

Cabral Resources

Exploration update

New high-grade DSO hematite prospect

Cabral has pegged an area of 931km², in close proximity to its existing landholding near the town of Brumado in Bahia, Brazil, containing ground prospective for high-grade DSO hematite. Initial surface samples indicate hematite iron ore mineralisation grades of >65% Fe with very low contaminants. The existing FCA rail line passes inside the tenement holding and provides potential transport to the Port of Aratu.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/10	0.3	(0.4)	(0.4)	0.0	N/A	N/A
06/11	0.0	(1.8)	(0.8)	0.0	N/A	N/A
06/12	0.0	(1.9)	(0.7)	0.0	N/A	N/A
06/13e	0.0	(2.7)	(1.0)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Strategic, low-cost acquisition adds 931km²

At a cost of US\$55k, the area referred to as Sincora Area more than doubles Cabral's existing landholding in Brazil, which now totals 1,416km², with ground prospective for high-grade DSO hematite iron ore mineralisation.

High-grade DSO hematite confirmed in assays

Chemical assays of initial surface samples, now from two sites, are very promising and indicate the presence of high-grade (up to 69.7% Fe) hematite iron with very low levels of contaminants. This raises the potential for near-term production and prospects for cash flow given relatively low capital costs associated with sales of DSO hematite.

New dual infrastructure solution

Cabral's Sincora Area is well situated with regard to the existing and currently operating FCA rail line, which passes directly within the tenement holding en route to Port of Aratu on the coast near Salvador. Sincora is also in close proximity to the FIOL rail development, 30km away, which is scheduled for completion in 2015/16.

Valuation: Focusing on DSO hematite

Cabral's shares are currently trading at a level (A\$0.033) that gives the company an enterprise value of A\$1.6m, based on cash of c A\$7m as at 30 December 2012. This compares with cash per share of A\$0.027 and a net asset value (NAV) per share of A\$0.079, based on financials reported for the interim period end December 2012. Although a JORC-compliant resource has yet to be reported, Cabral is well positioned in terms of proximity to existing and planned infrastructure. Initial surface samples now from two sites on the newly pegged Sincora Area augur well for the potential delineation of a high-grade DSO hematite resource. Using a subgroup of peers focused on DSO hematite generates an average EV/t multiple approaching A\$0.20/t, which when applied to our three hypothetical resource scenarios generates an implied share price for Cabral of between A\$0.07 and A\$0.11.

Metals & mining

5 April 2013

Price **A\$0.039**
Market cap **A\$10m**

Net cash (A\$m) at end Dec 2012	7.0
Shares in issue	259.3m
Free float	100%
Code	CBS
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	57.9	76.5	(65.5)
Rel (local)	61.4	70.1	(69.0)
52-week high/low	A\$0.11	A\$0.016	

Business description

Cabral Resources (CBS) is an ASX-listed iron ore explorer focused on the Brumado region of Bahia State, Brazil.

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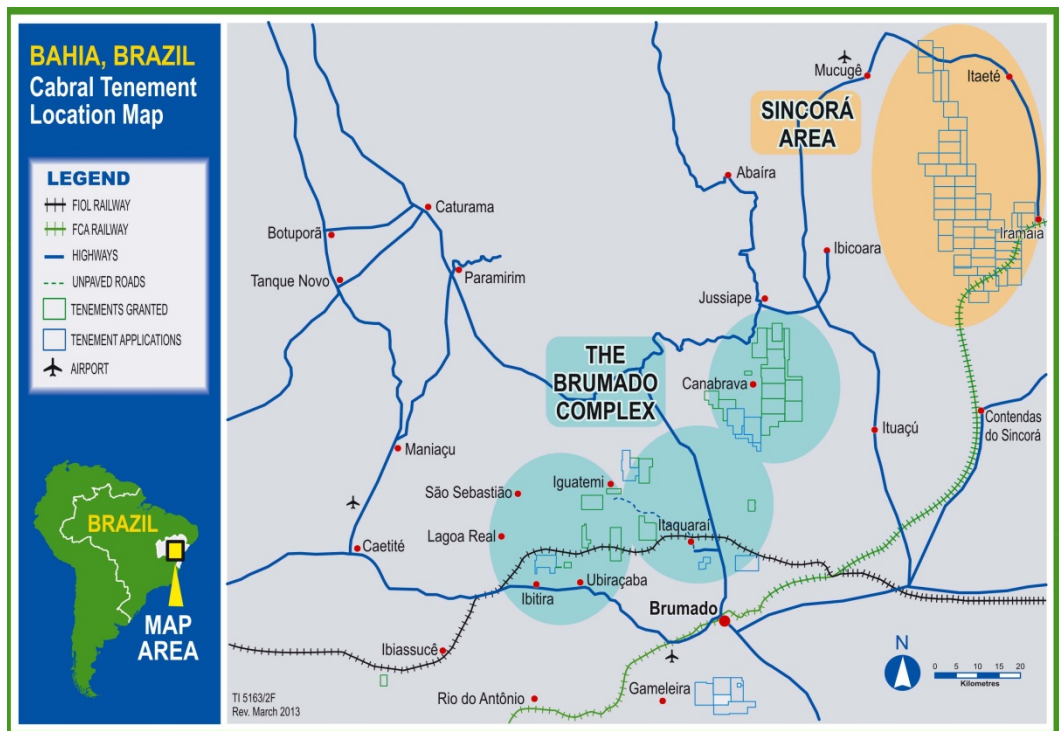
Sincora Area – Lifts total landholding to 1,416km²

Cabral has pegged an area of vacant ground spanning c 931km² in the central region of the north eastern lobe of the Sao Francisco Craton, located 90km north of Brumado Town in Bahia State Brazil at a cost of US\$55k. The area referred to as Sincora Area more than doubles Cabral's existing landholding in Brazil, which now totals 1,416km², with ground prospective for high-grade DSO hematite iron mineralisation, raising the potential for early cash flows from production consistent with its revised exploration strategy announced in November 2012.

The company has submitted 50 separate tenement applications to the DNPM (National Department of Mineral Production) for approval of full grant status, which management expects should be forthcoming over the next one or two months. Environmental licence applications to undertake drilling on the tenements are also in train, with a waiting time of six months expected, although these can be processed concurrently with tenement approval submissions.

Cabral plans to continue broad geological work and geological mapping to further delineate the already identified DSO hematite areas at Sincora over the next six to nine months before commencing drilling pending the granting of the environmental licences. Exploration costs are expected to remain within the current budget of A\$650,000 per quarter. With total operating costs currently averaging c A\$1m per quarter, management confirms that cash of c A\$7m (as at 31 December 2012 excluding JV interests) should be adequate to fund detailed topographic surveying, geological and structural mapping, ground geophysics, sampling, RC drill hole campaigns, and assay and metallurgical test work, thereby minimising the need to raise capital and the potential for equity dilution to existing shareholders.

Exhibit 1: Cabral tenement portfolio



Source: Cabral Resources

High-grade surface samples of up to 69.7% Fe

Chemical assays of surface samples collected to date are encouraging and indicate the presence of high-grade (up to 69.7% Fe) DSO hematite iron with very low levels of contaminants (Exhibit 2). This raises the potential for production consistent with Cabral's strategy of building a relatively modest but high-grade DSO hematite 1-2 Mtpa iron operation over the next three years, with resulting cash flows used to fund ongoing exploration of the region.

Cabral has also identified a new high-grade DSO hematite iron occurrence with surface sample assays (Exhibit 2: Sample ID C000760, C000761, C000762, C000763, C000764) confirming earlier positive results from an area 2.0km to 2.5km away from that announced on 22 March 2013.

Exhibit 2: Surface sample assay results						
Sample ID	Rock type	Fe	SiO ₂	Al ₂ O ₃	P	LOI
		(%)	(%)	(%)	(%)	(%)
C000706	Hematite	68.0	0.7	0.3	0.02	0.8
C000712	Hematite	65.9	2.4	1.6	0.04	1.4
C000713	Hematite	67.2	1.9	1.3	0.03	1.3
C000715	Hematite	67.8	1.5	1.2	0.02	0.8
C000716	Hematite	69.1	1.0	0.6	0.03	0.8
C000717	Hematite	67.6	0.6	0.5	0.03	0.7
C000718	Hematite	67.4	1.8	1.3	0.02	0.9
C000723	Hematite	68.2	0.9	0.2	0.01	0.9
C000724	Hematite	67.1	1.2	0.5	0.02	1.0
C000725	Hematite	68.1	1.2	0.5	0.02	0.7
C000726	Hematite	65.5	2.4	1.6	0.02	1.1
C000727	Hematite	67.4	1.3	0.6	0.01	0.8
C000728	Hematite	67.4	0.8	0.5	0.01	0.9
C000729	Hematite	67.6	1.1	0.7	0.02	1.1
C000730	Hematite	64.8	5.0	0.6	0.02	0.8
C000731	Hematite	69.7	0.5	0.5	0.02	0.5
C000732	Canga	42.1	17.2	11.6	0.48	8.4
C000733	Hematite	68.9	1.0	0.7	0.02	0.5
C000742	Itabirite	53.0	13.7	0.9	0.04	7.8
C000743	Canga	49.9	6.5	7.1	1.20	11.4
C000744	Hematite	68.4	0.4	0.3	0.02	0.8
C000760	Hematite	69.4	1.0	0.6	0.03	0.6
C000761	Hematite	66.3	3.6	1.0	0.07	1.1
C000762	Hematite	69.5	0.8	0.7	0.04	0.6
C000763	Hematite	68.4	1.5	1.0	0.03	0.7
C000764	Hematite	68.9	0.9	0.7	0.04	0.7

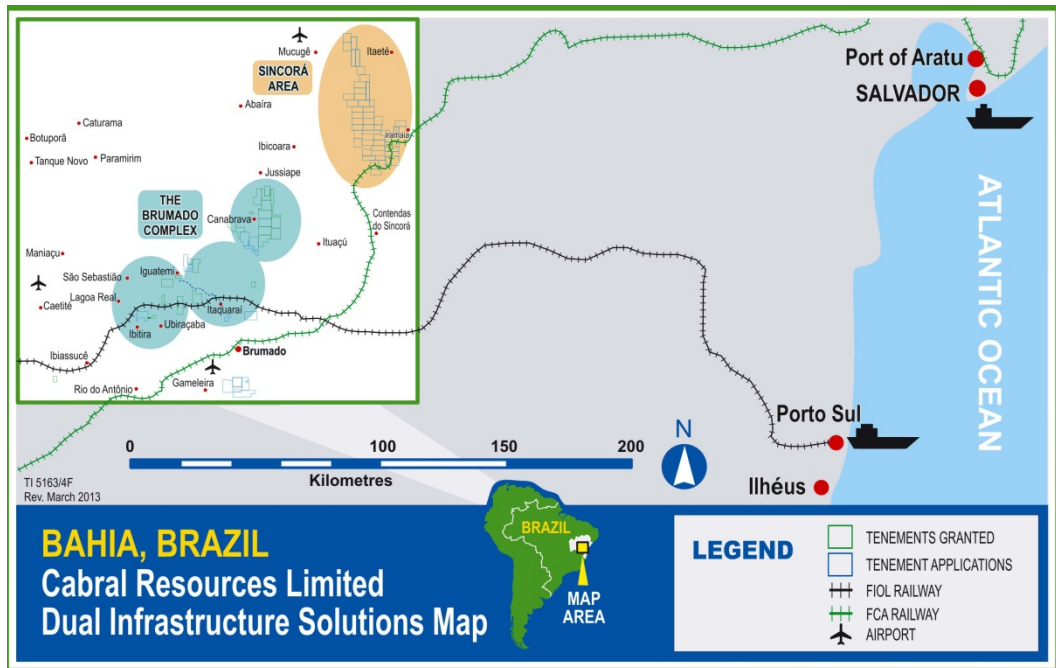
Source: Cabral Resources. Note: Assays undertaken by SGS GEOSOL Laboratorios Ltda in Minas Gerais Brazil.

Alternative infrastructure solution – FCA rail line/Port of Aratu

Notwithstanding the US\$5bn publicly funded FIOOL rail line and the Porto Sul development, which is scheduled for completion in 2015/16, Cabral's acquisition of Sincora provides an alternative interim-logistics solution to support a modest but high-grade DSO hematite iron ore operation. The Sincora Area is well situated with the existing and currently operating FCA rail line passing within the tenement boundary on to Port of Aratu, c 360km away on the coast near Salvador.

The FCA rail link underpins the potential to monetise DSO hematite iron ore delineated at Sincora ahead of the completion of the FIOOL/Porto Sul development and the 15Mtpa allocation already secured by Cabral under the Protocol of Intentions. In addition, trucking to Port of Aratu, although 430km away by road, has also been proposed as a possible interim alternative logistics solution for DSO hematite iron ore production in the near term.

Exhibit 3: Dual rail and port infrastructure solutions



Source: Cabral Resources

Valuation: Focusing on DSO hematite potential

Cabral's shares are currently trading at a level (A\$0.033) that gives the company an enterprise value of A\$1.6m, based on cash of c A\$7m as at 30 December 2012. This compares with cash per share of A\$0.027 and a net asset value (NAV) per share of A\$0.079, based on financials reported for the interim period end December 2012.

Although a JORC-compliant resource has yet to be reported, Cabral is well positioned in terms of proximity to existing and planned infrastructure. Initial surface samples now from two sites on the newly pegged Sincora Area augur well for the potential delineation of a high-grade DSO hematite resource. We have identified a group of ASX-listed mining companies engaged in iron exploration for the purpose of quantifying Cabral's upside potential based on DSO hematite alone. This assessment does not attribute any value to the company's magnetite assets contained in the Brumado Complex and referred to in our outlook report *Building blocks in Brazil*, dated 12 September 2012.

Edison's list of ASX-listed iron ore exploration peers (Exhibit 4) include companies with exploration projects located in the three geographies of Australia, Africa and Brazil.

Exhibit 4: ASX listed iron exploration company peers

Location	Resource status	Fe Focus	Company	Code	Share price A\$	Enterprise value (A\$m)	Tonnage (Mt)	Grade (Fe %)	Contained Fe (Mt)	EV (A\$/t)
Australia	JORC Resource	Magnetite	Australasian Resources	ARH	0.05	23	1,605	31%	501	0.05
Africa	Exploration target	Magnetite	Legend Mining	LEG	0.01	22	400	30%	120	0.18
Africa	JORC Resource	DSO/Magnetite	Equatorial Resources	EQX	1.07	62	767	32%	245	0.26
Australia	JORC Resource	DSO/Magnetite	Flinders Mines	FMS	0.06	92	917	55%	506	0.18
Australia	JORC Resource	Hematite	Sherwin Iron	SHD	0.08	61	100	48%	48	1.27
Australia	JORC Resource	Magnetite	Iron Road	IRD	0.26	50	2,597	16%	416	0.12
Australia	JORC Resource	DSO/Magnetite	Ironclad Mining	IFE	0.17	13	36.6	36%	13	1.01
Brazil	Exploration target	Magnetite	Brazilian Metals Group	BMG	0.01	7	3,000	19%	555	0.01
Average EV/t										0.14

Source: ASX announcements, Edison Investment Research

Based on the peer group identified we derive an average enterprise value (A\$) to tonne of Fe contained of 0.14x. Applying the average multiple to three hypothetical DSO hematite resource scenarios generates an implied share price range of between A\$0.05 and A\$0.08.

Exhibit 5: Valuing Cabral using three resource scenarios with an EV/t of A\$0.14/t

Tonnage (t)	75,000,000	100,000,000	150,000,000
Grade	69%	69%	69%
Contained Fe (t)	51,750,000	69,000,000	103,500,000
EV/t Fe valuation (A\$/t)	0.14	0.14	0.14
Implied Enterprise Value	7,116,033	9,488,044	14,232,066
Cash as at 30 Dec 2012 (A\$)	7011690	7,011,690	7011690
Market Cap (A\$)	14,127,723	16,499,734	21,243,756
Shares in issue	259,316,667	259,316,667	259,316,667
Implied share price (A\$)	0.054	0.064	0.082
Discount to implied share price	-39%	-48%	-60%

Source: Edison Investment Research

Using a subgroup of peers (Equatorial Resources and Flinders Mines) focused on DSO hematite generates an average EV/t multiple approaching A\$0.21/t, which when applied to our three resource scenarios generates an implied share price for Cabral of between A\$0.07 and A\$0.11.

Exhibit 6: Valuing Cabral using three resource scenarios with an EV/t of A\$0.21/t

Tonnage (t)	75,000,000	100,000,000	150,000,000
Grade	69%	69%	69%
Contained Fe (t)	51,750,000	69,000,000	103,500,000
EV/t Fe valuation (A\$/t)	0.21	0.21	0.21
Implied Enterprise Value	10,645,409	14,193,879	21,290,818
Cash as at 30 Dec 2012 (A\$)	7011690	7,011,690	7011690
Market Cap (A\$)	17,657,099	21,205,569	28,302,508
Shares in issue	259,316,667	259,316,667	259,316,667
Implied share price (A\$)	0.068	0.082	0.109
Discount to implied share price	-52%	-60%	-70%

Source: Edison Investment Research

Notably the impact of a modest DSO hematite resource alone, given current market sentiment and without attributing any value to magnetite contained in the Brumado Complex, provides Cabral with substantial blue-sky upside at current levels. Nonetheless, exploration risk associated with the assessment of Sincora Area in the absence of a defined resource remains material.

Exhibit 7: Financial summary

	A\$'000s	2010	2011	2012	2013e
30-June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		332	0	1	0
Cost of Sales		0	0	0	0
Gross Profit		332	0	1	0
EBITDA		(394)	(2,043)	(2,522)	(3,081)
Operating Profit (before amort. and except.)		(401)	(2,060)	(2,625)	(3,199)
Intangible Amortisation		0	0	0	0
Exceptionals		(85)	0	0	0
Share based payment		(196)	311	918	0
Operating Profit		(682)	(1,749)	(1,707)	(3,199)
Net Interest		(19)	272	716	521
Profit Before Tax (norm)		(419)	(1,788)	(1,909)	(2,678)
Profit Before Tax (FRS 3)		(701)	(1,477)	(991)	(2,678)
Tax		0	0	0	0
Profit After Tax (norm)		(418)	(1,788)	(1,909)	(2,678)
Profit After Tax (FRS 3)		(701)	(1,477)	(991)	(2,678)
Average Number of Shares Outstanding (m)		90.7	199.5	259.3	259.3
EPS - normalised (c)		(0.5)	(0.9)	(0.7)	(1.0)
EPS - normalised fully diluted (c)		(0.4)	(0.8)	(0.7)	(1.0)
EPS - (IFRS) (c)		(0.8)	(0.7)	(0.4)	(1.0)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		1,587	5,186	11,408	14,440
Intangible Assets		65	3,353	9,657	12,657
Tangible Assets		29	305	660	692
Investments		1,493	1,529	1,091	1,091
Current Assets		351	19,889	10,798	5,088
Stocks		0	0	0	0
Debtors		6	149	26	26
Cash		344	19,737	10,771	5,062
Other		0	4	0	0
Current Liabilities		(148)	(497)	(290)	(290)
Creditors		(64)	(373)	(127)	(127)
Short term borrowings		0	0	0	0
Other		(84)	(123)	(163)	(163)
Long Term Liabilities		(7)	(8)	(78)	(78)
Long term borrowings		0	0	0	0
Other long term liabilities		(7)	(8)	(78)	(78)
Net Assets		1,784	24,571	21,838	19,160
CASH FLOW					
Operating Cash Flow		(686)	(1,934)	(2,206)	(3,084)
Net Interest		(19)	129	835	521
Tax		(360)	(27)	4	4
Capex		(3)	(100)	(150)	(150)
Exploration expenditure		0	(2,362)	(6,623)	(3,000)
Acquisitions/disposals		1,410	(39)	0	0
Financing		(100)	23,727	0	0
Dividends		0	0	0	0
Net Cash Flow		242	19,392	(8,141)	(5,710)
Opening net debt/(cash)		(103)	(344)	(19,737)	(10,771)
HP finance leases initiated		0	0	0	0
Other		0	0	(824)	0
Closing net debt/(cash)		(344)	(19,737)	(10,771)	(5,062)

Source: Edison Investment Research, Cabral accounts

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