

Focus moves to DSO hematite ore

On 22 November, Cabral Resources released the remaining drill hole assay results from its maiden drilling programme at Morro do Gergelim. Although the drill results were consistent with the company's original geological theories, in terms of the presence of banded iron formation horizons, they indicated lower iron ore volumes than expected. As a result, Cabral now believes it is unlikely to meet the original target tonnage range of 200-450Mt. Furthermore, it is unlikely that Morro do Gergelim alone hosts enough iron ore volume to become an economic iron ore project based on criteria set out in the pre-scoping study commissioned by ProMet Engineers in 2011. Notwithstanding further assessment of magnetite ore potential at Morro do Gergelim and now Ibitira, management announced a re-prioritising of exploration focus towards DSO hematite ore within its existing portfolio or in combination with the possible acquisition of third-party tenements. The company ended the September quarter with A\$8.4m in cash and zero debt.

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

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

Morro do Gergelim: Drill assay results complete

The completed drill assay results from Morro do Gergelim suggest the presence of two to four folded BIF horizons interbedded with amphibolite and metasediments, albeit in more complex geology than the company originally expected. Metallurgical test-work currently underway aims to determine the liberation characteristics of the mineralisation and determine whether the iron present can be processed into a suitable-end iron ore product. Establishing a JORC-compliant resource at Morro do Gergelim, remains a key focus of the company. However, according to Cabral, results to date have yet to confirm Morro as an economic standalone iron ore project.

DSO hematite ore: New priority target

Cabral has flagged a shift in exploration focus towards DSO hematite ore potential present within its tenement portfolio, or in combination with acquired tenements from third parties, ahead of magnetite ore given the relatively lower associated processing capital costs and prospect for nearer-term operating cash flows.

Valuation: NAV of A\$0.06 per share

With increased uncertainty surrounding the potential for delineation of a JORC resource it has meant the use of an EV/t resource multiple valuation approach to Cabral is not appropriate. Our revised valuation is based on an estimate of net asset value per share and incorporates exploration assets as at end June adjusted for Q113 payments for exploration, assumed capitalised, and discounted by 40% for estimated impairment. Together with cash on hand of A\$8.4m as at end September, we derive a NAV per share of A\$0.06.

Mining

17 January 2013

Price **A\$0.02**

Market cap **A\$5m**

Shares in issue 259.3m

Free float 78%

Code CBS

Net cash at end-Sept (A\$m) 8.4m

Primary exchange ASX

Other exchanges N/A

Share price performance



%	1m	3m	12m
Abs	11.8	(20.8)	(72.1)
Rel (local)	7.8	(25.0)	(75.3)
52-week high/low	A\$0.1	A\$0.02	

Business description

Cabral Resources (CBS) is an ASX-listed iron ore explorer focused on the Brumado region of Bahia State, Brazil. It also holds several uranium tenements in Western Australia.

Next events

Q2 activity report January 2013

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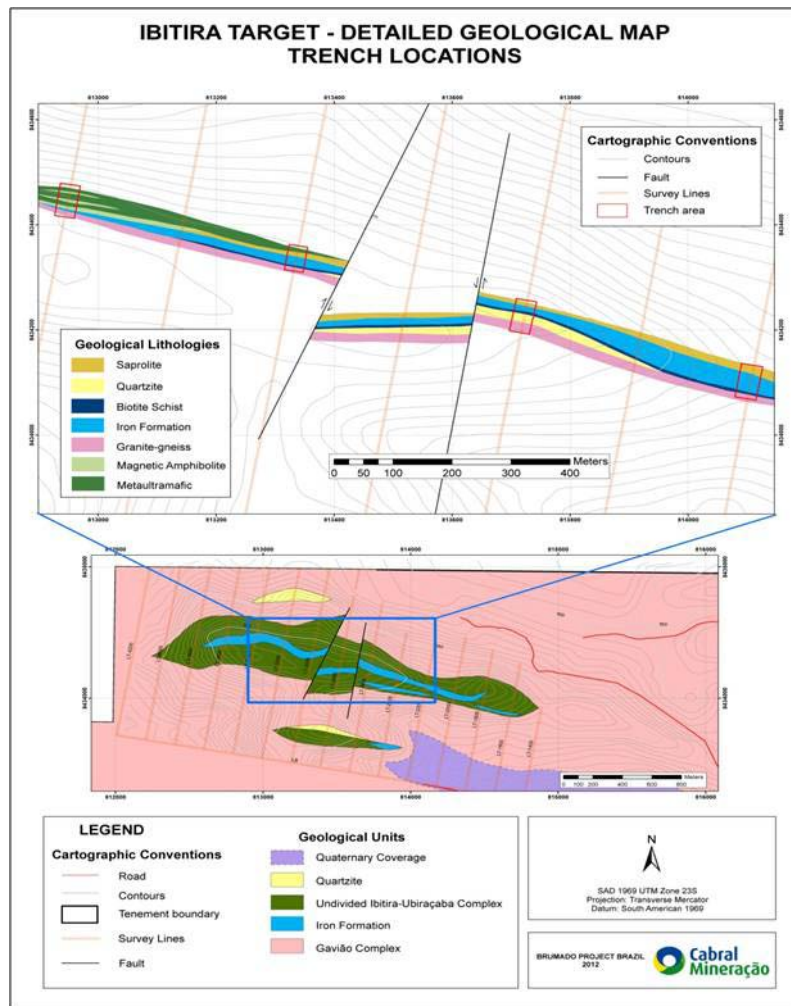
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Ibitira: Trench sampling

Cabral started preliminary assessment of the iron ore prospectivity of the Ibitira tenement area in Q113. Four trenches were completed using a backhoe-equipped front-end loader to excavate up to 4m with other trenches planned to follow in late-December 2012. Channel samples have been submitted for assay with SGS Brasil in Belo Horizonte, with results pending. The Ibitira target is within the Lagoa Real hub and is close to both Morro do Gergelim and the FIOL rail line.

Exhibit 1: Ibitira target area



Source: Cabral Resources

Brumado exploration team expands

CBS added to the exploration team based in Brumado with the appointment of senior geologist Daniel Mazorca. Mr Mazorca's recent experience includes working for Kazakh-based mining group Eurasian Natural Resources Corporation (ENRC) in the iron ore area of Salinas-Rio Pardo-Serra do Espinhaco region of Minas Gerais and Caetite in Bahia. ENRC is Cabral's closest neighbour and to date the most active consolidator of undeveloped projects in the region.

Porto Sul: Construction to commence Q113

A preliminary licence (environmental) was granted for Porto Sul on 16 November with construction to commence in Q113. The new open-access port is dedicated to shipping bulk commodities such as iron ore, with commissioning expected by 2015/16 to coincide with the FIOL rail line.

Valuation: Net asset value of A\$0.06 per share

In our September [initiation report](#), we valued Cabral at 9cps using an EV/t resource multiple of 0.15x and midpoint of then exploration target tonnage range of 487.5Mt at 32% Fe, for Fe contained of 156Mt. However, increased uncertainty surrounding the exploration target tonnage range of magnetite iron ore at Morro do Gergelim and the delineation of a JORC resource has meant the use of an EV/t resource multiple valuation approach to Cabral is not appropriate.

Cabral had A\$8.4m in cash and zero debt as at 30 September, or 3.2cps versus the current share price of 1.8c. This does not include an additional c A\$1m in cash and liquid securities contained within the China Railway JV. Given the company's reduced cash burn rate, now c A\$1m per quarter, and the potential to unlock A\$1m from the China Railway JV, we consider cash on hand of A\$8.4m adequate to fund current operations for two years.

Cabral's substantial landholding, access to infrastructure and strong government relationships represent strategic assets that provide real options for the company in Brazil. Our revised valuation of Cabral however, in the absence of a quantifiable exploration target, is based solely on an estimate of its net asset value per share. This method incorporates FY12 exploration assets of A\$8.7m adjusted for Q113 payments for exploration of A\$1.9m (assumed capitalised), discounted by a factor of 40% to reflect our estimate of potential impairment charges following the recent drill assay results from Morro do Gergelim. Combining cash of A\$8.4m and shares on issue of 259.3m, we derive a net asset value per share of A\$0.06.

Exhibit 2: Financial summary

	A\$'000s	2009	2010	2011	2012	2013e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	332	0	1	0
Cost of Sales		0	0	0	0	0
Gross Profit		0	332	0	1	0
EBITDA		(2,430)	(394)	(2,043)	(2,522)	(3,081)
Operating Profit (before amort. and except.)		(2,439)	(401)	(2,060)	(2,625)	(3,199)
Intangible Amortisation		0	0	0	0	0
Exceptionals		(8,648)	(85)	0	0	0
Share based payment		(361)	(196)	311	918	0
Operating Profit		(11,448)	(682)	(1,749)	(1,707)	(3,199)
Net Interest		(4)	(19)	272	716	521
Profit Before Tax (norm)		(2,443)	(419)	(1,788)	(1,909)	(2,678)
Profit Before Tax (FRS 3)		(11,452)	(701)	(1,477)	(991)	(2,678)
Tax		1,820	0	0	0	0
Profit After Tax (norm)		(623)	(418)	(1,788)	(1,909)	(2,678)
Profit After Tax (FRS 3)		(9,631)	(701)	(1,477)	(991)	(2,678)
Average Number of Shares Outstanding (m)		88.5	90.7	199.5	259.3	259.3
EPS - normalised (c)		(0.7)	(0.5)	(0.9)	(0.7)	(1.0)
EPS - normalised and fully diluted (c)		(0.6)	(0.4)	(0.8)	(0.7)	(1.0)
EPS - (IFRS) (c)		(10.9)	(0.8)	(0.7)	(0.4)	(1.0)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		1,489	1,587	5,186	11,408	14,440
Intangible Assets		62	65	3,353	9,657	12,657
Tangible Assets		35	29	305	660	692
Investments		1,392	1,493	1,529	1,091	1,091
Current Assets		1,604	351	19,889	10,798	5,088
Stocks		0	0	0	0	0
Debtors		6	6	149	26	26
Cash		103	344	19,737	10,771	5,062
Other		1,495	0	4	0	0
Current Liabilities		(800)	(148)	(497)	(290)	(290)
Creditors		(81)	(64)	(373)	(127)	(127)
Short term borrowings		0	0	0	0	0
Other		(718)	(84)	(123)	(163)	(163)
Long Term Liabilities		(6)	(7)	(8)	(78)	(78)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(6)	(7)	(8)	(78)	(78)
Net Assets		2,287	1,784	24,571	21,838	19,160
CASH FLOW						
Operating Cash Flow		(1,173)	(686)	(1,934)	(2,206)	(3,084)
Net Interest		(4)	(19)	129	835	521
Tax		(70)	(360)	(27)	4	4
Capex		(54)	(3)	(100)	(150)	(150)
Exploration expenditure		0	0	(2,362)	(6,623)	(3,000)
Acquisitions/disposals		267	1,410	(39)	0	0
Financing		403	(100)	23,727	0	0
Dividends		0	0	0	0	0
Net Cash Flow		(631)	242	19,392	(8,141)	(5,710)
Opening net debt/(cash)		(734)	(103)	(344)	(19,737)	(10,771)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	(824)	0
Closing net debt/(cash)		(103)	(344)	(19,737)	(10,771)	(5,062)

Source: Cabral accounts, Edison Investment Research

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