

Syndicated Metals (SMD)

Xstrata pays \$175m for 462kt Cu.eq

Copper Exploration, Mt Isa district

Recommendation

Speculative BUY

Price

20c

Indicative Valuation

26c

ASX / S&P Sector

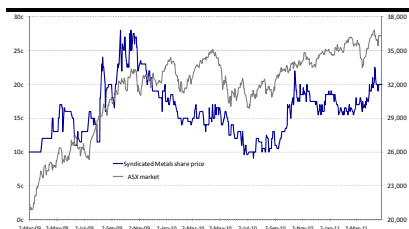
Metals & Mining

- On 20 April, Exco Resources (EXS.ASX) announced that it had sold its Cloncurry Copper Project to Xstrata (XTA.L) for \$175m, in cash
- EXS's CCP has reported resources of 52.1Mt at 0.77% Cu and 0.23g/t Au for 462kt Cu eq, or 0.89%, for \$379/t of contained copper equivalent.
- Applying this value to SMD's expected resources, of 151kt Cu eq gives \$57m, a 33% premium to Intersuisse's valuation of \$43m, even though SMD has higher grades, with 10.3Mt at 1.46% Cu eq.

Snapshot

Last Price	\$0.20
Market Cap.	\$18.4 million
Shares on Issue	91.73m FPO 28.45m options, exercisable 20c to 55c
52 Week High	\$0.215
52 Week Low	\$0.091

Price Chart



SMD is an explorer, with 4 main tenement areas, 3 of which are in North West Queensland.

SMD has 1,152km² under EL at Mt Remarkable, within which a JORC resource of over 76kt copper equivalent, SMD share has been announced. There are many further mineralised occurrences and prospects in this area.

Present drilling is expected to increase this resource, to over 100kt, and possibly up to 150kt.

SMD also has 671km² under EL at Kalman South – Dronfield, for which a JORC resource of 124kt Cu.eq, SMD share, was announced in 2008.

See : www.syndicatedmetals.com.au

Analyst: Pieter Bruinstroop :

Investment Highlights

- SMD's share of Resource at Barbara are 76kt Cu eq, from 5.33Mt at 1.43% Cu, 0.14g/t Au plus Ag and Co, for 1.64% Cu.eq
- The current drilling campaign is expected to increase this resource to over 100kt Cu, and possibly up to 150kt.
- Intersuisse's indicative valuation is based on a near doubling of the resources, but at a lower grade; of 10.33Mt at 1.46% Cu eq.
- There are many further mineralised occurrences and prospects in SMD tenements in this area.
- Intersuisse has estimated that, based on 118kt Cu eq, the Barbara project has an NPV of \$125m, after tax, un-g geared, assuming a 12% real discount rate, zero value for franking credits with metals prices near current prices, and first mining in mid 2014.
 - After taking into account financing, including equity raising, and including risk weighting, this indicates a per share value of 35c
 - Removing the risk weighting increases the value to 52c
 - Intersuisse's indicative valuation of 26c assumes that the copper price falls to \$7,500/t, or 36c un-risked
- While Intersuisse believes that SMD's interest in Kalman South, which has a JORC resource of 124kt Cu eq, is likely to be valuable, the grades are lower and serious work has not been done on this project since 2008, so we have not attributed any value to it.
- Xstrata (XTA.L) is paying \$175m cash for Exco Resources' Cloncurry Copper Project, which has 462kt Cu eq, near XTA's Ernest Henry operations, or \$379/t of contained Cu eq.
- This is a 33% premium to Intersuisse's valuation of SMD, which is \$286/t of Cu eq.

Recommendation

Intersuisse retains our Speculative BUY recommendation on SMD.

EXS's Cloncurry Copper Project

On 20 April 2011, Exco Resources (EXS.ASX) announced that it had agreed to sell its Cloncurry Copper Project to Xstrata (XTA.L) for \$175m in cash, subject to FIRB and shareholder approval.

Figure 1 is extracted from EXS's ASX advice and shows the Resources that EXS has agreed to sell to XTA. This is a total of 52.1Mt at 0.77% Cu and 0.23g/t Au.

Figure 1 : Resources for Exco Resources' Cloncurry Copper Project

Deposit	Class	Tonnes	Grade		Metal	
			Cu%	Au g/t	Cu T	Au Oz
E1 Camp ⁽²⁾	Measured	9,170,000	0.87	0.25	80,000	75,000
	Indicated*	24,700,000	0.71	0.21	177,000	165,000
	Inferred*	14,200,000	0.64	0.2	91,000	90,000
TOTAL		48,100,000	0.72	0.21	348,000	330,000
Monakoff ⁽¹⁾ & Monakoff East	Indicated	2,000,000	1.39	0.44	28,000	28,000
	Inferred	2,000,000	1.3	0.4	25,000	26,000
TOTAL		4,000,000	1.32	0.42	53,000	54,000

EXS has agreed to sell its Cloncurry Copper Project to XTA for \$175m.

EXS's Cloncurry Copper Project contains 462kt of copper equivalent.

Source : EXS's ASX Announcement, 20 April 2011

Syndicated Metals (SMD)

The proposed transaction gives a value of \$379/t of contained Cu eq.

In our Initiation report dated 30 March, 2011, Intersuisse showed an indicative valuation of SMD of 25c a share. Figure 2 shows the detail of Intersuisse's valuation, slightly updated for commodity prices.

Figure 2 : Intersuisse's indicative valuation of SMD, of 26c a share

discount rate =	12%	30-Jun-10		27-Apr-11	
		100%	Product	per share	
Mt Remarkable Resources	65 %	\$A 33.5m	\$A 21.8m	7.6 c	8.3 c
fanking credits	39 %	\$A 29.2m	\$A 11.4m	3.9 c	3.9 c
Mt Remarkable Extensions	50 %	\$A 16.9m	\$A 8.4m	2.9 c	2.9 c
fanking credits	30 %	\$A 5.1m	\$A 1.5m	0.5 c	0.5 c
Corporate	100 %	(\$A 6.6m)	(\$A 6.6m)	(2.3c)	(2.2c)
Cash / debt	100 %	\$A 4.7m	\$A 4.7m	1.6 c	1.4 c
Cash raised	100 %	\$A 31.0m	\$A 31.0m	10.7 c	10.9 c
TOTAL		\$A 113.8m	\$A 72.2m	25.0 c	25.9 c
		91.7m	existing	31.8m	Sep. 2011
		35.3m	June 2012	129.6m	March 2013

Intersuisse's indicative valuation of SMD is \$286/t of Cu eq, despite SMD having significantly higher grades, and hence more value.

Source : Intersuisse estimates

Figure 2 shows that Intersuisse's indicative valuation :

- Is heavily risk weighted
- Includes an extension to SMD's reported resources; and
- Includes expected equity raisings at prices below the current share price

Intersuisse's indicative valuation is based on SMD's JORC Resources plus expected success from SMD's current drilling program

Figure 3 shows the estimate of material mined and processed in Intersuisse's indicative valuation. This comprises reported JORC resources plus an estimate of the extension to Resources from SMD's current drill campaign

Figure 3 : Material assumed mined and processed in Intersuisse's indicative valuation

	copper	gold	silver	cobalt	Cu	Au	Ag	Co	Cu eq.	grade
Indicated	3,778 kt	1.6 %	0.2 g/t	2.7 g/t	265 ppm	59.0 kt	18 koz	328 koz	1,000 t	
Inferred	1,552 kt	1.1 %	0.1 g/t	2.1 g/t	272 ppm	17.0 kt	6 koz	102 koz	421 t	
Extra	5,000 kt	1.1 %	0.1 g/t	2.1 g/t	272 ppm	58.4 kt	22 koz	351 koz	1,447 t	
TOTAL	10,330 kt	1.3 %	0.1 g/t	2.4 g/t	278 ppm	134.4 kt	47 koz	782 koz	2,868 t	151 kt 1.46 %

Source : Intersuisse estimates

Comparatives

Figure 4 updates the comparatives for the Cloncurry region for the proposed EXS-XTA transaction.

Figure 4 : Comparatives, Cloncurry – Mt. Isa region

	Market cap	cash	tenement area	copper eq.	E.V. \$/t	av. grade
Ivanhoe Australia	\$ 1,429m	\$ 159m	4,977 km ²	4,871 kt	\$ 261/t	0.64 %
Cudeco	\$ 450m	\$ 45m	54 km ²	393 kt	\$ 1,031/t	0.94 %
Queensland Minerals	\$ 44m	\$ 3m	1400 km ²	354 kt	\$ 117/t	0.64 %
Altona Mining	\$ 165m	\$ 76m	2000 km ²	1,154 kt	\$ 77/t	0.86 %
EXS' Cloncurry Project	\$ 175m			462 kt	\$ 379/t	0.89 %
Syndicated Metals	\$ 19m	\$ 4m	1,823 km ²	76 kt	\$ 196/t	1.73 %
SMD - Intersuisse valuation				151 kt	\$ 286/t	1.46 %
SMD - total resources				200 kt	\$ 75/t	1.08 %
SMD, incl. current drilling				244 kt	\$ 78/t	1.12 %

Source : IRESS, company filings, Intersuisse estimates

Note : 1. The EV for "SMD current drilling" assumes that the available cash has been spent to secure the expected increase in resources.

2. The valuation for SMD "Total Resources" includes SMD's share of Kalman South,

The highlight from Figure 4 is that SMD's resources are higher grade than the comparatives, and hence higher value, which should attract a higher valuation.

The highlighted line is Intersuisse's indicative valuation, which shows that even though it is much higher grade than the proposed cash transaction, it is at a lower value.

Figure 4 also shows that the market is pricing other projects more highly

Figure 4 also shows that Intersuisse has not given any value to SMD's interest in Kalman South, even though we believe it is valuable, but we do not have a good indication of how valuable it might be though we believe that SMD's resources at Mt Remarkable are much more valuable than those at Kalman South.

Figure 5 shows that SMD's 49% share of the JORC Inferred Resources for Kalman South is 36.7Mt at a Cu eq grade of 0.68% for 249kt of contained Cu eq..

Figure 5 : SMD's 49% share of the Inferred Resources at Kalman South

Kalman South, Total	SMD 49 %	copper	nolybdenum	rhenum	gold	Cu	Mo	Re	Au	Cu eq.	grade
Open Pit	32.9 Mt	0.28 %	0.06 %	1.54 g/t	0.13 g/t	92.3 kt	18.8 kt	1,624 koz	137 koz		
Underground	3.8 Mt	0.53 %	0.04 %	0.77 g/t	0.29 g/t	20.1 kt	1.6 kt	93 koz	36 koz		
TOTAL	36.7 Mt	0.31 %	0.06 %	1.46 g/t	0.15 g/t	112.3 kt	20.4 kt	1,717 koz	173 koz	249 kt	0.68 %

Source : IRESS, SMD and CJO ASX announcements, Intersuisse estimates

Intersuisse has not given any value to SMD's share of Kalman South, even though its Cu eq grade is consistent with grades shown in Figure 4.

Conclusions

Intersuisse retains our Speculative BUY recommendation on SMD.

We believe that there is still significantly more potential than that which has been captured in our indicative valuation.

Comparisons show that the current market valuation of SMD is low compared with its peers.

Intersuisse has NOT given any value to SMD's share of Kalman South, despite Kalman South having grades consistent with other, valued, resources in the Cloncurry region

Intersuisse retains its Speculative BUY recommendation on SMD.

Contacts List

Steve Morris 03 9618 8231 **Managing Director**

Private Clients

Research

Cameron Bell 03 9618 8283 Analyst
 Pieter Bruinstroop 03 9618 8275 Mining Analyst
 Nick Wirubov 03 9618 8251 Oil & Gas Analyst

Melbourne

Mark Chartres 03 9618 8240 Head of Wealth Management
 Peter Addison 03 9618 8226 Associate Director
 Craig Baillie 03 9618 8279 Client Adviser
 Howard Elton 03 9618 8233 Director
 Amanda Fanning 03 9618 8247 Client Adviser
 Steven Goossens 03 9618 8215 ITS Operator
 Graham Johnstone 03 9618 8246 Client Adviser
 Darren Levy 03 9618 8252 Associate Director
 Sue McDonald 03 9618 8211 Senior Client Adviser
 Luke Robinson 03 9618 8210 Senior Client Adviser
 Suzie Shipton 03 9618 8243 Manager Client Services
 John Taylor 03 9618 8219 Client Adviser
 Callan Trew 03 9618 8255 Client Adviser
 Henry Vo 03 9618 8250 Client Adviser
 Prasanna Wickramatunge 03 9618 8270 Client Adviser
 Mark Wiseman 03 9618 8228 Director
 Raymond Wong 03 9618 8225 Client Adviser

Corporate Finance – PhillipCapital Australia

Michael Beer 03 9618 8222 Resources
 Jonathan Buckley 03 9618 8244 Managing Director
 Andrea Coad 03 9618 8256 Administrator
 Sackville Kempton 03 9618 8258 Director
 Michael Laletas 03 9618 8234 Director
 David Pryles 03 9618 8269 Manager
 Leith Wale 03 9618 8253 Energy

Institutional Dealing

Will Cleland 03 9618 8223 Associate Director
 Colin Eichenberger 03 9618 8214 Associate Director
 Hulya Ozmen 03 9618 8232 Desk Assistant

Sydney

Andrew Sekely 02 9994 5508 Director
 Joe Durak 02 9994 5513 Senior Client Adviser
 Patricia Harrison 02 9994 5505 Senior Client Adviser
 Ryan Hoffman 02 9994 5512 Client Adviser
 Greg Lidicky 02 9994 5522 Client Adviser
 Nick Madden 02 9994 5518 Client Adviser
 Philip Rhead 02 9994 5509 Senior Client Adviser
 Pam Smith 02 9994 5510 Client Adviser
 William Tan 02 9994 5511 Client Adviser
 Oksana Wainwright 02 9994 5500 Administrator

Important Information

Confidential

This document is for the confidential use of the recipients only and is not to be reproduced without the authority of Intersuisse Limited.

Disclaimer

The persons involved in or responsible for the preparation and publication of this report believe that the information herein has been obtained from reliable sources and that any estimates, opinions, conclusions or recommendations are reasonably held at the time of compilation. No warranty is made as to the accuracy of the information in this document and, to the maximum extent permitted by law, Intersuisse Limited and its related entities, their respective directors and officers ("Intersuisse") disclaim all liability for any loss or damage which may be suffered by any recipient through relying on anything contained or omitted from this document.

General Advice

The content is of a general nature and is based on a consideration of the securities alone, and as such is conditional and must not be relied upon without advice from a securities adviser as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Whilst this document is based on information and assessments that are current at the date of publication, Intersuisse has no obligation to provide revised assessments in the event of changed circumstances.

Disclosure

Directors of Intersuisse or other associate companies may own securities in Hillgrove Resources Limited. Intersuisse seeks to do work with those companies it researches. Intersuisse receives commissions from dealing in securities. As a result, investors should be aware that Intersuisse may have a conflict of interest that could affect the objectivity of this report.

Analyst Certification

The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities or the issuer; and that no part of his remuneration was, is, or will be, related to the recommendations or views expressed by him in the report.

Prepared by Pieter Bruinstroop

INTERSUISSE LIMITED ABN 14 002 918 247, AFSL 246827		Market Participant of the ASX Group	
Melbourne Office: Level 37, 530 Collins Street, Melbourne, Vic, Australia 3000		Sydney Office: Level 7, 5 Elizabeth Street, Sydney, NSW, Australia 2000	
Telephone:	(+613) 9629 8288	Telephone:	(+612) 9233 2100
Facsimile:	(+613) 9629 8882	Facsimile:	(+612) 9233 2117
Email:	suisse@intersuisse.com.au	Email:	sydney@intersuisse.com.au
Internet: http://www.intersuisse.com.au			