

Talisman Mining Ltd

(TLM \$0.365) Speculative Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	7 th April 2017	\$0.61/sh

Monty Feasibility Study (TLM 30%)

Investment case

The high grade Monty Cu deposit feasibility study demonstrates a very profitable development that will be exploited expediently, albeit it is of limited scale. The returns are below our prior expectations (mainly on mineable inventory and opex) by -25% resulting in a decrease in our valuation. We believe SFR would prefer to own 100% of Monty. Exploration results at Monty have been disappointing since the exceptional original discovery, however the down-dip & down-plunge remains prospective and will now be tested. TLM's balance sheet is excellent, capable of funding its share of exploration at Monty and at Sinclair. Talisman's 100% owned Sinclair Ni project offers excellent optionality to an eventual recovery in the Ni price. Our valuation is reduced to \$0.61/sh.

Key points

Mine plan calls for mining of 0.8mt ore grading 9.4% Cu, 1.5g/t Au, containing 74kt Cu and 38koz Au.

The bulk of the ore will be mined over a 15 month period, largely in FY'20.

A 12 month development will commence in Sep Q'17, and the decline box-cut to commence in DecQ'17.

Capex (pre-production) will be \$72m, plus \$18m of sustaining capital. TLM intends to fund its share of capex (\$22m) via 100% debt. This is supported by the high margin of Monty and SFR's operation track record.

Recovered metal is expected to be 70kt Cu and 21koz Au.

Sandfire will process all Monty ore through the DeGrussa mill under an Ore Sale & Purchase Agreement (OSPA), whereby SFR will pay TLM \$513/t of ore delivered to ROM pad basis A\$3.84/lb Cu (compared with A\$3.50/lb today). The OSPA will vary by \$67/t per 10% movement in price received.

Operating costs disclosed by Talisman are a C1 cash cost of US\$1.13/lb payable (These costs are expected to be slightly higher than those of SFR). SFR's existing DeGrussa operations cash cost guidance is US\$0.95-US\$1.05/lb payable.

Cost commentary is that mining costs will be similar to those of DeGrussa, being the net of narrower widths, cemented stope fill, smaller stope size and higher grades.

Monty yields a net pre-tax cashflow of \$64m to TLM, implying -\$230m for project 100% basis, some \$100m below our earlier estimates.

The major differences are in:

- Metal price assumed (Monty FS is slightly more conservative at A\$3.83/lb Cu v's our A\$3.90/lb Cu), say \$5m 100% basis;
- Assumed tonnage available in mine plan, 0.8mt v's our assumed 0.9mt, say \$25m 100% basis;
- Higher operating costs (C1 Costs -US\$1.00/lb Cu payable v's Monty expected at -US\$0.80/lb), say \$40m 100% basis;
- Capex A\$90m life of mine v's our \$60m estimate, say \$30m 100% basis.

We have revised down our TLM valuation by \$0.09/sh to \$0.61/sh.

Talisman Mining Ltd	Year End 30 June	
Share Price	0.365	\$/sh
Issued Capital		
Ordinary	185.7	m
Options (@ avg \$0.57/sh)	11.2	m
Total Diluted	186	m
Mkt Capital'n	68	\$m
Enterprise Value	53	\$m
Debt	0	\$m
Cash	15	\$m

Directors

J Kirkwood	Chair
D Madden	MD
B Dawes	NE Dir
K Gadsby	NE Dir
A Senior	NE Dir

Shareholders

Kerry Harmanis	16.0%
Hunter Hall	13.1%

Company Details

6 Centro Avenue
Subiaco, WA 6008
ph: +618 9380 4230

Share Price Chart



Disclosure

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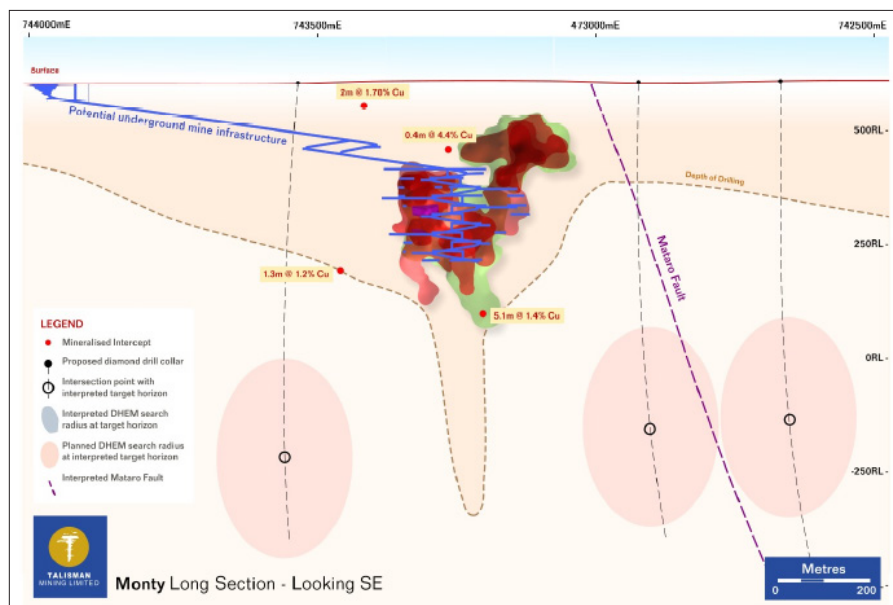
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While there is no doubt that Monty will be a highly profitable mine, it is of limited size. We believe that incremental additional tonnes will be identified and mined once grade control drilling is completed. However exploration from surface drilling has so far failed to extend the scope of the deposit materially since the initial drilling success.

Deep drilling of 3 diamond holes will commence in April 2017, as part of the previously approved \$2.2m budget (100% basis) for June Q'17. These holes will test the prospective sequence below Monty at approximately 700m depth, and also provide platforms for DHEM surveys to further refine targets.



Source: Talisman Mining Ltd

TLM Valuation		
	A\$m	A\$/sh
Monty	53	0.28
Doolgunna	10	0.05
Sinclair	30	0.16
Other expln	1	0.01
Cash	15	0.08
WC/Tax Losses	4	0.02
Unpaid Capital	0	0.00
Total	113	0.61

Source: Euroz Ltd

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Contact Details

Euroz Securities Limited +61 8 9488 1400

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Julian Lake - Associate Analyst	+61 8 9488 1470
Matthew Gavshon - Associate Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Brian Bates - Executive Director	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Steve Grove - Associate Director	+61 8 9488 1410
Jamie Mann - Associate Director	+61 8 9346 0301
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Duncan Relf - Investment Adviser	+61 8 9346 0322
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Richard Gardner - Investment Adviser	+61 8 9488 1444
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

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