



**BUY - \$0.35**

## Mundo Minerals (MUN)

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### Expecting Major Progress in FY10

#### Company Data

ASX Code	MUN
Price	\$0.35
12 month price target	\$0.52
12 month dividend yield	-
Implied return	50%
Shares on issue	147m
Market cap	\$51m
12 Month price range	\$0.10 - \$0.48
Monthly turnover (vol)	7m

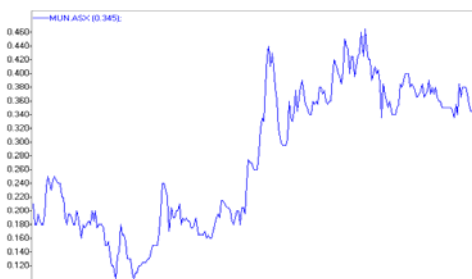
#### Forecast Changes

	2009F	2010F	2011F
NPAT	(3.2)	5.1	(8.6)
EPS	(2.7)	2.5	(7.5)
DPS	-	-	-

#### Earnings Summary

Yr to 30 June	2008	2009F	2010F	2011F
Lodge NPAT	(3.3)	(0.4)	7.6	16.2
Rep. Profit <sub>(pre sig)</sub>	(3.3)	(0.4)	7.6	16.2
EPS <sub>adj</sub> (¢)	(2.3)	(0.3)	4.7	10.0
EPS growth	-	-	-	115%
P/E ratio	-	-	7.4 x	3.4 x
DPS (¢)	-	-	-	-
Yield	-	-	-	-
Franking	-	-	-	-
Payout ratio	-	-	-	-
EV / EBIT	-	64.6 x	5.4 x	3.5 x
EV / EBITDA	-	12.8 x	3.6 x	2.7 x
CFPS (¢)	(2.0)	2.8	7.4	13.7
Price / CF	-	12.1 x	4.6 x	2.5 x
NTA per share	\$0.25	\$0.25	\$0.30	\$0.40
Pr / NTA	1.4 x	1.4 x	1.1 x	0.9 x

#### Share Price Chart



Source: Iress Market Technology

#### FY09 Performance

Mundo Minerals reported an FY09 net loss of \$0.4m (-\$3.3m). The result includes a \$1.0m expense associated with the issue of employee options, and represents a substantial improvement against the 1H09 net loss of \$1.8m. Our forecast (excluding the employee option expense) was a net profit of \$0.5m.

FY09 sales revenue was \$28.5m, compared to our forecast of \$28.3m. Gold production totalled 20.6koz at an average unit cash cost of A\$766/oz, compared to our forecast of 21.1koz at A\$760/oz.

#### Further Efficiencies on the Way

FY09 was a year of production ramp-up and consolidation at Mundo Minerals' Engenho operations, with gold production gradually increasing each quarter. We expect further improvements to be realized in FY10 as a result of:

- Transition from 10m to 16m stopes during the current September quarter (reducing horizontal development)
- First significant ore tonnage from the higher grade Galeria ore body during the current September quarter (i.e. increased ounces per vertical metre)
- Improved ore haulage performance with two new 30t trucks, replacing the existing refurbished 25t units

We forecast FY10 production at ~31koz at a unit cash cost of A\$570/oz.

The company is undertaking a number of risk mitigation initiatives to ensure operational targets are realized. As at 30 June 2009, Mundo had ~45kt stoping ore developed (representing ~2 months production) and ready for mining. The company is targeting to have a total ~90kt stoping ore developed, with the decline advanced 9-12 months ahead of production.

#### Incremental Ounces From Crista

Initial diamond drilling at Crista has delineated near surface, high-grade mineralisation along a 250m strike. Follow-up drilling is currently under way. The company expects to define a mineable resource, adding ~16koz/a, and increasing total Engenho production towards ~48koz/a. We expect the additional mill throughput will require an incremental capital spend.

#### Regional Development / Exploration Upside

A scoping study examining the development of Torrecillas is due for completion before the end of 2009. In parallel, the company will initiate trial mining activities on the 5 de Noviembre and Torre Chico veins following on from the successful trial on the Torrecillas vein.

At Jaqueira, Mundo is planning an initial 6 month drilling program (scheduled to commence in late September 2009) to assess the mineralisation potential along a 600m strike.

#### Our View

FY10 is a defining year for Mundo Minerals:

- The Engenho operation is expected to achieve its target production rate of ~32koz/a at a unit cash cost of ~A\$500/oz by 2H10
- Crista development is expected to be progressed – We have included 15koz production in FY11
- A feasibility study is expected to be completed on Torrecillas - We have forecast production start-up in FY12 at ~45koz/a
- An initial assessment of Jaqueira – No upside has been included in our forecast

With the share price trading at \$0.35 relative to our DCF valuation of \$0.52 we maintain our **BUY** recommendation.

Reserves & Resources	2008	2009	2010F	2011F	2012F
<b>Reserves</b>					
Engenho					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Torreccillas					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Tocantins					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-

Resources	2008	2009	2010F	2011F	2012F
Engenho					
Ore (kt)	1,767	1,645	1,461	1,260	1,059
Grade (g/t)	5.59	5.59	5.59	5.59	5.59
Gold (koz)	317.7	295.7	262.6	226.5	190.3
Torreccillas					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-
Tocantins					
Ore (kt)	-	-	-	-	-
Grade (g/t)	-	-	-	-	-
Gold (koz)	-	-	-	-	-

Major Shareholders	% of Issued Capital
Anglo Pacific Group PLC	19.3%
Purlec PL	5.7%
Accident Compensation Corporation	5.1%
Schmulian Michael Leon	4.3%

Year ending Jun	2008	2009	2010F	2011F	2012F
<b>Engenho</b>					
Ore Milled (kt)	8.6	208	245	250	250
Grade (g/t)	2.90	3.28	4.20	4.50	4.50
Recovery (%)	95%	94%	94%	94%	94%
Production (koz)	0.8	20.6	31.1	47.6	49.1
Cash Operating Cost (A\$/o:	-	766	569	454	446

Year ending Jun	2008	2009	2010F	2011F	2012F
<b>Torreccillas</b>					
Ore Milled (kt)	-	-	-	-	100
Grade (g/t)	-	-	-	-	15.0
Recovery (%)	-	-	-	-	93%
Production (koz)	-	-	-	-	44.9
Cash Operating Cost (A\$/o:	-	-	-	-	479

Assumptions	2008	2009	2010F	2011F	2012F
Gold Price (US\$/oz)	825	875	925	925	925
Exchange Rate (A\$/US\$)	0.92	0.75	0.85	0.85	0.85

Valuation Summary	A\$M	A\$/Share
<b>Projects</b>		
Engenho	72	0.49
Torreccillas	19	0.13
Extensional Exploration	7	0.05
Sub-Total Projects	98	0.67
<b>Financials</b>		
Cash	1	0.01
Debt	(6)	(0.04)
Corporate	(18)	(0.12)
Sub-Total Financials	(23)	(0.15)
<b>Valuation</b>	<b>76</b>	<b>0.52</b>

**Sensitivity Analysis**

	A\$/US\$					
	0.70	0.80	0.85	0.90	1.00	
<b>LOM Au Price (US\$/oz)</b>	800	0.61	0.37	0.27	0.19	0.04
	900	0.84	0.58	0.47	0.37	0.20
	925	0.90	0.63	0.52	0.42	0.25
	950	0.96	0.68	0.56	0.46	0.29
	1000	1.08	0.78	0.66	0.55	0.37

## Mundo Minerals (MUN: \$0.35)

Mkt Cap: \$51m



## Valuation data

Year ending Jun	2008	2009	2010F	2011F	2012F
Lodge adj profit	(3.3)	(0.4)	7.6	16.2	25.2
Reported profit (pre sig)	(3.3)	(0.4)	7.6	16.2	25.2
<b>EPS<sub>adj</sub> (¢)</b>	<b>(2.3)</b>	<b>(0.3)</b>	<b>4.7</b>	<b>10.0</b>	<b>15.6</b>
<b>EPS growth</b>	-	-	-	<b>115%</b>	<b>56%</b>
<b>P/E ratio</b>	-	-	<b>7.4 x</b>	<b>3.4 x</b>	<b>2.2 x</b>
DPS (¢)	-	-	-	-	-
Yield	-	-	-	-	-
Franking	-	-	-	-	-
Payout ratio	-	-	-	-	-
EV / EBIT	-	64.6 x	5.4 x	3.5 x	1.1 x
EV / EBITDA	-	12.8 x	3.6 x	2.7 x	0.8 x
CFPS (¢)	(2.0)	2.8	7.4	13.7	24.9
Price / CF	-	12.1 x	4.6 x	2.5 x	1.4 x
NTA per share	\$0.25	\$0.25	\$0.30	\$0.40	\$0.56
Pr / NTA	1.4 x	1.4 x	1.1 x	0.9 x	0.6 x

## Balance sheet (\$M)

Year ending Jun	2008	2009	2010F	2011F	2012F
Cash	1.4	1.2	3.7	18.5	50.2
Receivables	0.7	1.1	1.6	2.3	4.1
Inventories	1.8	1.6	2.2	3.2	5.7
Other	0.3	0.3	0.3	0.3	0.3
<b>Current assets</b>	<b>4.1</b>	<b>4.2</b>	<b>7.7</b>	<b>24.2</b>	<b>60.2</b>
Net PPE	36.8	42.8	49.7	89.9	81.4
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	0.0	1.2	1.2	1.2	1.2
<b>Non-current assets</b>	<b>36.8</b>	<b>44.1</b>	<b>50.9</b>	<b>91.1</b>	<b>82.6</b>
<b>Total assets</b>	<b>41.0</b>	<b>48.2</b>	<b>58.6</b>	<b>115.3</b>	<b>142.8</b>
Debt	0.0	5.7	3.2	42.4	41.1
Provisions	1.9	3.0	3.0	3.0	3.0
Other	2.5	2.6	3.4	4.8	8.4
<b>Total liabilities</b>	<b>4.4</b>	<b>11.2</b>	<b>9.6</b>	<b>50.1</b>	<b>52.4</b>
Equity / reserves	41.8	42.6	47.1	47.1	47.1
Retained profits	(5.2)	(5.6)	2.0	18.2	43.4
<b>Total s/h funds</b>	<b>36.6</b>	<b>37.0</b>	<b>49.0</b>	<b>65.2</b>	<b>90.4</b>
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total funds emp.</b>	<b>35.2</b>	<b>41.5</b>	<b>48.5</b>	<b>89.1</b>	<b>81.3</b>

## Ratio analysis

Year ending Jun	2008	2009	2010F	2011F	2012F
EBITDA / sales	-	15.1%	35.8%	48.6%	53.2%
EBITAg / sales	-	3.0%	23.9%	37.6%	37.7%
<b>EBIT / sales</b>	-	<b>3.0%</b>	<b>23.9%</b>	<b>37.6%</b>	<b>37.7%</b>
Return on assets	-	1.8%	17.0%	22.1%	41.6%
<b>Return on equity</b>	-	<b>-1.0%</b>	<b>15.4%</b>	<b>24.8%</b>	<b>27.9%</b>
<b>Return on funds emp.</b>	-	<b>2.2%</b>	<b>20.7%</b>	<b>31.1%</b>	<b>45.2%</b>
Net debt / (cash) (\$M)	(1.4)	4.6	(0.5)	23.9	(9.1)
Debt / equity	-	15.5%	6.6%	65.0%	45.4%
<b>Net debt / equity</b>	-	<b>12.3%</b>	<b>(1.0%)</b>	<b>36.6%</b>	<b>(10.0%)</b>
Interest cover	-	1.9 x	34.3 x	30.6 x	20.7 x

## Profit and loss (\$M)

Year ending Jun	2008	2009	2010F	2011F	2012F
Sales revenue	0.0	28.5	39.0	56.9	102.3
EBITDA	(4.3)	4.3	14.0	27.7	54.4
Dep'n and amort'n	(0.0)	(3.4)	(4.7)	(6.2)	(15.8)
<b>EBITAg</b>	<b>(4.3)</b>	<b>0.9</b>	<b>9.3</b>	<b>21.4</b>	<b>38.5</b>
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(4.3)</b>	<b>0.9</b>	<b>9.3</b>	<b>21.4</b>	<b>38.5</b>
Net interest expense	1.0	(0.4)	(0.3)	(0.7)	(1.9)
Pre-tax profit	(3.3)	0.4	9.0	20.7	36.7
Tax	0.0	(0.8)	(1.5)	(4.5)	(11.5)
Preference dividends	0.0	0.0	0.0	0.0	1.0
Minorities	0.0	0.0	0.0	0.0	0.0
Lodge adjustments	0.0	0.0	0.0	0.0	0.0
<b>Lodge adj profit</b>	<b>(3.3)</b>	<b>(0.4)</b>	<b>7.6</b>	<b>16.2</b>	<b>25.2</b>
Reported profit (pre sig)	(3.3)	(0.4)	7.6	16.2	25.2
One-off items (post tax)	0.0	0.0	0.0	0.0	0.0
Reported net profit	(3.3)	(0.4)	7.6	16.2	25.2

## Cashflow (\$M)

Year ending Jun	2008	2009	2010F	2011F	2012F
EBIT	(4.3)	0.9	9.3	21.4	38.5
Net interest	1.0	(0.4)	(0.3)	(0.7)	(1.9)
Dep'n and amort'n	0.0	3.4	4.7	6.2	15.8
Tax paid	0.0	(0.8)	(1.5)	(4.5)	(11.5)
<b>Gross cash from op'ns</b>	<b>(3.3)</b>	<b>3.1</b>	<b>12.2</b>	<b>22.4</b>	<b>41.0</b>
(Inc) / dec in wk'g cap	(1.7)	(0.5)	(0.2)	(0.3)	(0.8)
(Inc) / dec in provisions	1.3	1.3	0.0	0.0	0.0
Other	0.7	0.2	0.0	0.0	0.0
<b>Operating cashflow</b>	<b>(3.0)</b>	<b>4.2</b>	<b>12.0</b>	<b>22.1</b>	<b>40.3</b>
<b>Investing cashflows</b>					
Capital expenditure	(26.5)	(6.9)	(11.5)	(46.5)	(7.3)
Asset sales	0.0	0.0	0.0	0.0	1.0
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	(3.4)	0.0	0.0	0.0
<b>Financing cashflows</b>					
Equity raised	22.3	0.1	4.5	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
<b>Chg in loans</b>	<b>0.0</b>	<b>5.8</b>	<b>(2.6)</b>	<b>39.2</b>	<b>(1.3)</b>
Other non-op flows	0.0	0.0	0.0	0.0	0.0
<b>Net chg in cash</b>	<b>(7.1)</b>	<b>(0.1)</b>	<b>2.5</b>	<b>14.8</b>	<b>32.7</b>

## Interims (\$M)

Half yearly	2H07	1H08	2H08	1H09	2H09
Sales revenue	0.0	0.0	0.0	9.9	18.6
EBITDA	(1.3)	(2.1)	(2.2)	0.6	3.7
<b>EBIT</b>	<b>(1.4)</b>	<b>(2.1)</b>	<b>(2.2)</b>	<b>(1.3)</b>	<b>2.2</b>
<b>Lodge adj profit</b>	<b>(0.9)</b>	<b>(1.5)</b>	<b>(1.8)</b>	<b>(1.4)</b>	<b>1.0</b>
Reported profit	(0.9)	(1.5)	(1.8)	(1.4)	1.0
EBIT / sales	-	-	-	-	12%
<b>EPS (¢)</b>	-	-	-	-	<b>0.6</b>
EPS growth on pcp	-	-	-	-	-
DPS (¢)	0.0	0.0	0.0	0.0	0.0
% of FY EBIT	-	-	-	-	-

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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.

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Lodge Corporate has earned corporate fees for providing corporate services to Mundo Minerals Limited.

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