

## MUNDO MINERALS LTD (MUN)

RESEARCH



Last Price \$0.42  
 Price Target \$0.83  
 Sector Materials - Gold

Risk Rating  
**HIGH**

Short term <12m  
**BUY**

Long Term > 12m  
**BUY**

Company update	June 2008 Quarterly
Recommendation Change	No
Target Price Change	↓ from \$1.00
Forecast Change	New gold price assumptions and updated model assumptions.

## Engenho Gold

### Event

Mundo has reported a successful commissioning and its first gold production from the Engenho gold mine in Brazil during the quarter ended June 2008.

### Key Points

- **Engenho (100%)** maiden unrefined gold dore of 756oz (400oz refined) was produced. As a result of production delays of approximately 6 weeks, the company has taken out a short term loan (undisclosed value) to cover working capital, for a few months only.
- The plant has performed well with throughput 10% above budget and recoveries of 95.38% and improving. We understand grades of ~3/g/t were achieved primarily from remnant ore in the open pit and from development feed.
- Post the first pour, circuit stocks were retained for an additional 2 weeks to allow for optimal carbon loading, hence steady ramp up is now well underway. Treatment and administration costs have been reported within or below budget.
- Mine development is progressing well with the decline now below the open pit and an established first development level. Once the 2<sup>nd</sup> level has been completed primary stoping will commence (expected October 2008) and grades will rise. Mining costs are slightly above budget reflecting higher than budgeted activities.
- Soil sampling results outstanding for Mazoca Anomaly NE of Engenho.
- **Torrecillas (100%)** exploration decline has intersected the main historic vein structure and should allow for minor production (toll treatment) to help fund development and feasibility work. A crosscut has also been commenced to intersect two other know veins for assessment.
- Ongoing ore-sorting testwork is indicating excellent visual separation. A JORC resource is anticipated after development is completed in mid 2009.
- **Tocantins (51%)** exploration has focussed on evaluating existing data. Eight DDH holes at the Conceição project with visible gold and other work conceptually suggest a pipelike mineralised system amenable to open cut operations. At the Jacqueira project rock chip samples of 10.48g/t and 10.07g/t amongst others also indicate a small but high grade target is possible (500koz) in this area.

### Market Stats

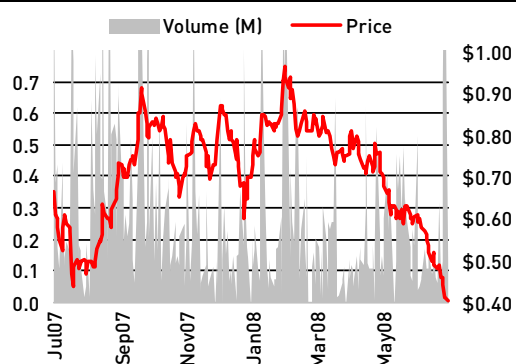
Market Capitalisation	\$m	\$52.4m
12 Month Price Range	\$m	\$0.36 - \$1.02
Monthly Turnover	\$m	\$2.3m
Monthly Volume	m	4.8m
Monthly Turnover (of total)	%	3.8%

Fundamentals		2007A	2008E	2009E	2010E
Net Profit	\$m	-1.9	-10.9	9.4	9.1
EPS	¢	-0.01	-0.07	0.06	0.06
PE	x	na	na	6.6	6.7
DPS	¢	na	na	na	na
Yield	%	na	na	na	na
Franking	%	na	na	na	na
ROE	%	na	na	23%	19%

### Forecast Returns % Return- 12 months

Forecast Price Appreciation	98%
Expected Dividend Yield	
Total Forecast Return	98%

### +Share Price Chart 1 Year



### Valuation and Recommendation

We have completely overhauled our valuation for Mundo Minerals in light of a transfer of analyst coverage. We have valued the Engenho project at \$0.69 per share and risked (20%) the Torrecillas project to \$20m. Furthermore we have only assigned \$10m for exploration though see much more upside. We highlight that our strong gold price forecasts are the key risk for the company, nevertheless we expect Mundo to be a strong long term gold growth company. We have amended our price target to **\$0.83** per share and maintain our BUY with a very positive outlook.



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RESEARCH

TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$0.42	\$0.83	Materials - Gold	HIGH	BUY	BUY

Mundo Minerals	MUN	\$0.420				Financial Summary	07A	08E	09E	10E	11E	
<b>Profit &amp; Loss 30 June</b>		<b>07A</b>	<b>08E</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>						
Revenue	0.5	1.2	34.6	39.9	38.0	EPS (A\$)	-0.01	-0.07	0.06	0.06	0.06	
Operating Costs	0.0	2.2	10.0	11.0	11.0	PER (x)	na	na	6.6	6.7	6.8	
Exploration wo	0	7.3	5.0	5.0	2.0	DPS (cents)	0.00	0.00	0.00	0.00	0.00	
<b>EBITDA</b>	<b>-1.9</b>	<b>-10.8</b>	<b>16.8</b>	<b>20.9</b>	<b>22.0</b>	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
Depn & Amort	0.0	0.1	3.9	7.0	8.3	CFPS (A\$)	-0.01	-0.07	0.09	0.11	0.12	
EBIT	-1.9	-10.9	12.9	13.8	13.7	ROA (%)	na	na	30%	26%	22%	
Interest	0.0	0.0	0.0	0.0	0.0	ROE (%)	na	na	23%	19%	16%	
<b>NPBT</b>	<b>-1.9</b>	<b>-10.9</b>	<b>12.9</b>	<b>13.8</b>	<b>13.7</b>	Net Sales Margin	na	na	27%	23%	24%	
Tax Expense	0.0	0.0	3.5	4.7	4.7	EBIT Margin	na	na	37%	35%	36%	
<b>NPAT</b>	<b>-1.9</b>	<b>-10.9</b>	<b>9.4</b>	<b>9.1</b>	<b>9.0</b>	EV/EBITDA	-28.8	-5.7	2.8	1.5	0.7	
<b>Cashflow (A\$m)</b>		<b>07A</b>	<b>08E</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>						
<b>Operating Cashflow</b>	<b>-1.9</b>	<b>-10.8</b>	<b>16.8</b>	<b>17.4</b>	<b>17.3</b>	Net Debt to Equity	-52%	-4%	-40%	-65%	-83%	
-Capex	-7.6	-18.7	-2.0	-1.5	-1.2	Debt to Assets	0%	0%	0%	0%	0%	
<b>Free Cashflow</b>	<b>-9.5</b>	<b>-29.5</b>	<b>14.8</b>	<b>15.9</b>	<b>16.1</b>	NTA	0.1	0.2	0.3	0.3	0.4	
-Dividends	0.0	0.0	0.0	0.0	0.0							
+Equity Raised	18.4	22.4	0.0	0.0	0.0	<b>Directors / Management</b>						
+Debt Drawdown	0.0	0.0	0.0	0.0	0.0	George Jones					Non Exec-Chairman	
<b>Net Change in Cash</b>	<b>8.6</b>	<b>-7.1</b>	<b>14.8</b>	<b>15.9</b>	<b>16.1</b>	John Langford					Chief Executive Officer	
Cash at End Period	8.5	1.4	16.1	32.0	48.1	Brian Hurley					Non Exec-Director	
						Barry Eldridge					Non Exec-Director	
<b>Balance Sheet (A\$m)</b>		<b>07A</b>	<b>08E</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>	Rob Mackenzie					Non Exec-Director
Cash	8.5	1.4	16.1	32.0	48.1	Mike Schmulian					Managing Director- Sth America	
<b>Total Assets</b>	<b>18.4</b>	<b>30.7</b>	<b>42.7</b>	<b>53.0</b>	<b>62.0</b>							
Total Debt	0.0	0.0	0.0	0.0	0.0	<b>Substantial Shareholders</b>						
<b>Total Liabilities</b>	<b>2.0</b>	<b>2.0</b>	<b>5.5</b>	<b>6.7</b>	<b>6.7</b>	Anglo Pacific Group PLC			15.0		10.3%	
Shareholders Equity	16.4	30.7	40.0	49.2	58.2	ACD Services Ltd			11.7		8.0%	
						<b>Oceanic Asset Management</b>			11.7		8.0%	
<b>Production (koz)</b>		<b>07A</b>	<b>08E</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>	John Langford		8.5		5.8%	
Gold Production	-	0.8	31.6	32.9	32.9	Mike Schmulian		6.8		4.6%		
						<b>Valuation Summary</b>		<b>A\$m</b>		<b>A\$/share</b>		
Cash Cost A\$/t	-	62	52	52	52	Engenho		103		0.69		
Cash Cost A\$/oz	-	679	359	347	346	Torrecillas	20%	20		0.13		
Cash Cost US\$/oz	-	609	327	290	270	Exploration		10		0.07		
<b>Reserves and Resources</b>			<b>Mt</b>	<b>Au g/t</b>	<b>Koz</b>	Forwards		0		0.00		
Engenho Resource			1.82	5.59	327.1	Net Debt		1		0.01		
						Corporate		-11		-0.07		
<b>Assumptions</b>		<b>07A</b>	<b>08E</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>	Unpaid Capital		1		0.01	
US\$/A\$	0.79	0.90	0.91	0.84	0.78							
Gold Price US\$/oz	641	826	1,000	1,015	900	<b>Total (diluted)</b>		<b>9%</b>		<b>124</b>	<b>0.83</b>	

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## Updated Valuation and Assumptions

### Engenho (100%) - Brazil

Our base case cash flow for Engenho is based on the following parameters;

- 8 year mine life
- 1.77mt throughput at nominal 220ktpa
- Average grade 5g/t
- Recovery 93%
- 262.5koz life of mine production (~33kozpa)
- Cash cost A\$345/oz
- Full tax at 34% paid with revenue >\$32m
- 1% State Royalty (CFEM) and 1.5% Refining Cost (Anglogold)

We note that previous suggestions with respect to tax have referred to a "presumed tax assessment" where the overall tax rate could be as low as 3%, however we have taken a more conservative view and assessed the project at full tax rates. Obviously better tax treatment would have a material and positive effect on the valuation.

We have not added any value to exploration success at Engenho itself or from the highly promising Mazoca soil anomaly though we expect high potential for Mundo in this area.

At this stage we highlight the key risk with our valuation as our recently updated and gold price assumptions, where while we have a long term price of US\$750/oz, we average US\$934/oz over the next 4 years. Clearly any sustained weakness would have a negative impact on the share price.

### Torrecillas (100%) - Peru

The exploration decline at Torrecillas in Peru has reached the main Torrecillas gold vein and a crosscut is being driven to two further vein systems (at least 70 historic deposits have been mined in this area). Data collected will form the basis of a feasibility study, while initial small scale production will look to be toll treated. Mundo expects that Torrecillas could be evaluated within 18 months and are targeting a potential project producing 60-70koz pa.

Ore sorting is also expected to support a lower cost mining option to extract the 0.3m – 1m veins, which historically have yielded 30g/t. We have made some high level assumptions to assign a value for this project and again highlight the risk associated with this early stage assessment.

- 5.5 year mine life, start up 2011
- 600kt throughput at 110ktpa
- Average grade of 15g/t, 270koz production at ~50kozpa
- Same capital (\$13m) and operating cost as that at Engenho
- 93% recovery, A\$122/oz cash cost
- 20% of value achieved

**We expect extensions in mine life at Engenho and positive outcomes at the Mazoca anomaly. This will add significant upside value!**

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**Our risked (20%) value for Torrecillas is \$20m, though it's early days.**

We have assigned a risk factor of 20% for this project to reflect the high level of uncertainty with the viability of the project and the cost structure.

At this stage we have assigned a value of \$20m for this project, though if these parameters do come to fruition, on our assumptions could be worth 5x what we have assigned.

#### **Tocantins (51% and right to earn 80%) - Brazil**

The Tocantins JV (256,000ha) has a number of targets, the northern part of the tenement package has quartz hosted deposits, while targets in the south are banded iron hosted (BIF) gold projects.

The Conceição project comprises a very large geochemical gold anomaly, where diamond drilling has located visible gold in 8 holes. Here the company is looking for mid size targets (500-600koz) with high grades (6-7g/t). Pipeline structures which have been conceptually defined could lead to a JORC resource within the next 6- 8 months.

Similarly at Jacqueira, the company believes high grade rock chips and channel sampling in conglomerates and doleritic rock types, could lead to a medium sized (500koz) high grade resource (at 10-12g/t) could be located. A Canadian company in the area is producing 100kozpa

At the Nova Prata project, which has recently been added to the portfolio, the company expects to identify bulk tonnage lower grade target (2-3g/t) which could be much bigger than the smaller high grade targets elsewhere at Tocantins. This anomaly is 4km x 2km in size!

#### **Exploration Upside Valuations**

We believe the exploration portfolio should lead to a number of new discoveries and hence new operating sites in line with the company's vision of 250koz pa within 5 years. This was initially based on 50-60koz from Engenho, 50-70koz from Torrecillas, and 100koz from Tocantins, obviously this will change with exploration data.

**We have possibly undersold exploration success given the huge portfolio of quality projects. Our \$10m is nominal and we will increase our values based on step change success.**

We have assigned a nominal \$10m for exploration, and have balanced exploration outflow to exploration success. While we believe this is conservative we reiterate our positive view of the projects the company holds and look forward to increasing our valuation with further exploration success.

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### Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

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

We have divided our recommendations into four main categories:

**Buy:** Expected Total Return more than 20%

**Accumulate:** Expected Total Return between 5% - 20%

**Hold:** Expected Total Return between -5% and 5%

**Sell:** Expected Total Return less than -5%

### Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size. We divide our risk into three categories:

**High:** Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

**Medium:** Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

**Low:** Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation

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