



Paradigm Securities

19 March 2015

Recommendation: SPECULATIVE BUY

18 Month Price Target: A \$0.25

CAPITAL STRUCTURE

| | |
|-----------------------------|------------------|
| Share Price | \$0.05 |
| Net Asset Value | A\$3m |
| 12 Month Range | \$0.03 - \$0.185 |
| Market Cap (diluted) | \$4.0m |
| Enterprise Value | \$3.0m |
| Issued Shares | 73.8m |
| Options (Various) | 23.3m |
| Convertible Notes | 7.5m |
| Fully dil capital @ A\$0.35 | 97.0m |
| Cash | \$1.0m |

Cash from options \$7.1m

DIRECTORS

| | |
|--------------------|-------------------|
| Graham Anderson | Non-Exec Chairman |
| Bruce Morrin | Managing Director |
| Peter Williams | Non-Exec Director |
| Michael Walters | Non-Exec Director |
| Paul O'Shaughnessy | Non-Exec Director |

TOP SHAREHOLDERS

| | |
|---------------------|-------|
| Leprachaun Holdings | 27.5% |
| Peter Williams | 4.5% |
| Leet Investments | 4.1% |
| E&E Siao | 3.2% |
| Michael Walters | 2.0% |
| Top 20 | 53% |

6 YEAR SHARE PRICE PERFORMANCE



Source: IRESS

Data has been sourced from available public information and reflects the author's own assessments.

Gulf Minerals Limited (ASX: GMC)

Research Note – Manganese Alloy Smelter Project SUMMARY

Gulf Minerals has a well-progressed project in its 100% subsidiary (International Manganese Group) to develop a new US\$52m 8 furnace manganese alloy smelter over 4 years at Kupang, West Timor in Indonesia and also export manganese ore.

The project will source high grade manganese ore from local sources and sell the manganese ore and subsequently alloy products to major markets in Asia and Europe. The Project has good support from Indonesian authorities as part of their policy on mineral export upgrades and bans on exports of unprocessed ore.

GMC intends to list in Singapore through a compliance listing after raising sufficient funds (around US\$15m) to acquire and construct the first two furnaces on the site. GMC has also been offered a US\$20m funding package and a proposed listing on NASDAQ. The offer is subject to due diligence but it reflects strong interest in the project from industry participants and reduces project risk.

KEY POINTS

- ✓ Kupang 160ktpa Manganese Alloy project well developed
- ✓ First pair of furnaces to be constructed late 2015 start up 2016
- ✓ All four furnace pairs will be installed by 2019
- ✓ Project will have operationally cashflow positive from late 2015
- ✓ High grade 52% Kupang ore upgraded to 78% ferromanganese alloys
- ✓ High ore grade and low ops cost make furnaces very competitive
- ✓ Remaining five key milestones now coming close to formalisation

Gulf Minerals (GMC) management has long experience in the mining and marketing of manganese ores and alloys and has recognised the opportunity of using high grade Kupang manganese ores and low Indonesian power and operating cost to develop a ferroalloy smelting facility.

The facility will use 8 Sth African 20ktpa off the shelf furnaces in a sequential programme over 4 years that will allow the company to not only be cashflow positive from the first furnace pair but will also self fund each subsequent pair.

Model projections give earnings right from the initial sale of manganese ore in 2015 and after the commissioning of the first furnace pair in mid 2016.

The Kupang smelter takes advantage of the Indonesian export ban on unprocessed ores and the low operating cost structure. A useful review of the project is available here:-

<http://www.asx.com.au/asxpdf/20150116/pdf/42w12k67w9lp7s.pdf>

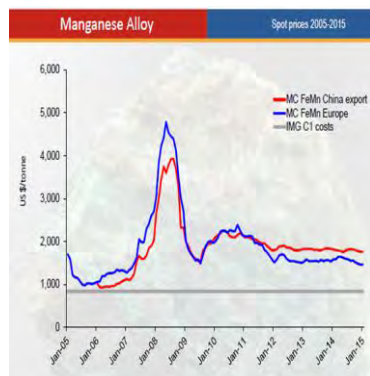
The agreements are in place for most of the remaining hurdles but only require formalisation and documentation.

- Land Acquisition - Agreement already reached for 50yr lease in Kupang
- Initial Power Supply - PLN has agreed to supply power for first 2 furnaces
- Environmental clearance - Industrial estate EPA approval in place -2mth wait
- Smelter - Licence due by end May 2015
- Financing - Biggest hurdle but recent offer may complete this

Recent progress is set out here:-

<http://www.asx.com.au/asxpdf/20150116/pdf/42w12k67w9lp7s.pdf>

Paradigm has determined a **Base Case Project Value of NPV₈** in excess of US\$100m should the project achieve its milestones and GMC should retain over 50% of this NPV. Base case is over A\$0.52/share. The value will become clearer as the remaining milestones are ticked off. The most important risk is financing and the recent offer may significantly reduce risk for this project.



The Market for Manganese

Manganese is used in steel making to remove sulphur and oxygen from carbon steels to increase hardness and strength. About 14mtpa of manganese content is used each year to make 17.5mtpa manganese alloys to make manganese the fourth most used metal after iron, aluminium and copper.

Manganese consumption follows global steel production and in recent years ores has been growing faster as its usage becomes more widespread.

Indonesia currently has some of the highest grade (>50% Mn) manganese ores that are at surface and close to ports and infrastructure. (cf Woodie Woodie 46% (ConsMin) and Groote Eylandt 47% (BHP).) ConsMins sells about 1.5mtpa manganese ore from Woodie Woodie. BHP operates about 9mtpa of manganese ore and 800ktpa manganese alloys.

Kupang Manganese Smelter Project

GMC management has considerable experience in the manganese industry and market place and has developed a business plan and feasibility study to use Sth African electric arc furnace technology with Chinese manufacture to establish a 160ktpa 8 furnace smelting installation.

The low cost of the furnace units at <US\$6m each allows for a gradual increase in capacity over a 3-4 year period and the operating cost should be at least 15% below current global averages.

The site will be on a 30ha site with a 50 years lease within the Bolok Industrial Block where EPA approvals are already in place. Bolok is about 12km from Kupang and 3km from the port of Tenau. The licence for the smelter is expected to be received before the end of June 2015 and a power supply agreement with PLN is likely to be signed up for the first furnace pair in the same time period. GMC is likely to want to develop its own power generation facilities to ensure long term supply security.

AC ARC Furnace

Proven technology

- High temperatures release metal from ore to produce alloy
- Fixed semi-closed furnaces
- Proven technology over many years
- South African built in modular form eliminates construction risk

Financing

GMC has received an offer of US\$20m in financing that would provide all the initial funding for the first furnace pair. This funding offer is subject to due diligence. Details are here:-

<http://www.gulfmineralscorp.com/images/pdf/1418459.pdf>

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The author of this report holds shares in the company mentioned in this report. This position may change at any time.

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