

*Analyst: Greg Chessell*

## Windimurra Vanadium (WVL \$2.12) BUY

- ▶ Price Target: \$3.50/sh
- ▶ Reason For Update: Project Update
- ▶ Quick Comment:

Windimurra project remains on track for completion in 2008. Some 52% of budget is now committed or spent.

Recent progress includes award and mobilisation of the structural, mechanical and piping contract (\$30m), pouring of ~50% of the required concrete, and award of electrical & instrumentation contract at a price below budget. Mineral Resources' BOOT contract for the beneficiation plant is ahead of schedule.

WVL has re-iterated that it has adequate funds to complete the project, currently with cash of \$220m.

The recent placement has enabled WVL to commence mining earlier than previously planned in order to deliver the optimal metallurgical ore to the plant from start-up.

The FerroVanadium price has consolidated since the run early in 2008 when it peaked at US\$90/kg, now quoted at roughly US\$60/kg of contained V. This remains well above the long run price that we have assumed of US\$40/kg, and the 2007 average of ~US\$35/kg.

### ▶ Investment Case:

Our forecasts and valuation remain unchanged.

We believe the project fundamentals look excellent with potentially low costs and quality product. Risk is mitigated with the previous operating evidence which has enabled improvements in the current incarnation.

The supply/demand scenario for vanadium is particularly attractive and is exacerbated by the Sth African power supply crisis.

The barriers to entry for new Vanadium participants is very high with high capital intensity, high energy consumption and an inability to secure guaranteed offtake in a historically volatile commodity makes conventional debt funding difficult. Windimurra has navigated around these barriers through the previously sunk capital from the old plant (kiln, gas reticulation, mine pre-strip), a gas supply contract negotiated last year with price well under current market rate, and floor price guarantee with Noble.

In the context of an assumed long run US\$40/kg FeV price we believe WVL is valued at \$3.50/sh. The share price will track toward this level as project completion draws nearer.

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.

Significantly higher valuations may be seen if FeV prices demonstrate some sustainability above our long run assumption. For example a sustained US\$60/kg FeV price would see our NPV valuation grow to +\$7.00/sh. Given the historical volatility in the Vanadium price we are reluctant to get too bullish too early, however we believe the price has risk on the upside to our forecasts in the medium to long term, and this is currently a free option in WVL. Investors should also be mindful of the usual commissioning risks associated with mineral projects funded partially through debt. On balance we believe the upside far exceeds the risks.

**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.**

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WINDIMURRA VANADIUM (WVL)		YEAR END 30 JUNE				
<b>MARKET STATISTICS</b>						
Share Price	\$2.12 A\$/sh	Directors				
Issued Capital		W Martinick	Chairman			
Fully Paid Ord	153.3 m	I Scott	MD			
Opt (@ var)	11.2 m	G Korte	Exec Dir			
Total Dil. FPOrd	163.2 m	G Warwick	Dir			
		R Leiman	Dir			
Market Cap'n (dil)	\$328 m	Shareholders				
		Matterhorn	12.5%			
Enterprise Value	\$474 m	George Robinson	6.7%			
Debt	\$(167)m	Gersec	9.9%			
Cash	\$21 m	JP Morgan	8.5%			
		Macq	7.5%			
		HSBC - WF	7.1%			
		Kinetic	5.1%			
<b>ASSET VALUATION</b>		<b>A\$m</b>	<b>A\$/sh</b>			
Windimurra Vanadium	npv	668	4.09			
Hedging	npv	(0)	(0.00)			
Corporate	npv	(20)	(0.12)			
Leased Assets	npv	41	0.25			
Working Cap	nom	-	-			
Unpaid Capital	nom	18	0.11			
Debt	nom	(167)	(1.02)			
Cash	nom	21	0.13			
<b>Total @ 10% nom</b>		<b>561</b>	<b>3.44</b>			
<b>Total @ 0% nom</b>		<b>1,480</b>	<b>9.07</b>			
<b>Total @ 5% nom</b>		<b>877</b>	<b>5.37</b>			
<b>Total @ 15% nom</b>		<b>381</b>	<b>2.34</b>			
<b>FORECAST PRODUCTION</b>		<b>2008f</b>	<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>
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
<b>Assumptions</b>						
FeV Price	US\$/kg	54.5	60.0	45.0	40.0	40.0
V2O5 Price	US\$/lb	11.3	13.3	10.0	8.9	8.9
FX Rate	A\$1=US\$	0.89	0.88	0.83	0.80	0.80
<b>RATIO ANALYSIS</b>		<b>2008f</b>	<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>
CF (A\$m)		(173.8)	(81.4)	84.9	96.4	100.5
CF / Sh (Ac/sh)		(106.4)	(49.8)	52.0	59.1	61.6
CF Ratio (x)		(2.0)	(4.3)	4.1	3.6	3.4
Earnings (A\$m)		(4.0)	36.2	53.9	64.7	68.8
EPS (Ac/sh)		(2.5)	22.2	33.0	39.6	42.1
EPS Growth (%)		0%	-994%	49%	20%	6%
PER (x)		(85.5)	9.6	6.4	5.4	5.0
E'prise Val. (A\$m)		361.4	459.2	384.5	289.1	189.6
EV : EBITDA (x)		(56.4)	8.9	3.3	2.3	1.5
EV : EBIT (x)		(56.4)	10.9	3.9	2.6	1.7
Net Debt / ND+Eq (%)		16%	41%	18%	-13%	-49%
Interest Cover (x)		2.2	11.6	6.9	12.7	50.9
EBIT Margin (%)		na	46%	43%	43%	43%
ROE (%)		-3%	20%	24%	21%	18%
ROA (%)		-2%	10%	21%	20%	18%
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%

<b>PROFIT &amp; LOSS</b>	<b>2008f</b>	<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	
Product Sales	0	92	231	258	259	
Hedging Revenue	-	0	(0)	(0)	-	
Deferred Revenue	-	-	-	-	-	
Interest Income	3	5	5	10	16	
Other Income	0	-	-	-	-	
<b>Total Revenue</b>	<b>3</b>	<b>97</b>	<b>236</b>	<b>268</b>	<b>274</b>	
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)	52	116	128	128	
EBIT	(6)	42	98	110	110	
Interest Expense	1	9	18	18	18	
NPBT	(5)	38	86	102	108	
Tax	-	-	26	31	32	
Minority Interest	(0)	2	6	7	7	
<b>NPAT</b>	<b>(4)</b>	<b>36</b>	<b>54</b>	<b>65</b>	<b>69</b>	
Net Abnormal Gain	-	-	-	-	-	
<b>Net Profit After Abnormal</b>	<b>(4)</b>	<b>36</b>	<b>54</b>	<b>65</b>	<b>69</b>	
<b>CASHFLOW</b>		<b>2008f</b>	<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>
Net Profit	(5)	38	60	72	76	
+ Working Capital Adjustment	1	(8)	-	-	-	
+ Dep/Amort	0	8	16	16	16	
+ Provisions & W/O	-	2	2	2	2	
+ Tax Expense	-	-	26	31	32	
- Deferred Revenue	-	-	-	-	-	
- Tax Paid	-	-	16	21	22	
<b>= Operating Cashflow</b>	<b>(4)</b>	<b>40</b>	<b>88</b>	<b>99</b>	<b>104</b>	
-Capex + Development	170	122	3	3	3	
-Exploration	3	5	1	1	1	
-Assets Purchased	-	-	-	-	-	
+Asset Sales	-	-	-	-	-	
+Other	-	-	-	-	-	
<b>= Investing Cashflow</b>	<b>(172)</b>	<b>(127)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	
+ 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	-	-	-	-	-	
<b>= Financing Cashflow</b>	<b>257</b>	<b>2</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>	
<b>Surplus/(Deficit)</b>	<b>81</b>	<b>(85)</b>	<b>77</b>	<b>89</b>	<b>93</b>	
FX Adjustments	-	-	-	-	-	
<b>CASH</b>	<b>144</b>	<b>60</b>	<b>137</b>	<b>226</b>	<b>319</b>	
<b>BALANCE SHEET</b>		<b>2008f</b>	<b>2009f</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>
<b>Assets</b>						
Cash	144	60	137	226	319	
Current Receivables	1	1	1	1	1	
Other Current Assets	0	0	0	0	0	
Non-Current Assets	226	340	327	315	302	
<b>Total Assets</b>	<b>372</b>	<b>401</b>	<b>466</b>	<b>542</b>	<b>622</b>	
<b>Liabilities</b>						
Borrowings	178	191	194	187	181	
Current Acc'ts Payable	6	6	6	6	6	
Other Liabilities	12	12	12	12	12	
<b>Total Liabilities</b>	<b>196</b>	<b>210</b>	<b>212</b>	<b>206</b>	<b>199</b>	
<b>Net Assets</b>	<b>175</b>	<b>191</b>	<b>253</b>	<b>336</b>	<b>423</b>	
<b>RESERVES AND RESOURCES</b>						
	<b>Reserves</b>		<b>Resources</b>			
	tonnes	grade	tonnes	grade		
	mt	V2O5 %	mt	V2O5 %		
Windimurra (90%)	79.0	0.46	149.0	0.46		

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