

EMED Mining

Project update

Equity offering to fully fund the Rio Tinto project

Metals & mining

EMED has completed an equity offering to fully fund the development of the Rio Tinto copper project to 7.5Mtpa and pay down debt. Following the placement, four strategic investors control 72.5% of the company. With Phase I construction 80% complete, first production is expected in H215, 5.0Mtpa capacity in Q116 and 7.5Mtpa run-rate by mid-2016. We update our valuation of the company to US\$353m, or 6.5p/share on a funded basis, using a conservative long-term copper price assumption of US\$2.75/lb. On our estimates, EMED trades at an attractive 2016e EV/EBITDA of 3.1x.

14 July 2015

Price **4.13p**
Market cap **£145m**

US\$1.11/€; US\$1.55/£

Net debt (€m) at December 2014 11.6

Shares in issue 3,500.4m

Free float 27.5%

Code EMED

Primary exchange AIM

Secondary exchange TSX

Year end	Revenue (€m)	EBITDA (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	0.0	(11.4)	(0.9)	0.0	N/A	N/A
12/15e	37.7	9.1	0.2	0.0	29.1	N/A
12/16e	151.9	63.0	2.0	0.0	2.9	N/A

Note: *EPS is normalised, excluding exceptional items.

Share price performance



%	1m	3m	12m
Abs	(21.4)	(13.0)	(43.0)
Rel (local)	(20.8)	(9.5)	(44.6)

52-week high/low 8.5p 3.5p

Business description

EMED Mining owns 100% of the Rio Tinto copper project in Southern Spain. Following the receipt of the main permits in March to April 2014, the company proposed a 100% equity funding package to bring the project into production in H215. The expanded phase capacity is forecast at 7.5Mtpa, with the potential to upgrade to 9-10Mtpa.

Next event

Plant commissioning	H215
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Equity funding completed...

On 23 June EMED announced the completion of an equity offering to raise £65m (US\$101m) in gross proceeds. The company has issued 1,366.2m new shares, representing c 95% of the outstanding share capital, at 4.75p to raise fresh funds and an additional 694.3m shares to pay down debt. Following the equity raise and the conversion of debt, EMED's four cornerstone shareholders – Trafigura, XGC, Orion and an incoming strategic investor, Liberty, – will control some 73% of the enlarged share capital, with the remainder being a free float.

...to fully fund the Rio Tinto copper project

The equity offering will allow the company to fully fund the development of the Rio Tinto copper project to achieve a 7.5Mtpa capacity by mid-2016. Having already invested US\$44m, the company estimates that c US\$38m remains to be spent to launch a 5.0Mtpa operation, with first production expected in H215 and a steady-state rate by Q116. An additional US\$58m is required to expand the project to 7.5Mtpa by mid-2016. The updated capex estimates point to significant cost reductions and imply very attractive capital intensities of c US\$3,400/t (5.0Mtpa) and c US\$4,700/t (7.5Mtpa). The company contemplates expansion to 9-10Mtpa in 2016/17 at a similar low capex intensity.

Valuation: Hefty upside amid conservative Cu price

Updated capex guidance coupled with our slightly revised production and cost assumptions yield EMED's financed valuation of US\$353m or 6.5p/share. Our model of the project suggests that the market is currently valuing the company based on the spot copper price (at US\$2.5/lb our model yields a 4.3p/share value). We therefore believe that EMED shares might represent an attractive play on the recovery in the copper price. At the same time, the company appears to be well positioned to weather the low copper price environment, since the Rio Tinto project is a relatively low-cost producer and the company is fully funded to generate cash flow. On our estimates, EMED trades at an attractive 2016e EV/EBITDA of 3.1x, falling to 2.8x in 2017e.

EMED Mining is a research client of Edison Investment Research Limited

Equity to fully fund the start-up of the Rio Tinto project

A 100% equity funding package completed

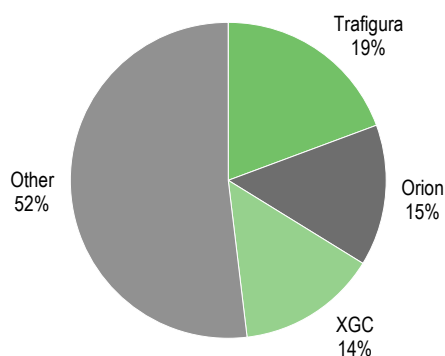
On 24 June EMED announced completion of the equity offering with existing and new shareholders to raise up to £65m (US\$101m based on US\$1.55/£) in gross proceeds. These funds will allow the company to fully finance the development of its flagship Rio Tinto copper project to bring it to 7.5Mtpa processing capacity by mid-2016. The company has therefore placed 1,366.2m shares, representing c 95% of the outstanding share capital, at 4.75p/share to raise fresh funds and an additional 694.3m shares to pay down debt.

The combined share issue comprised the following:

- 1,150.5m in subscription shares to the existing cornerstone shareholders – Trafigura, Orion and XGC, as well as the incoming strategic investor, Liberty Metals & Mining, which is a subsidiary of Liberty Mutual Insurance, the US-based diversified global insurer. Subscription shares raised £54.7m (US\$82m) in gross proceeds.
- 143.7m in shares to institutional shareholders to raise up to £6.8m (US\$10m) in gross proceeds.
- 72.0m shares in an open offer to the existing qualified investors on a pro-rata basis. Part of the shares under open offer was subsequently placed with institutional investors.
- Finally, the company has issued an additional 694.3m shares to pay down the outstanding convertible note and bridge loan, with a combined value of US\$48m. This debt is held by Trafigura, Orion and XGC.

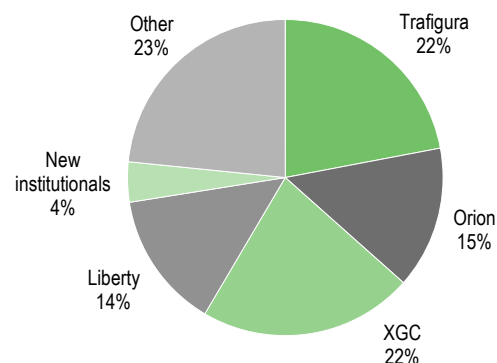
Following the equity raise and the conversion of debt, EMED's four strategic investors will control 72.5% of the enlarged share capital, with the remainder accounted for by the minority shareholders. The company's balance sheet is consequently debt-free.

Exhibit 1: EMED's share capital before the raise



Source: EMED

Exhibit 2: EMED's share capital after the raise



Source: EMED

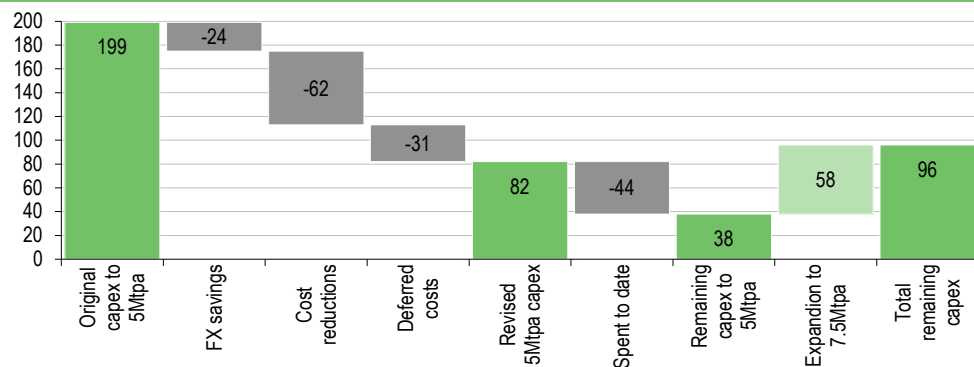
Equity raise fully funds the Rio Tinto project to 7.5Mtpa

The equity offering raised c US\$102m (£65m) in fresh funds, which will be directed towards the development of the Rio Tinto copper project. With US\$44m spent to date, the company estimates that some US\$38m remains to be invested to launch a 5Mtpa operation (Phase I), with construction said to be 80% complete, bringing the overall Phase I development cost to US\$82m – an implied capital intensity of only US\$3,400/t. This is a significant reduction in capex compared to the original NI 43-101 estimate from Behre Dolbear (February 2013), which envisaged the overall development cost at US\$199m to achieve a similar throughput of 5.0Mtpa. The main cost savings came from the

favourable currency moves, with the current €/US\$ rate of 1.15 compared to the original assumption of 1.25; cost reductions identified by management, which currently stand at US\$62m against the earlier estimate of US\$50m; as well as the deferred costs of US\$31m (we understand that if these costs are to be incurred at all, it would have happened at a much later stage). An additional US\$58m will have to be spent to upgrade the project from 5.0Mtpa to a 7.5Mtpa throughput rate (Phase I expansion), implying a capital intensity of c US\$4,700/t.

Overall, with some US\$101m now raised via equity and another US\$10m available in the form of the government grant, the Rio Tinto project appears to be fully funded to commence production in H215, reaching Phase I capacity of 5.0Mtpa in Q116, with a subsequent expansion to 7.5Mtpa by mid-2016. In addition, the company contemplates an upgrade to 9-10Mtpa (Phase II) in 2016/17 at a similar low capex intensity. The Phase II expansion should be supported by the revised mineral reserve/resource estimate, which is currently work in progress.

Exhibit 3: Rio Tinto capex bridge to 7.5Mtpa capacity (US\$m)



Source: EMED

Valuation implications and financials

Updated capex guidance coupled with our slightly revised production and cost assumptions yield EMED's financed valuation of US\$353m or 6.5p/share. This compares to our previous, unfinanced NPV₁₀ estimate of US\$262m (11.5p/share). The increase in the absolute valuation is predominantly driven by a visible reduction in the capital cost estimate by the company, while the lower per share value reflects the completed equity offering to fully fund the development of the project. Yet, our financed valuation is c 50% above the current share price, which has recently slid below the offer price on the back of the weaker commodities. Our model of the Rio Tinto project suggests that the market is currently valuing the company using the spot copper price (at US\$2.5/lb our model yields a 4.3p/share value). We therefore believe that EMED shares might represent an attractive play on the recovery in the copper price. At the same time, the company appears to be well positioned to weather the low copper price environment, which is likely to prevail in the near term, since the Rio Tinto project is a relatively low cost producer and the company is fully funded to generate cash flow. We also note the experienced management team, which has achieved a significant progress on the project within a limited time frame, also demonstrating its prudent approach to the capital cost management. In our view, this significantly reduces execution risks.

Exhibit 4: Rio Tinto's operational and financial estimates

		2015e	2016e	2017e	2018-28e
Ore processed	kt	1,250	6,500	9,000	10,000
Head grade	%	0.70	0.56	0.49	0.49
Recovery in concentrate	%	81.5	82.9	84.3	82.0
Contained copper	kt	7.1	30.2	37.2	40.2
Payable copper	kt	6.8	28.8	35.5	38.4
Revenue	US\$m	42.2	174.7	215.2	232.6
C1 cash costs	US\$m	24.5	102.0	133.3	147.1
- unit cost	US\$/lb	1.56	1.53	1.63	1.66
Total cash costs	US\$m	25.1	104.4	136.2	150.2
- unit cost	US\$/lb	1.60	1.57	1.66	1.70
EBITDA	US\$m	17.1	70.3	79.0	82.4

Source: EMED, Edison Investment Research

Our updated valuation of the project is based on the following assumption:

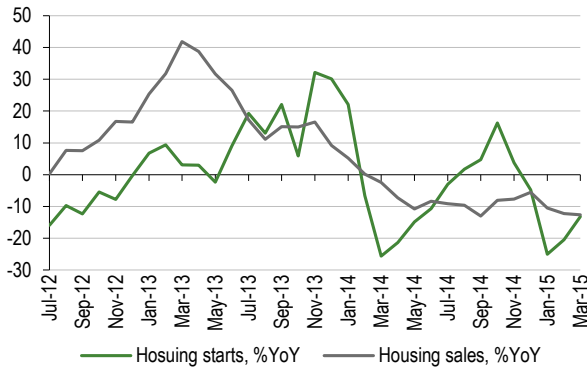
- We assume production start in H215, with 1.25Mt of ore processed in 2015, the subsequent ramp-up to 5.0Mt per annum in Q116 and a Phase I expansion to 7.5Mtpa by mid-2016, with forecasted 6.5Mt of ore put through the plant in 2017. We expect the company to undertake a further capacity expansion to 10Mtpa by 2018.
- Based on a 10Mtpa throughput rate and assuming a head grade of 0.49% Cu, plant recovery of 82% and 95% payability, we expect the company to produce 38.4ktpa of payable copper from 2018 onwards.
- We model the remaining capex to achieve 7.5Mtpa capacity of US\$96m, with an overall capital cost estimate of US\$140m (the company has spent US\$44m on the project to date). Further, based on our conversations with management, we have assumed that the company will invest an extra US\$55m to upgrade the project to a 10Mtpa processing rate by 2017/18. This would bring the overall capex estimate to US\$205m at implied capital intensity of US\$5,125/t.
- Based on the information contained in the CPR and guidance from the company, we model the project's C1 cash cost at US\$1.53/lb in 2016e, rising to a steady state level of US\$1.66/lb in 2018e. The lower cash cost in early years is driven by the anticipated higher processed grade. Taking into account annual payments to Astor as well as the royalty and offtake participation fees to Rumbo, Orion and XGC, the overall cash cost estimate rises to US\$1.57/lb in 2016e and US\$1.70/lb in 2018e. We model TC/RC of US\$107/tonne and 10.7c/lb in 2015, gradually falling to US\$85/t and 8.5c/lb by 2017.
- Having incorporated the annual (agency) payments to Astor Management into our model, we have for now excluded the repayment of €53m owed by EMED to Astor. The repayment of this amount was contingent upon the fulfilment of permitting and financing conditions and was originally expected to occur over six-seven years. However, as per our discussion below, the company believes that there is a potential to either delay or avoid the repayment of this liability. Including these payments into our model would reduce our base case valuation of the company to 5.8p/share.

Copper price is the main sensitivity

Haven fallen c 11% ytd to trade at around US\$5,600/t (US\$2.5/lb) on spot, the copper price has come under renewed pressure against the backdrop of softer commodity demand in China, which has recently been exacerbated by a major plunge in local equity markets as well as concerns over the likely Greek euro exit. Leaving the short-term speculative swings in sentiment aside, the macro environment in China, the world's biggest consumer of copper, remains largely unsupportive of any sustained recovery in the commodity price, with the June reading for the manufacturing PMI from HSBC coming in at 49.4 and remaining below the expansionary level of 50. This was only a modest improvement compared to May's reading of 49.2. At the industry level, construction remains a major

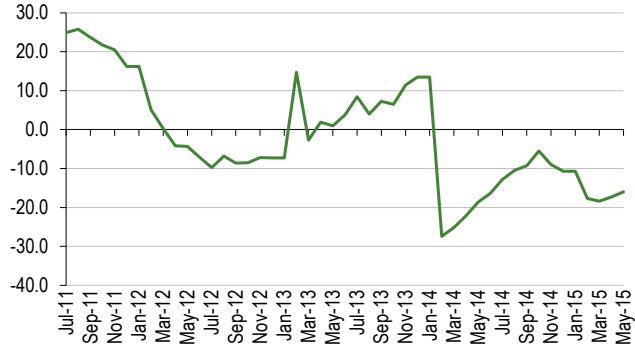
drag on copper demand (see Exhibits 5 and 6), with the anticipated increase in investment in the Chinese state grid in H2 (which is historically weighted towards the second half of the year) unlikely to be enough to prop up commodity demand and prices.

Exhibit 5: China's housing starts and sales, % y-o-y



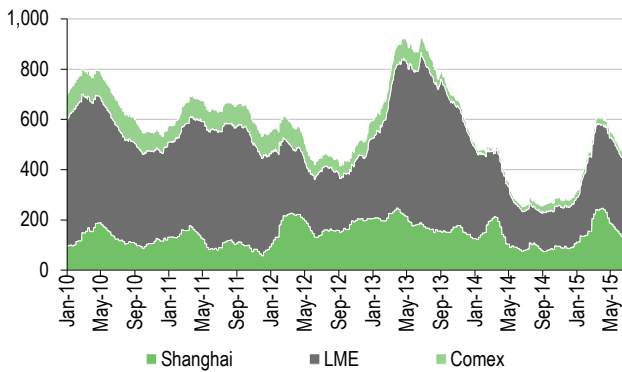
Source: BREE

Exhibit 6: China's housing starts floor space, % y-o-y



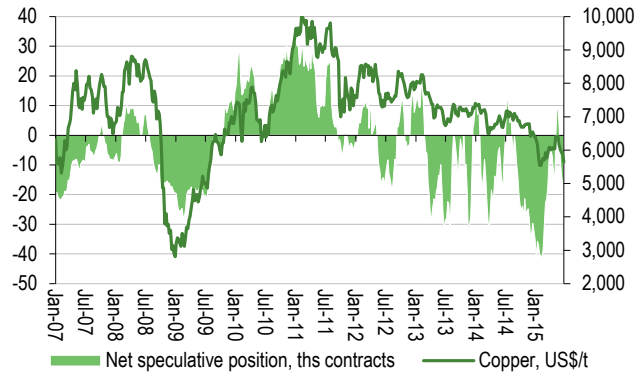
Source: Bloomberg

Exhibit 7: Copper inventory (kt)



Source: Bloomberg

Exhibit 8: Net speculative position in copper futures



Source: CFTC, Bloomberg

Our valuation is based on a long-term copper price of US\$2.75/lb, which, despite it being above the currently depressed spot price, we consider as relatively conservative when compared to the street consensus of US\$3.0-3.5/lb. The copper price is arguable the key sensitivity for the valuation of the company. At US\$3.0/lb copper, our NPV₁₀ of EMED moves to US\$473m. Based on our model, the project's NPV break-even Cu price is close to US\$2.0/lb (see Exhibit 9). From the financials perspective, as we expect the company to generate EBITDA of €63m (US\$70.3m) in 2016 (see financials section below), a 10% reduction in our copper price assumption for 2016 (from US\$2.75/lb to US\$2.48/lb), would lower our EBITDA estimate by 25% (and vice versa).

Exhibit 9: NPV (US\$m) sensitivity to changes in main assumptions

LT copper price, US\$/lb	2.00	2.25	2.50	2.75	3.00	3.25	3.50
NPV	-7	113	237	353	473	594	714
Total cash cost, US\$/lb	-20%	-15%	-10%	1.60	+10%	+15%	+20%
NPV	432	412	493	353	314	294	275
Discount rate, %	7.0	8.0	9.0	10.0	11.0	12.0	13.0
NPV	428	401	376	353	332	313	295

Source: Edison Investment Research

Relative valuation: At a significant discount to peers

Based on our estimates, the company trades at a significant discount to its peers, with 2016e EV/EBITDA of 3.1x compared to the peer group average of 4.9x. This discount slightly narrows in 2017e, with EMED's EV/EBITDA falling to 2.8x compared to the peer group average of 4.4x.

Exhibit 10: EMED relative valuation

	Market cap (US\$m)	Net debt (US\$m)	EV (US\$m)	EV/EBITDA (x)		
				2015e	2016e	2017e
Copper Mountain	99.4	347.6	447.0	8.5	6.2	5.4
Taseko Mines	131.8	219.5	351.3	9.7	6.7	5.1
Parapanema	378.4	159.3	537.7	4.8	4.7	4.1
Capstone Mining	343.7	393.1	736.8	6.9	3.5	3.9
Central Asia Mining	313.3	-46.1	267.2	5.6	4.5	4.3
Atlas Consolidated	269.7	480.6	750.3	8.1	6.0	5.8
Katanga Mining	268.5	2,631.2	2,899.7	6.0	4.2	4.0
Trevali Mining	237.9	70.1	308.0	7.1	3.4	2.7
Simple average				7.1	4.9	4.4
Weighted average				6.6	4.6	4.3
EMED Mining	225.2	0	225.2	22.2	3.1	2.8

Source: Bloomberg, Company data, Edison Investment Research. Note: Prices as at 14 July 2015.

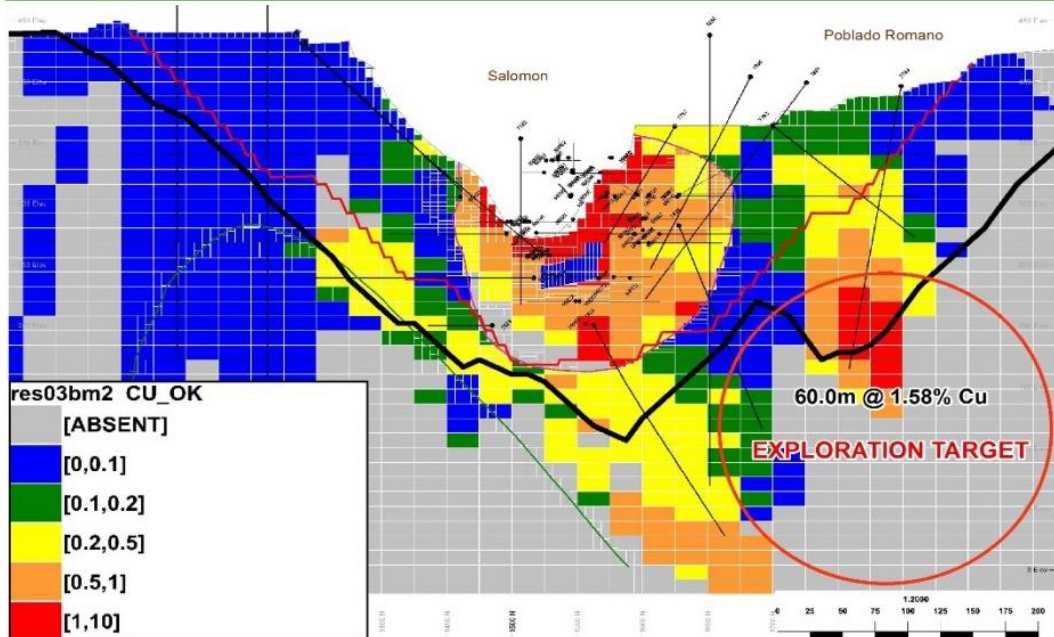
Valuation upside potential

Apart from the external factors such as copper price fluctuations, the main upside to our valuation comes from the potential to increase the resource base at the main Cerro Colorado pit as well as via the adjacent properties, which would allow the company to extend the project's mine life or upgrade its capacity (to 9-10Mtpa or above). The company has completed more than 17,000m of RC drilling as part of the first phase of the infill drilling campaign in 2014/15 with an aim to increase the open-pit reserves and is currently working towards the updated mineral resources estimate. The Rio Tinto project currently has 129Mt at 0.49% Cu in compliant proven and probable reserves within the US\$2.0/lb pit shell, and measured and indicated resources of 200Mt at 0.46% Cu (at US\$3.0/lb copper). On top of this, there are a number of adjacent sulphide deposits that have historically been either mined or studied but do not currently have the established compliant mineral resource estimates. These include the San Dionisio deposit, with a historic exploration target of 62Mt at 1.12% Cu, as well as San Antonio.

Exhibit 11: Cerro Colorado and adjacent deposits



Source: EMED

Exhibit 12: Cerro Colorado resource pit shell at US\$3.0/lb copper


Source: EMED

Astor Management payments

As part of the acquisition of the remaining 49% interest in the Rio Tinto project in 2008, the company agreed to pay Astor Management €53m in cash over six or seven years on completion of permitting and draw-down of senior debt. While the permitting process has been successfully completed, the company has managed to secure a funding package for the project solely through equity. Since one of the conditions was not met, the company believes there is a significant doubt concerning its obligation to repay the contingent liability. If the companies are unable to reach an agreement, it is understood that Astor may launch legal proceedings against EMED. We note that assets of EMED Tartessus are pledged against the repayment obligation to Astor. In addition to the repayment of €53m, Astor is subject to a certain marketing fee from the copper concentrate sales, plus fixed quarterly payments if the copper price exceeds US\$3.0/lb (currently US\$2.5/lb). Overall, we believe it would be in the interests of both parties to reach an off-court settlement, potentially agreeing on a reduced, one-off payment to Astor. This is especially so given the sharp drop in the commodity prices.

Reinstating financial estimates

In this report we introduce our updated financial estimates for EMED, which become increasingly driven by the performance of the Rio Tinto copper project as it is nearing first production. Based on our operating and financial assumptions for the project, as discussed above, we expect EMED to generate revenue and EBITDA of €37.7m and €9.1m in 2015e, and €151.9m and €63.0m in 2016e, rising to €193.9m and €71.0m by 2018e as the project gradually reaches its forecast steady-state production capacity of 10Mtpa or 40kt of contained copper. Our financial forecasts take into account corporate overheads, but exclude the repayment of the contingent liability to Astor.

Following the completion of the equity offering to raise c €90m (c\$101m) in gross proceeds, plus government grant of €9m, the Rio Tinto project is said to be fully funded to achieve 7.5Mtpa capacity. As we expect the project to start generating positive cash flow already in H215, our model suggests that the company will be able to finance the expansion to 10Mtpa from the internal sources. In addition, following the debt-to-equity conversion as part of the completed equity

placement, the company's balance sheet will have enough capacity to take on new debt if the company requires additional funds to grow. This might, however, require a settlement with Astor with regard to the outstanding deferred liability.

Management changes

On 9 July EMED announced that John Leach will step down from the position of CFO following the AGM on 29 July 2015. The company's finance function will be overseen by David Carrasco, CFO of EMED Tartessus, and George Hadjineophytou, group financial controller, on an interim basis until the company finds the replacement.

Exhibit 13: Financial summary

€000s	2011	2012	2013	2014	2015e	2016e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	0	0	0	0	37,700	151,923
Cost of Sales	0	0	0	0	(16,742)	(77,943)
DD&A	(110)	(205)	(116)	(110)	(1,043)	(4,297)
Gross Profit	(110)	(205)	(116)	(110)	19,916	69,683
Operating Profit (before amort. and except.)	(9,591)	(11,222)	(9,595)	(11,547)	8,444	60,424
Exceptionals	0	0	0	0	(421)	(1,735)
Other	0	0	0	0	0	0
Operating Profit	(9,591)	(11,222)	(9,595)	(11,547)	8,023	58,688
EBITDA	(9,481)	(11,017)	(9,479)	(11,437)	9,066	62,985
Net Interest	(1,180)	(488)	(2,460)	(460)	(4,500)	0
Profit Before Tax (norm)	(11,400)	(12,018)	(12,509)	(12,416)	3,523	58,688
Profit Before Tax (FRS 3)	(11,400)	(12,018)	(12,509)	(12,416)	3,523	58,688
Tax	1,733	543	(6,412)	(18)	0	0
Profit After Tax (norm)	(9,662)	(11,471)	(18,917)	(12,432)	3,523	58,688
Profit After Tax (FRS 3)	(9,662)	(11,471)	(18,917)	(12,432)	3,523	58,688
Average Number of Shares Outstanding (m)	705	1,001	1,183	1,322	2,411	2,956
EPS - normalised (c)	(1.37)	(1.15)	(1.60)	(0.94)	0.15	1.99
EPS - normalised and fully diluted (c)	(1.37)	(1.15)	(1.60)	(0.94)	0.15	1.99
EPS - (IFRS) (c)	(1.37)	(1.15)	(1.60)	(0.94)	0.15	1.99
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	0.0	0.0	0.0	0.0	52.8	45.9
EBITDA Margin (%)	0.0	0.0	0.0	0.0	24.0	41.5
Operating Margin (before GW and except.) (%)	0.0	0.0	0.0	0.0	22.4	39.8
BALANCE SHEET						
Fixed Assets	42,615	67,660	67,873	82,969	167,525	237,576
Intangible Assets	8,424	11,833	14,821	17,655	17,655	17,655
Tangible Assets	28,363	49,448	53,052	65,314	149,870	219,921
Deferred tax asset	5,812	6,379	0	0	0	0
Investments	16	0	0	0	0	0
Current Assets	9,215	11,933	9,358	27,471	34,868	33,327
Receivables	1,358	4,330	724	2,226	2,226	6,243
Inventories	0	0	0	3,211	8,542	10,784
Cash	7,819	7,603	8,634	21,050	23,116	15,316
Other				984	984	984
Current Liabilities	(11,051)	(7,918)	(7,661)	(37,260)	(4,631)	(8,542)
Payables	(11,051)	(7,918)	(7,661)	(4,631)	(4,631)	(8,542)
Short term borrowings	0	0	0	(14,082)	0	0
Bridge loan	0	0	0	(18,547)	0	0
Long Term Liabilities	(4,843)	(7,726)	(17,765)	(13,040)	(13,040)	(22,040)
Long term borrowings	0	0	(13,301)	0	0	0
Other long term liabilities	(4,843)	(7,726)	(4,464)	(13,040)	(13,040)	(22,040)
Net Assets	35,936	63,949	51,805	60,140	184,722	240,321
CASH FLOW						
Operating Cash Flow	(10,919)	(14,279)	(9,576)	(6,633)	1,355	57,547
Net Interest	(1,120)	(502)	(350)	(369)	0	0
Tax	(22)	(10)	(15)	(34)	0	0
Capex	(5,099)	(16,699)	(6,708)	(15,218)	(85,598)	(74,348)
Acquisitions/disposals	0	0	0	0	0	0
Financing	3,432	32,797	6,990	16,411	86,310	0
Dividends	0	0	0	0	0	0
Net Cash Flow	(13,714)	(216)	(10,051)	(6,131)	2,066	(7,800)
Opening net debt/(cash)	(21,533)	(7,819)	(7,603)	4,667	11,579	(23,116)
HP finance leases initiated	0	0	0	0	0	0
Other (2015: debt to equity conversion)	0	0	(2,219)	(781)	32,629	0
Closing net debt/(cash)	(7,819)	(7,603)	4,667	11,579	(23,116)	(15,316)

Source: EMED, Edison Investment Research

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