Windimurra Vanadium Limited
(WVL $2.00) Buy

EUROZ SECURITIES LIMITED

AUSTRALIAN RESEARCH

Comments

Valuation: $3.36/sh

Windimurra Vanadium Ltd is re-developing the Windimurra Vanadium project near Mt Magnet in WA. WVL owns 90% with Noble Group holding a 10% interest in the project. The project will produce 6,400t FeV and 1,000t V_2O_5 or 5,700t of contained Vanadium. First production is targeted for Dec Q'08.

Capital cost is estimated at $250m which has been funded through a US$127.5m debt facility, a A$55m equity raising (recently completed 1:3 rights issue of 34.3m new shares at $1.60/sh) and existing cash. Some $123m had been spent and committed as at Dec'07. The project will be built under an EPCM contract by Proteus. All necessary mining, environmental and native title permitting is in place. The project is based on an ore reserve of 79mt of 0.46% V_2O_5 in an open pit to 80m depth over 4km of strike. These reserves are adequate for a 20yr project life. The reserves are a subset of a larger 149mt resource base.

Windimurra previously operated between 2000 and 2003 in a JV with Xstrata, eventually closing due to low Vanadium prices and poor production. Infrastructure remaining at site include the rotary kiln ($45m replacement cost), gas pipeline spur and mine pre-strip. The Vanadium market has grown by 50% since 2001 leaving the proportion of co-production from inflexible steel producers significantly diminished. The production issues from the earlier phase are now well understood and will be addressed in the new project. The issues relate to:

- Ore feed was sourced from shallow highly oxidised horizons leading to over-grinding and poor magnetic recovery. This will be addressed by mining deeper fresher ore which is harder and more metallurgically suitable, and grinding through more efficient HPG Rolls;
- Power supply was not capable of dealing with variable load requirements, a more suited power station is planned;
- Production was originally exclusively lower value V_2O_5. Higher value FeV product is the basis of the new project.

Operating costs are largely fixed through contracts already established. These include gas, fixed price per tonne beneficiation (10yr BOOT with Mineral Resources Ltd), and soda ash which represent 56% of total opex. Labour and Aluminiun inputs represent another 20% while mining is just 8% of total operating costs.

Windimurra will be in the lower third of the cash cost curve. The lower 60% of the curve is relatively flat, indicating that key input costs are in global parity, ie energy.

WVL plans to add 7% to the total Vanadium market supply which was 62ktpa in 2006. Vanadium demand is forecast to grow at 7.8%pa (CRU), slightly ahead of the 7.1% growth over the last 5 yrs. Vanadium demand is mainly used in high performance steels and accordingly its intensity of use (~50g/t of steel globally) is geared toward increasing economic industrialisation.

The largest global producers are China 29%, Sth Africa 25% and Russia 15%. The bulk of the Chinese and Russian supply is as co-product from magnetite iron sources and its growth is linked to expansion of co-production facilities which are relatively unique. Only Panzhihua and Chengde in China are known to have expansion plans (~8kt in 2009). This growth is needed to meet forecast market demand. Closure of small high cost and high polluting operations in China and increased export taxes will partially offset any planned growth there. The power supply crisis in Sth Africa is likely to have curtailed any potential growth in supply there. Primary production, as in the case of Windimurra represents just 29% of global supply.

Windimurra's offtake is secured through a floor price agreement with Noble Group which guarantees a breakeven EBITDA price during the 1st 7 yrs. FeV prices have recently spiked to >US$80/kg after having spent most of 2007 at U$35-40/kg. The benchmarked cash cost of production (excl royalty, offtake, O/H) is ~U$15/kg. Under the offtake Noble assumes customer credit risk and makes payment FOB Fremantle.

Investment Case

Windimurra presents as a highly leveraged Vanadium price play. Project EBITDA sensitivity is roughly $50m per US$10/kg move in the underlying FeV price.

We believe the project fundamentals look excellent with potentially low costs and quality product. Risk is mitigated with the previous operating information which has enabled improvements. The supply/demand scenario is particularly attractive and is exacerbated by the Sth African power supply crisis.

In the context of an assumed long run US$40/kg FeV price we believe WVL is valued at $3.30/sh. The share price will track toward this level as project completion draws nearer. Significantly higher valuations may be seen if FeV prices demonstrate some sustainability above our long run assumption.

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Windimurra Vanadium Ltd during the last year. Euroz Securities has received a fee for these services. This analyst also declares that he has a beneficial interest in Windimurra Vanadium Ltd shares.

TOP 20 SHAREHOLDERS — AS AT 5 MARCH 2008

	Shareholders	Shares (m)	(%)
1	HSBC Custody Nominees (Australia) Limited	23.98	17.04
2	J P Morgan Nominees Australia Limited	23.33	16.58
3	ANZ Nominees Limited	12.80	9.09
4	Citicorp Nominees Pty Limited	12.42	8.83
5	National Nominees Limited	11.58	8.23
6	HSBC Custody Nominees (Australia) Limited	7.93	5.63
7	Bond Street Custodians Limited	4.42	3.14
8	Blackmort Nominees Pty Ltd	4.12	2.93
9	Noble Resources Limited	3.73	2.65
10	HSBC Custody Nominees (Australia) Limited	3.15	2.24
11	Bond Street Custodians Limited	2.85	2.03
12	Zero Nominees Pty Ltd	2.68	1.90
13	George Robinson	2.43	1.73
14	Tagora Pty Ltd	1.51	1.07
15	Bond Street Custodians Limited	1.44	1.02
16	HSBC Custody Nominees (Australia) Limited	1.40	0.99
17	Bond Street Custodians Limited	1.37	0.98
18	CogenT Nominees Pty Limited	1.19	0.85
19	Dalvin Pty Ltd	0.87	0.62
20	RBC Dexia Investor Services Aust Nominees Pty Ltd	0.80	0.57
	TOTAL	124.00	88.12

MARKET STATISTICS

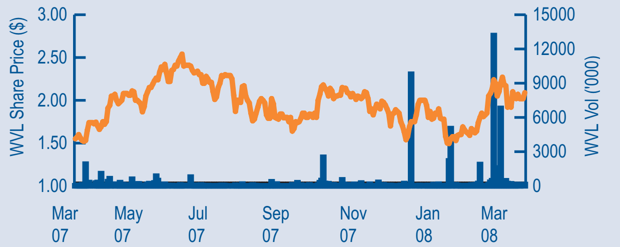
Share Price	$2.00 A$/sh
Issued Capital	
Fully Paid Ord	153.3m*
Opt (@ var)	11.2m
Total Dil. FPOrd	154.5m*
Market Cap'n (dil)	$308m
Enterprise Value	$455m
Debt	$(167)m
Cash	$21m

** incl. placement of 12.6m fpo at $2.00 in Mar '08*

Directors	
W Martinick	Chairman
I Scott	MD
G Korte	Exec Dir
G Warwick	Dir
R Leiman	Dir

Shareholders	
Matterhorn	13.7%
George Robinson	6.7%
Gersec	9.9%
JP Morgan	8.5%
Macq	7.5%
HSBC - WF	7.1%
Kinetic	5.1%

SHARE PRICE PERFORMANCE



Windimurra Vanadium Limited

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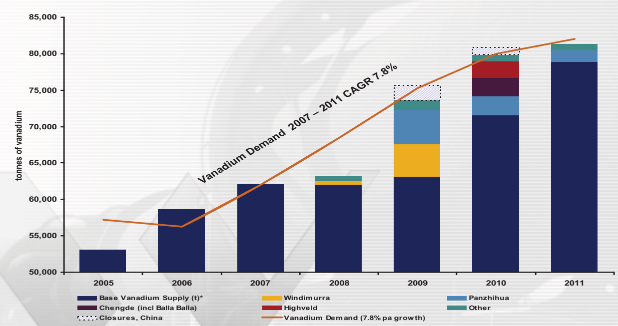
WINDIMURRA VANADIUM LIMITED (WVL)			YEAR END 30 JUNE
ASSET VALUATION		**A$m**	**A$/sh**
Windimurra Vanadium	npv	644	4.17
Hedging	npv	(0)	(0.00)
Corporate	npv	(20)	(0.13)
Leased Assets	npv	41	0.27
Working Cap.	nom	-	-
Unpaid Capital	nom	-	-
Debt	nom	(167)	(1.08)
Cash	nom	21	0.14
Total @ 10% nom		519	3.36
Total @ 0% nom		1,405	9.09
Total @ 5% nom		824	5.33
Total @ 15% nom		346	2.24

FORECAST PRODUCTION		2008f	2009f	2010f	2011f	2012f
FeV Prod'n	t	0	1,600	5,400	6,400	6,400
V2O5 Prod'n	t	-	250	700	1,000	1,000
Total V cont	t	0	1,400	4,700	5,700	5,700
Total Cash Cost	US$/kg V	25	25	20	17	18
Assumptions						
FeV Price	US$/kg	54.5	62.5	45.0	40.0	40.0
V2O5 Price	US$/lb	11.5	11.5	7.0	7.0	7.0
FX Rate	A$1=US$	0.89	0.88	0.83	0.80	0.80

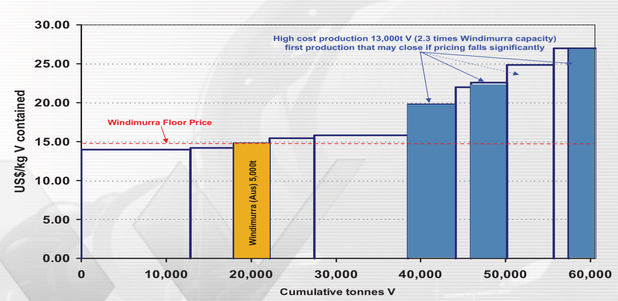
RATIO ANALYSIS	2008f	2009f	2010f	2011f	2012f
CF (A$m)	(173.8)	(83.3)	81.4	92.8	96.8
CF / Sh (Ac/sh)	(112.4)	(53.9)	52.6	60.1	62.6
CF Ratio (x)	(1.8)	(3.7)	3.8	3.3	3.2
Earnings (A$m)	(4.0)	34.4	50.8	61.4	65.3
EPS (Ac/sh)	(2.6)	22.2	32.8	39.7	42.3
EPS Growth (%)	0%	-949%	48%	21%	6%
PER (x)	(76.3)	9.0	6.1	5.0	4.7
E'prise Val. (A$m)	341.8	441.5	370.4	278.6	182.8
EV : EBITDA (x)	(53.3)	8.9	3.3	2.3	1.5
EV : EBIT (x)	(53.3)	11.0	4.0	2.6	1.7
Net Debt / ND+Eq (%)	16%	41%	20%	-10%	-44%
Interest Cover (x)	2.2	11.0	6.6	11.6	37.5
EBIT Margin (%)	na	45%	41%	42%	42%
ROE (%)	-3%	19%	23%	21%	18%
ROA (%)	-2%	10%	20%	20%	17%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%	0%
Div. Franking	0%	0%	0%	100%	100%

Vanadium Supply Growth



Sources: Windimurra internal, CRU Strategies
* Assumes no Vanadium Plant closures outside China

Windimurra Benchmark Site Cash Production Cost



Project Protected by Low Cost Producer Status

Sources: Windimurra internal, CRU Strategies

PROFIT & LOSS	2008f	2009f	2010f	2011f	2012f
Product Sales	0	90	226	254	254
Hedging Revenue	-	0	(0)	(0)	-
Deferred Revenue	-	-	-	-	-
Interest Income	3	5	5	10	15
Other Income	0	-	-	-	-
Total Revenue	3	95	231	263	269
Operating Costs	0	35	110	125	126
Dep/Amort	0	8	16	16	16
WriteOff (expl'n)	-	1	1	1	1
O/H + New Bus Dev	7	5	5	5	5
Provisions	-	1	1	1	1
EBITDA	(6)	50	111	123	123
EBIT	(6)	40	94	105	106
Interest Expense	1	9	18	18	18
NPBT	(5)	36	81	97	103
Tax	-	-	24	29	31
Minority Interest	(0)	2	6	7	7
NPAT	(4)	34	51	61	65
Net Abnormal Gain	-	-	-	-	-
Net Profit After Abnormal	(4)	34	51	61	65

CASHFLOW	2008f	2009f	2010f	2011f	2012f
Net Profit	(5)	36	57	68	72
+ Working Capital Adjustment	1	(8)	-	-	-
+ Dep/Amort	0	8	16	16	16
+ Provisions & W/O	-	2	2	2	2
+ Tax Expense	-	-	24	29	31
- Deferred Revenue	-	-	-	-	-
- Tax Paid	-	-	14	19	21
= Operating Cashflow	(4)	38	84	96	100
-Capex + Development	170	122	3	3	3
-Exploration	3	5	1	1	1
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+Other	-	-	-	-	-
= Investing Cashflow	(172)	(127)	(4)	(4)	(4)
+ Equity Issues (Rts,plc,opts)	77	-	-	-	-
+Loan Drawdown/Receivable	180	8	-	-	-
+Loans repaid from / (to) other entities	3	-	-	-	-
-Loan Repayment	2	6	6	6	6
-Dividends	-	-	-	-	-
= Financing Cashflow	257	2	(6)	(6)	(6)
Surplus/(Deficit)	81	(86)	74	85	89
FX Adjustments	-	-	-	-	-
CASH	144	58	132	217	306

BALANCE SHEET	2008f	2009f	2010f	2011f	2012f
Assets					
Cash	144	58	132	217	306
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Non-Current Assets	226	340	327	315	302
Total Assets	372	399	460	533	609
Liabilities					
Borrowings	178	191	194	187	181
Current Acc's Payable	6	6	6	6	6
Other Liabilities	12	12	12	12	12
Total Liabilities	196	210	212	206	199
Net Assets	175	189	248	327	410

RESERVES AND RESOURCES	Reserves tonnes mt	grade V2O5 %	Resources tonnes mt	grade V2O5 %
Windimurra (90%)	79.0	0.46	149.0	0.46

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