

HITTING TARGETS AT AWAK MAS

Nusantara (NUS) continues to deliver on targets. The company recently announced a 1m ounce maiden ore reserve, with DFS near completion and positive regional drilling results adding to the story. We retain our Speculative BUY recommendation

- **Maiden ore reserve of 1m ounces of gold for Awak Mas.** Reserves calculated using a cut-off of US\$1,250/oz generated a probable Ore Reserve of 23.7Mt at 1.35 g/t Au. Subsequent to the Ore Reserve release, the company released an updated Mineral Resource on the project of 45.3 Mt at 1.4 g/t Au for 2.0Moz contained gold, 89% of the updated Mineral Resource (within a US\$1400/oz optimisation shell) reports to the Indicated category, with this updated resource providing the basis for preparation of an updated ore reserve as part of the DFS.
- **Definitive Feasibility Study (DFS) nearing completion.** The Project DFS will be reported in late August 2018, with the associated technical report nearing completion. Our valuation on NUS is very much formed on the project scope outlined in the DFS: a 2.5mtpa operation, with a low project strip ratio of 3.5:1, gold recoveries of over 91%, with excellent infrastructure available.
- **Expanding resources?** Focus was squarely on finalising all information required for the DFS, and with this work essentially complete, the company is turning its focus to regional exploration within the area of the Contract of Work; which has had minimal exploration over the past 20 years. The company has already encountered positive early results from a number of areas, with high grade hits seen at Salu Kombong, Kandeapi, Puncak Selatan and Puncak Utara (see figures 1 and 2).
- **Project largely de-risked barring funding.** Project permitting is essentially complete with environmental and construction approvals in place. The project is enhanced and further derisked by the recent agreement with the Indonesian Government whereby there is no sell-down requirements for the first 10 years of the project life post production commencement. The agreement also reaffirmed that Nusantara is the sole holder of the Contract of Work until 2050 with options for extensions.
- **Significant news pipeline.** In the current (September) Quarter, the company expects to complete and release the DFS, release an updated ore reserve in addition to further exploration and news flow on a potential strategic partner.
- **We currently generate a valuation of \$287m for the Awak Mas Project, vs the current market cap. of NUS of just \$19m (our valuation at \$0.52 being significantly diluted for the expected equity component of project funding). The company is currently seeking a cornerstone investor in the project (likely Indonesian and/or Chinese).**

Year End June 30	2017A	2018F	2019F	2020F
Reported NPAT (\$m)	(1.3)	(3.7)	(6.1)	(10.1)
Recurrent NPAT (\$m)	(1.3)	(3.7)	(6.1)	(10.1)
Recurrent EPS (cents)	(1.4)	(3.8)	(5.0)	(1.3)
EPS Growth (%)	na	na	na	na
PER (x)	(13.8)	(5.0)	(3.8)	(14.7)
PEG	na	na	na	na
EBITDA (\$m)	(1.4)	(3.7)	(2.0)	(2.0)
EV/EBITDA (x)	(31.2)	(3.4)	(9.6)	(48.5)
Free Cashflow	(1.6)	(8.8)	(6.7)	(75.1)
FCFPS (cents)	(1.6)	(9.1)	(5.5)	(9.6)
PFCF (x)	(11.5)	(2.1)	(3.5)	(2.0)
DPS (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

2 August 2018

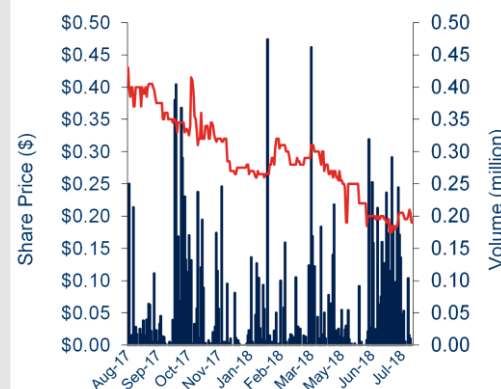
12mth Rating	Spec Buy
Price	A\$ 0.19
Target Price	A\$ 0.52
12mth Total Return	% 171.5

RIC: NUS.AX	BBG: NUS AU
Shares o/s	m 97.8
Free Float	% 100.0
Market Cap.	A\$m 18.6
Net Debt (Cash)	A\$m -3.9
Net Debt/Equity	% na
3mth Av. D. T'over	A\$m 0.012
52wk High/Low	A\$ 0.43/0.18
2yr adj. beta	0.81

Valuation:	
Methodology	DCF
Value per share	A\$ 0.52

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12 Month Share Price Performance



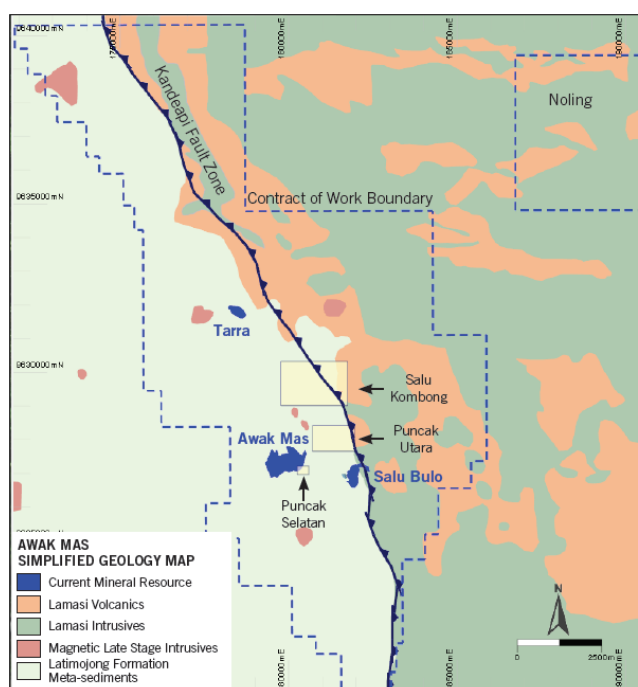
Performance %	1mth	3mth	12mth
Absolute	(2.6)	(24.0)	(55.8)
Rel. S&P/ASX 300	(3.6)	(27.5)	(65.1)

Figure 1: Historic Prospects within the Mine and East Corridor



Source: NUS

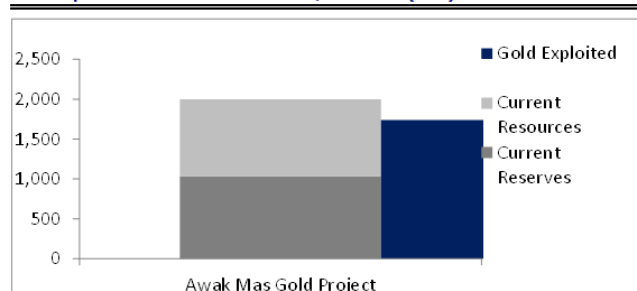
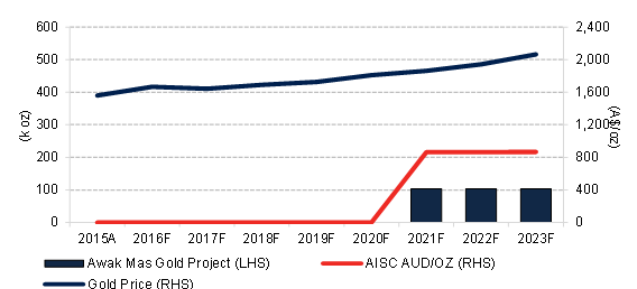
Figure 2: Three areas of the current near mine exploration



Source: Patersons Securities Limited

Valuation	A\$m	\$0.29 A\$/sh
Awak Mas risked at 80%	287.4	0.37
Exploration	0.0	0.00
Sub Total	287.4	0.37
Investments	0.0	0.00
Financial		
Forward sales	0.0	0.00
Cash + receivables and inventory	4.1	0.01
Total Borrowings + creditors	(0.2)	(0.00)
Proceeds from equity raising and options conversi	130.1	0.17
Corporate/Other	(18.4)	(0.02)
Total	115.6	0.15
NPV (@ 10% discount rate)	402.9	0.52
Price Target		0.52
NPV Sensitivity		
Spot Gold		0.53
Spot Gold +20%		1.07
Spot Gold -20%		0.42
Hedging	koz	1-Year 3-years % Reserve

Committed Production

Gold exploited as a subset of reserves/resources (k oz)**Gold Production Summary**

	Mt	Au g/t	Au koz
Reserves			
Awak Mas	21.0	1.3	891
Salu Bulu	2.7	1.6	139
Total	23.7	1.4	1,030
Resources			
Awak Mas	39.0	1.4	1,720
Salu Bulu	3.7	1.5	180
Tarra	2.3	1.3	100
Total	45.0	1.4	2,000

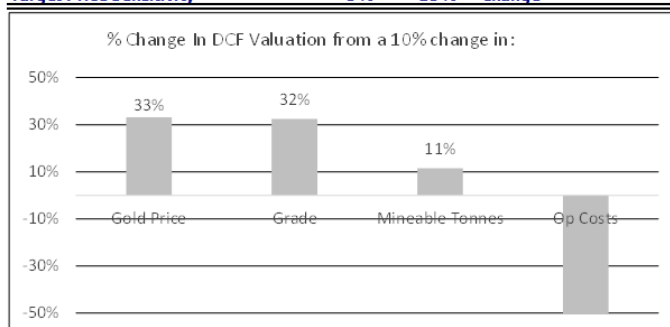
Directors

Name	Position
Martin Pyle	Chairman
Mike Spreadborough	Managing Director
Boyd Abidin	Non-Executive Director
Rob Hogarth	Non-Executive Director
Robin Widdup	Non-Executive Director
Derek Humphry	CFO

Substantial Shareholders

	shares (m)	%
Lion Selection	31.2	32.0%
AustralianSuper	9.8	10.0%
Macquarie	4.9	5.0%
Zhaojin Mining	3.9	4.0%

Commodity Assumptions	2017A	2018E	2019E	2020E	2021E
A\$/US\$	0.77	0.75	0.74	0.73	0.73
Gold (US\$/oz)	1,248	1,259	1,275	1,270	1,320
Silver (US\$/oz)	10.35	17.08	16.10	16.15	16.80
Gold (A\$/oz)	1,667	1,642	1,692	1,725	1,808
Target Price Sensitivity	0%	+10%	Change		



Production Summary	2017A	2018E	2019E	2020E	2021E
Awak Mas					
Ore Milled (kt)	0	0	0	0	2,500
Head Grade (g/t Au)	0.0	0.0	0.0	0.0	1.4
Recovery (%)	0%	0%	0%	0%	91%
Production (k oz Au)	0	0	0	0	103
Cash Cost (\$/t)	0	0	0	0	31
Cash Cost (\$/oz)	0	0	0	0	742
AISC (\$/oz)	0	0	0	0	863
Realised Price (A\$/oz)		0	0	0	1,863
Cash Cost (US\$/oz)	0	0	0	0	742
AISC (US\$/oz)	0	0	0	0	863

GROUP ATTRIBUTABLE

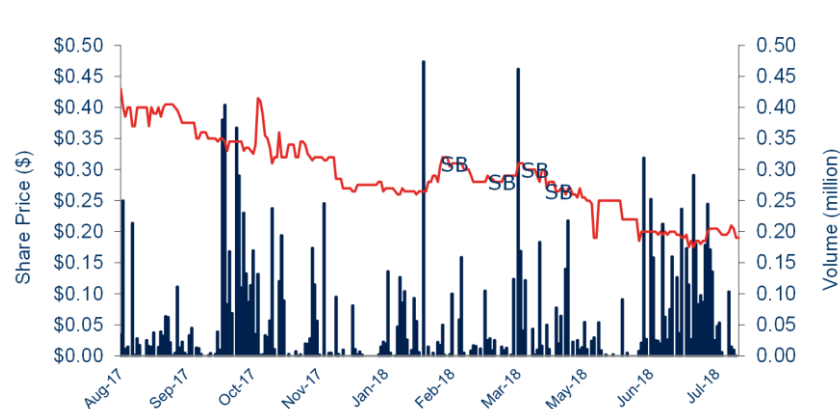
Production (k oz Au)	0	0	0	0	103
Cash Costs (US\$/oz)	0	0	0	0	742
Sustaining All In Costs (US\$/oz)					925
Realised Price (A\$/oz)	1,692	1,692	1,725	1,808	1,863

Profit & Loss (A\$m)	2017A	2018E	2019E	2020E	2021E
Sales Revenue	0.0	0.0	0.0	0.0	192.2
Other Income	0.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0	83.8
Exploration Exp.	0.0	1.4	1.4	1.4	1.4
Corporate/Admin/Other	1.4	2.4	2.4	2.4	2.4
EBITDA	(1.4)	(3.8)	(3.8)	(3.8)	104.5
Depn & Amort	(0.0)	0.0	0.0	0.0	18.3
EBIT	(1.4)	(3.8)	(3.8)	(3.8)	86.2
Interest	(0.0)	(0.1)	2.3	6.3	7.0
Operating Profit	(1.3)	(3.7)	(6.1)	(10.1)	79.2
Tax expense	0.0	0.0	0.0	0.0	9.5
FX Adjustment	0.0	0.0	0.0	0.0	0.0
Abnormals	0.0	0.0	0.0	0.0	0.0
NPAT	(1.3)	(3.7)	(6.1)	(10.1)	69.7
Normalised NPAT	(1.3)	(3.7)	(6.1)	(10.1)	69.7

Cash Flow (A\$m)	2017A	2018	2019	2020	2021
Operating Cashflow	-2.0	-2.3	3.4	7.6	108.0
- Capex (+asset sales)	-5.1	-0.8	-75.0	-145.0	-5.2
- Exploration	0.0	-4.0	-4.0	-4.0	-4.0
Free Cashflow	-7.1	-7.1	-75.6	-141.4	98.8
- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0
+ Equity raised	38.1	5.1	125.0	0.0	0.0
+ Debt drawdown (repaid)	-24.3	0.0	125.0	0.0	0.0
+ Other	-1.0	0.0	0.0	-0.0	0.0
Net Change in Cash	5.8	-2.0	174.4	-141.4	98.8
Cash at End Period	5.8	3.8	178.3	36.8	135.7
Net Cash/(LT Debt)	5.8	3.8	53.3	-88.2	10.7

Balance Sheet (A\$m)	2017A	2018	2019	2020	2021
Cash	5.8	3.8	178.3	36.8	135.7
Total Assets	33.9	32.0	206.4	64.9	187.3
Total Debt	0.0	0.0	125.0	125.0	125.0
Total Liabilities	1.0	1.0	126.0	126.0	126.0
Shareholders Funds	32.9	30.9	80.4	-61.1	61.3

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
15 Feb 18	Research Note	0.59	0.32	SB	
15 Mar 18	Hot off the Press	0.59	0.28	SB	-12.5%
04 Apr 18	Resources Review Book	0.59	0.30	SB	7.1%
18 Apr 18	Hot off the Press	0.59	0.27	SB	-11.7%
	Current Share Price		0.19		-28.3%

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