



BUY - \$0.40

Mundo Minerals (MUN)

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Crista Gets Some Clarity

Company Data

ASX Code	MUN
Price	\$0.40
12 month price target	\$0.46
12 month dividend yield	-
Implied return	17%
Shares on issue	152m
Market cap	\$60m
12 Month price range	\$0.10 - \$0.65
Monthly turnover (vol)	7m

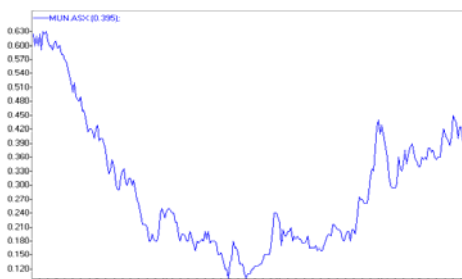
Forecast Changes

	2009F	2010F	2011F
NPAT	(0.6)	(0.4)	(1.0)
EPS	(0.4)	(0.3)	(0.7)
DPS	-	-	-

Earnings Summary

Yr to 30 June	2008	2009F	2010F	2011F
Lodge NPAT	(3.3)	0.4	10.8	9.9
Rep. Profit _(pre sig)	(3.3)	0.4	10.8	9.9
EPS _{adj} (¢)	(2.3)	0.3	7.4	6.8
EPS growth	-	-	2626%	(8%)
P/E ratio	-	146 x	5.3 x	5.8 x
DPS (¢)	-	-	-	-
Yield	-	-	-	-
Franking	-	-	-	-
Payout ratio	-	-	-	-
EV / EBIT	-	112.0 x	5.4 x	8.8 x
EV / EBITDA	-	10.3 x	3.3 x	5.1 x
CFPS (¢)	(2.0)	2.1	11.4	11.8
Price / CF	-	18.7 x	3.5 x	3.3 x
NTA per share	\$0.25	\$0.25	\$0.33	\$0.39
Pr / NTA	1.6 x	1.6 x	1.2 x	1.0 x

Share Price Chart



Source: Iress Market Technology

Encouraging Early Results at Crista

Diamond drilling has commenced at the Crista prospect (located ~1.6km north of the Engenho mine), with the receipt of assays for the initial 2 drill holes:

- QCD-09-01: 7.35m @ 5.67g/t Au from 42.45m
- QCD-09-02 (40m along strike and south of QCD-09-01): 5.2m @ 15.02g/t Au from 49.1m

The diamond drilling program follows extensive trenching activity along a ~200m north-south strike producing average 3.3m intersections @ 6.5g/t. Better channel results included 5.1m @ 5.72g/t, 5.95m @ 2.99g/t, 7.00m @ 11.27g/t, and 5.3m @ 5.91g/t.

These are encouraging early results with good grades and widths outlining open pitable mineralisation. We estimate an economic resource of at least 28koz gold based on this early data.

Crista Potential Economic Resource Size

Parameter	Lodge Estimate		Mundo Estimate
	Low	Upside	
Strike (m)	150	300	
Width (m)	4.5	5.0	
Depth (m)	100	200	
S.G.	2.6	2.6	
Tonnes	176kt	780kt	700 – 800kt
Grade (g/t)	5	6.5	~6.5
Ounces	28koz	163koz	146 – 167koz

The Olhos anomaly (located between the Engenho mine and Crista) is also showing promise based on soil sampling, trenching and hand auger drilling to a ~5m depth:

- Trenching: 3.1m @ 6.1g/t, 1.95m @ 2.02g/t, 11.75m @ 2.88g/t, and 5.9m @ 1.45 g/t
- Auger drilling: 2m @ 5.71g/t, and 2.9m @ 1.625g/t

Crista, along with the Olhos, and Mazoca prospects have the potential to complement Engenho underground production. Mundo Minerals is aiming to bring Crista into production by the September Quarter 2010. The company's recently enunciated Engenho Gold Project production target is 36koz in 2010 (including 34koz from the Engenho mine), increasing to a total 55koz by 2012.

Our View

We consider the initial diamond drill intersections at Crista highly encouraging and look forward to further results. A successful delineation of a resource should enable a ramp-up in Engenho production.

Our valuation has been updated to reflect:

- Incremental increase in extensional / exploration upside
- Issue of 3.25m options with an exercise price of \$0.40/share under the company's executive incentive plan
- Life-of-mine (LOM) exchange rate: 0.825 AU\$/US\$ (previously 0.775 AU\$/US\$)
- LOM Au Price: US\$875/oz (previously US\$825/oz)

We are maintaining our **BUY** recommendation with a revised price target of A\$0.46/share.

Reserves & Resources	2007	2008	2009F	2010F	2011F
Reserves					
Engenho					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Torreillas					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Tocantins					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Resources					
Engenho					
Ore (kt)	1,800	1,767	1,643	1,453	1,252
Grade (g/t)	5.59	5.59	5.59	5.59	5.59
Gold (koz)	318.5	317.7	295.2	261.2	225.0
Torreillas					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Tocantins					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-

Major Shareholders	% of Issued Capital
Anglo Pacific Group PLC	18.3%
Purlec PL	5.7%
Schmulian Michael Leon	4.6%
JP Morgan Nom Aust Ltd	4.5%
HSBC Custody Nominees Aust Ltd	3.8%
Connemara Inv PL	3.6%

Year ending Jun	2007	2008	2009F	2010F	2011F
Engenho					
Ore Milled (kt)	-	8.6	212.0	245.0	250.0
Grade (g/t)	-	2.90	3.29	4.32	4.50
Recovery (%)	-	95%	94%	94%	94%
Production (koz)	-	0.8	21.1	32.0	34.0
Cash Operating Cost (A\$/o:	-	-	766	507	487

Assumptions	2007	2008	2009F	2010F	2011F
Gold Price (US\$/oz)	640	825	880	875	875
Exchange Rate (A\$/US\$)	0.79	0.92	0.75	0.80	0.83

Valuation Summary	A\$M	A\$/Share
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Projects		
Engenho	51	0.34
Extensional Exploration	15	0.10
Regional Exploration	25	0.16
Sub-Total Projects	91	0.60

Financials		
Cash	1	0.01
Debt	(6)	(0.04)
Corporate	(16)	(0.11)
Sub-Total Financials	(21)	(0.14)

Valuation	70	0.46
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Sensitivity Analysis

LOM Au Price (US\$/oz)	A\$/US\$				
	0.70	0.80	0.83	0.90	1.00
700	0.35	0.19	0.16	0.07	(0.03)
800	0.55	0.37	0.33	0.23	0.12
875	0.70	0.50	0.46	0.35	0.23
900	0.75	0.55	0.50	0.39	0.26
1000	0.95	0.73	0.68	0.55	0.41

Mundo Minerals (MUN: \$0.40)

Mkt Cap: \$60m



Valuation data

Year ending Jun	2007	2008	2009F	2010F	2011F
Lodge adj profit	(1.9)	(3.3)	0.4	10.8	9.9
Reported profit (pre sig)	(1.9)	(3.3)	0.4	10.8	9.9
EPS_{adj} (¢)	(1.9)	(2.3)	0.3	7.4	6.8
EPS growth	-	-	-	2626%	(8%)
P/E ratio	-	-	146 x	5.3 x	5.8 x
DPS (¢)	-	-	-	-	-
Yield	-	-	-	-	-
Franking	-	-	-	-	-
Payout ratio	-	-	-	-	-
EV / EBIT	-	-	112.0 x	5.4 x	8.8 x
EV / EBITDA	-	-	10.3 x	3.3 x	5.1 x
CFPS (¢)	(1.9)	(2.0)	2.1	11.4	11.8
Price / CF	-	-	18.7 x	3.5 x	3.3 x
NTA per share	\$0.16	\$0.25	\$0.25	\$0.33	\$0.39
Pr / NTA	2.4 x	1.6 x	1.6 x	1.2 x	1.0 x

Balance sheet (\$M)

Year ending Jun	2007	2008	2009F	2010F	2011F
Cash	8.5	1.4	0.1	3.4	10.8
Receivables	0.2	0.7	6.9	10.0	10.2
Inventories	0.0	1.8	3.1	4.4	4.5
Other	0.1	0.3	0.3	0.3	0.3
Current assets	8.8	4.1	10.4	18.1	25.9
Net PPE	7.1	36.8	41.2	45.0	86.4
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangibles	0.0	0.0	0.0	0.0	0.0
Other	2.6	0.0	0.0	0.0	0.0
Non-current assets	9.6	36.8	41.2	45.0	86.4
Total assets	18.4	41.0	51.6	63.1	112.3
Debt	0.0	0.0	5.8	3.4	42.5
Provisions	0.0	1.9	1.9	1.9	1.9
Other	2.0	2.5	6.9	10.0	10.2
Total liabilities	2.0	4.4	14.7	15.3	54.6
Equity / reserves	18.3	41.8	41.8	41.8	41.8
Retained profits	(1.9)	(5.2)	(4.8)	6.0	15.9
Total s/h funds	16.4	36.6	37.0	47.8	57.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total funds emp.	7.9	35.2	42.7	47.8	89.4

Ratio analysis

Year ending Jun	2007	2008	2009F	2010F	2011F
EBITDA / sales	-	-	22.7%	45.0%	43.2%
EBITAg / sales	-	-	2.1%	27.2%	25.1%
EBIT / sales	-	-	2.1%	27.2%	25.1%
Return on assets	-	-	1.1%	18.5%	10.2%
Return on equity	-	-	1.1%	22.7%	17.2%
Return on funds emp.	-	-	1.5%	24.4%	15.1%
Net debt / (cash) (\$M)	(8.5)	(1.4)	5.7	0.0	31.7
Debt / equity	-	-	15.7%	7.1%	73.7%
Net debt / equity	-	-	15.5%	0.1%	54.9%
Interest cover	-	-	3.1 x	52.7 x	21.8 x

Profit and loss (\$M)

Year ending Jun	2007	2008	2009F	2010F	2011F
Sales revenue	0.0	0.0	28.2	40.6	41.5
EBITDA	(2.4)	(4.3)	6.4	18.2	17.9
Dep'n and amort'n	(0.0)	(0.0)	(5.8)	(7.2)	(7.5)
EBITAg	(2.4)	(4.3)	0.6	11.0	10.4
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(2.4)	(4.3)	0.6	11.0	10.4
Net interest expense	0.5	1.0	(0.2)	(0.2)	(0.5)
Pre-tax profit	(1.9)	(3.3)	0.4	10.8	9.9
Tax	0.0	0.0	0.0	0.0	0.0
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Lodge adjustments	0.0	0.0	0.0	0.0	0.0
Lodge adj profit	(1.9)	(3.3)	0.4	10.8	9.9
Reported profit (pre sig)	(1.9)	(3.3)	0.4	10.8	9.9
One-off items (post tax)	0.0	0.0	0.0	0.0	0.0
Reported net profit	(1.9)	(3.3)	0.4	10.8	9.9

Cashflow (\$M)

Year ending Jun	2007	2008	2009F	2010F	2011F
EBIT	(2.4)	(4.3)	0.6	11.0	10.4
Net interest	0.5	1.0	(0.2)	(0.2)	(0.5)
Dep'n and amort'n	0.0	0.0	5.8	7.2	7.5
Tax paid	0.0	0.0	0.0	0.0	0.0
Gross cash from op'ns	(1.9)	(3.3)	6.2	18.0	17.4
(Inc) / dec in wk'g cap	1.7	(1.7)	(3.1)	(1.4)	(0.1)
(Inc) / dec in provisions	0.6	1.3	0.0	0.0	0.0
Other	(2.4)	0.7	0.0	0.0	0.0
Operating cashflow	(1.9)	(3.0)	3.1	16.7	17.3
Investing cashflows					
Capital expenditure	(7.9)	(26.5)	(10.2)	(11.0)	(49.0)
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflows					
Equity raised	18.4	22.3	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Chg in loans	0.0	0.0	5.8	(2.4)	39.1
Other non-op flows	(0.1)	0.0	0.0	0.0	0.0
Net chg in cash	8.5	(7.1)	(1.3)	3.3	7.5

Interims (\$M)

Half yearly	2H07	1H08	2H08	1H09	2H09
Sales revenue	0.0	0.0	0.0	9.9	18.3
EBITDA	(1.3)	(2.1)	(2.2)	0.6	5.8
EBIT	(1.4)	(2.1)	(2.2)	(1.3)	1.9
Lodge adj profit	(0.9)	(1.5)	(1.8)	(1.4)	1.8
Reported profit	(0.9)	(1.5)	(1.8)	(1.4)	1.8
EBIT / sales	-	-	-	-	-
EPS (¢)	-	-	-	-	-
EPS growth on pcp	-	-	-	-	-
DPS (¢)	-	-	-	-	-
% of FY EBIT	-	-	-	-	-

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Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I, **Michael Lazar (Lazarevic)**, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

Corporate Disclosure

Lodge Corporate has earned corporate fees for providing corporate services to Mundo Minerals Limited including as a manager of the Share Placement (announced on 18 July 2007) and as Underwriter of the subsequent Share Purchase Plan.

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