

Duketon Mining Ltd

(DKM \$0.30) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	10th May 2021	\$0.60/sh  from \$0.55/sh

Strong cash backing; Rosie delivers significant value

Investment case

Duketon Mining (DKM) recently completed the Rosie Nickel Scoping Study, which highlighted a capital-light underground mining opportunity which could add significant value through third-party toll-treating of high-grade nickel, copper and PGE sulphide ores. Our assessment of the study highlights good value (discounted 44cps), which has improved our Price Target, now 60cps (up from 55cps). The market is currently giving the project little worth when you consider that DKM retains a very strong cash and liquids position of ~A\$30M (backing of -25cps, trading 31cps). Exploration drilling is about to commence to extend and improve the mineral inventory and mine plan, along with planned testing of some regional targets. We see significant exploration potential in the nickel ground within the Belt, with two nickel resources (Rosie and C2), as well as the highly prospective Bulge Ultramafic Complex, largely untested. We maintain our Speculative Buy.

Key points

- DKM recently completed a Scoping Study into the potential development of Rosie nickel deposit (100% DKM).
- The study assessed and confirmed the viability of an underground mining and toll-treating operation, which assumes an 8-year mine life. Highlights included:
 - Pre-production capex of A\$17.7m
 - Largely for underground mine establishment and associated services.
 - We had initially assumed capex of <A\$40m, so a good outcome, though higher development sustaining capital over the LOM is now assumed and modelled.
 - Total mined tonnes of 2.5Mt, from a mineral inventory consisting 73% Indicated and 27% Inferred resources.
 - Mined NiEq grade of 2.1%
 - Mining costs ~\$152/t, haulage ~\$13/t, processing ~\$53/t, admin ~\$6.5/t, sus capex ~\$3.5/t, concentrate transport ~\$17/t = total all-in costs ~\$239/t
 - Average mined production of 315ktpa @ 2.1% NiEq, we estimate payable nickel in concentrate production of ~4.2ktpa for total cash cost of ~US\$4.65/lb Ni (payable, after potential copper and PGE credits).
 - Production rates forecast to be ~30kt to ~40kt per month
 - Our preliminary model had assumed a slightly higher mining rate of ~400ktpa for marginally higher ~4.3ktpa of payable nickel at lower cost ~US\$4/lb Ni (net of potential credits), but we had assumed only <5 year mine life.
 - Our updated valuation (preliminary) for Rosie highlights NPV10 (risked 80%) value of ~A\$58m or 44cps, which in turn would improve our sum of parts valuation to ~A\$78m or 60cps.
 - DKM's NPV5 range is A\$56-204m, with IRR range of 21-66% (attractive)
 - Breakeven nickel price of US\$6.10/lb Ni, highly sensitive to nickel price and grade.

Duketon Mining Ltd	Year End 30 June
Share Price	0.300
Price Target	0.60
Valuation	0.60
Shares on issue	121
Option (@ \$0.26)	10
Market Cap (fd)	39
Enterprise Value	9
Debt	0
Cash and liquids	30
Largest Shareholder	St Barbara Limited (SBM)
	12%

Directors

Seamus Cornelius	NE Chair
Stuart Fogarty	MD
Heath Hellewell	NE Dir
Dennis Wilkins	Co Sec

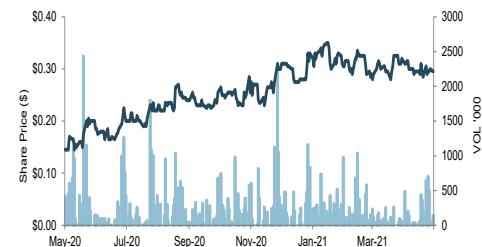
Shareholders

St Barbara Limited (SBM)	12.0%
Harmanis Holdings Pty Ltd	8.2%
Directors	8.1%

Company Details

45 Richardson Street, West Perth, WA 6005
Phone: +61 8 6315 1490

Share Price Chart



Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Duketon Mining Ltd during the last year. Euroz Hartleys has received a fee for these services.

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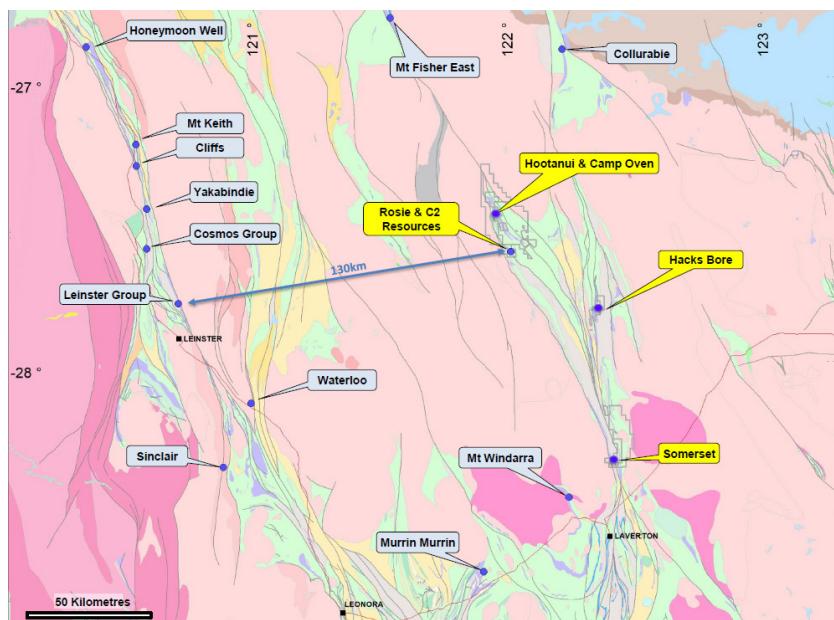
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- Exploration is planned to test for lateral extensions to Rosie, delineate additional higher-grade areas within the proposed mining areas and investigate other exploration options within the Rosie project area.
- DKM retains strong cash (\$20m) and listed investment (-\$10m) for cash and liquids backing of 25cps, and as such the market has clearly discounted a potential development of Rosie, which in our opinion has clear value.
- With an EV of <\$10m, we see potential for DKM to double its market capitalisation from current trading levels. Our latest price target is 60cps (up from 55cps). Speculative Buy retained.

Analysis

- Rosie is located ~120 km north of Laverton WA, and wholly contained within a mining lease, part of the Duketon Project (100%-owned DKM). On a direct line Leinster is ~130km to the west, or -300km by road.

Fig.1 Duketon Tenure with Nickel Projects



Source: Duketon Mining Ltd

- Rosie currently hosts a resource estimate of 2.56Mt grading 1.9% Ni, 0.42% Cu, 560ppm Co and 2.5g/t PGE (3.14% NiEq) for 49.1kt of contained nickel, 10.6kt of contained copper, 1.4kt of cobalt and 205koz of PGEs.
 - The Rosie resource includes Nariz, which was discovered by DKM in 2014.
 - The massive sulphide mineralisation is considered medium tenor (8-10% Ni in 100% sulphides) and Ni:Cu ratio of ~10:1 and significant PGE credits (~2-3 g/t PGE's). Overall the total resource Ni:Cu ratio of ~4.5:1
 - The mineralised system is similar to typical Kambalda-style magmatic Ni systems, with pyrrhotite, pentlandite and chalcocite as the dominant sulphides.
 - Mineralisation strikes over 1.2km NW, extends to 650m below surface, and remains open along strike and at depth (down dip).
 - Good metallurgical characteristics with nickel concentrate grades 16% Ni and 7g/t total PGE, Fe:MgO ratios from 8 to 64 (highly desirable).

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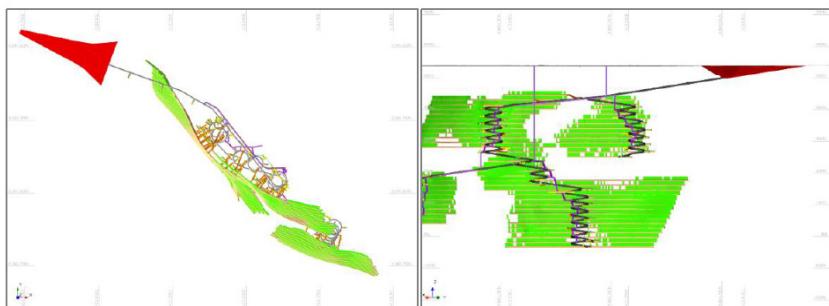
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- Rosie is expected to be a simple underground mining and trucking operation.
- The underground mining method selected for the scoping study was overhand long-hole stoping using cemented rockfill (CRF).
- The current mine plan is to get to steady-state ore production as soon as practicable, which means accelerating decline advancement and drives to provide multiple mining fronts and ore flexibility.

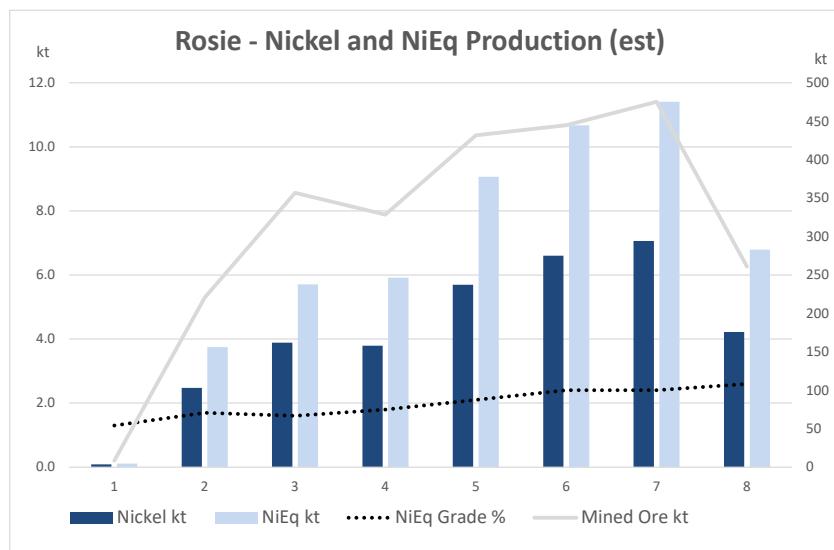
Fig.2 Rosie Underground Proposed Layout – Boxcut Position

Please see attached for full report.



Source: Duketon Mining Ltd

- Our assessment of the mine schedule and production profile is summarised below, based largely on scoping study outcomes and expectation of 2.5Mt of ore mined at ~2.1% NiEq grades. We assume nickel recoveries +88-90% and payable terms of 75%, which remain subject to change. We have discounted our copper, cobalt and PGE recoveries and pays (all providing potential credits to off-set operating costs).

Fig.3 Rosie Nickel and Nickel Eq Production Estimates

Source: Euroz Hartleys; subject to change

- Costs based on scoping study information, using mining costs ~\$152/t, haulage ~\$13/t, processing ~\$53/t, admin ~\$6.5/t, sus capex ~\$3.5/t, concentrate transport ~\$17/t = total all-in costs ~\$239/t.
- We estimate payable nickel in concentrate production of ~4.2ktpa for total cash cost of ~US\$4.65/lb Ni (payable, after potential (discounted) copper and PGE credits).

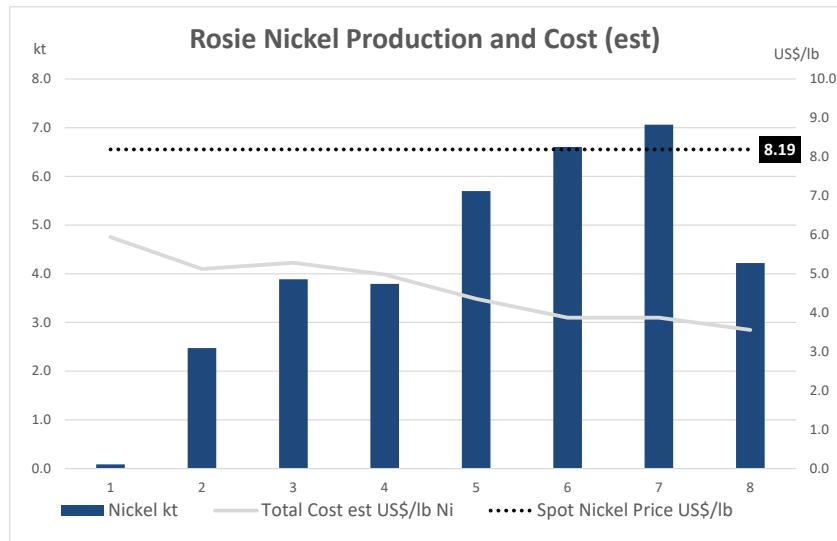
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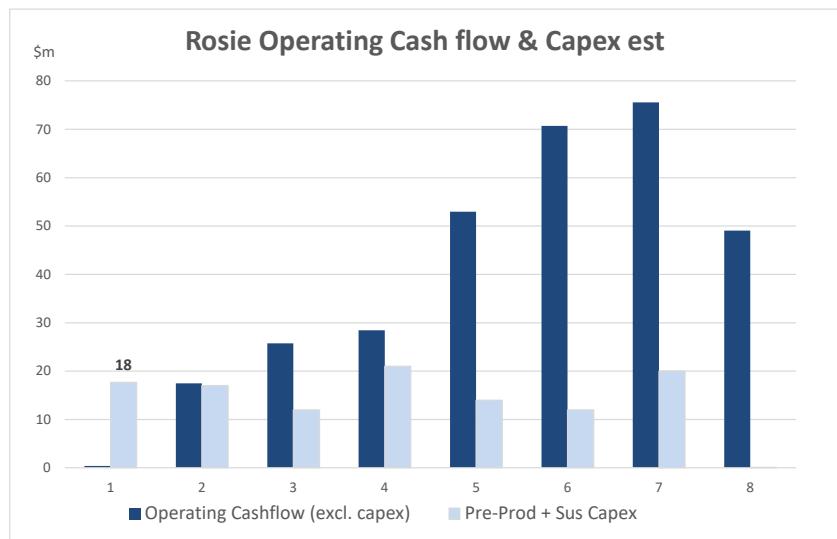
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Fig.4 Rosie Nickel Production and Cost Estimates

Source: Euroz Hartleys; subject to change; note current spot nickel price

- At current (or around) spot commodity price we see potential for the Rosie operation to move into positive cashflows in the second year of production, following pre-production capex of ~A\$18m in the first year.

Fig.5 Rosie Operating Cashflow and Capex est

Source: Euroz Hartleys after Duketon Mining Ltd; subject to change

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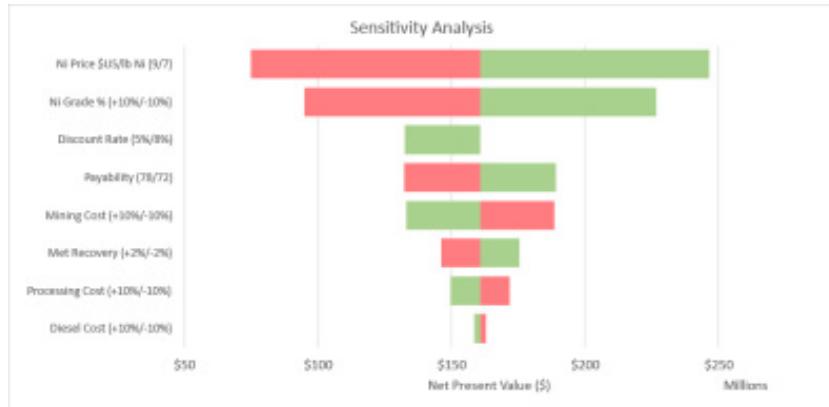
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Preliminary Valuation

ASSET VALUATION	A\$m	A\$/sh
Rosie NPV10 -risked 80%	58	0.45
Exploration (nom)	10	0.08
Cash est	20	0.16
Investments est	10	0.08
Corp OH	(22)	(0.17)
Unpaid Capital	2	0.01
Debt	-	-
A\$	78	0.60

- Our latest valuation remodels to inputs from the Scoping Study. The Scoping Study mining inventory is larger than when originally estimated which has provided a longer mine life (from <5 years to ~8 years).
- Mining rates have also been adjusted to the study outcomes, with lower pre-production capex now assumed but higher sustaining capex/underground development.
- We use a discount rate of 10% which has risked weighted by 80%. DKM expects to commence drilling in the coming weeks to test lateral extensions to Rosie and improve confidence in the mine plans.
- We assume nickel payable terms for the ore processed within the study parameters, with discounted payable terms for the potential copper and PGE, which remains subject to change.
- DKM retains strong cash (~\$20m) and listed investment (~\$10m) for cash and liquids backing of 25cps, and as such the market has clearly discounted a potential development of Rosie, which in our opinion has unrealised value.
- Key risks include commodity price movements (upside/downside risk), potential funding requirements (though DKM is currently well funded) and feasibility study outcomes (more study required).
- The project development remains highly sensitive to nickel prices, and nickel grades – as highlighted below.

Fig.6 Sensitivity Analysis



Source: Duketon Mining Ltd

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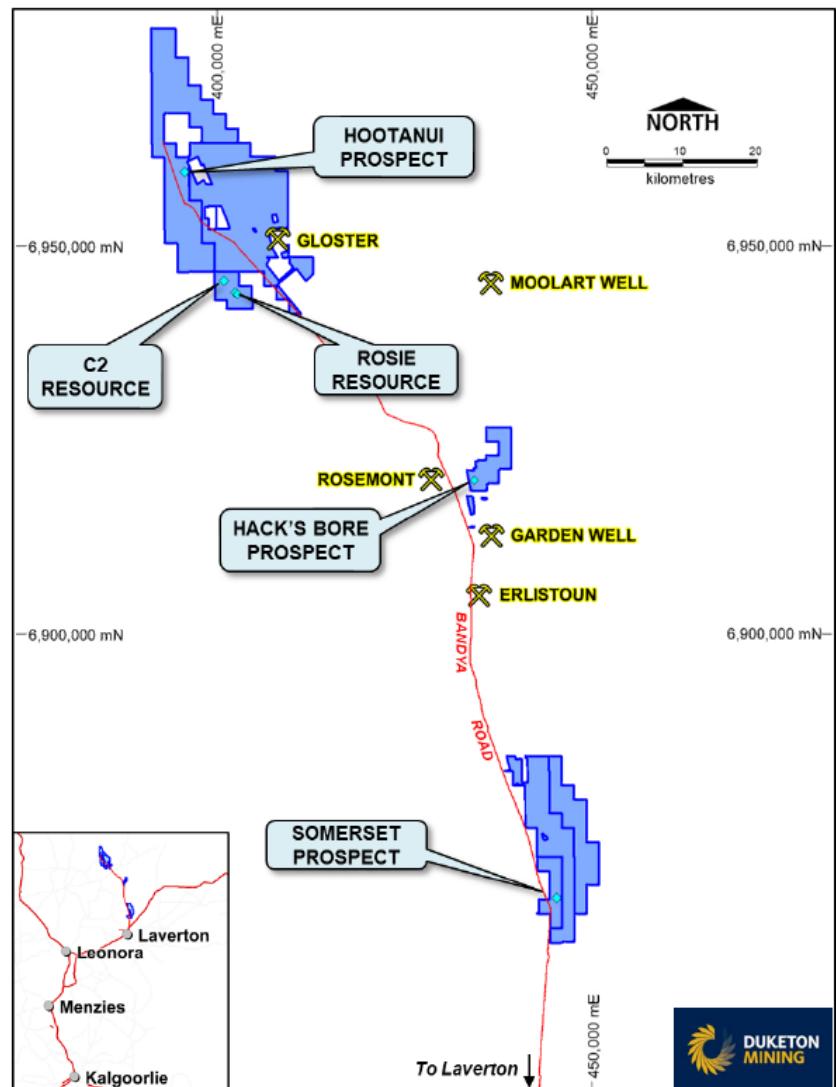
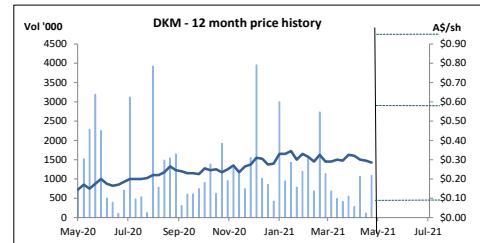
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Key Variables

ASSET VALUATION	A\$m	A\$/sh
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Debt	-	-
A\$	78	0.60

**Our Share Price Sensitivity****Our Market Sensitivity**

Valuation - \$0.60/sh

Price Target - \$0.60/sh

Bull Scenario - \$0.85/sh

We see good value in Rosie when using spot nickel, copper and PGE prices. In addition, higher payable terms for the metals produced could be realised. If Rosie and C2 are commercialised then our bull scenario will likely be significantly higher.

Base Scenario - \$0.60/sh

Our risked NPV valuation for a small mining opportunity at Rosie underpins value with cash and liquids providing a good backstop. We currently assume a positive scoping study for Rosie which can progress to more detailed investigations. Nickel price sentiment remains strong with funding options available.

Bear Scenario - \$0.20/sh

With cash and liquid backing of 25cps, DKM's downside risk is somewhat capped. If nickel and copper price sentiment falls to low levels of interest, DKM will likely trade at a discount.

Company Summary

Duketon Mining (DKM) sold its gold tenure in the Duketon Belt to Regis Resources (RRL) in late Aug'19 for A\$20m in cash (plus future contingent payments for additional A\$5m). DKM elected at the time to retain its prospective nickel ground (100% rights over 5 exploration licences and 1 mining licence) covering the two nickel resources (Rosie and C2) as well key tenure along the Bulge Ultramafic Complex. The Company retains a strong cash and investment position to be well funded for ongoing exploration activities.

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