

17 May 2011

Alkane Resources

ALK

\$1.95/share

First MOU signed – more to come

BUY

ALK has signed the first of several MOUs for offtake from its Dubbo Zirconia Project. The MOU covers ~6ktpa of zirconium product paving the way for ALK to proceed with the expanded 1Mtpa project (15ktpa). ALK also announced a JV to construct a zirconium oxychloride (ZOC) plant with potentially significant additional revenue. Demand for all of ALK's products remains very high as customers look to secure long term supply and diversify away from China. We expect another 2-3 MOUs to be signed by end of June for further offtake across all products. We recommend buying ALK with 167% upside to our NPV (1Mtpa) of A\$5.21ps.

Reasons to BUY

- NPV of A\$5.21ps.
- Upside with potential to expand >1Mtpa rates.
- Forward PEs of 1-2x.
- Capital payback less than 2 yrs.
- Open cut mine life of over 80 years.
- Strong markets for all products.

MOU for zirconium product

- With a leading chemical co. & a leading trading co.
- Covers ~50% of planned zirconium output at 1Mtpa.
- Strategic move by customer to secure LT supply.
- Heads of Agreement (HOA) targeted by year end.
- Customer remains confidential until HOA completed.
- MOU includes JV to construct ZOC plant (15-20ktpa).
- Strategic move to diversify away from China.
- Equates to ~US\$70Mpa revenue at current prices.
- ZOC output targets Japanese, European, US markets.
- Further ZOC plant studies planned during the year.
- Additional MOUs currently under consideration.

What does it mean?

- MOU firms up 1Mtpa throughput as likely scenario.
- Confirms ALK's Dubbo project as attractive LT supply.
- Potential for significant additional revenue with ZOC.
- Customers keen to develop downstream with ALK.

Newsflow ahead

- Q2 2011 – MOUs with customers for DZP.
- Q3 2011 – Dubbo BFS completion.
- Q3 2011 – Tomingley Gold financing.
- Q1 2012 – Dubbo construction.
- Q4 2012 – First production Tomingley.
- Q4 2013 – First production Dubbo.

Company Data

Shares - ordinary	269.0M
Options	0M
Total (fully diluted)	269.0M
Market Cap	\$524.5M
12 month low/high	\$0.23 / \$2.73
Average monthly turnover	\$36.9M

Financial Summary (fully diluted) – 1Mtpa rates

Year end June	2010A	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.2	0.0	21.5	89.1	323.4	480.5
Costs (\$M)	1.5	2.2	15.8	54.9	128.3	172.1
EBITDA (\$M)	-2.1	-2.2	5.7	34.1	195.2	308.4
NPAT (\$M)	-1.8	-6.3	-17.0	-14.8	97.0	181.5
EPS (¢ps)	-0.7	-2.4	-6.3	-5.5	36.1	67.5
PER (x)	na	na	na	na	5.4	2.9
Cashflow (Gross-\$M)	-1.2	-6.3	-12.3	1.9	162.8	247.5
CFPS (¢/sh)	-0.5	-2.4	-4.6	0.7	60.5	92.0
PCFPS (x)	na	na	na	277	3.2	2.1
Enterprise Value (\$M)	244	636	879	1014	863	626
EV / EBITDA (x)	na	na	155	30	4.4	2.0

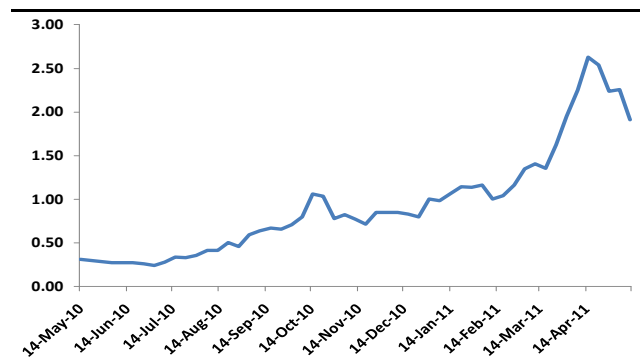
Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Abbotsleigh	70.9	26.4%

Board

Director	Position	Executive	Independent
Ian Chalmers	MD	Executive	-
John Dunlop	Chairman	Non-Exec	Independent
Ian Gandel	Director	Non-Exec	Independent
Tony Lethlean	Director	Non-Exec	Independent

Alkane Resources – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 20M shares at \$1.05/share in February 2011, raising A\$21.0M. A fee was received.

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