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SPEC BUY

Current Price	$0.27
Target Price	$0.48

Ticker:	CXX
Sector:	Materials
Shares on Issue inc. restricted shares (m):	134.9
Market Cap ($m):	34.4
Cash Net Est.	3.5
Enterprise Value ($m):	30.9
52 wk High/Low:	$0.28 / $0.16
12m Av Daily Vol (m):	0.08

Project Name	Commodity	Location
Panda Hill	Niobium	Tanzania

Key PFS Metrics Production (Mt)	Capex	Cash costs
1.3 to 2.6	US$196m	US$21.34/kg

Est. Realised Price (per kg) US$38-44/kg

Panda Hill Resources (50% CXX)

	Mt	Nb_2O_5 Grade	Cont. Nb_2O_5 (kt)
Total	178.0	0.50%	891.0

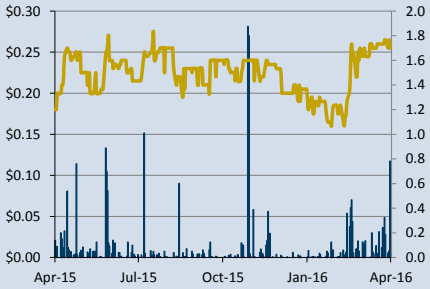
Directors

Craig Burton	Executive Chairman
Evan Cranston	Non-Executive Director
Didier Murcia	Non-Executive Director
James Kelly -	Non-Executive Director

Substantial Shareholders

Tremont Investments	17.10%
Craig Burton	15.4%
Edwards Family Holding	10.9%
Arredo Pty Ltd	8.0%
Brett Mitchell	5.6%

Share Price Graph



Wednesday, 20 April 2016

Cradle Resources

Positive Definitive Feasibility Study

Analysts | Matthew Keane | Patrick Chang

Quick Read

Cradle Resources (CXX) released a Definitive Feasibility Study (DFS) for the Panda Hill Niobium Project in Tanzania (JV: CXX 50%, Tremont Investments 50%) highlighting a 30 year project, generating average EBITDA of US$112mpa, a NPV_{10} of US$404m and 27% post tax IRR. The JV is progressing offtake and finance agreements with development forecast to commence in late-2016 then commissioning in mid-2018. Niobium, which is primarily used as a hardening and lightening alloy in steel, is a growth commodity with 6% CAGR consumption over the last 10 years. Argonaut believes CXX has high corporate appeal given the limited number of niobium mines and no other development project as advanced as Panda Hill. Argonaut maintains SPEC BUY recommendation with $0.48 price target.

Event & Impact | Positive

Panda Hill DFS: CXX released the Panda Hill DFS with a staged production profile treating 1.3Mtpa ramping up to 2.6Mtpa in year five. Life of mine (LOM) production will be 8.2ktpa ferroniobium (FeNb) containing 5.4ktpa niobium. Total pre-production capital is estimated at US$196m. Cash costs of US$21/kg Nb offer high margins against forecast prices of US$38/kg to US$45/kg. The project generates a NPV_{10} of US$404m (Argonaut estimate US$401m) and a 27% post-tax IRR. Project partner Tremont (a subsidiary of Denham Capital) is currently negotiating debt financing. Off-take negotiations are well advanced and entering the documentation phase. First production is slated for mid-2018.

Niobium in steel intensity set to increase: Demand for niobium is set to increase, largely driven by demand for higher quality steels and lighter steel alloys for energy efficient vehicles. Adding ~$6-9 worth of niobium to a mid-sized car reduces the weight by ~100kg and improves fuel efficiency by ~5%. The intensity of FeNb in steel for developed countries averages >50g/t, whereas China and India average ~20g/t. Intensity in China is rapidly increasing as shown in Figure 7 (page 6). Demand growth for niobium has averaged 6% pa for the last 10 years, versus average steel production growth of 4.7%.

Corporate appeal: Three mines dominate global niobium supply (see Figure 9, page 8), with Panda Hill to be the fourth (~6% of global supply). In late-2014, the Niobec mine in Canada was divested for US$500m equating to ~6.7 x EBITDA. The see through EV/EBITDA value for Panda Hill is ~US$750m (applying US$112m LOM EBITDA). Anglo America is also running a divestment process on its Catalao niobium/phosphate mine in Brazil. Argonaut understands the process is very competitive and a number of parties are in late-stage negotiations. Panda Hill's investment appeal is driven by the lack of acquirable niobium projects, high margins and near term development potential.

Recommendation

Argonaut maintains a SPEC BUY with a $0.48 target price.

Project description

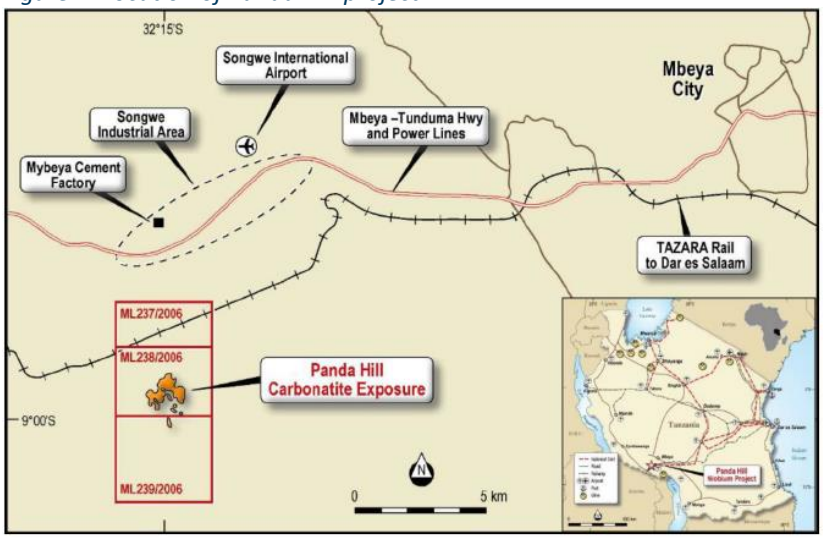
Panda Hill is located in southwest Tanzania…

The Panda Hill niobium project is located near the city of Mbeya, a regional centre in southwest Tanzania. The project benefits from excellent infrastructure including rail, a major airport, a major fuel depot and access to power and water (power initially generated by heavy fuel oil and then connected to the grid in year four). Tanzania is a favourable mining destination with an established mining industry, geopolitical security, English speaking population, established infrastructure and significant mining support services. The project plans to produce FeNb (~66% Nb) and transport product out through the established port of Dar es Salaam which is accessible via the sealed Tunduma Highway.

…a favourable African mining destination…

Figure 1: Location of Panda Hill project

…with excellent infrastructure



Source: CXX

The Panda Hill Carbonatite Resource stands at 178Mt @ 0.50% Nb_2O_5 comparing fresh, moderately oxidised and oxidised carbonatite with respective flotation recoveries of 66%, 58% and 53%. 39% of the Resource is in the Measure and Indicated categories.

The project has a Resource of 172Mt @ 0.5% Nb_2O_5

Table 1: Panda Hill Primary Carbonatite Resources

Primary Carbonatite			
Classification	**Mt**	**Nb_2O_5 %**	**Nb_2O_5 (kt)**
Measured	14	0.62	84
Indicated	50	0.49	247
Inferred	103	0.48	496
Total	**167**	**0.50**	**827**
Weathered Carbonatite			
Classification	**Mt**	**Nb_2O_5 %**	**Nb_2O_5 (kt)**
Measured	2	0.67	15
Indicated	3	0.53	15
Inferred	6	0.52	32
Total	**11**	**0.55**	**63**
Combined			
Classification	**Mt**	**Nb_2O_5 %**	**Nb_2O_5 (kt)**
Measured	16	0.63	99
Indicated	53	0.50	263
Inferred	109	0.48	528
Total	**178**	**0.50**	**891**

Source: CXX

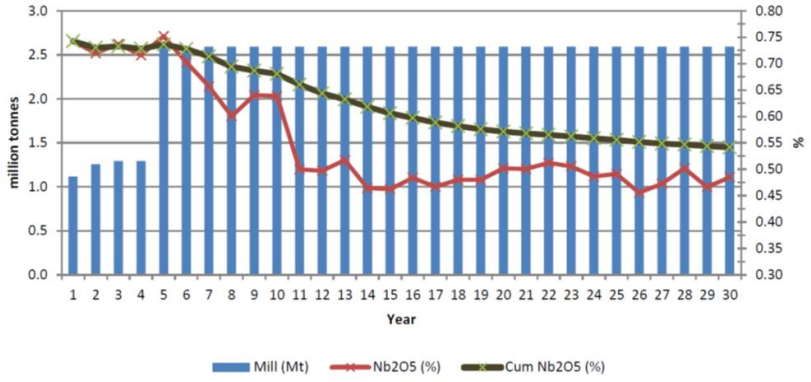
Positive DFS

The DFS is based on scaled production of 1.3Mt to 1.6Mt throughput…

CXX released the Panda Hill DFS with a staged production profile treating 1.3Mtpa ramping up to 2.6Mtpa in year five. Life of mine (LOM) production will be 8.2ktpa FeNb containing 5.4ktpa niobium. The first 10 years of production benefit from mining predominantly the shallow, high grade Angle Zone (averaging 0.68% Nb versus LOM average of 0.54% and a Resource average of 0.50%). 49% of the 72Mt mining inventory is in the Measured and Indicated categories.

…producing up to 5.4ktpa niobium

Figure 2: Panda Hill LOM mill throughput and Nb_2O_5 head grade



Source: CXX

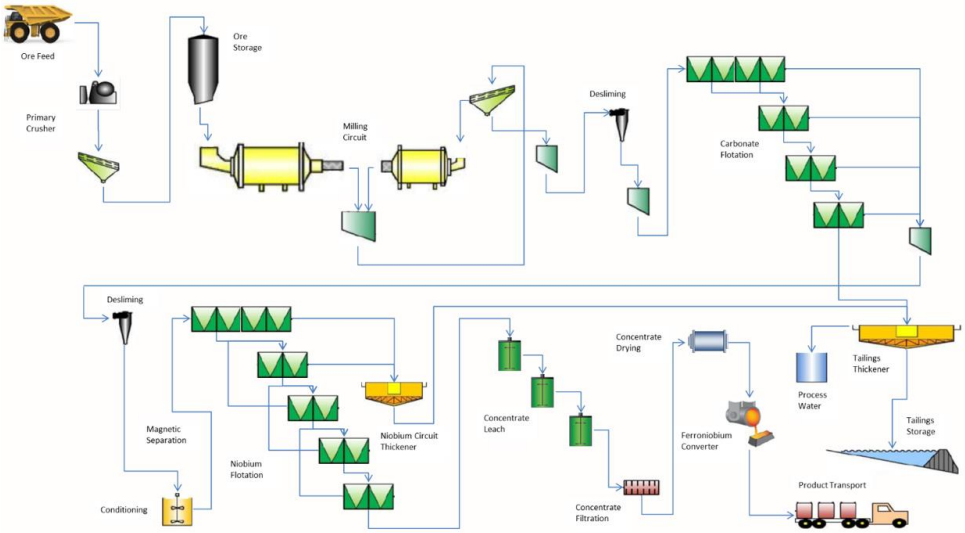
The study assumes contract mining, flotation and conversion…

Key assumptions for the project include:

- Contract mining
- Single stage crushing and two stage milling
- Desliming and magnetic separation
- Two stage flotation, leaching and concentration in a FeNb converter
- The existing Songwe low security prison at the base of the deposit will be relocated
- Product transported via a newly constructed ~8km access road and then on the Tunduma Highway to the port of Da es Salaam
- Initially heavy fuel oil (HFO) power then connection to the grid in year four

…to produce a ferroniobium product

Figure 3: Panda Hill process flow sheet



Source: CXX

Panda Hill uses a similar processing route to existing niobium operations

Importantly, the processing route incorporates the appropriate stages from existing major niobium operations including Niobec for the flotation, Catalao for the concentrate leach, and CBMM for the final step in the conversion process.

Key consultants employed for the DFS include;

- Coffey Mining – Mineral Resource
- SRK Consulting – Geotechnical, mine planning and mine scheduling
- SGS – Metallurgical test work
- SLR Consulting – Tailing and water studies
- MTL Consulting – Environmental and social studies

Strong financials

Pre-production capital is US$196m…

Total pre-production capital is estimated at US$196m (excluding working capital), in line with the March 2015 Prefeasibility Study (PFS). An additional US$93m capex will be required in year four to increase throughput to 2.6Mtpa. This expansion will be largely funded by project cashflow. Production cash costs of US$21/kg Nb offer high margins against forecast prices of US$38/kg escalating to US$44/kg.

Table 2: Capex and opex breakdown for Panda Hill

…with EBITDA margins >46%...

Initial Capital Cost	
Area	**Cost US$m**
Mining	3.1
Plant	75.4
Infrastructure	7.8
TSF & Water	42.5
In-directs	4.2
Management Costs	14.3
Project Contingency	17.8
Total Development Capital	**165.2**
Pre-production Capital	
First Fills	2.7
Spares	1.9
Owners	4.7
Preproduction	15.0
Prison Relocation	6.2
Total Pre-production Capital	**30.5**
Year Four Expansion Capital	
Plant	59.9
Infrastructure (Power)	15.3
Management Costs	8.8
Project Contingency	8.9
Total Expansion Capital	**92.9**

Operating Costs				
	Years 1 – 4 (1.3Mtpa)		LOM	
Cost Centre	**US$/t Ore**	**US$/kg Nb**	**US$/t Ore**	**US$/kg Nb**
Mining	17.18	6.27	11.29	5.01
Processing & Maintenance	35.76	13.05	26.15	11.62
General & Administration	7.23	2.64	3.76	1.67
C1 Costs	**60.16**	**21.96**	**41.20**	**18.30**
Product Transport	1.05	0.38	0.86	0.38
Marketing & Insurance	3.28	1.2	2.87	1.27
Royalty	3.58	1.31	3.11	1.38
Total Cash Cost	**68.08**	**24.85**	**48.04**	**21.34**

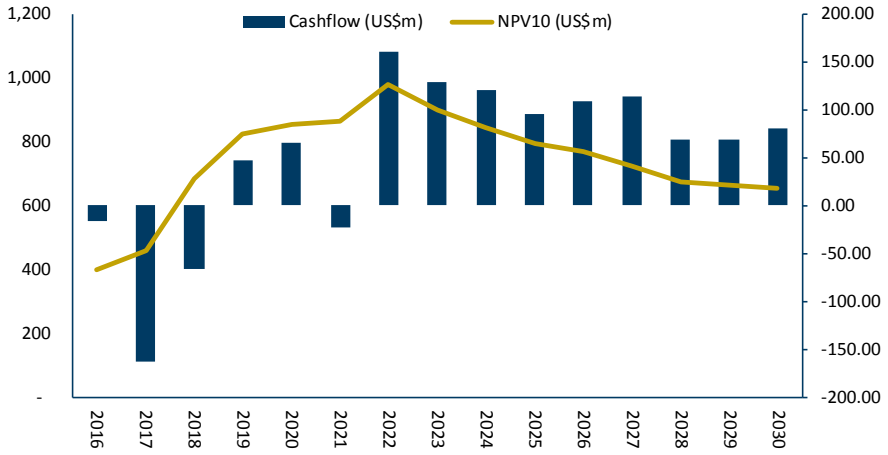
Source: CXX, Argonaut

…generating a NPV$_{10}$ of US$404m and 27% post-tax IRR

The Panda Hill DFS generates a NPV$_{10}$ of US$404m (Argonaut estimate US$401m) and a 27% post-tax IRR. On a rising NPV model, the project rapidly accretes value post development, peaking in 2022 at US$980m (Argonaut est.).

Rising NPV peaks in year 5 at US$980m

Figure 4: Graph of project cashflows and rising NPV (100% project basis)



Source: Argonaut

Project timeline

Development is due to commence late-2016…

Development is forecast to commence in late-2016 followed by 20-21 months construction before commissioning in mid-2018.

Figure 5: Project Timeline

…with commissioning in mid-2018

Execution Schedule - Panda Hill Niobium Project									
Activities	Target End Date	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Project Schedule	June 2018								
Mining	March 2018								
Mobilisation / Training	May 2017								
Haul Road	March 2018								
WRD/ISP/ROM pad	March 2018								
Tailings Storage Facility	June 2018								
Design & Engineering	June 2017								
TSF Construction	June 2018								
Storm Water Management	April 2018								
Processing Plant	May 2018								
Detailed Engineering	August 2017								
Procurement	September 2017								
Detailing/Fabrication	November 2017								
Delivery Phase	January 2018								
Construction Phase	May 2018								
Initial Site Establishment	January 2017								
Bulk Earthworks	July 2017								
Plant Buildings	April 2018								
External Infrastructure	September 2017								
Prison	August 2017								
Housing	September 2017								
Other Infrastructure	July 2017								
Access Roads	August 2017								
Commissioning	June 2018								
C3 Mill/Float	June 2018								
C3 Converter	June 2018								

Source: CXX

DFS vs PFS

Key changes from the PFS to DFS are higher production and lower price assumptions

The DFS delivered a slightly lower NPV than the PFS, primarily driven by lower forecast niobium prices and higher total development capex. The PFS applied flat prices ~US$44/kg whereas the DFS applied US$38/kg escalating to US$44/kg. Specialty metal consultant Roskill was used as a basis for price forecasts. The PFS was also based on a steady 2Mtpa plant and assumed 1% higher LOM recoveries.

The DFS generates higher annual EBITDA than the PFS…

…averaging US$112mpa

Table 3: Comparison of Panda Hill BPFS to DFS

Metric	Pre-Feasibility Study	Definitive Feasibility Study
Study Release Date	31-Mar-15	20-Apr-16
Mining Inventory (Mt)	60	72
Throughhput Rate (Mtpa)	2	1.3 to 2.6
Production FeNb (ktpa)	6.8	8.2
Life of Mine (Yrs)	30	30
Strip Ratio LOM	2.3:1	1.5:1
Head Grade Years 1-10 (% Nb_2O_5)	0.68	0.68
Head grade LOM (% Nb_2O_5)	0.54	0.54
Recovery LOM (%)	62	61
Pre-Production Capex (US$m)	195	196
Nb Price (US$/kg)	44.00	38-44
Total cash costs (US$/kg Nb)	21.78	21.34
Post NPV_{10} (US$m)	424	404
Post tax IRR (%)	38%	27%
EBITDA LOM (US$mpa)	90	112
Project Payback (Yrs)	2.5	4.8

Source: Argonaut, CXX, assumes 30% Tanzanian corporate tax rate

Financing and Offtake

JV partner Tremont is leading debt negotiations…

The DFS assumes a composite price based on 60% US and 40% European forecasts. FeNb is generally sold under quarterly or yearly contracts between producers and consumers. Brazilian based Companhia Brasileira de Metalurgia e Mineração (CBMM), who currently produce 84% of global supply, is a price maker for the commodity. Historically, prices have been stable around US$40/kg.

…with both debt and off-take negotiations due to be completed in Q3 CY16

Project partner Tremont is taking the lead on debt negotiations. Argonaut has assumed 50:50 debt to equity financing implying ~US$50m (A$67m) attributable debt to CXX. Both financing and offtake agreements are expected to be finalised in Q3 2016.

Growing Niobium Demand

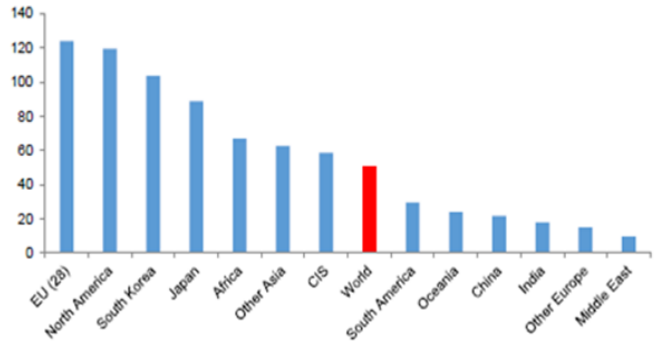
Niobium hardens and lightens steel alloys…

Global consumption of niobium is set to increase, largely driven by demand for higher quality steels and lighter steel alloys for energy efficient vehicles. Adding ~$6-9 of niobium to a mid-sized car reduces the weight by ~100kg and improves fuel efficiency by ~5%. The intensity of FeNb in steel for developed countries averages >50g/t, whereas China and India average ~20g/t. Figure 7 below highlights the FeNb intensity growth of China. Global demand growth for niobium has averaged 6.2%pa for the last 10 years versus average steel production growth of 4.7%. 2014 FeNb consumption was 83kt, up 7.4% year-on-year. Importantly, CXX's production is less than the CAGR which will limit the mine's impact on global supply/demand balance. No new niobium mines have been developed in the past 40 years and Panda Hill is the only development project with near-term development potential. Niobium concentrations are generally found in rare carbonate rich intrusions known as carbonatites. Near surface economic concentrations of the metal are rare.

…with consumption growing ~6.2%pa over the past 10 years

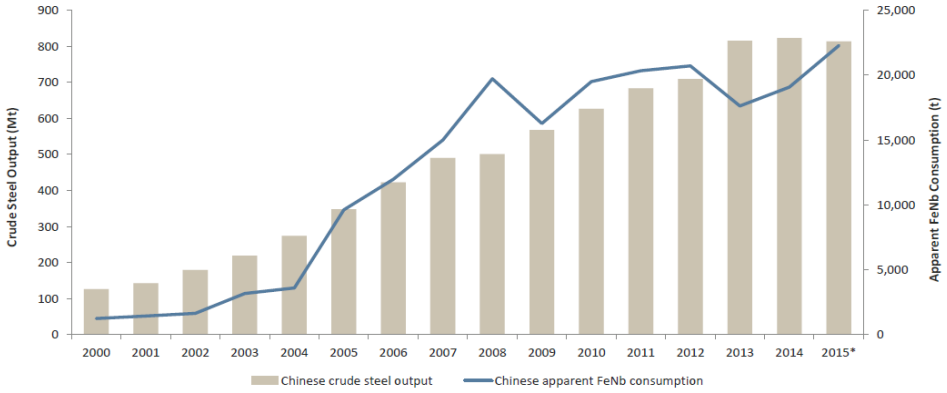
Niobium intensity is highest in developed steel producing nations…

Figure 6: FeNb in steel intensity (g/t) by region showing low Chinese and Indian intensity



…and growing in developing nations such and China and India

Figure 7: Chinese niobium usage growing in comparison to crude steel output



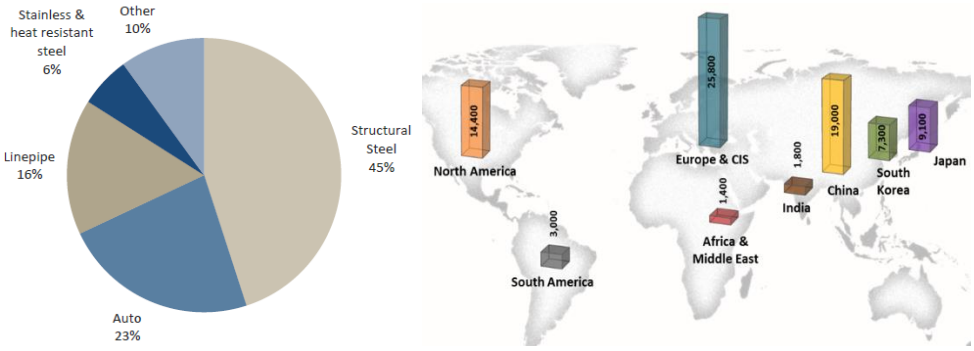
Source: RCG, CXX

90% of niobium is used in high strength steel alloys…

About 90% of niobium is used in the steel industry, primarily in high-strength low-alloy steel (HSLA). As an alloy, it lightens steel, improves strength and reduces corrosion. HSLA steels are used in pipelines, automobiles, bridges, high rise buildings and welded pipes.

…with growing demand use in automotive, construction and piping

Figure 8: Usage of Niobium by end product and regional consumption



Source: CXX

Corporate appeal

Globally three mines dominate niobium supply…

Globally, three mines currently dominate niobium supply, namely Araxa, Catalao and Niobec. Minor production is associated with niobium as a by-product often from rare earth element mines. Panda Hill is destined to be the fourth producing ~6% of global supply. We believe Panda Hill has high investment appeal driven by sizable production, long life, low costs and a lack of acquirable niobium projects with near term development potential.

…with Panda Hill due to be the fourth…

Figure 9: Major niobium mines and operating companies

…but will add less than the expected CAGR of consumption…

…resulting in low impact on global supply/demand

Source: CXX

See through value from Niobec transaction

The 2014 acquisition of Canadian Niobec provides a comparative transactional value…

Niobec is an underground Nb_2O_5 mine in Canada and the most analogous to Panda Hill based on the similar flow sheet, however Panda Hill's grade is considerably higher (0.50% Nb2O5 vs Niobec ~0.42% Nb_2O_5). This operation has delivered consistent EBITDA of US$68-88m since 2008. In October 2014, IAMGOLD divested Niobec for US$500m (total Resource 2.9Mt of contained Nb_2O_5) implying metrics of ~6.7x EBITDA or US$173/t Nb_2O_5. The see through value for Panda Hill is US$750m on an EV/EBITDA basis or US$143m on an EV/Resources basis (note that Niobec is underground with an expected lower Reserve to Resource conversion than the open-pit Panda Hill).

…acquired for 6.7x EBITDA

Catalao attracting strong interest

The Brazilian Catalao mine is currently for sale…

…attracting high levels of interest from tier one miners

Anglo America is currently running a divestment process on its Catalao niobium/phosphate mine in Brazil (~70% NPV attributed to niobium) to reduce corporate debt. Argonaut understands, the bidding process is highly competitive and could raise up to US$1b. Potential bidders are believed to include a consortium of Vale SA and Apollo Global Management, Chinese SOEs, and Magris Resources (the acquirer of Niobec). We believe unsuccessful bidders may turn their interest to the next viable niobium project, being Panda Hill.

Valuation

Argonaut derives a NPV_{10} of US$401m for Panda Hill…

Argonaut derives a NPV_{10} of US$401m (A$547m) for Panda Hill applying capital and operational costs in line with the Company's DFS. We apply niobium prices escalating from US$38/kg to US$44kg over ta 30 year mine life. Key outputs are tables below.

Table 4: Argonaut model outputs for CXX to 2023

Item	Unit								
Year		2016	2017	2018	2019	2020	2021	2022	2023
Nb price	US$/kg	39	39	39	39	40	40	41	41
Production									
Throughput	Mt	-	-	0.9	1.3	1.3	1.3	2.6	2.6
Strip Ratio	#	-	-	0.4	3.2	2.5	1.7	1.4	2.5
Grade	% Nb2O5	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Flotation Recovery	%	-	-	0.6	0.6	0.6	0.6	0.6	0.6
Converter Recovery	%	-	-	1.0	1.0	1.0	1.0	1.0	1.0
Production	M kg Nb	-	-	0.8	3.7	3.9	3.8	8.1	7.6
Financials									
Revenue	US$m	-	-	23.2	144.3	154.3	153.8	329.0	309.5
Total Capital Costs	US$m	16.4	164.0	16.0	9.6	2.3	93.0	7.1	1.5
Operating Costs	US$m	-	-	60.5	86.6	86.7	84.0	125.6	132.8
Corporate Overheads	US$m	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Exploration	US$m	-	-	-	-	0.5	0.5	0.5	0.5
EBITDA	US$m	(3.5)	(3.5)	(40.9)	54.2	63.6	65.8	199.4	172.7
D&A	US$m	-	-	39.1	42.3	44.2	44.6	63.2	25.6
EBIT	US$m	(3.5)	(3.5)	(79.9)	12.0	19.4	21.2	136.2	147.2
Interest	US$m	-	-	14.0	11.2	8.4	5.6	2.8	-
Tax	US$m	-	-	-	-	-	-	34.6	45.4
NPAT	**US$m**	**(3.5)**	**(3.5)**	**(93.9)**	**0.8**	**11.0**	**15.6**	**98.8**	**101.8**
Operational Cash Flow	US$m	(3.5)	(3.5)	(54.9)	43.0	55.2	60.2	162.0	127.4
Free Cash Flow	**US$m**	**(19.9)**	**(167.5)**	**(70.8)**	**33.4**	**52.9**	**(32.8)**	**154.9**	**125.9**

Source: Argonaut

…applying capex, opex and price metrics similar to the DFS

Our model 12% discount rate…

Argonaut conservatively applies a 12% discount rate to our valuation to account for offtake, finance, project development and country risk resulting in a project NPV_{12} of US$295m (A$401m). We also apply A$30m for unmined resources and exploration upside. 50:50 debt to equity funding is assumed for project finance resulting in 425m maximum shares on issue.

Table 5: Argonaut valuation summary (top), Panda Hill NPV sensitivity to price and discount rate table (bottom, applying US$)

Deriving a NPV_{12} US$295m…

Asset	Attributable Value (A$m)	Value/Share A$/sh
Panda Hill (50% CXX)	200.3	0.47
Exploration upside	30.0	0.07
Corporate Valuation	-31.8	-0.07
Cash	3.5	0.01
Debt	0.0	0.00
Net Asset Value	**202.0**	**0.48**

…and NAV of A$202m or A$0.48/sh

		Variance to Forecast Prices						
		-15%	-10%	-5%	0%	5%	10%	15%
Discount Rate	13%	110	158	205	252	299	346	393
	12%	140	191	243	295	346	397	448
	11%	173	230	287	343	400	456	512
	10%	213	275	337	400	462	524	586
	9%	258	327	396	465	535	603	672
	8%	312	389	465	542	619	696	773

Source: Argonaut

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