



Canyon Resources Ltd (CAY.ASX)

Developing a Tier 1 bauxite asset

Event:

- We initiate research coverage on Canyon Resources (CAY).

Investment Highlights:

- CAY's major asset is its 100% interest in the Minim Martap bauxite project in Cameroon**, containing 1.0bt JORC Resource at 45.3% Al₂O₃ and 2.7% SiO₂, and Reserves of 99Mt at 51.6% Al₂O₃ and 2.4% SiO₂.
- PFS shows long-life project with attractive metrics.** Minim Martap PFS revealed 20-year LOM at 4.9Mtpa of DSO bauxite, with post-tax NPV₁₀ real of US\$291M and pre-production capex US\$119M. IRR is 37% and NPV/capex ratio of 2.4x. C1 cash costs are \$35.2/t, with high transport cost (800km rail to port) offset by no beneficiation required and low mine strip of 0.4x. CAY estimates the project to sit in the middle of landed quality adjusted Wood Mackenzie cost curve, based on the Wood Mackenzie pricing model.
- A tier 1 asset comparable to Cape York and Guinea bauxites in quality and size.** Minim Martap is a gibbsite low-temperature bauxite. Our report shows it possesses one of the highest Available Alumina and lowest Reactive Silica of global bauxite projects and mines. Both are key parameters for enabling low cost production of alumina.
- A low cost and green bauxite for refiners.** Minim Martap's high Available Alumina and low Reactive Silica means greater alumina recovery, lower caustic soda consumption, less red mud waste, and lower energy consumption for alumina refiners. The long-life and Cameroon location also provides refiners a diversification option vs Guinea, the dominant global seaborne exporter.
- ESIA submitted, Mining Convention and Feasibility Study required for Mining Permit.** We expect CAY to receive its Mining Permit 4Q CY21e, after negotiating a Mining Convention with the Government and submitting its application. CAY is also aiming to finalise binding offtake and rail and port access agreements.
- Rail and port access and funding key to FID.** In addition to the US\$119M capex to be borne by CAY, US\$122M is required mostly for rail upgrades and rolling stock, which CAY assumes will be funded by a third party. CAY has been in negotiations with various parties, including the Government and port and rail operators as part of developing an appropriate PPP model for the infrastructure.

Earnings and Valuation:

- We estimate first revenues and earnings for CAY in FY24 from Minim Martap.** We forecast NPAT of \$11M in FY24e rising to \$52M in FY28e as bauxite prices rise and Guinea supply growth subsides.
- We value CAY at \$0.32/share, based on 0.5x NPV₁₀.** We assume equity: debt funding of 50:50. However given the tier 1 asset, strategic/offtaker equity in project and/or CAY are also viable. Our unrisks NPV₁₀ of CAY is \$0.66/share.

Recommendation:

- We initiate on CAY with a Speculative Buy Recommendation and 12-month share PT of \$0.32, based on 0.5x NPV₁₀.**
- Catalysts for the share price include:** 1) DFS; 2) Mining Convention 3) Finalisation of rail and port access agreements; 4) Binding offtake; 5) Mining permit; 6) Financing; and 7) FID.

Disclosures

The analyst, Foster Stockbroking and associated entities, and Cranport Pty Ltd, do not own CAY securities. Refer details end of report.

Foster Stockbroking provides corporate advisory services to CAY and may receive fees for this service.

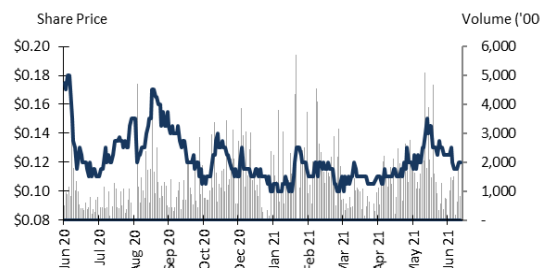
Recommendation	Speculative Buy			
Previous	n/a			
Risk	High			
Price Target	\$0.32			
Previous	n/a			
Share price (A\$)	\$0.12			
ASX code	CAY			
52 week low-high	\$0.099-\$0.185			
Valuation - risked (A\$/share)	\$ 0.32			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	624			
Market cap (A\$M)	75			
Net cash (debt) (A\$M)	5			
Performance rights (M)	3			
Options (M)	9			
Diluted EV (A\$M)	72			
Ave daily volume ('000)	1,344			
Earnings	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	0
EBITDA adj	-8	-8	-9	-10
NPAT reported	-9	-8	-9	-10
NPAT adj	-8	-8	-9	-10
EPS adj. \$*	-0.02	-0.01	-0.01	-0.01
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

* Adj =underlying

Board

Cliff Lawrenson	Non-Executive Chairman
Phillip Gallagher	Managing Director
David Netherway	Non-Executive Director
Steve Zaninovich	Non-Executive Director
Peter Su	Non-Executive Director

Share price graph



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