company Data & Ratios

Enterprise value	\$9m
Market cap	\$29m
Issued capital	229m
Free float	92%

Avg. daily vol. (52wk)	13,684,011
12 month price range	\$0.02-\$0.285

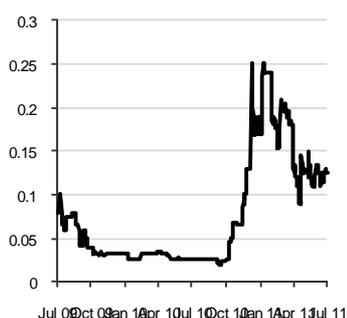
GICS sector **Materials**

Disclosure: Bell Potter Securities acted as sole lead manager in the placement of \$125m shares at 20cps in February 2011, for which it received a fee.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.13	0.18	0.03
Absolute (%)	-3.85	-28.57	380.77
Rel market (%)	-0.07	-19.36	382.56

Absolute Price



Aeromag results pending

CBS have advised that a high resolution regional aeromagnetic survey was fully completed during the quarter. The area covered totalled 1720km² in three target regions. Results are still to be released to the market.

2 new tenement areas have been pegged and applied for to add to both Cabral's Lagao Real hub and the itaquarai area. CBS now has over 170km² of tenement area in its portfolio in Bahia, prospective for iron ore.

Earnings and Valuation Changes

There have been no earnings revisions as a result of CBS' June quarterly report.

Investment View

We continue to rate CBS as a Spec Buy and a \$0.27 target. CBS is one of Bell Potter's high conviction stocks in the small cap explorer space. There appears to be some big stakeholders with vested interests in seeing CBS and the Bahia iron ore province develop;

The Brazilian Government. Plans to build a bulk export port near Ilheus, and an East-West heavy railway line that will pass through CBS' tenements, both of which CBS plan to utilise.

Eurasian Natural Resources. Holds the BML iron ore project near Caetite, 150km from CBS. ENRC have scheduled 19.5mtpa production in 2013, strong motivation to see the railway and port constructed.

China Railway Materials Commercial Corp. CRM is one of the biggest steel users in China (\$20bn revenue in 2009). Has an investment JV with CBS.

As it is relatively early stage, the company cannot be valued on a DCF basis, but we believe CBS is significantly undervalued in comparison to its peers, on the basis of an EV/Potential Resource' of \$0.03/t using the lower end of its exploration target. We note that this does not take into account capex requirements.

Company comparisons

Company	EV (\$m)	Resource	EV/Res (\$/t)	EV/Res (\$/Fe unit)
Cabral (CBS) (Exploration target only)	9	331	0.03	0.09
Iron Road Limited (IRD)	106	1200	0.09	0.52
Gindalbie Metals (GBG)	735	2518	0.29	0.86
Sundance Resources (SDL)	1478	2520	0.59	1.39
Centaurus Metals (CTM)	77	126	0.61	2.04
Cape Lambert Resources (CFE)	212	197	1.08	3.78
South American Ferro Metals (SFZ)	24	N/A	N/A	N/A
Equatorial Resources (EQX)	232	N/A	N/A	N/A
ENRC transaction for nearby BML project in Bahia State	967	1800	1.58	0.54

SOURCE: IRESS

SOURCE: BELL POTTER SECURITIES ESTIMATES

June quarter

Rail and port infrastructure

During the quarter, discussions continued in relation to rail and port infrastructure and the company's requirement for both rail and port access and capacity allocations.

The construction of the East-West rail line continues to move ahead. There were some minor delays to rail construction activities, but these delays are not expected to materially alter the rate of construction progress.

There remains some environmental lobbying in relation to the proposed location of the port north of the Ilheus port but this appears to be remain on track. Both the State and Federal Governments have continually recommitted to this infrastructure with construction expected to commence later this year in relation to the port's common user areas.

Drill rig negotiations underway

Discussions with drilling contractors has commenced and negotiations continued during the quarter with CBS aiming to secure a rig for its initial drill program around September 2011. This is dependent however upon drill rig availability and also obtaining environmental approval for drilling.

Environmental approval process underway

A specialist environmental consultancy firm has been formally engaged to assist CBS with work to obtain all relevant environmental and other approvals to enable CBS' first drill program to commence.

12 month Catalysts include:

- The results of the aeromag survey which has been flown. It is expected that the results of this survey will allow the company to firm the iron ore prospectivity of other areas it has identified.
- First drilling in September quarter with an initial JORC resource targeted for March quarter next year.
- Potential for follow on acquisitions of both magnetite and potential DSO iron ore tenements to add further critical mass to CBS (target 1bt plus overall).
- Announcements expected in relation to the development of the East-West railway line and port infrastructure.

Cabral Resources (CBS)

Company Description

CBS is an early stage iron ore explorer focussed on Bahia state, Brazil with plans to become a 4 to 10Mtpa iron ore concentrate producer by 2015. CBS has a defined resource target of between 331 and 644Mt of magnetite iron ore.

Key operations

CBS' iron ore tenement portfolio is located in Brazil's emerging iron ore region in the state of Bahia. The total target tonnages are concentrated mainly in the hub of tenements at Lagoa Real. CBS' strategy is to make use of government funded infrastructure, including the new East West rail line, designed to pass directly through Cabral's tenement portfolios and currently under construction. It is a distance of approximately 380kms from Cabral's tenements to a proposed port north of Ilheus.

Valuation

To arrive at a valuation, we use the middle of CBS' lower and upper exploration targets contained iron using a 32% Fe content. This is an exploration target of 488Mt and a target of 156Mt contained iron. Assuming that CBS will be trading on the lowest multiple available of \$0.52/t when it does prove up a resource, then providing a further risk discount of 30%, we arrive at a valuation of \$0.37/t contained iron. Applying this to the midrange of CBS' exploration target, we give CBS' enterprise value a valuation of \$58m. Our valuation consists of \$5m cash and \$58m enterprise value, totalling \$63m market cap. Translating this to a 12 month target price results in a target of \$0.27.

Risks

Resource yet to be defined. A large part of the attraction of CBS is the potential for discovery. If this does not occur values may diminish.

Environmental. Local protests have occurred over the infrastructure being built required for the success of CBS. However, the government has maintained its commitment to the East-West railway and port construction north of Ilheus.

Financial risk associated with funding. Project finance is yet to be obtained. Commodity prices are volatile and may not be at current levels once production begins.

Opex and capex costs are subject to confirmation of a scoping study at this stage.

Sovereign risk concerning Brazil and the potential for changes to regulations affecting CBS.

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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