

# Image Resources NL

## (IMA \$0.13) Speculative Buy

Analyst	Date	Price Target
Andrew Clayton	21 <sup>st</sup> May 2018	\$0.21/sh

### Construction commences and Higher Price assumptions

#### Investment case

IMA is now fully funded and remains on track for first production in late CY'18 and aims to be positive cashflow in 1st Q CY'19. The mineral sands market, particularly zircon, continues to look tight and susceptible to further price increases. This should dovetail nicely into IMA reaching peak production in CY'20. Forecast CY'20 EBITDA of ~ \$100m puts IMA on EV/EBITDA of <1x which is too cheap should it successfully execute. Our valuation has increased to \$0.21/sh on higher price assumptions and we maintain our Speculative Buy.

#### Key points

- IMA is now fully funded with all Conditions Precedent to the \$50m loan facility satisfied. Funds are expected to be rec'd by the 25th of May'18,
- Construction is underway with the start of construction of the site entry road and some lay down areas. Total construction time is scheduled to be 6-7 months with commissioning slated for 4th Q CY'18.
- We forecast CY'19 and CY'20 EBITDA of \$69m and 96m respectively which is in line with IMA forecasts of \$56m and \$108m.
- At current prices this would put IMA on a CY'20 EV/EBITDA of <1x compared to a smaller mid cap producers on a EV/EBITDA multiple of 3-4x.
- We have increased our LT Zircon price assumptions from US\$1,400/t to US\$1,450/t due to continued tightness in the market, lack of new projects slated to come into production.

Image Resources NL	Year End 31 December	
Share Price	0.13	A\$/sh
Price Target	0.21	A\$/sh
Valuation	0.21	A\$/sh

Shares on issue	952	m, diluted *
Market Capitalisation	125	A\$m
Enterprise Value	103	A\$m
Debt	4	A\$m
Cash	26	A\$m
Largest Shareholder	Orient Zirconic 42%	

Production F/Cast	2018f	2019f	2020f
Zircon (kt)	13	60	76
Ilmenite (kt)	23	105	135
Rutile (kt)	1	5	6

Assumptions	2018f	2019f	2020f
Rutile US\$/t	900	1000	1000
Zircon US\$/t	1350	1450	1500
AUDUSD	0.78	0.78	0.78

Key Financials	2018f	2019f	2020f
Revenue (A\$m)	32	143	189
EBITDA (A\$m)	13	69	96
NPAT (A\$m)	11	39	59
Cashflow (A\$m)	-64	52	84

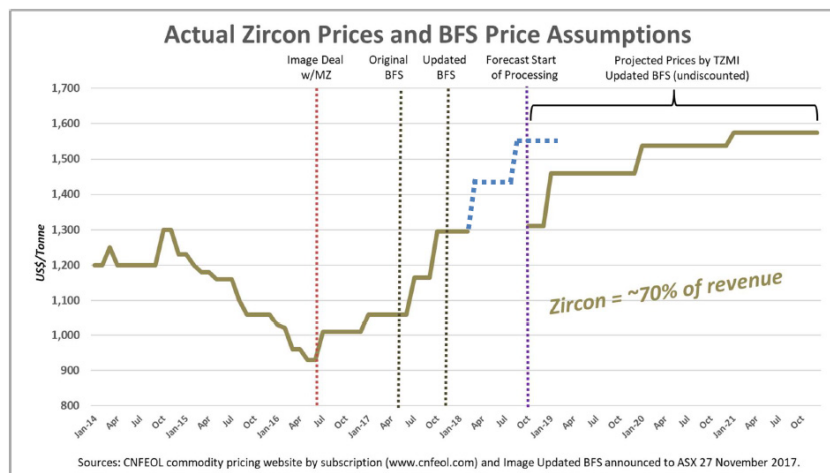
CFPS (Ac)	-7	5	9
P/CFPS (x)	na	2.5	1.5

EPS (Ac)	1	4	6
EPS growth (%)	na	264%	51%
PER (x)	12.0	3.3	2.2

EV:EBITDA (x)	8.1	1.5	n/a
EV:EBIT (x)	8.4	1.7	n.a

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	51%	na	na
Interest Cover (x)	na	8.6	91.9



Source: Image Resources NL

- We also note that TZMI prices for Zircon show a base price increasing to ~ US\$1,650/t by 2025 and a high case of >US\$2,000/t.
- Our valuation and Price Target has increased to \$0.21/sh as a result.
- We also note recent corporate action in the sector with Eramet launching an unsolicited cash bid for its 50% JV partner MDL at \$1.46/sh - or a 33% premium to the 1month VWAP price. MDL is currently trading at \$1.70/sh.

#### Share Price Chart



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## Image Resources NL

### (IMA \$0.13) Speculative Buy

#### Analysis

IMA is poised to enter the mineral sands market at the perfect time with forecast strong prices and minimal new supply on the market. We are pleased to see that all conditions for the debt drawdown have now been met.

The low capital cost, short lead time to production and strong forecast cashflow in the early years makes IMA an attractive investment.

As a conventional mineral sands project with standard off the shelf processing this risks are reduced compared to some of the recent producers/ramp up. Mining and processing of 3.5mtpa is relatively modest (MDL - dredge mining at 50mtpa).

IMA liquidity has improved since the funding announcement with 29m traded in the past month compared to 80m in the past year. We expect this trend to continue.

Our valuation has increased slightly to \$0.21/sh but we see upside risk to this. If IMA can deliver forecast EBITDA of ~ \$100m in CY'20 then we expect a material re-rating as EV/EBITDA multiples of <1x do not usually last.

# Image Resources NL

(IMA \$0.13) Speculative Buy



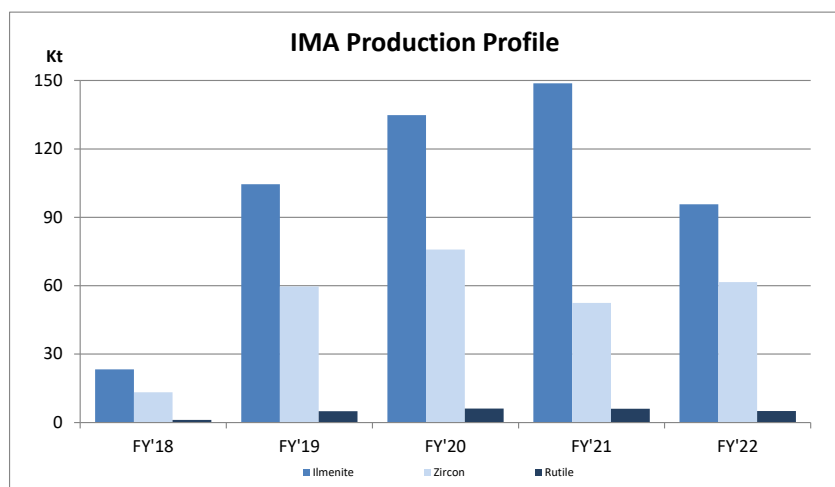
## Key Variables

Val/ Sh		Ilmenite								
\$0.21		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.13	\$0.13	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.16	\$0.16
	10%	\$0.15	\$0.15	\$0.16	\$0.16	\$0.17	\$0.17	\$0.17	\$0.18	\$0.18
	5%	\$0.17	\$0.17	\$0.18	\$0.18	\$0.19	\$0.19	\$0.20	\$0.20	\$0.21
	0%	\$0.19	\$0.20	\$0.20	\$0.21	\$0.21	\$0.22	\$0.22	\$0.23	\$0.23
	-5%	\$0.21	\$0.22	\$0.23	\$0.23	\$0.24	\$0.24	\$0.25	\$0.25	\$0.26
	-10%	\$0.24	\$0.25	\$0.25	\$0.26	\$0.27	\$0.27	\$0.28	\$0.28	\$0.29
	-15%	\$0.27	\$0.28	\$0.29	\$0.29	\$0.30	\$0.30	\$0.31	\$0.32	\$0.32

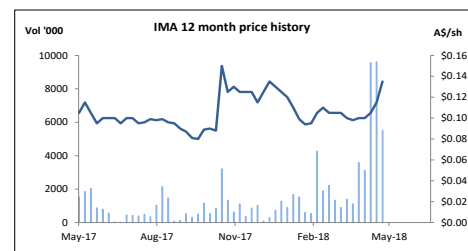
Val/ Sh		Rutile								
\$0.21		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.14	\$0.14	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15
	10%	\$0.16	\$0.16	\$0.16	\$0.16	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17
	5%	\$0.18	\$0.18	\$0.18	\$0.18	\$0.19	\$0.19	\$0.19	\$0.19	\$0.20
	0%	\$0.20	\$0.20	\$0.21	\$0.21	\$0.21	\$0.21	\$0.22	\$0.22	\$0.22
	-5%	\$0.23	\$0.23	\$0.23	\$0.23	\$0.24	\$0.24	\$0.24	\$0.24	\$0.25
	-10%	\$0.25	\$0.26	\$0.26	\$0.26	\$0.27	\$0.27	\$0.27	\$0.27	\$0.28
	-15%	\$0.29	\$0.29	\$0.29	\$0.30	\$0.30	\$0.30	\$0.30	\$0.31	\$0.31

Val/ Sh		Zircon								
\$0.21		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.09	\$0.10	\$0.12	\$0.13	\$0.15	\$0.16	\$0.18	\$0.19	\$0.20
	10%	\$0.10	\$0.12	\$0.13	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23
	5%	\$0.12	\$0.14	\$0.15	\$0.17	\$0.19	\$0.20	\$0.22	\$0.24	\$0.25
	0%	\$0.14	\$0.16	\$0.18	\$0.19	\$0.21	\$0.23	\$0.24	\$0.26	\$0.28
	-5%	\$0.17	\$0.18	\$0.20	\$0.22	\$0.24	\$0.25	\$0.27	\$0.29	\$0.31
	-10%	\$0.19	\$0.21	\$0.23	\$0.25	\$0.27	\$0.28	\$0.30	\$0.32	\$0.34
	-15%	\$0.22	\$0.24	\$0.26	\$0.28	\$0.30	\$0.32	\$0.34	\$0.36	\$0.38

Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Ilmenite	\$180	\$180	\$180	\$180	\$180	\$180
Rutile	\$900	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Zircon	\$1,350	\$1,450	\$1,500	\$1,450	\$1,450	\$1,450
AUDUSD	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78



## Our Share Price Sensitivity



## Our Market Sensitivity

Price Target: \$0.20/sh

Bull Scenario: \$0.40/sh

Long term zircon price increase to US\$2,000/t and 2 yrs extra mine life is added at Boonanarring before relocating to Atlas.

Base Scenario: \$0.20/sh

Successful development of the project on time and budget. Commissioning to start in 4th Q CY'18.

Bear Scenario: \$0.10/sh

Cost overrun and project delays may see the need for a further capital injection.

## Company Summary

Image Resources NL (IMA) is an exploration company focused on mineral sands. Primary assets include Boonanarring and Atlas projects in the North Perth Basin. Total reserves and resources are 2.1mt and 13.2mt of heavy mineral content (HMC). Expected production for FY'18 is 26.5kt Zircon, 46.5kt Ilmenite and 2.2kt Rutile. Production is forecasted to grow by 300% to 71kt Zircon, 135kt Ilmenite and 6kt Rutile by FY'20.

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The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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# Image Resources NL

## (IMA \$0.13) Speculative Buy



Market Statistics		Year End 31 December	
<b>Share Price</b>	<b>\$0.13 A\$/sh</b>	<b>Directors</b>	
Issued Capital		B.Besley	Chair
FP Ord	952.4 m	P.Mutz	MD
Opt (@\$0.11/sh)	35.0 m	G.Sakalidis	Exec Dir
Opts (ex @ 0.10/sh)	3.0 m	C.Chen	NE Dir
<b>Total Dil. FPOrd</b>	<b>987.4 m</b>	A.Soo	NE Dir
		P.Thomas	NE Dir
		F.Wu	NE Dir
Market Capitalisation	\$125 m	<b>Shareholders</b>	
Enterprise Value	\$103 m	Orient Zirconic	
Debt	\$4 m	42%	
Cash	\$26 m		

Asset Valuation	A\$m	A\$/sh
Boonanarring Mineral Sands (100%)	173	0.18
Corporate	(25)	(0.02)
Exploration	20	0.02
Unpaid Capital	2	0.00
Tax losses	12	0.01
Debt	4	0.00
Cash	26	0.03
<b>Total</b>	<b>208</b>	<b>0.21</b>

F/Cast Production (A\$m)	2018f	2019f	2020f	2021f
<b>Prod'n</b>				
<b>Boonanarring</b>				
Zircon (kt)	13	60	76	52
Ilmenite (kt)	23	105	135	149
Rutile (kt)	1	5	6	6
Price Re'cd -Rutile	900	1000	1000	1000
Price Re'cd -Zircon	1350	1450	1500	1450
Price Rec' - Ilmenite	180	180	180	180
FX rate	0.78	0.78	0.78	0.78

Ratio Analysis (A\$m)	2018f	2019f	2020f	2021f
CF (A\$m)	(64)	52	84	47
CF / Sh (Ac/sh)	(7)	5	9	5
CF Ratio (x)	na	2	2	3
Earnings (A\$m)	11	39	59	35
EPS (Ac/sh)	1	4	6	4
EPS Growth (%)	na	264%	51%	-41%
Earnings Ratio (x)	12	3.3	2.2	3.7
E'prise Val. (A\$m)	167	122	44	3
EV : EBITDA (x)	8	1	n/a	n/a
EV : EBIT (x)	8	2	n.a	n/a
Net Debt / ND+Eq (%)	51%	na	na	na
Interest Cover (x)	na	9	92	na
EBIT Margin (%)	40%	43%	45%	32%
ROE (%)	25%	47%	38%	19%
ROA (%)	13%	51%	53%	25%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%

Profit and Loss (A\$m)	2018f	2019f	2020f	2021f
Mineral Sands Revenue	31	142	187	140
Hedging Revenue	-	-	-	-
Interest Revenue	1	1	3	5
Other Revenue	-	-	-	-
<b>TOTAL REVENUE</b>	<b>32</b>	<b>143</b>	<b>189</b>	<b>145</b>
Operating Costs	14	69	87	79
Dep/Amort	1	8	11	12
W/O & Provisions	-	-	-	-
Corp O/H	4	4	4	4
EBITDA	13	69	96	58
EBIT	12	61	85	46
Interest Expense	4	7	4	1
NPBT	10	55	84	50
Tax	-	16	25	15
Minorities	-	-	-	-
<b>NET PROFIT</b>	<b>11</b>	<b>39</b>	<b>59</b>	<b>35</b>
Net Abnormal Gain/(Loss)	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>11</b>	<b>39</b>	<b>59</b>	<b>35</b>

Cash Flow (A\$m)	2018f	2019f	2020f	2021f
Net Profit	11	39	59	35
+ Working Capital Adj.	(5)	(8)	-	-
+ Dep/Amort	1	8	11	12
+ Provisions	-	-	-	-
+ Tax Expense	-	16	25	15
- Tax Paid	-	-	8	12
- Deferred Revenue	-	-	-	-
<b>Operating Cashflow</b>	<b>6</b>	<b>56</b>	<b>87</b>	<b>50</b>
-Capex + Development	71	4	3	3
-Exploration	3	6	6	6
-Assets Purchased	-	-	-	-
+Asset Sales	-	-	-	-
+ Other	-	-	-	-
<b>Investing Cashflow</b>	<b>(74)</b>	<b>(10)</b>	<b>(9)</b>	<b>(9)</b>
+Equity Issues	25	-	-	-
+Loan D'down/Receivable	50	-	-	-
-Other (share buy back)	-	-	-	-
-Restricted cash	-	-	-	-
-Loan Repayment	4	14	28	8
-Dividends	-	-	-	-
<b>Financing Cashflow</b>	<b>71</b>	<b>(14)</b>	<b>(28)</b>	<b>(8)</b>
<b>Period Sur (Def)</b>	<b>3</b>	<b>31</b>	<b>50</b>	<b>33</b>
<b>Cash Balance</b>	<b>7</b>	<b>38</b>	<b>89</b>	<b>122</b>

Balance Sheet (A\$m)	2018f	2019f	2020f	2021f
<b>Assets</b>				
Cash	7	38	89	122
Current Receivables	0	0	0	0
Other Current Assets	0	0	0	0
Non-Current Assets	85	81	72	63
<b>Total Assets</b>	<b>93</b>	<b>119</b>	<b>161</b>	<b>185</b>
<b>Liabilities</b>				
Borrowings	50	36	8	-
Current Accounts Payable	1	1	1	1
Other Liabilities	0	0	0	0
<b>Total Liabilities</b>	<b>51</b>	<b>37</b>	<b>9</b>	<b>1</b>
<b>Net Assets</b>	<b>42</b>	<b>83</b>	<b>152</b>	<b>184</b>

### Reserves and Resources

	Reserves			Resources		
	mt	%HM	mt HM	mt	%HM	mt HM
Boonanarring	20	7.2	1.4	44	5.6	2.4
Atlas	9	8.1	0.7	18	6.0	1.1
Other				32	6.0	1.9
Bidamina (dredge)				44	3.0	1.3
Other (dredge)				192	2.0	6.5

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