



# IMX Resources Limited

**IXR** A0.026 **TARGET PRICE** A\$0.15 **BUY** 1.5X

IMX Resources Limited is focused on exploring and developing its graphite, nickel and gold projects in Tanzania, while the company also has a suite of iron ore and base metals projects at Mt Woods in South Australia.

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## Graphite momentum builds - drill intersection found in existing database

**IMX Resources (IXR target A\$0.15/sh NPV A\$0.16/sh) is rapidly generating evidence that it has the geology to be a graphite story, with evidence from VTEM geophysical targets over wide areas of its Tanzanian lease holdings, and graphite intersections in drill core from nickel exploration drilling at Ntaka Hill. Core photographs indicate the presence of sought after flake graphite. This has emerged from a review of IXR's existing data inventory by the new management that joined the company earlier this year. IXR's primary graphite target, Chilalo, is 20Km from the graphite drill intersections, but adjacent to Uranex' Nachu discovery, and is hosted in a VTEM geophysical target suggesting multiple graphite horizons of 50-200m thickness, 54Km of target strike length, and surface chip samples assaying 4.8% - 29.6% carbon. Initial drilling is planned for the Chilalo North prospect, where three surface samples have returned 17.5-19.5% carbon.**

- ◆ **IXR at deep discount to near neighbour Uranex** –The discovery of graphite has driven Uranex to a market capitalization of A\$49M vs the IXR market capitalization of A\$10M. Uranex was a uranium explorer spun out of IXR.
- ◆ **Valuation & Target** – Our valuation is based on risked NPVs of the existing Ntaka nickel and Snaefell magnetite discoveries, and an estimate of the graphite exploration potential. Our target is higher, reflecting the belief that drilling will derisk the graphite. We have placed zero value for the gold potential, and expect drilling to add value.
- ◆ **Gold** – As part of its evaluation of the nickel prospectivity of IXR's Tanzanian ground, MMG conducted multi element geochemistry surveys, which detected anomalous gold over a 4Km x 5.5Km area with peak readings of 904ppb (0.9g/t). This will be drilled in October.
- ◆ **Nickel Exploration/ MMG ceased contributing** – MMG will have a maximum interest in the Tanzanian leases of IXR of 15%. This includes any non-nickel discoveries as well. That interest will dilute as IXR spends.
- ◆ **Cash A\$1.7M at 30 June** – Post the end of the quarter, IXR raised A\$2.97M in two tranches. Tranche 1 of 55M shares at A\$0.027/sh has been received, with the other half subject to approval at a shareholders meeting on 17<sup>th</sup> September 2014. On IXR's planned expenditure, it will have A\$1.9M on hand at 30<sup>th</sup> September 2014.

### Company Data

Number of shares	451M
Market capitalisation	\$12M
Free Float (%)	59.8
12 month high/low	\$0.10/\$0.02
Average monthly turnover	\$1M
% S&P/ASX 200	n/a
% All Ordinaries	n/a
DDM Ranking	n/a
ESG Disclaimer Score (Ranking)	n/a
GICS Industry Group	Materials

### BBY vs Consensus

	BBY FY1	Consensus FY1	% Difference
EBITDA (\$m)	(23.1)	12.0	(292.8)
NPAT (\$m)	(23.4)	2.0	(1,268.4)
EPS (c/sh)	(5.7)	0.51	(1,218)

### BBY Technical View – as at 13/08/2014

Short Term	Uptrend	Resistance	\$0.04
Long Term	Downtrend	Support	\$0.017

### Earnings summary (AUD)

Year end June	2013A	2014F	2015F	2016F
Net Attributable Profit (\$M)	(25.8)	(23.4)	(5.4)	(17)
Reported Profit (\$M)	(25.8)	(23.4)	(5.4)	(17)
EPS (¢)	(6.8)	(5.7)	(1.1)	(0.3)
P/E (x)	(0.9)	(0.5)	(2.5)	(9.6)
CFPS (¢)	10.5	(0.7)	(1.1)	(0.3)
P/CF (x)	0.6	(3.7)	(2.6)	(7.8)
DPS (¢)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	(4.8)	(0.6)	(2.9)	(6.1)
Franking (%)	0.0	0.0	0.0	0.0

### IXR Share Price Performance



## Financial Summary

## IMX Resources Limited

Share Price (A\$) \$0.026

Mkt Cap (A\$M)

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Year ending June 30

Profit & Loss (A\$M)	2013A	2014F	2015F	2016F
Total Revenue	193.7	164.7	3.7	0.0
Growth (%)	0.8	(15.0)	(97.7)	(100.0)
EBITDA	(2.1)	(23.1)	(5.2)	(2.0)
Growth (%)	(261.5)	nm	77.7	61.3
Dep'n and amort'n	(20.3)	(14.9)	0.0	0.0
EBIT	(22.5)	(38.0)	(5.2)	(2.0)
Net interest expense	(1.3)	0.0	(0.2)	(0.1)
PBT	(26.8)	(38.2)	(5.4)	(2.1)
Growth (%)	(45.3)	(42.6)	85.9	61.8
Tax	(0.7)	2.3	0.0	0.3
<b>NPAT Underlying attrib.</b>	<b>(25.8)</b>	<b>(23.4)</b>	<b>(5.4)</b>	<b>(1.7)</b>
Growth (%)	(54.6)	(30.8)	85.0	67.4
<b>NPAT Reported</b>	<b>(25.8)</b>	<b>(23.4)</b>	<b>(5.4)</b>	<b>(1.7)</b>
<b>Normalised NPAT</b>	<b>(25.8)</b>	<b>(23.4)</b>	<b>(5.4)</b>	<b>(1.7)</b>
Ord Shares	396.5	396.5	526.5	626.5
Options	14.0	21.7	21.7	21.7
Fully Diluted	410.5	418.2	548.2	648.2
FD Wgtd Av Shares	377.0	413.3	505.7	623.2

Cashflow (A\$M)	2013A	2014F	2015F	2016F
Customer receipts	218.7	175.1	0.0	0.0
Supplier Payments	(178.9)	(178.2)	(8.9)	(2.0)
Net interest paid	(0.2)	0.1	(0.1)	(0.2)
Taxes Paid	0.0	0.0	0.0	0.0
<b>Net operating cash flow</b>	<b>39.7</b>	<b>(3.0)</b>	<b>(5.3)</b>	<b>(2.2)</b>
Capex	(16.1)	(6.2)	0.0	0.0
<b>Net investing cash flow</b>	<b>(17.0)</b>	<b>(4.3)</b>	<b>0.0</b>	<b>0.0</b>
Dividends paid	0.0	0.0	0.0	0.0
<b>Net financing cash flow</b>	<b>(13.3)</b>	<b>(17.3)</b>	<b>3.8</b>	<b>2.0</b>
<b>Net Change in cash</b>	<b>9.4</b>	<b>(24.6)</b>	<b>(1.6)</b>	<b>(0.2)</b>
<b>Net cash at end of period</b>	<b>7.8</b>	<b>(16.8)</b>	<b>(18.4)</b>	<b>(18.5)</b>
Free cash flow	39.7	(3.0)	(5.3)	(2.2)

Balance sheet (A\$M)	2013A	2014F	2015F	2016F
Cash	26.4	1.7	0.2	0.0
Receivables	2.6	10.0	0.0	0.0
Inventories	12.2	20.7	0.0	0.0
<b>Current assets</b>	<b>41.5</b>	<b>32.7</b>	<b>0.6</b>	<b>0.4</b>
Tangible Assets	57.0	29.3	29.3	29.3
Investments	2.7	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>102.2</b>	<b>62.0</b>	<b>39.5</b>	<b>39.8</b>
Payables	34.3	20.9	0.0	0.0
Current Term debt	12.8	0.0	0.0	0.0
Long term debt	0.0	3.0	3.0	0.0
<b>Total liabilities</b>	<b>52.5</b>	<b>41.7</b>	<b>20.7</b>	<b>17.7</b>
<b>Total Shareholder Equity</b>	<b>49.7</b>	<b>20.4</b>	<b>18.8</b>	<b>22.0</b>

Key Assumptions	2012A	2013A	2014F	2015F	2016F
Assumptions					
AUD/USD	1.032	1.027	0.918	0.891	0.865
Fines Iron Ore (US c/dmtu Contract)	234.4	202.7	182.0	157.6	150.4
Fines Price 62% Fe US\$/t FOB					
Pilbara	145.3	125.7	112.9	97.7	93.3
Freight from Pilbara US\$/t	8.0	8.0	8.0	8.0	8.0
Freight from South Australia US\$/t	20.0	17.5	20.0	20.0	20.0
Snaefell 66% Fe US\$/t FOB	158.2	137.7	120.2	92.0	87.3
Cairn Hill 56% Fe US\$/t CIF	136.5	100.4	97.5	85.3	81.8
Cairn Hill 50% Fe US\$/t CIF	119.1	91.6	91.8	80.4	59.4
EBIT					
Cairn Hill I	23.7	5.3	(11.7)	0.0	0.0
Cairn Hill II	0.0	0.0	0.0	0.0	0.0
Mt Woods Magnetite	0.0	0.0	0.0	0.0	0.0
Nkata/Sleeping Giant	0.0	0.0	0.0	0.0	0.0
MRRT	0.0	0.0	0.0	0.0	0.0
SG&A	(6.5)	(9.5)	(5.0)	(3.9)	(2.0)
Exploration	(6.2)	(11.1)	(6.0)	(5.0)	0.0
Other	1.4	0.1	(0.1)	3.7	0.0
EBIT Total	12.5	(15.1)	(22.8)	(5.2)	(2.0)

Investment summary	2013A	2014F	2015F	2016F
NPAT reported	(25.8)	(23.4)	(5.4)	(1.7)
NPAT Underlying	(27.5)	(35.9)	(5.4)	(1.7)
EPS Reported	(6.8)	(5.7)	(1.1)	(0.3)
EPS Underlying	(6.8)	(5.7)	(1.1)	(0.3)
EPS Growth (%)	8.6	17.3	81.2	73.6
P/E Underlying (x)	(0.9)	(0.5)	(2.5)	(9.6)
Dividend (¢/sh)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Gross Yield (%)				
Net Yield (%)				
Franking (%)	0.0	0.0	0.0	0.0

Key Ratios	2013A	2014F	2015F	2016F
<b>Profitability (%)</b>				
EBITDA	(2.1)	(23.1)	(5.2)	(2.0)
EBITDA/Rev (%)	(1.1)	(14.0)	(138.7)	
EBIT	(22.5)	(38.0)	(5.2)	(2.0)
EBIT/Rev (%)	(11.6)	(23.1)	(138.7)	
NPAT	(27.5)	(35.9)	(5.4)	(1.7)
NPAT/Rev (%)	(13.3)	(14.2)	(144.1)	
ROE (%)	(49.7)	(66.7)	(27.4)	(8.6)
ROA (%)	(20.2)	(46.3)	(10.2)	(5.0)
ROIC (%)	(35.4)	(92.0)	(16.7)	(6.4)

Financial Strength	2013A	2014F	2015F	2016F
Debt to equity (%)	25.7	14.8	16.0	0.1
Net debt (\$M)	(13.6)	1.3	2.8	0.0
Net debt to equity (%)	(27.3)	6.3	15.1	0.0
Net Debt to EBITDA (%)	6.4	(0.1)	(0.5)	0.0
Interest Cover EBIT (x)	(16.5)	(751.4)	(25.4)	(38.8)
Current Ratio (x)	0.9	1.5	0.6	0.4
Quick Ratio (x)	0.6	0.6	0.6	0.4

Valuation	2013A	2014F	2015F	2016F
Operating cash flow	39.7	(3.0)	(5.3)	(2.2)
CFPS (¢ - FD)	10.5	(0.7)	(1.1)	(0.3)
Price/CF	0.6	(3.7)	(2.6)	(7.8)
BV per share (\$)	0.1	0.1	0.0	0.0
Price/Book Value (x)	0.5	0.5	0.8	0.8
NTA (\$)	55.5	20.4	18.8	22.0
NTA per share (\$)	0.1	0.1	0.0	0.0
Price/NTA (x)	0.5	0.5	0.8	0.8
EV/Sales (x)	0.1	0.1	4.0	
EV/EBITDA (x)	(4.8)	(0.6)	(2.9)	(6.1)
EV/EBIT (x)	(0.5)	(0.4)	(2.9)	(6.1)

NPV Summary	A\$M	Resources	Mt	Grade (%)
Cairn Hill I	0.0	100% Basis		
Cairn Hill II	0.0	<b>Iron Ore</b>		
Mt Woods Magnetite	24.0	Cairn Hill	7.9	50.5%
Ntaka Nickel	45.7	Snaefell	569.0	27.1%
MRRT	0.0	Nickel		
Corporate/Admin	(3.8)	Ntaka Hill	36.7	0.7%
Exploration	0.0			
Other/Tax Break	(1.3)			
Total Operations	64.7			
Tanzanian Graphite	24.0			
Listed Assets	0.0			
Cash	1.0			
Debt	(3.0)			
Net Working Capital	0.0			
Net Pension Assets	0.0			
Provision for restoration	0.0			
Total NPV	86.6			
NPV A\$/sh	0.16			
Issued Shares	528.24			
WACC = 11.7%				

Source: BBY, Company Reports. BBY contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ. The ESG (Environmental, Social, Governance) score is a measure of the sustainability and ethical impact of an investment in this company or product. ESG scores range from 0.1 (min) to 100 (max). ESG scores are provided to BBY by Bloomberg and are only available for those companies that disclose ESG data to Bloomberg.

## Investment proposition

### Moving from iron ore focus to graphite and gold

IMX Resources has moved from being an iron ore production and development company to an exploration company focussed on the graphite and gold potential of its extensive Tanzanian lease position. Its ability to make this move is a testament to the quality and diversity of its exploration holdings, with the new management bringing a fresh approach to the potential of those holdings. This is not a criticism of past management, whose focus was clearly on generating positive cash flow from its iron ore producing assets, and funding its historical nickel exploration effort.

The graphite and gold focus is highly appropriate for a company of IXR's size, because these are commodities that are relatively low cost to explore for, can generate substantial share price uplift on relatively limited exploration, and production facilities are relatively low cost and technically simple to build. IXR has operated for many years in Tanzania, and has delivery track record.

### Graphite the number one focus with the existing database delivering drill ready targets

IXR's main graphite target at Chilalo, in particular, North Chilalo, has the following advantages:

1. Chilalo is around 10Km from Uranex's Nachu project.
2. It is defined by existing VTEM geophysical data, implying a number of potential graphite targets over a large part of IXR's 6800 square Km lease holding, with Chilalo being the primary target.
3. Carbon horizons of 50-200m in thickness inferred from the VTEM over 54Km of strike at Chilalo, indicate potential for a very large deposit, or group of deposits.
4. IXR has surface chip samples containing graphitic gneiss similar to that found at Uranex's Nachu project, so IXR will commence drilling with a high degree of target definition, and we expect that drilling will identify a graphite resource. Today's announcement includes rock chip assays grading up to 19.5% carbon.
5. Graphite in drill core intersections from 20Km to the west of Chilalo provide evidence that graphite in flake form is present in IXR's leases, with Uranex reporting flake 10Km to the east.

### Gold an excellent second string target

We support the exploration for gold, because gold is a known commodity to investors, unlike graphite which has few operating mines than can be used as templates, and the Kishugu target looks highly prospective for a high grade gold discovery suitable for a company of IXR's size to develop.

### IXR has a nickel discovery in its Tanzanian lease position that has a positive NPV

While Ntaka Hill is probably too small to be developed at current nickel prices, given the risks of a new mine in a new region, and the volatility of the nickel price, it has an existing 43-101 scoping study and a positive NPV at consensus nickel prices, with upside potential from 6 months' of MMG drilling.

### Australian exploration ground has potential but awaiting farm ins

There is also iron ore and copper-gold potential in Australia, but these assets are awaiting a farm in partner to fund any future exploration There is A\$3M guarantee liability that has arisen from the sudden closure of Cairn Hill iron ore operations in the June 2014 quarter which has been deferred to 1 July 2015, and is secured against IXR's Mt Woods iron ore resource assets.

## Application of recent funds raised

**Table 1. Use of funds raised in recent issue**

Use of proceeds	Indicative amount	A\$M
Chilalo graphite exploration and evaluation		0.60
Kishugu gold exploration and evaluation		0.40
Ntaka Hill Nickel Tenement Retention Feasibility Study		0.50
Tenement holding costs		0.35
<u>Working capital and costs associated with the Offer</u>		<u>1.15</u>
<u>Total</u>		<u>3.00</u>

Source: IXR

The drilling season in Tanzania tends to slow during the wet season which occurs at a similar time to the Australian wet season (Late December to March). IXR anticipate mobilizing currently available rigs in October, resulting in two months of drilling prior to the wet season.

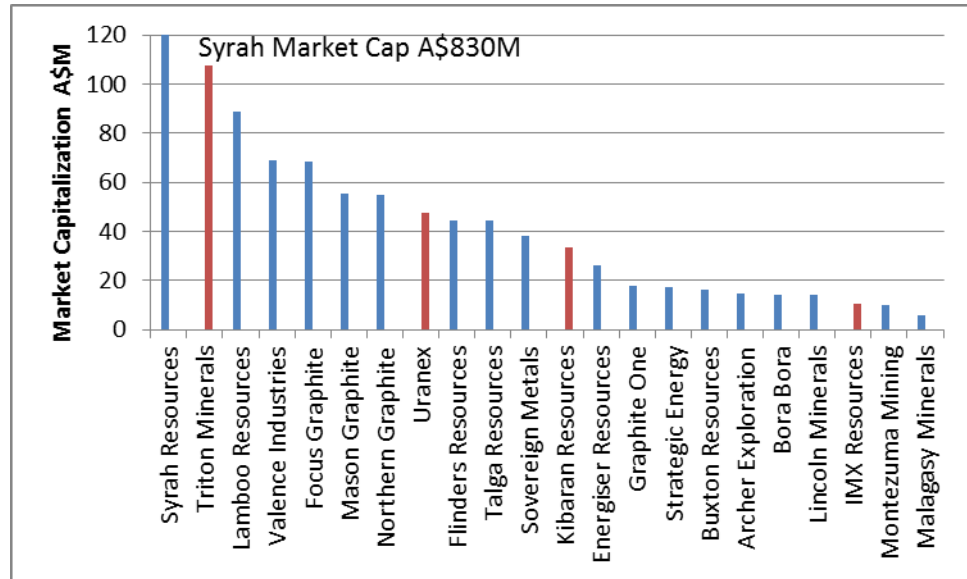
### Graphite: a great target for a small company

Graphite has a very clear geophysical signature, and the other discoveries in the region are close to surface and cheap to drill up into a resource. Market recognition is also rapid. The best comparison for IXR would be the other Tanzanian/Mozambique Graphite stories: Triton, Uranex, Kibaran, and the giant of the sector, Syrah, with respective market values of A\$107M, A\$34M, A\$47M, and A\$842M.

Uranex has reported an exploration target of 325-490Mt at 4-9% carbon, or 55-115Mt at 6-12% carbon. The current ASX and JORC standard for reporting exploration targets is a disciplined process, and the targets have a strong likelihood of conversion into resources. Uranex has spent 6-9 months and around A\$2M to get to this point, which is a target well within the reach of IXR.

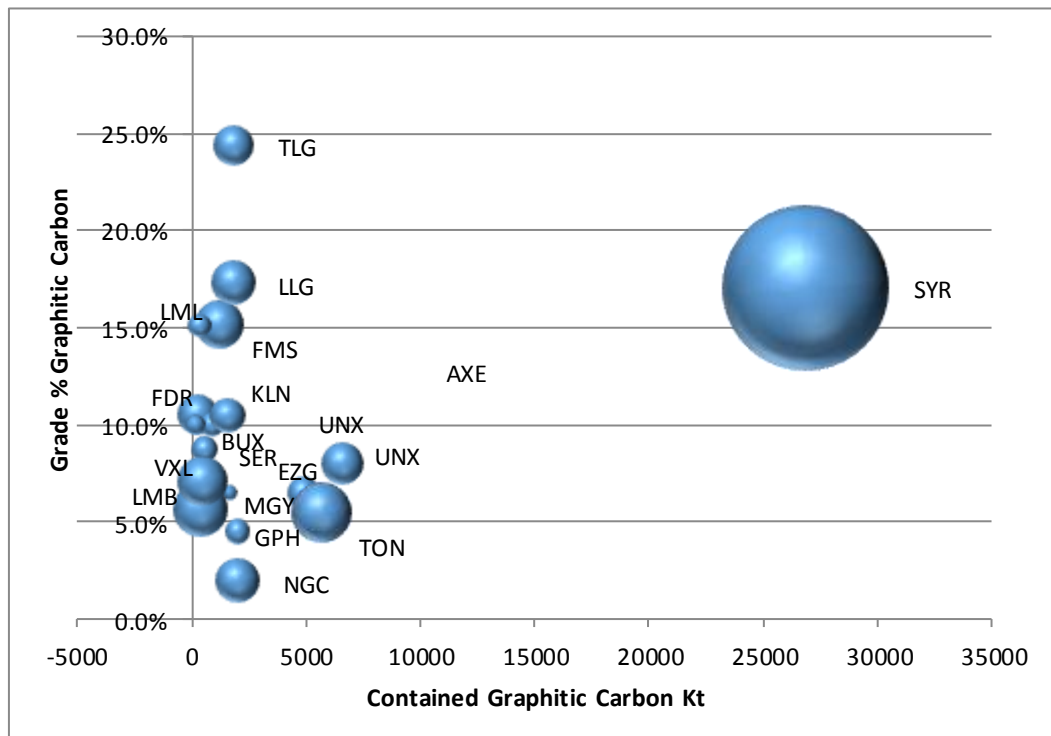
In Chart 2 we have plotted UNX on the basis of 75Mt at 9% graphite.

**Chart 1. Market capitalization of graphite companies v IXR**



Source: BBY Research

**Chart 2. Graphite companies deposit metrics v market capitalization**



Source: BBY Research, Bubble size = market capitalization in A\$M, TON being A\$107M

**Table 2. Graphite Comparisons**

Owner(s)	Ticker	Shares M	Price A\$/sh	Mcap A\$M	Resource Mt	Grade C %	Graphitic Carbon Kt	Cash \$M	Market Cap \$/t C
Syrah Resources	SYR	163.5	5.080	830.4	157.0	17.1%	26847	3.9	30.8
Triton Minerals	TON	299.3	0.380	113.7	103.0	5.5%	5665	4.5	19.3
Lambo Resources	LMB	135.6	0.645	87.4	6.6	5.6%	371	2.3	229.4
Valence Industries	VXL	135.6	0.530	71.9	6.4	7.1%	454	3.0	151.6
Focus Graphite	FMS	107.1	0.64	68.5	7.9	15.1%	1189	16.2	44.0
Mason Graphite	LLG	68.1	0.81	55.2	10.4	17.3%	1790	0.6	30.5
Northern Graphite	NGC	49.1	1.12	55.0		2.0%	2000	9.6	22.7
Uranex	UNX	263.6	0.185	48.8	85.0	8.0%	6600	2.2	7.1
Flinders Resources	FDR	46.2	0.96	44.4	2.6	10.5%	273	16.8	100.9
Talga Resources	TLG	124.6	0.355	44.2	7.6	24.4%	1854	1.7	22.9
Kibaran Resources	KNL	120.3	0.300	36.1	14.9	10.5%	1565	0.5	22.7
Sovereign Metals	SVM	118.1	0.300	35.4				3.0	
Energiser Resources	EGZ	222.9	0.12	26.4	75.0	6.5%	4875	2.3	4.9
Strategic Energy	SER	348.6	0.053	18.5	6.6	8.7%	574	1.1	30.3
Graphite One	GPH	127.3	0.14	17.8		4.5%	2000	0.3	8.8
Buxton Resources	BUX	54.8	0.290	15.9	8.5	10.0%	850	1.3	17.2
Archer Exploration	AXE	84.3	0.180	15.2	6.4	8.8%	561	11.2	7.1
Bora Bora	BBR	28.0	0.510	14.3		100%		1.7	
Lincoln Minerals	LML	268.4	0.052	14.0	2.2	15.1%	332	1.4	37.8
IMX Resources	IXR	451.5	0.025	11.3					
Montezuma Mining	MZM	70.5	0.160	11.3	1.5	10.0%	150		75.2
Malagasy Minerals	MGY	160.8	0.034	5.5	25.0	6.5%	1625	1.4	2.5

Source: Company data, Factset. Note the Uranex tonnages and grades are Exploration targets not Resources.

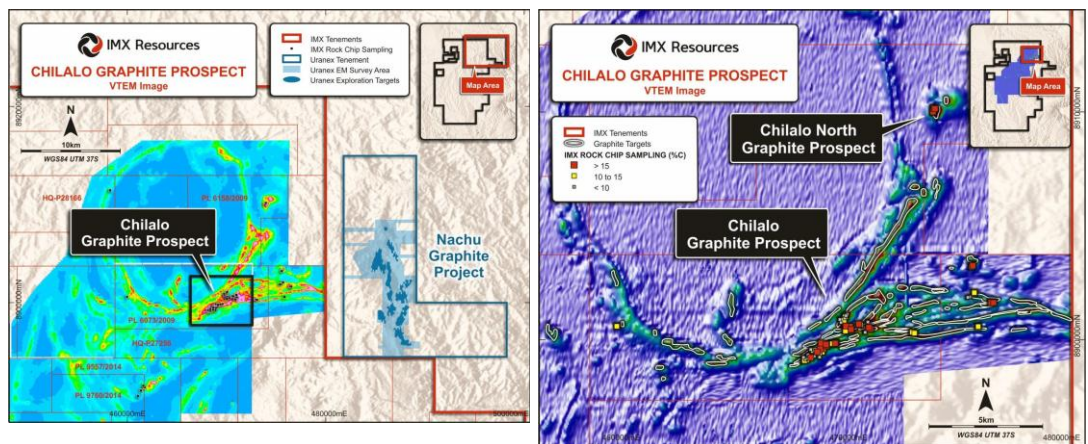
The Uranex exploration program drilling started in the September quarter 2013, paused in the southern summer, and resumed in March 2014. The stock re-rating has been driven by drill intersections, and reported metallurgical testing confirming the graphite quality. The total exploration spend to March 2014 was A\$2M.

Uranex’s Nachu project has yet to report a resource, but has an exploration target of 325-490Mt at 4-9% C or 55-115Mt at 6-12% C, based on 79 RC and diamond drill holes. Metallurgical testing reported flake of 45% over 180µm vs 25.1% for Syrah’s Balama deposit, with 96.7% recovery into 94.4% graphite concentrate, and a leached concentrate grade of 99.4%. UNX has signed a MOU with Chinese SOE SINOMA for the sale of 100Ktpa of 90-95% graphite.

Both IXR and UNX have considerable potential to appreciate, with IXR likely to catch up to the capitalization of UNX as a starting point. Both companies lag the other Mozambique/Tanzanian peers.

**Chart 3. Location of Chilalo graphite prospect (IXR 85% interest)**

The Nachu graphite project in Chart 1 is owned by Uranex (UNX).



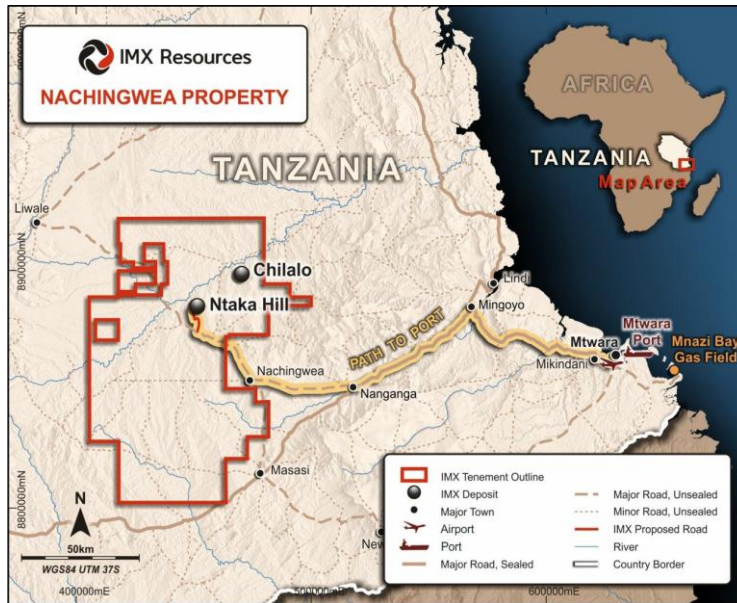
Source: IXR

Other Tanzania targets – Gold and Nickel

Chart 4. Location of Tanzanian leases – now 85% IXR

MMG has formally notified IXR that it is withdrawing from the JV. Its interest will be a maximum of 15%, which will dilute as IXR spends more on the leases (red outline).

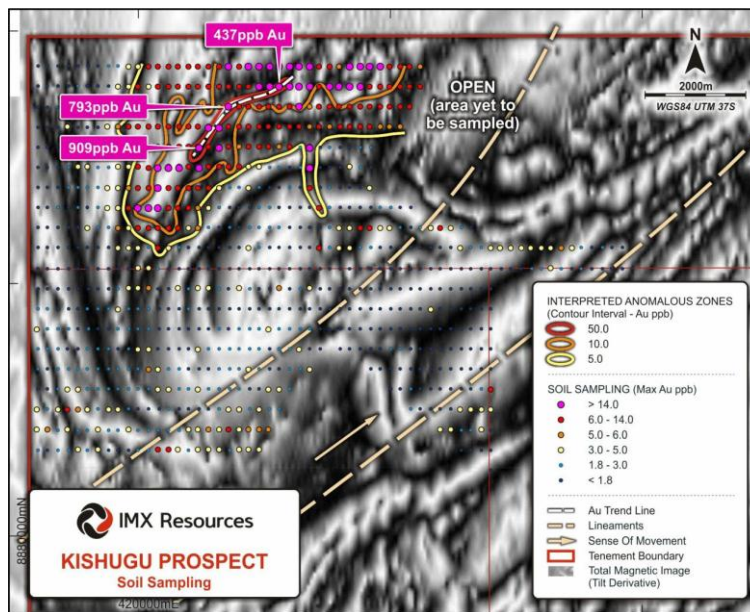
Ntaka Hill is the focus of nickel exploration. The Kishugu gold anomaly is west of Ntaka Hill.



Source: IXR

Gold – Kishugu Gold Prospect

Chart 5. Gold geochemical anomaly



Source: IXR

The Kishugu gold anomaly measures 4km x 5.5km and is defined by 168 sample points on a broad spaced 400m x 200m reconnaissance grid. The anomaly has not been closed off along strike.

Within the broader anomaly, the soil sampling program returned peak gold values of 904ppb Au, 793ppb Au and 437ppb Au, with these high values defining a 2km linear trend. This 2km trend is significant on its own, particularly given that the gold concentrations are the equivalent of 0.9, 0.8 and 0.4 g/t gold. The anomaly also exhibits elevated levels of other elements typically associated with gold mineralisation, such as arsenic, bismuth and silver. The aeromagnetic data indicates that the anomaly may be related to a large NE-SW oriented structure(s) and a potential alteration zone denoted by decreased magnetic intensity.

These levels of soil anomaly are very exciting, and drilling is planned for 2014. In contrast to graphite, gold is a known market to investors, and the development of gold mines represents very low technical risk which would be acceptable for companies of IXR's stature. As such, this target offers investors with an insurance policy, in the event the graphite story does not work out.

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BBY Limited was appointed Lead Manager to the Capital Raising which was announced on 4 August 2014.

Contact with IXR has been made during the preparation of this report for assistance with verification of facts.

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