Precious Metals Australia Ltd PMA ($2.02)

Recommendation: BUY

Under the radar

Analyst: Alex Passmore

OUR VIEW

PMA continues to develop the Windimurra vanadium project at a rapid pace. Major contracts for re-construction have been let, PMA's share of equity funding for the project is certain and debt finance is due prior to June 07. PMA's recently completed bankable feasibility study on the re-opening of the Windimurra vanadium project shows the operation to be economically robust. This is a long-life, first-class project, which will position the company amongst the lowest cost producers globally. PMA continues to trade at a discount to our valuation, which we believe reflects lack of transparency in vanadium pricing and perceived technical risk of the Windimurra project, factors which we believe are unjustified following a recent off take agreement with Noble Resources and production history of Windimurra. The off take agreement with Noble guarantees a 'floor price' for PMA's vanadium sales equivalent to the cash costs of production in any month for the first seven years of production thereby assuring the Windimurra operation is cash flow positive from an operating perspective over this period. Reflecting strong project cash flows from FY08 onwards our DCF-derived valuation for PMA is A$3.62/share. BUY.

Investment Highlights

- ***Vanadium mine development underway.*** *The Windimurra mine is moving from detailed design to the construction phase, with major sections of work being awarded. Thiess Promet JV (experienced operators in magnetite beneficiation) have been awarded design and construction contract for the crushing and beneficiation circuit. Kiln refurbishment, re-design and construction has been let to Proteus Engineers. Finally the third (new) section of Windimurra is the ferrovanadium circuit, which has been awarded to Drytech International.*

- ***Equity funding complete.*** *After completing a $48.5m placement and $2.7m share purchase plan PMA has in excess of $97m cash on hand available for its equity contribution to the financing of re-building Windimurra (total requirement from PMA $189m).*

- ***Bank financing imminent.*** *PMA's banking syndicate have appointed Behre Dolbear Australia to complete a technical review of the Windimurra Project as a final stage in their due diligence process. This technical report is in final draft stage with completion expected mid-March 07. Legal due diligence has also progressed with expected completion in late March. Following the receipt of these reports we expect debt drawdown to occur prior to June 07.*

- ***Discount to NPV.*** *Our valuation for PMA is $3.62/share based on a DCF methodology using a 10% discount rate. We have used parameters from historical operations at Windimurra and inflated costs inline with industry inflation since shutdown in 2003. We treat ore resources conservatively and assume 66% total conversion to mineable inventory (ore reserves). PMA continues to trade at a discount to our valuation reflecting, lack of transparency in vanadium pricing and commissioning risk factors which we believe are unjustified given the recently signed off take agreement with Noble Resources and production history of Windimurra.*

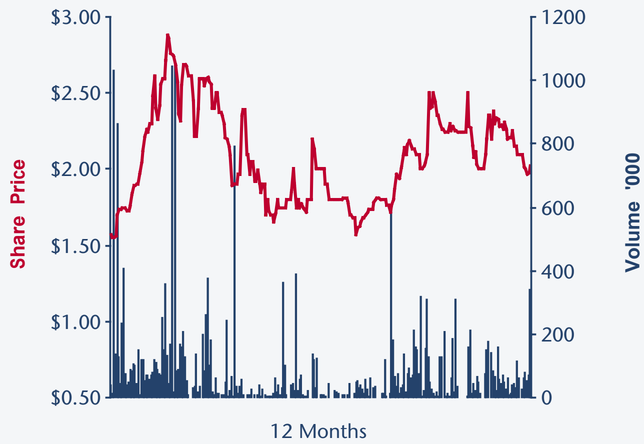
- ***Vanadium market stabilizing.*** *Ferrovanadium prices have stabilized at circa US$31.25/kg following a decrease from over US$130/kg in 2005. The prices remain well above our assumptions (US$18.34/kg) and would allow for substantial margins at Windimurra's expected long run cash costs of US$8.60/kg).*

Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit ($m)	(1.3)	(0.3)	(8.8)	32.0
EPS (cents)	(1.3)	(0.3)	(8.6)	31.5
EPS growth (%)	nm	nm	nm	nm
PER (x)	(156.3)	(651.0)	(23.5)	6.4
EBITDA				
EBITDA ($m)	(1.3)	0.1	5.4	68.7
EV/EBITDA (x)	(84.0)	800.0	39.4	3.2
Cashflow Multiples				
Gross Cashflow ($m)	(8.3)	(3.0)	(8.1)	40.4
GCFPS (cents)	(8.1)	(3.0)	(8.0)	39.7
PGCF (x)	(24.8)	(67.7)	(25.3)	5.1
Free Cashflow ($m)	2.9	(48.5)	(103.4)	13.8
FCFPS (cents)	2.9	(47.6)	(101.6)	13.5
PFCF (x)	69.7	(4.2)	(2.0)	14.9
Dividend				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	100	100	100	100

Company Statistics & Performance

Shares on Issue	101.7m	**Daily Vol.**	69,200
Market Cap	$205.5m	**Debt**	$0.0m
52 Week Range	$1.22 - $2.88	**Cash**	$111.0m



Precious Metals Australia Ltd $x.xx Year End June 30

Profit & Loss ($m)	1HY06A	2HY06A	1HY07E	2HY07E
Sales Revenue	**0.6**	**0.0**	**0.0**	**0.0**
Other Income	0.0	1.3	1.7	3.1
Operating Costs	0.4	0.0	0.0	0.0
Depn & Amort	0.0	0.0	0.0	0.0
Exploration Exp.	0.0	0.0	0.2	0.4
Corporate/Admin	1.1	1.7	2.0	2.0
EBIT	**(0.9)**	**(0.4)**	**(0.5)**	**0.7**
Interest	0.0	0.0	0.0	0.4
Operating Profit	**(0.9)**	**(0.4)**	**(0.5)**	**0.3**
Tax expense	0.0	0.0	0.0	0.1
Minorities	0.0	0.0	0.0	0.0
NPAT	**(0.9)**	**(0.4)**	**(0.5)**	**0.2**
Significant Items	0.0	0.0	0.0	0.0
Normalised NPAT	**(0.6)**	**(0.3)**	**(0.4)**	**0.2**

Cash Flow ($m)	1HY06A	2HY06A	1HY07E	2HY07E
Adjusted Net Profit	(0.9)	(0.4)	(0.5)	0.2
+ Interest/Tax/Expl Exp	0.0	0.0	0.2	0.9
- Interest/Tax/Expl Inc	3.1	3.9	2.5	1.3
+ Depn/Amort	0.0	0.0	0.0	0.0
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	**(4.0)**	**(4.3)**	**(2.8)**	**(0.2)**
- Capex (+asset sales)	(9.6)	0.4	(0.2)	45.6
- Working Capital Increase	(2.2)	0.1	0.1	0.0
Free Cashflow	**7.8**	**(4.8)**	**(2.7)**	**(45.8)**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	26.5	0.0	22.1	29.1
+ Debt drawdown (repaid)	0.0	0.0	8.2	100.0
Net Change in Cash	**34.2**	**(4.8)**	**27.6**	**83.4**
Cash at End Period	45.2	40.4	68.0	151.4
Net Cash/(Debt)	45.2	40.4	59.8	43.2

Production Summary	1HY06A	2HY06A	1HY07E	2HY07E
Ferrovanadium (t)	0	0	0	0
Price Received (US$/kg)	0.00	0.00	0.00	0.00
Cash Cost (US$/kg)	na	na	na	na
Cash Margin (US$/kg)	na	na	na	na
FX Received	0.75	0.74	0.76	0.78
Cash Margin (A$/lb)	na	na	na	na
Vanadium Pentoxide (klbs)	0	0	0	0
Price Received (US$/lb)	0.00	0.00	0.00	0.00
Cash Cost (US$/lb)	na	na	na	na
Cash Margin (US$/lb)	na	na	na	na
FX Received	0.75	0.74	0.76	0.78
Cash Margin (A$/lb)	na	na	na	na

Balance Sheet ($m)	2006A	2007F	2008F	2009F
Cash	40.4	151.4	97.9	111.7
Total Assets	36.3	195.4	236.6	268.7
Total Debt	0.0	108.2	158.2	158.2
Total Liabilities	1.1	109.3	159.3	159.3
Shareholders Funds	35.6	86.7	80.5	112.5
Ratios				
Net Debt/Equity (%)	na	na	75	41
Interest Cover (x)	na	na	na	na
Return on Equity (%)	(3.7)	(0.4)	(10.9)	28.5

Reserves & Resources

	Mt	% V2O5	Mlbs V2O5
Ore Reserves			
Windimurra	50.4	0.49	544.4
Mineral Resources			
Windimurra	95.5	0.47	989.8

Profit & Loss ($m)	2006A	2007F	2008F	2009F
Sales Revenue	**0.6**	**0.0**	**34.8**	**139.1**
Other Income	1.3	4.8	13.1	7.9
Operating Costs	0.4	0.0	37.7	73.3
Depn & Amort	0.0	0.0	1.5	9.2
Exploration Exp.	0.0	0.6	0.8	0.8
Corporate/Admin	2.8	4.0	4.1	4.2
EBIT	**(1.3)**	**0.1**	**3.9**	**59.5**
Interest	0.0	0.4	12.7	13.8
Operating Profit	**(1.3)**	**(0.2)**	**(8.8)**	**45.7**
Tax expense	0.0	0.1	0.0	13.7
Significant Items (gain)/loss	0.0	0.0	0.0	0.0
NPAT	**(1.3)**	**(0.3)**	**(8.8)**	**32.0**
Significant Items	0.0	0.0	0.0	0.0
Normalised NPAT	**(0.9)**	**(0.2)**	**(6.1)**	**32.0**

Cash Flow ($m)	2006A	2007F	2008F	2009F
Adjusted Net Profit	(1.3)	(0.3)	(8.8)	32.0
+ Interest/Tax/Expl Exp	0.0	1.1	13.5	28.3
- Interest/Tax/Expl Inc	7.0	3.8	14.3	29.2
+ Depn/Amort	0.0	0.0	1.5	9.2
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	**(8.3)**	**(3.0)**	**(8.1)**	**40.4**
- Capex (+asset sales)	(9.1)	45.4	95.3	26.6
- Working Capital Increase	(2.1)	0.1	0.0	0.0
Free Cashflow	**2.9**	**(48.5)**	**(103.4)**	**13.8**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	26.5	51.2	0.0	0.0
+ Debt drawdown (repaid)	0.0	108.2	50.0	0.0
Net Change in Cash	**29.4**	**110.9**	**(53.4)**	**13.8**
Cash at End Period	40.4	151.4	97.9	111.7
Net Cash/(LT Debt)	40.4	43.2	(60.3)	(46.5)

Production Summary	2006A	2007F	2008F	2009F
Ferrovanadium (t)	0	0	806	4,746
Price Received (US$/kg)	0.00	0.00	24.88	19.24
Cash Cost (US$/kg)	na	na	24.88	10.55
Cash Margin (US$/kg)	na	na	0.0	8.7
FX Received	0.75	0.77	0.76	0.73
Cash Margin (A$/lb)	na	na	0.0	11.9
Vanadium Pentoxide (klbs)	0	0	517	2,699
Price Received (US$/lb)	0.0	0.0	10.0	3.9
Cash Cost (US$/lb)	na	na	10.0	3.3
Cash Margin (US$/lb)	na	na	0.0	0.6
FX Received	0.7	0.8	0.8	0.7
Cash Margin (A$/lb)	na	na	0.0	0.8

Valuation	A$m	A$/sh
Windimurra	286	2.81
FX and Commodity Hedging	0	0.00
Unpaid Capital	1	0.01
Corporate	(15)	(0.15)
Exploration	0	0.00
Cash	97	0.95
Debt	0	0.00
Total @ 10% Disc Rate	**369**	**3.62**

Directors

Name	Position
Tony Grey	Chairman
Roderick Smith	Managing Director
Earl of Warwick	Non-Executive Director
Michael Fry	Non-Executive Director
Michael Kiernan	Non-Executive Director
Ricardo Lieman	Non-Executive Director

Substantial Shareholders	Shares (m)	%
R J H Smith	11.81	11.61
Matterhorn Investment Mgmt	10.32	10.14
Earl of Warwick	6.31	6.20
JP Morgan Chase and Co	6.46	6.34

Patersons Securities Limited acted as Underwriter to the 1 for 5 Renounceable Rights Issue that raised $0.5m at $0.07 per share for Precious Metals Australia Limited in January 2005. It received a fee for this service.

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