

SPEC BUY

Current Price	\$0.06
Valuation	\$0.18
Target Price	\$0.14

Ticker: **TON**
Sector: **Industrial Minerals**

Shares on Issue (m):	834.6
Options (m):	133.7
Market Cap (\$m):	50.1
Net Cash (\$m):	5.5
Enterprise Value (\$m):	44.6

52 wk High/Low:	\$0.16	\$0.07
12m Av Daily Vol (m):		0.69

Development Stage Definitive Feasibility Study

Ore Reserves

	Tonnes Mt	Grade % TGC	Graphite Mt
Ancuabe	24.9	6.2	1.5

Mineral Resources

	Tonnes Mt	Grade % TGC	Graphite Mt
Ancuabe	46.1	6.6	3.0
Nicanda Hill	1,430.0	11.1	160.0
Nicanda Hill W	30.0	6.6	2.0
Cobra Plains	103.0	5.2	5.7

Vanadium Resource

	Tonnes Mt	Grade % V2O5	Cont. V2O5 Mt
Nicanda Hill	155.9	0.27	3.9

Key Metrics

Capex	US\$75m
Steady State EBITDA	US\$28m
First Production	H2 2019

Board

Xingmin (Max) Ji	Non-Executive Chairman
Peter Canterbury	Managing Director
Patrick Burke	Non-Executive Director
Guanghui (Michael) Ji	Non-Executive Director
Paula Ferreira	Non-Executive Director

Share Price Graph and Ave Trading Vol. (msh)



Please refer to important disclosures at the end of the report (from page 3)

Friday, 13 July 2018

Triton Minerals

EPC contractor appointed

Analysts | Matthew Keane | James Wilson

Quick Read

Triton Minerals (TON) has signed a Letter of Intent (LOI) with MCC International Incorporation Limited (MCC) for the Engineering, Procurement and Construction (EPC) of the Ancuabe Graphite Project in Mozambique. This is a key milestone for the Company as it will now move forward with a preferred partner for construction and commence discussions on an EPC linked loan facility. Importantly, the EPC tender process has identified capex savings of between 20-25% on those stated in the December 2017 DFS. Ancuabe is an advanced graphite development project which will produce a premium large flake, high purity product from H2 2019. SPEC BUY recommendation with a \$0.14/sh target price.

Event & Impact | Positive

EPC appointed and capex reduced significantly: TON has signed an LOI with MCC as its preferred EPC contractor for the construction of the Ancuabe Project. MCC is a diversified Chinese SOE based in Beijing with business units spanning natural resources, manufacturing, equipment fabrication and real estate. In 2015, MCC merged into China Minmetals to become China's largest mining company. The group has a number of complimentary proficiencies including engineering and civil construction. In addition, MCC has strong relationships with major Chinese banks and has introduced TON to potential financiers, one of whom has provided indicative terms for a loan facility which is expected fund up to 85% of the EPC contract at competitive concessional rates (Argonaut est. 3.0-3.5% above LIBOR). Through the EPC tender process, TON has flagged potential pre-production capex savings of between 20-25% on the US\$99.4m DFS estimate to ~US\$74-80m.

Quality advantage: The quality and large flake size of the Ancuabe graphite product should achieve premium pricing, thus generating strong margins. Ancuabe has one of the highest proportions of >180µm flake size distributions (i.e. Large to Super Jumbo flake). High purity and larger flake size graphite is preferred by end users due to durability under oxidation and versatility of use. Ancuabe's expansion rates are also comparable or better than currently available commercially produced expandable graphite. TON is targeting the growing battery and expandable graphite markets, but its product is also suited to established refractory and recarburiser markets.

Recommendation

Argonaut's NAV valuation for TON is \$0.18 (detailed over). We apply a 20% discount for financing and development risk to achieve a \$0.14/sh target price. SPEC BUY recommendation maintained.

MCC selected as the preferred EPC contractor for Ancuabe

The project is forging ahead with key approvals on track and early site works commenced

Our valuation incorporates expected capex savings and recent equity dilution...

...to achieve a \$0.18/sh valuation...

...and a risked \$0.14 price target

Forging ahead

Argonaut sees the selection of MCC as the preferred EPC contractor as a key step forward for Ancuabe. The TON Board approved development of Ancuabe in May/June 2018 for a 60ktpa graphite concentrate operation with a 27 year mine life. Ancuabe benefits from a high-quality product, its close proximity to the port of Pemba (45km) and a known graphite product which is currently exported from the region. TON has already commenced early site works including development of a raw water dam, required for construction and operations. A Provisional Environmental Licence has been obtained and the applications for a construction permit and final environmental licencing are well advanced. These are the key prerequisites for construction which is due to commence H2 2018 following successful project financing. TON has signed term sheets for over 50% of planned Ancuabe production with Chinese firms Haida Graphite and Tianshengda Graphite. (Further detail on the project and company are provided in our initial report (link: [Charging Towards Production](#)).

Valuation

Argonaut's revised valuation now incorporates a 25% reduction in pre-development capex and dilution from a recent entitlement offer (\$4.2m raised @ \$0.08/sh). We maintain a flat basket price of US\$1,300/t for graphite in concentrate to achieve a project level post-tax, post-finance NPV₁₁ of A\$132m (previously \$107m). Our model assumes ~A\$70m debt finance (~5% interest rate) and ~A\$40m equity (raised at \$0.08/sh) to fund the US\$74.5m pre-production capex. We have applied a conservative \$0.5/t per resource tonne to the pipeline Nicanda Hill graphite/vanadium project (vs Mozambique graphite developer average of ~\$5.50/t) to achieve a valuation of \$79.5m. Our sum of parts valuation for TON is \$0.18/sh, which we have risk weighted 20% to account for development and financing risk to achieve a \$0.14/sh target price. If we apply the Metals Bulletin price outlook, as per the TON DFS, we achieve an Ancuabe project level NPV₁₁ of A\$193m and a TON NAV₁₁ of \$0.23/sh.

Table 1: Argonaut's sum of parts valuation for Triton Minerals

NAV Valuation		
Sum of Parts	AUD M	AUD / Share
Ancuabe Project	132.2	0.11
Nicanda Hill Project	79.5	0.07
Exploration and Unmined Resource	20.0	0.02
Corporate NPV	(26.2)	(0.02)
Cash	5.5	0.00
Debt	-	-
Sub Total	211	0.18
Risk Weighting		20%
Target Price		0.14

Source: Argonaut

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Important Disclosure

Argonaut participated in the Placement that raised approximately \$5.2M in March 2018 and received fees commensurate with this service. Argonaut acts as Financial Adviser to TON and will receive fees commensurate with this service.

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