



Prospect Resources Ltd (PSC.ASX)

Resources, and Exploration Target, hard to ignore

Event:

- Maiden JORC Resource; Mining Licence; PT change.

Investment Highlights:

- **Over 500kt contained Cu in maiden JORC Resource.** A JORC Resource of 107.2Mt at 0.5% Cu for 515kt of contained Cu has been declared at Mumbezhi, comprising just two deposits: Nyungu Central (407kt of Cu, or 79% of the Resource) and Kabikupa (108kt Cu). 178kt of contained Cu was in the Indicated category, being 35% of total Resource, and all residing in Nyungu Central.
- **Exploration Target (ET) potential of >6Mt Cu exceeds expectations.** PSC's Exploration Target (ET) for Mumbezhi ranges from 420Mt @ 0.4% for 1.68Mt Cu to 1.05bt @ 0.6% for an astonishing 6.3Mt of Cu. It exceeded our expectations, which were based on Argonaut Resources' 2013 ET estimate of 0.6-1.2Mt Cu – the midpoint about 4.5x lower than that of PSC's. The ET highlights the inherent scale of the project.
- **Now fully permitted.** Mumbezhi has been further derisked with the grant this week of two mining licences covering the whole project area, and follows the earlier ESIA approval.
- **Drill restarting in 2Q, Scoping Study by end 2025.** The company is armed with targets both for drilling, including testing the three Nyungu North IP anomalies, Nyungu South, and further growth at Kabikupa. The Phase 2 drill campaign should lead to an upgrade in resources in both quality and size, with a scoping study eyeing the best resources to develop by the end of 2025.
- **Options for development.** We expect PSC may examine both a stand-alone mine and toll-treatment scenario for Mumbezhi. The latter arises by virtue of the project's proximity to the large-scale plants of both Barrick's Lumwana and First Quantum's Sentinel mines. A win-win situation can emerge from this pathway, with a low-capex, short-lead time, to production for PSC, and high-grade ore at less cost for Barrick or First Quantum.

Earnings and Valuation:

- **\$0.33/share valuation for PSC from peer comparison.** Our valuation is based predominantly on applying the ASX-listed mean of \$131/t to PSC's JORC Resources, and a multiple of \$39/t to the mid-point of its ET range ex-Resources.
- **Conservative approach.** While using an average EV/Resource and ET multiple is simplistic, we think it is conservative in PSC's case, as one could argue it deserves to have an above-average multiple. Many ASX developers/explorers lack key attributes that PSC and Mumbezhi possess - fully permitted; management with proven commercialisation of exploration assets; scale of resources; location in a proven mining district; proximity to mines that may potentially offer commercial options; and surrounding infrastructure.

Recommendation:

- **We maintain our Buy and raise our 12-month price target to \$0.33 from \$0.29,** based on valuation. Catalysts include 1) Drill results 2) Met results; 3) Resource upgrade; and 4) Scoping study.

Disclosures

The analyst owns 60,400 PSC shares. Foster Stockbroking, staff, and Cranport own <1% of PSC shares on issue, and 4,000,000 PSC options exercise \$0.20 and expiry 9 August 2027.

Foster Stockbroking earned fees as Joint Lead Manager to the \$8M placement of PSC shares at \$0.10 in August 2024

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.33
Previous	\$0.29
Share price (A\$)	\$0.115
ASX code	PSC
52 week low-high	\$0.07-0.21
Valuation - (A\$/share)	\$ 0.330
Methodology	peer comparison EV

Capital structure

Shares on Issue (M)	572
Market cap (A\$M)	66
Performance rights (M)	8
Options (M)	55
Net cash (debt) (A\$M)	9
Diluted EV (A\$M)	65
Ave daily volume ('000)	743

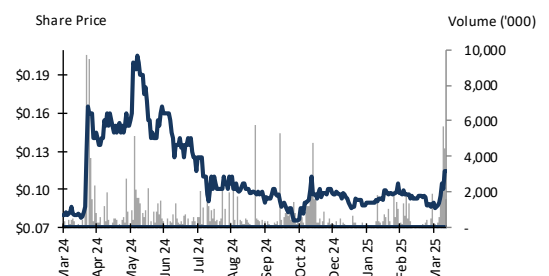
Substantial shareholders

Citicorp Nominees	24.4%
HSBC Custody Nominees	9.6%
Morgan Stanley Australian sEcurities (Nominee)	5.3%

Board

Mark Wheatley	Non-Executive Chairman
Sam Hosack	Managing Director
Ian Goldberg	Executive Director
Gerry Fahey	Non-Executive Director
Gaurav Gupta	Non-Executive Director

Share price graph



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Prospect Resources (PSC)

Full Year Ended 30 June

Profit and Loss A\$M	2024a	2025e	2026e	2027e
Revenue	0	0	0	0
Operating costs adj.	7	9	9	9
EBITDA adj.	-7	-9	-9	-9
D&A	0	0	0	0
EBIT adj.	-7	-9	-9	-10
Net Interest exp / (income)	0	0	0	0
PBT adj.	-7	-9	-9	-10
Tax exp / (benefit) adj.	0	0	0	0
NPAT pre minorities adj.	-7	-9	-9	-10
Minorities adj.	0	-1	-1	-1
NPAT adj.	-7	-8	-8	-8
NPAT reported	-7	-8	-8	-8
EPS diluted adj. (\$)	-0.01	-0.01	-0.01	-0.01

Cashflow A\$M	2024a	2025e	2026e	2027e
EBITDA adj.	-7	-9	-9	-9
Change in WC	0	-1	0	0
Net interest	1	0	0	0
Tax underlying	0	0	0	0
Share based expense	1	1	1	1
Other	-1	-1	-1	-1
Operating Cashflow	-6	-9	-9	-9
Purchase of PP&E	-1	-1	-1	-1
Acquisitions	-8	0	0	0
Capitalised expenses	-2	0	0	0
Investments	-1	0	0	0
Asset sale	0	10	0	0
Investing Cashflow	-12	9	-1	-1
Equity issue	0	5	0	10
Debt proceeds	0	0	0	0
Debt repayments	0	0	0	0
Dividend paid	0	0	0	0
Other	0	0	0	0
Financing cash flow	0	5	0	10
Net cash flows	-18	5	-9	0

Balance Sheet A\$M	2024a	2025e	2026e	2027e
Cash	8	14	4	5
Receivables	0	0	0	0
Inventories	0	0	0	0
PPE	1	1	1	2
Capitalised expl'n	14	6	6	6
Intangibles	0	0	0	0
Other	4	4	4	4
Total Assets	27	25	16	17
Accounts payable	1	0	0	0
Provisions	0	0	0	0
Debt	0	0	0	0
Other	0	2	3	3
Total Liabilities	1	2	3	3
Capital & reserves	59	64	64	74
Retained earnings	-33	-42	-51	-60
Equity attrib.	26	22	13	14
Minorities	0	0	0	0
Equity total	26	22	13	13

Company Valuation

Segment	A\$M	A\$/share
Copper - Mumbezhi JORC Resource	57	\$0.10
Copper - Mumbezhi Exploration Target	115	\$0.20
Lithium - Step Aisde	10	\$0.02
Net cash	9	\$0.01
Total	191	\$0.33

Shares now M **572**

Capital structure

	M
Ordinary shares	572
Performance rights	8
Options	55
Fully diluted	627

Source: Company; Foster Stockbroking estimates.

MAIDEN JORC RESOURCE

Over 500kt of contained copper (Cu)

- Prospect Resources (PSC) last week announced a maiden JORC Resource of 107.2Mt at 0.5% Cu for 515kt of contained Cu at its Mumbezhi project in Zambia (Figure 1). Average cut-off grade was 0.2% Cu.

Figure 1: Mumbezhi JORC Resource (100%)

Deposit	Resource Classification	Tonnes (millions)*	Copper (%)*	Tonnes Contained Cu*
Nyungu Central	Indicated	37.5	0.5	178,100
	Inferred	49.2	0.5	228,700
Kabikupa	Inferred	20.5	0.5	107,800
	TOTAL	107.2	0.5	514,600

* Rounding has been applied

Source: Company.

- The Resource comprised just two deposits: Nyungu Central – accounting for 407kt of Cu metal, or 79% of the Resource, where most drilling has been centred - and Kabikupa (108kt of Cu, or 21% of the Resource).
- Importantly, 178kt contained Cu was in the Indicated category, representing over one-third (35%) of the Resource, all residing in Nyungu Central. This sets up a strong platform for PSC's aim of concluding a deliverable scoping study on Mumbezhi by the end of the year. We expect the Indicated Resources for Mumbezhi to increase during 2025 as PSC resumes its drilling campaign next quarter, not only for Nyungu, but for maiden Indicated resources at Kabikupa and potentially other Mumbezhi deposits.
- High-grade zones were identified at both Nyungu Central - 69Mt @ 0.53% Cu, of which 43% was Indicated - and Kabikupa - 18Mt @ 0.57%, all Inferred - for a total of 87Mt @ 0.54% Cu containing 468kt Cu, or 91% of the total Resource Cu metal. This makes them promising starter zones.

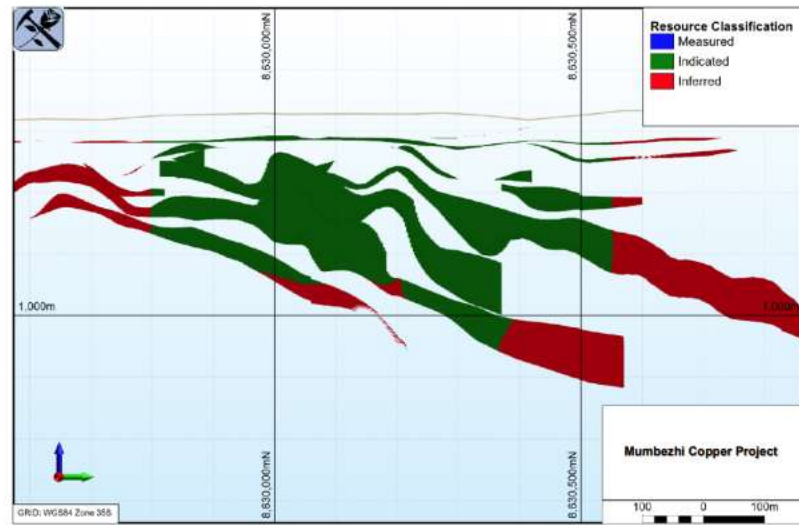
Figure 2: Mumbezhi High-Grade JORC Resource Zones (100%)

Deposit	Ore Mt	Cu grade %	Contained Cu kt
Nyungu Central	69	0.53%	366
Kabikupa	18	0.57%	103
Total	87	0.54%	468

Source: Company; Foster stockbroking estimates.

- Dimensions of Nyungu Central Resource also make it amenable to open-pit mining – it strikes about 1.4km north-south (Figure 3), 450m laterally east-west, and extends from just 50m below surface to 400m below.

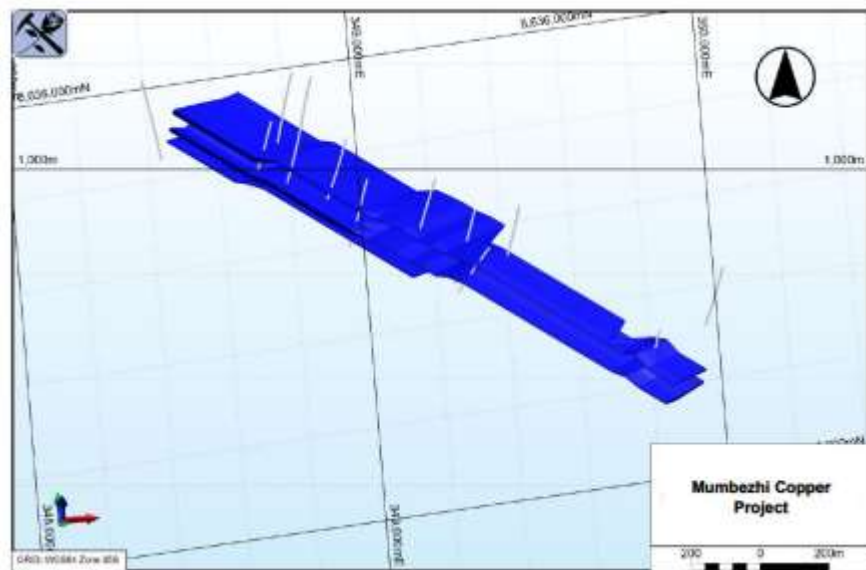
Figure 3: Nyungu Central long section



Source: Company.

- Similarly, Kabikupa lends itself to open pit mining. It strikes around 1.8km with width of 370m and depth to 250m, north-south (Figure 4).

Figure 4: Kabikupa oblique view

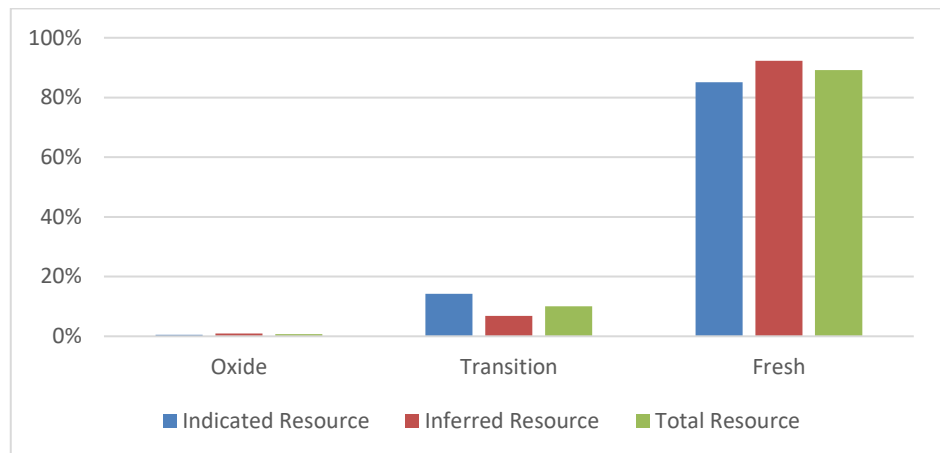


Source: Company.

Mostly fresh sulfide – positive for met

- PSC provided a breakdown of ore by type – fresh (sulfide), transition, and oxide – for the Nyungu Central JORC Resource across Indicated and Inferred categories. Just shy of 90% of Nyungu Central is fresh, including 85% in Indicated with oxide negligible (<1%) across both categories. Transition is low at 10% (Figure 5).

Figure 5: Percentage contained Cu by ore type in Nyungu Central JORC Resource



Source: Company; Foster Stockbroking estimates.

- The Kabikupa Resource is all fresh, by virtue of all mineralisation identified in fresh rock, although mineralisation is still open to surface from the resource. Chalcopyrite and bornite have been observed in Kabikupa intercepts, further adding to promising metallurgy.

EXPLORATION TARGET

Potential for over 6Mt of contained Cu – exceeds expectations

- PSC also announced its own Exploration Target (ET) for Mumbezhi, which exceeded our expectations which was based on that of Argonaut’s 2013 ET estimate.
- The ET highlights the massive potential inherent in the project. The ET ranges from a lower estimate of 420Mt @ 0.4% Cu for 1.68M contained Cu to the upper end of 1.05bt @ 0.6% for an astonishing 6.3Mt contained Cu, with around 4Mt contained Cu implied from the range’s mid-point in the (Figure 6).

Figure 6: Mumbezhi Exploration Target (100%)*

Deposit	Lower Range			Mid - Range			Upper Range		
	Ore mt	Grade Cu	Cont. Cu Mt	Ore Mt	Grade %	Cont. Cu kt	Ore Mt	Grade Cu	Cont. Cu kt
Nyungu Central	170	0.5%	850	260	0.6%	1,475	350	0.6%	2,100
Nyungu North	120	0.4%	480	235	0.5%	1,290	350	0.6%	2,100
Kabikupa	30	0.5%	150	55	0.6%	315	80	0.6%	480
West Mwombezhi	100	0.4%	400	185	0.6%	1,145	270	0.7%	1,890
Total	420	0.4%	1,680	735	0.5%	3,990	1,050	0.6%	6,300

*Exploration Targets are inclusive of JORC Resources.

Contained Cu do not add to totals due to both rounding and significant figures.

Sources: Lower and upper range ore and grade - Company; All contained Cu and mid-range ore and grade - Foster Stockbroking estimates.

- The ET was comprised from four deposits - Nyungu Central, Nyungu North, Kabikupa, and West Mwombezhi - and is inclusive of the JORC Resources estimated at Nyungu Central and Kabikupa. The ET was derived from work including historic and PSC’s own drilling (combined >30,000m), resource modelling, surface geochemistry such as termite hill sampling, and geophysics including IP surveys and anomalies.
- A notable missing deposit in the ET is Nyungu South. It has only recently emerged as a prospective drill for resource potential, following strong historic IP anomalies undertaken by Anglo American, coincident with positive termite hill sampling by PSC. Historic drilling at



Nyungu South missed the IP anomaly, Nyungu South forms part of the 16km Nyungu Corridor, which also includes Nyungu Central and Nyungu North.

- The prior ET estimate by Argonaut Resources was solely on Nyungu and ranged 130-180Mt at 0.45-0.65% grade for contained Cu of 585-1,160kt – the midpoint about 4.5x lower than that of PSC's ET.

PERMITTING

Fully permitted - mining licences now granted

- Adding to the derisking of Mumbezhi was the grant this month of two mining licences that cover the whole of the Mumbezhi project. It followed the earlier ESIA approval, and means the project is fully permitted, and can proceed to production, subject to factors such as financing, offtake, and economic feasibility. However, we are confident these will be addressed in due course by PSC, given the promising scale of Mumbezhi and its fully-permitted status.

FURTHER WORK & MILESTONES

Drilling to resume 2Q, scoping study by end 2025

- PSC will restart drilling in the 2Q, likely as early as April, with the wet season subsiding. The company will be armed with a set of drill targets both for infill and scout drilling, across all of the Mumbezhi deposits. We are particularly excited about a number of aspects, including
 - The scope to grow the Nyungu Corridor resources;
 - Drill-testing the three Nyungu North IP anomalies;
 - The results of drilling at Nyungu South; and
 - Further growth at Kabikupa.
- The Phase 2 drill campaign should lead to an upgrade in resources – both in quality and size - sometime this year, and a scoping study eyeing the best resources to develop by the end of 2025.
- Preliminary met work has identified economic concentrates can be produced from Mumbezhi, and further work will be done to optimise it.
- We expect PSC may examine both a stand-alone mine and toll-treatment scenario for Mumbezhi. The latter arises by virtue of the project's proximity to – within 60km – the large-scale plants of both Barrick's Lumwana and First Quantum's Sentinel mines.
- A win-win situation can emerge in this development pathway, with a low-capex, short-lead time entry into production for PSC, while high-grade ore at less cost would be attractive to Barrick or First Quantum, an alternative to sourcing own ore at greater mine depths with the associated costs.

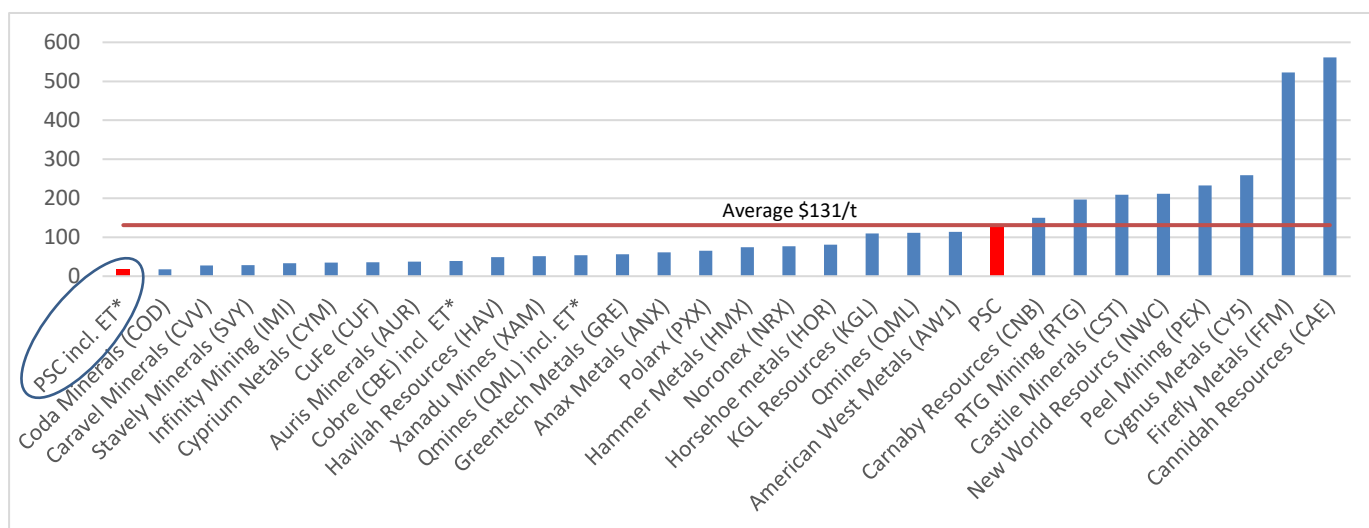


VALUATION

Peer analysis shows ET unjustly discounted

- We have compared 30 ASX-listed copper developers and explorers that have JORC Resources with PSC, comparing their EV per Resource of contained Cu (Figure 7). Of the 30 companies, three - PSC, Cobre (CBE), and Qmines (QML)- also have disclosed ETs. In these instances, we have shown EV per JORC Resource plus ET of contained Cu, as in addition to their EV/JORC Resource. We used their mid-point of their ET lower and upper range in deriving our EV/Resource plus ET multiple. Also, where the ET contains JORC Resources – such as in PSC’s case – we have excluded this component when adding it to the JORC Resource, so as not to double-count.

Figure 7: EV/Resource contained Cu (\$/t) for ASX developers/explorers



EV/JORC Resource of contained Cu shown, except *EV/JORC Resource plus ET of contained Cu.

Average shown is for EV/Resources only.

Source: Company reports; IRESS; Foster Stockbroking estimates.

- The comparison of Figure 7 shows the average EV/Resource contained Cu is \$131/t. Coincidentally, PSC’s EV/Resource is in-line with the mean.
- However, what is more salient is that on EV/Resource plus ET multiple, PSC’s value is only at \$17/t – placing it smack bang at the bottom of the group. One may rightly argue this is due to the greater risk surrounding ETs vs Resources. However what magnitude should this discount be? In our comparison, only CBE has an ET *sans* Resource, and it is on an EV/ET of \$39/t – more than double PSC’s multiple which includes JORC Resources.

PSC valuation \$0.33/share using comparative multiples

- We have arrived at a valuation of \$0.33/share for PSC, based predominantly on applying the ASX-listed mean of \$131/t to its JORC Resources, and the CBE multiple of \$39/t to PSC’s mid-point of its ET range ex-Resources. Such is the magnitude of the ET that despite the lower multiple vs Resource, it comprises most of our value (\$157M). This is probably unsurprising, given the maiden Resource only scratches the potential of Mumbezhi. For example, the Nyungu Central Resource comprises only 1.4km of the 16km Corridor, with no Resources yet Nyungu North or South, while Kabikupa and the deposits are at earlier exploration stages vs Nyungu Central.

**Figure 8: PSC Valuation**

Component	Value	Multiple/unit	\$M	\$/share
JORC Resource*	437kt cont. Cu	\$131/t (ASX mean)	57	\$0.10
ET mid-point*#	2,955kt cont. Cu	\$39/t (CBE)	115	\$0.20
Step Aside lithium - notional	10	\$M	10	\$0.02
PSC total EV			182	
Net cash	8.5	\$M	9	\$0.01
PSC equity value			191	\$0.33
Shares	571.7	M		

*85% PSC equity share.

#ET excluding Resource.

Source: Foster Stockbroking estimates.

- While using an average EV/Resource and/or ET multiple is a simplistic approach, we think it is conservative in PSC's case, as one could easily argue it deserves to have an above-average multiple. Many other ASX developers/explorers lack key attributes that PSC and Mumbeshi possess, namely:
 - **Fully permitted** – ESIA approval and granted mining licence over all of exploration area;
 - **Management with proven successful commercialisation** of advanced exploration assets;
 - **Scale** of Mumbeshi;
 - Mumbeshi's location in **the proven Zambian mining district** and geological setting.
 - **Proximity to established large mines** that may potentially offer commercial options;
 - **Surrounding infrastructure.**

RECOMMENDATION & PRICE TARGET

Maintain Buy, 12-month PT raised to \$0.33 (prior \$0.29)

- We maintain our Buy recommendation on PSC and lift our 12-month price target to \$0.33 from \$0.29 based on valuation.
- Catalysts include 1) Drill results; 2) JORC Resource upgrade; 3) Met results; and 4) Scoping Study.

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Review disclosure: The report was authored by the analyst named on the front page of the report and was reviewed and checked by Hazmy Hazin, Research Analyst.

Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.