

Amur Minerals

Financing update

Financing to FEED

Amur (AMC) has announced that it has entered into a subscription agreement with Crede Capital Group whereby the latter will invest £12.5m (plus warrants) into Amur in five equal tranches, at respective 90-day intervals from the first tranche on 14 December. Whereas Amur previously had approximately sufficient funding to complete its DFS, this agreement ensures that funding is now sufficient to advance the project through the DFS and into the FEED (front-end engineering & design) stage. Among other things, this will include the initial access road and power designs, reserve determination (for both open pit and underground), metallurgical test-work, bulk sampling, process design work, site and ancillary support facilities and assessment of the response of the concentrate to the various smelting alternatives.

Year end	Revenue (US\$)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	0.0	(3.7)	(1.0)	0.0	N/A	N/A
12/14	0.0	(2.5)	(0.6)	0.0	N/A	N/A
12/15e	0.0	1.0	0.1	0.0	116.3	N/A
12/16e	0.0	(1.7)	(0.3)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Resource already in global top 20 nickel sulphides

Once fully analysed, the results of the 2015 exploration field season are expected to result in an upgrade to the categorisation of the existing resource from inferred to indicated status and a material increase in the in-situ nickel grade, as well as an increase in the overall resource size. Once this is completed, future exploration will focus on similarly upgrading Kubuk's resource via an estimated 7-8km in-fill drill programme. If successful, it is possible that Amur will have one further, major exploration target in the form of the 6.5km corridor between Kubuk and Sobolevsky in addition to the Maly-Kurumkon-Flangovy-Gorny corridor already identified. This would 1) therefore confer on Kun-Manie the status of an entirely new nickel domain and 2) almost certainly result in a material reconfiguration of the project. In the meantime, management continues to work on improving the operational blueprint published in June and believes it has identified a potential c US\$150m in capex savings, which could be used to invest in a flash smelter (vs the electric furnace smelter and converter smelter configuration currently envisaged).

Valuation: 38c/share for low-grade matte plus upside

In our [update note](#) in December, we calculated values per share for the concentrate, low-grade matte, high-grade matte and refined metal options for Kun-Manie of 34c, 44c, 35c and 42c, respectively, using a 10% discount rate and at our long-term nickel price of US\$22,355/t. Updating this valuation to reflect the funding agreement with Crede Capital plus a share price of 6.0p modifies these estimates to 29c, 38c, 29c and 35c, respectively. However, these have the potential to improve materially if exploration during the 2015 field season is successful in increasing the grade, size and categorisation of the resource (as expected).

Metals & mining

25 January 2016

Price **6.0p**
Market cap **£28m**

US\$1.4325/£

Net cash (US\$m) at 30 June 2015 8.3

Shares in issue 460.3m

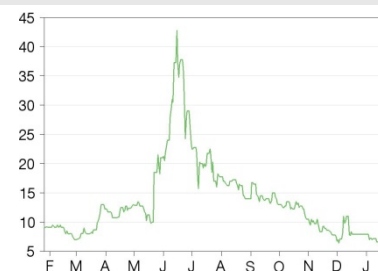
Free float 80%

Code AMC

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (25) (52) (41.5)

Rel (local) (22.2) (48.3) (34.2)

52-week high/low 42.8p 5.8p

Business description

Amur Minerals is an exploration and development company focused on base metal projects in Russia's Far East. The company's principal asset is the Kun-Manie nickel sulphide deposit in the Amur Oblast, comprising more than half a million tonnes of contained nickel in at least five deposits.

Next events

Resource update Q116

Russian feasibility study 2017

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Investment summary

Kun-Manie is among the largest 20 nickel sulphide deposits in the world and, once in production according to the parameters thus far established, should be one of the top 10 producers of nickel in the world. Some market commentators may consider Amur to be a potential acquisition target; however, the award of a production licence this year (until 2035) allows Amur Minerals to shift its strategy from exploration to pre-production, with a view to entering production in FY20.

Fund-raising

On 14 December, Amur announced that it has entered into a subscription agreement with Crede Capital Group, whereby the latter will invest £12.5m (plus warrants) into Amur in five equal tranches, at respective 90-day intervals from the first tranche on 14 December. Not only will this agreement guarantee funding to complete a definitive feasibility study, but it will extend it through the majority of the Russian approvals process, including mine planning, scheduling, infrastructure etc.

Amur's counterparty in the funding deal, Crede Capital, is a private equity firm based in LA with an office in New York. It is not a hedge fund, but a 'long-only' family office that manages the affairs of the Peizer family and of which Mr Terren Peizer is the ultimate and sole beneficial shareholder. Its primary business is direct investment in publicly traded companies.

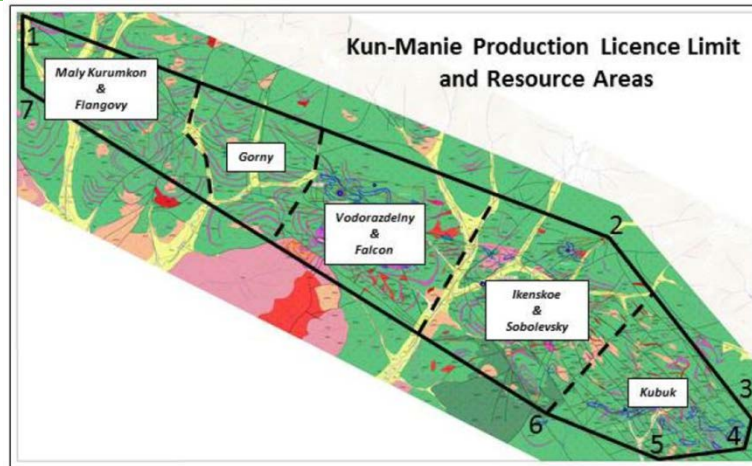
Exploration

Amur currently has three recognised, technical consultants working on the mineralisation at Kun-Manie, namely SRK (which conducted the original resource estimates and pre-feasibility study), as well as Wardell Armstrong and Runge Pincock Minarco.

During the 2015 field season, Amur completed 5,821.4m of exploration drilling (out of a target of 6,000m), split between two programmes – one step-out and the other in-fill. The cores from this drill programme have now been analysed by the (independent) Alex Stewart Laboratories and, once fully incorporated into the resource model, are expected to result in an improvement in the categorisation of the existing resource from inferred to indicated status and a material increase in in-situ nickel grade in the existing resource as well as an increase in the overall resource size (see our [Update note](#) dated 8 December).

Once the inferred resource at Maly-Kurumkon-Flangovy has been upgraded to indicated status, the largest remaining resource in the inferred category will be at Kubuk. Future drill programmes will focus on similarly upgrading this resource via an estimated 7-8km in-fill drill programme – to which end drill sites have been identified and variously prepared at Sobolevsky with a view to determining the continuity of a 20m thick, >1% nickel outcrop in the direction Kubuk (see below).

Exhibit 1: The five currently defined exploration areas at Kun-Manie



Source: Amur Minerals

SRK is reported to be using Leapfrog technology to build a high-grade model at Kubuk, which will allow the definition of simulated mining units (SMUs) to a 5m x 5m accuracy and ultimately allow Amur to generate a mining schedule and model for the deposit.

In the meantime, Flangovy and Kubuk samples are being assayed for metallurgical recoveries (note, having previously been assayed for grindability and crushing energy requirements). Since the samples are deemed to be high-grade (>1%) nickel, they are required by the Russian authorities to be assayed twice, with the result that SRK estimates that it will take until the end of Q116 for the resource models at Maly-Kurumkon and Flangovy to be updated and simulated mining units determined. Once completed, Amur will set about optimising its mining schedule.

In the context of the broader mineralisation at Kun-Manie, 2015 step-out drilling at Flangovy in particular could be interpreted as being indicative of a single, continuous corridor of mineralisation, approximately 2.5km long, 20-30m thick and at an in-situ grade from 0.7-0.9% nickel, running from Maly Kurumkon through Flangovy to Gorny. However, it is also possible that there is another similar such corridor from Ikenskoie-Sobolevsky to Kubuk, such that Amur may have not one but two multi-kilometre exploration targets to explore.

Future substantiation of these conclusions, in due course, could materially affect the economics of the project, the most efficient approach to its exploitation and the projected mine plan (in particular, the balance of open-pit versus underground mining).

Timetable and milestones

Amur expects to produce an updated resource in Q116. The resource will be specifically domain modelled into high-grade and low-grade zones to reflect its likely suitability for both underground and open-pit exploitation.

From the perspective of Russia's legal framework, Amur is currently operating under the auspices of a temporary TEO (note, a Russian TEO equates to a western feasibility study) – the 'temporary' nature of the TEO allows Amur to conclude its exploration activities. The key piece of work – to upgrade the status of its TEO from 'temporary' to 'permanent' – is a bulk sample. As the current field season (typically June to October) is over, Amur is prioritising this piece of work for 2016, to which end suppliers have guaranteed delivery of two D9R Caterpillar bulldozers and an excavator (critical) to site by March 2016. Thereafter, management has stated that it is prepared to fly the bulk sample out from site by helicopter if necessary (note, a 20t bulk sample would require approximately eight helicopter flights to transport), with the result that it believes it will be possible to produce a full feasibility study to Russian standards in 18-24 months.

As stated previously, the focus of the 2016 exploration field season will be Kubuk, where up to 17.1Mt of inferred resource may be upgraded to indicated status. In addition, there is potential for a step-out programme to the east and down-dip below 400m. Together with its existing LF-70, the recent purchase of a Boart Longyear LF-90 drill rig will double the number of drillable metres that Amur can achieve in a season. At the same time, two new bulldozers (effectively representing a seed capital fleet) will be mobilised to set up ready access along the full length of the Kurumkon trend in preparation for pre-production development.

Development

Once the full feasibility study is completed and the project is financed, Amur envisages a two-year construction period in CY18 and CY19 before first production of nickel in CY20. According to a Russian TEO, development could, in turn, lend the project naturally to Russian project finance, in which case management has suggested that an 80:20 debt:equity financing structure could also be feasible. However, it is understood that Amur is also investigating the potential to access funding via a streaming arrangement relating to its by-products, in particular. Note that streaming is associated with less risk than debt (and is not considered as debt by lending banks), as it has neither a fixed repayment schedule nor associated debt-service covenants.

In the meantime, management continues to work on improving the operational blueprint published in June this year (and which itself built on the earlier, 2015 conceptual open-pit study). Currently, management envisages that Ikenskoe-Sobolevsky would support an open-pit mining operation, that Kubuk would support an open-pit and underground mining operation and that Maly-Kurumkon would support an open-pit mining operation, but that this would transition into underground mining at Flangovy. In addition, it believes that it has identified a potential c US\$150m in capex savings, which could then be used to invest in a flash smelter (vs the electric furnace smelter and converter smelter configuration currently envisaged).

Valuation

In our [Update note](#) of 8 December 2015, we estimated valuations of the concentrate, low-grade matte, high-grade matte and refined metal options for Kun-Manie of 34c, 44c, 35c and 42c, respectively, using a 10% discount rate and at our long-term nickel price of US\$22,355/t (assuming 80:20 debt:equity funding). Updating this valuation to reflect the funding agreement with Crede Capital plus a share price of 6.0p, modifies these estimates to 29c, 38c, 29c and 35c, respectively, as shown below:

Exhibit 2: AMC equity valuations by development scenario and discount rate							
US cents per share (post-dilution)	0%	5%	10% (base case)	15%	20%	25%	30%
Toll smelting – US\$121m in equity fund-raising required	89	50	29	15	12	8	5
Low-grade matte – US\$156m in equity fund-raising required	120	66	38	23	14	9	6
High-grade matte – US\$201m in equity fund-raising required	97	52	29	17	11	7	5
Refinery – US\$281m in equity fund-raising required	113	61	35	21	13	9	6

Source: Edison Investment Research. Note: Assuming 80% maximum financial leverage. Excludes warrant funding.

Once again, the low-grade matte option prevails as the most efficient deployment of capital, although investors should note that this could change if the resource and mine plan are materially reconfigured (in particular to accommodate a higher in-situ nickel grade).

Financials

Amur had a net cash position of US\$8.3m at 30 June 2015 and reported that it had US\$6.0m at 1 December, implying a cash burn rate of US\$0.46m per month or US\$2.76m (pro-rata) for H215 (cf cash burn rates of US\$3.9m in FY13, US\$1.7m in H114, US\$2.7m in FY14 and US\$2.7m in H115).

In the wake of the Crede announcement, we forecast that Amur will have a net cash position of US\$9.1m at 31 December 2015 and US\$21.1m at 31 December 2016, after an additional (net) US\$14.1m of inflows relating to the funding agreement.

Exhibit 3: Financial summary

	US\$'000s	2010	2011	2012	2013	2014	2015e	2016e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		0	0	0	0	0	0	0
Cost of Sales		0	0	0	0	0	0	0
Gross Profit		0	0	0	0	0	0	0
EBITDA		(1,928)	(2,892)	(1,750)	(2,539)	(2,358)	(2,148)	(2,148)
Operating Profit (before GW and except.)		(1,928)	(2,892)	(1,750)	(2,539)	(2,358)	(1,869)	(1,869)
Intangible Amortisation		0	0	0	0	0	0	0
Exceptionals		(328)	(1,505)	(435)	(151)	1,158	1,672	0
Other		0	0	0	0	0	0	0
Operating Profit		(2,256)	(4,397)	(2,185)	(2,690)	(1,200)	(197)	(1,869)
Net Interest		0	(211)	(1,813)	(1,141)	(161)	2,838	136
Other		0	0	0	0	0	0	0
Profit Before Tax (norm)		(1,928)	(3,103)	(3,563)	(3,680)	(2,519)	969	(1,733)
Profit Before Tax (FRS 3)		(2,256)	(4,608)	(3,998)	(3,831)	(1,361)	2,641	(1,733)
Tax		0	0	0	0	0	(634)	0
Profit After Tax (norm)		(1,928)	(3,103)	(3,563)	(3,680)	(2,519)	335	(1,733)
Profit After Tax (FRS 3)		(2,256)	(4,608)	(3,998)	(3,831)	(1,361)	2,007	(1,733)
Average Number of Shares Outstanding (m)		193.9	271.8	345.1	387.2	431.2	445.7	542.2
EPS - normalised (c)		(1.0)	(1.1)	(1.0)	(1.0)	(0.6)	0.1	(0.3)
EPS - FRS 3 (c)		(1.2)	(1.7)	(1.2)	(1.0)	(0.3)	0.5	(0.3)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	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	N/A	N/A
BALANCE SHEET								
Fixed Assets		14,151	13,903	17,928	18,955	12,035	17,372	17,651
Intangible Assets		13,685	13,503	17,084	18,318	11,783	14,053	14,053
Tangible Assets		466	400	844	637	252	3,319	3,598
Other receivables		0	0	0	0	0	0	0
Current Assets		7,215	7,386	8,389	11,074	9,090	9,658	21,738
Stocks		167	165	224	269	237	512	512
Trade Debtors		0	0	0	0	0	0	0
Cash		3,066	4,436	2,048	2,392	1,389	9,063	21,143
Other receivables/other		3,982	2,785	6,117	8,413	7,464	83	83
Current Liabilities		(109)	(102)	(119)	(123)	(407)	(165)	(165)
Creditors		(109)	(102)	(119)	(123)	(407)	(165)	(165)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	0	0	0
Long term borrowings		0	0	0	0	0	0	0
Other long term liabilities		0	0	0	0	0	0	0
Net Assets		21,257	21,187	26,198	29,906	20,718	26,865	39,224
CASH FLOW								
Operating Cash Flow		(1,201)	(2,761)	(1,071)	(1,556)	(1,960)	(2,665)	(2,148)
Net Interest		0	0	0	0	0	2,838	136
Tax		0	0	0	0	0	(634)	0
Capex		(492)	(20)	(3,482)	(2,315)	(748)	(5,058)	0
Acquisitions/disposals		363	0	0	0	0	0	0
Financing		3,527	4,344	2,165	4,242	1,841	13,046	14,092
Dividends		0	0	0	0	0	0	0
Net Cash Flow		2,197	1,563	(2,388)	371	(867)	7,528	12,080
Opening net debt/(cash)		(997)	(3,066)	(4,436)	(2,048)	(2,392)	(1,389)	(9,063)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(128)	(193)	0	(27)	(136)	146	0
Closing net debt/(cash)		(3,066)	(4,436)	(2,048)	(2,392)	(1,389)	(9,063)	(21,143)

Source: Company sources, Edison Investment Research

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