

RTG Mining Inc.⁷

BUY

RTG-ASX

November 24, 2014

 Last: **A\$0.87**
 ▲ Target: **A\$1.98**

High-grade maiden resource at Mabilo

716koz gold and 206kt copper in Maiden Resource

RTG has announced its Maiden Resource at Mabilo that is impressively in line with our expectations at 11.4mt at 2.0g/t Au, 1.8% Cu, 10.6g/t Ag and 44.2% Fe for 716koz contained gold, 205kt contained copper, and +5mt contained iron. The resource identifies ~10% in high-grade oxide material that is amenable to an open pit DSO and the remainder of the resource in 'fresh' material that underpins an initial 8 year operation at 1.5mtpa (GMPe).

DSO option and early cash flow to fund the plant

The oxide subset of the resource comprises a high-grade oxide gold "cap" zone of 340kt at 3.2g/t Au (35koz contained) and a very high-grade supergene chalcocite zone at 101kt at 24% Cu (24kt contained). The oxide component also includes an oxide copper/gold zone that is planned to be extracted with the magnetite skarn (running 41.5% Fe) product. Although slightly lower oxide tonnes than expected (GMPe ~1mt), the higher grades make up for it and we are confident these will underpin a ~2 year DSO open pit that will fund the bulk of the required capital for the primary plant. Using spot gold and copper prices, the DSO operation potentially returns ~\$236m in free cash.

Resource underpins GMPe 8-year 1.5mtpa primary operation

We continue to model an 8-year operation with a 1.5mtpa plant based on the current resource plus one year added for exploration upside. With preliminary metallurgical work due out this Q we tentatively model 90% recoveries in the gold and copper and 70% in the iron, based on test work to date. The primary operation sees ~24ktpa Cu, ~87kozpa Au and ~460ktpa Fe.

Maintain BUY rating and increased price target to A\$1.98/sh

Our RTG valuation is dominated (~85%) by potential operations at Mabilo, that has increased after modelling the maiden resource and increasing potential operations at Mabilo to 1.5mtpa in the primary plant. We value Mabilo on a post-tax DCF basis using a 10% discount, 0.90 AUDUSD exchange, long-term commodity prices of US\$2.85/lb copper, US\$1,350/oz gold and US\$75/t magnetite. As a pre-resource developer and cum-funding for the larger project, we risk weight our RTG DCF at 75% giving us our SOTP valuation and price target of A\$1.98/sh.

Summary	Old	New
Rating	BUY	n.c.
Target	\$1.80	\$1.98
Copper production 2015E (kt)	0.8	0.9
Gold production 2015E (koz)	0.9	1.9
Copper production 2016E (kt)	18.7	17.3
Gold production 2016E (koz)	20.8	38.3
Copper production 2017E (kt)	17.5	17.3
Gold production 2017E (koz)	31.9	41.2

Share Data	
Share o/s (mm, basic/f.d.)	114.0
52-week high/low	1.37 / 0.82
Market cap (m)	\$99.2
EV (m)	\$106.4
Net debt (m)	(\$7.2)
Projected return	127%
NAV0%/share	\$10.60
NAV10%/share	\$2.63
P/NAV0%	8%
P/NAV10%	33%
NAV10% @ spot commodities	\$2.58

Financial Data			
YE June. 30	CY15E	CY16E	CY17E
Copper production (kt)	0.9	17.3	17.3
Gold production (koz)	1.9	38.3	41.2
Revenue (US\$m)	\$9	\$183	\$185
EBITDA (US\$m)	(\$5)	\$151	\$142
Cash costs incl royalty (US\$/lb)	(\$0.68)	(\$0.60)	(\$0.10)
Capex (\$m)	(\$15)	(\$85)	(\$50)
Free cashflow (\$m)	(\$9)	\$29	\$57
EPS	(\$0.05)	\$0.77	\$0.69
CFPS	\$0.00	\$0.75	\$0.81
P/E	-16.0	1.1	1.3
P/CF	230.2	1.2	1.1
EV/EBITDA	-19.62	0.71	0.75

All figures in A\$ unless otherwise noted

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Mabilo maiden resource

RTG has released its Maiden Resource at Mabilo of 11.4mt at 1.8% Cu, 2.0g/t Au, 10.6g/t Ag and 44.2% Fe. The resource includes all drill holes over the North and South Mineralised Zones at Mabilo up to and including MDH-081, released last week. The resource outlines a high-grade oxide component at shallow levels containing 72koz gold, 35kt copper and 325kt of iron, amenable to a DSO open pit operation. The magnetite skarn comprises a significant portion of the resource and remains open in multiple directions.

The resource has come within our expectations for tonnes and grade (previous GMPe 11mt at 2% Cu, 2g/t Au and 43% Fe). 52% of the resource is in Indicated at 5.9mt at 2.1% Cu, 2.2g/t Au, 8.4g/t Ag and 49% Fe.

Figure 1. Maiden Mabilo Resource

Mineral Resource Estimate Results - Reporting at 0.3 g/t Au lower cut-off - Mabilo Deposit - South and North Zones											
Weathering State	Classification	Million Tonnes	Cu %	Au g/t	Ag g/t	Fe %	Contained Au ('000s oz)	Contained Cu ('000s t)	Contained Fe ('000s t)	Au Equivalent* g/t	Au Equivalent* ('000s oz)
Oxide + Supergene	Indicated	0.73	4.4	2.8	9.5	42.6	67.1	32.2	312.7	10.5	248.2
	Inferred	0.13	3.1	2.2	10.4	34.9	8.9	3.9	43.6	7.8	31.3
	Indicated + Inferred	0.86	4.2	2.8	9.7	41.5	76.0	36.1	356.4	10.1	279.6
Fresh	Indicated	5.13	1.7	2.1	8.3	49.9	346.8	88.9	2,563.0	5.6	929.9
	Inferred	5.37	1.5	1.7	12.9	39.1	293.1	80.4	2,101.9	4.7	818.7
	Indicated + Inferred	10.50	1.6	1.9	10.7	44.4	639.9	169.3	4,664.9	5.2	1,748.6
Combined	Indicated + Inferred	11.36	1.8	2.0	10.6	44.2	715.9	205.5	5,021.3	5.6	2,028.1

Note: The Mineral Resource was estimated within constraining wireframe solids based on the mineralised geological units. This resource table is quoted from all classified blocks above a lower cut-off grade 0.3 g/t Au within these wireframe solids. Differences may occur due to rounding

Source: RTG

We are particularly impressed with the Indicated Oxide Resource that has come in with higher grades than expected with 340kt at 3.2g/t Au for 35koz in the oxide gold ‘cap’ and 101kt at 24% Cu for 24kt contained in the supergene chalcocite zone and a combined I+I supergene/oxide maiden resource of .86mt at 2.8g/t Au, 4.2% Cu and 41.5% Fe for 36koz contained gold, 76kt contained copper and 356kt contained iron.

We estimate that the Mabilo JV partner has completed ~75% of the required 14,000m of drilling with the maiden resource (81 holes). Three rigs remain active at Mabilo targeting infill and extensions along strike and down dip.

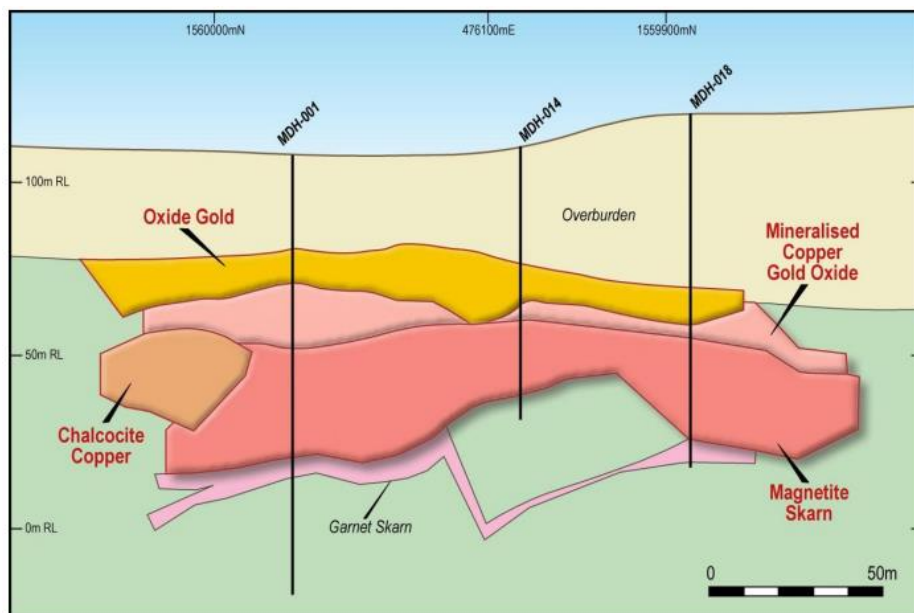
Oxide component supports two-year DSO operation

The maiden resource comprises ~8% of the tonnes in high-grade, shallow oxide material that is amenable to open pit mining. Total Indicated and Inferred resources in oxide and supergene material has come in at **0.86mt at 4.2% Cu, 2.8g/t Au, 9.7g/t Ag and 41.5% Fe for 76koz contained gold, 36kt contained copper and 356kt contained iron.**

RTG consider the oxide material as three differentiated potential product streams: The high-grade **Oxide Gold “cap” (0.37mt at 3.1g/t Au, 0.2% Cu and 41.5% Fe for 37koz contained gold)** would be shipped as one product; the high-grade **Supergene Chalcocite copper (0.11mt at 2.3g/t Au, 23% Cu and 36.2% Fe for 26kt contained copper)** would be shipped directly to a copper offtaker/smelter; and the **Mineralised Copper Gold Oxide (0.30mt at 2.7g/t Au, 2.7% Cu and 42.7% Fe for 26koz contained gold and 8kt contained copper)** would be mined with the magnetite skarn and shipped to an iron offtaker with gold and copper credits.

The DSO planning and offtake negotiations are early stage. RTG lodged a mining licence application in Sept. '14 for the potential two-year DSO operation. We currently anticipate that RTG will receive approval for the operation by Q3 '15 with first ore shipped late in 2015.

Figure 2. Long-section of oxide material amenable to a DSO open pit



Source: RTG

As part of its Mabilo Project earn-in, the JV partner will undertake 1.5mt of the overburden pre-strip for the open pit. 1.5mt comprises roughly 60% of the required pre-strip to access the top of the oxide mineralisation. The volcanic overburden varies between ~20-30m across the North and South Mineralised Zones.

We continue to believe RTG has sufficient cash on hand (~\$7m) to get into first cash flow from the DSO.

Mabilo maiden resource comp'd to SIR.ASX and SFR.ASX

We have comp'd the Mabilo maiden resource to SIRs maiden resource at Nova in March 2013 and SFRs maiden resource at DeGrussa in February 2010 to illustrate our view the RTG is undervalued at current levels. Using current spot commodity prices and the EVs of the respective companies at the time of the maiden resource release (as well as relevant ownership structure at the time) RTG is significantly cheaper than where SIR and SFR were trading.

Figure 3. Mabilo maiden resource vs. SIR and SFR

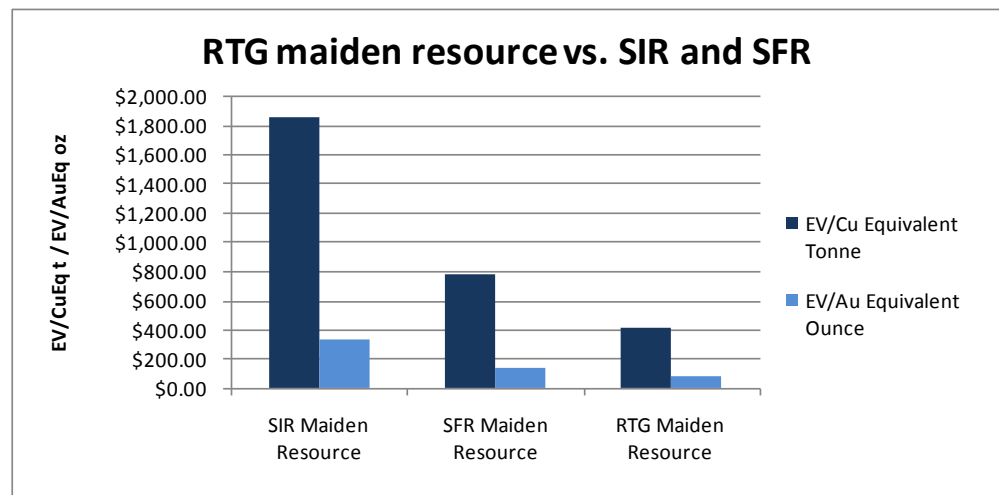
	SIR Maiden Resource (70%)	SFR Maiden Resource	RTG Maiden Resource (64%)
Date	20/03/2013	22/02/2010	24/11/2014
EV (US\$)	\$917	\$357	\$106
Resource	10.2mt @ 2.4% Ni, 1.0% Cu and 0.08% Co	7.13mt @ 5.2% Cu, 1.9g/t Au and 15g/t Ag	11.4mt @ 1.8% Cu, 2g/t Au, 44.2% Fe
Tonnes	242kt Ni, 100kt Cu, 7.7kt Co	372kt Cu, 439koz Au, 3.4moz Ag	205kt Cu, 716koz Au, 5.02mt Fe
Copper Equivalent (t)	493,500	460,388	255,629
Gold Equivalent (oz)	2,720,008	2,537,507	1,408,944
EV/Cu Equivalent Tonne	\$1,858.16	\$776.37	\$414.66
EV/Au Equivalent Ounce	\$337.13	\$140.86	\$75.23

*Assuming 90% recoveries and commodity prices of US\$6,614/t Cu (US\$3.00/lb), US\$1,200/oz Au, US\$17/oz Ag, US\$85/t Fe, US\$16,535/t Ni (US\$7.50/lb)

Source: GMP

Mabilo is the smallest of the three deposits in terms of both contained copper equivalent tonnes and contained gold equivalent ounces but in relation to EV it is trading substantially cheaper than SIR and SFR at their respective maiden resource milestones.

Figure 4. Mabilo project parameters



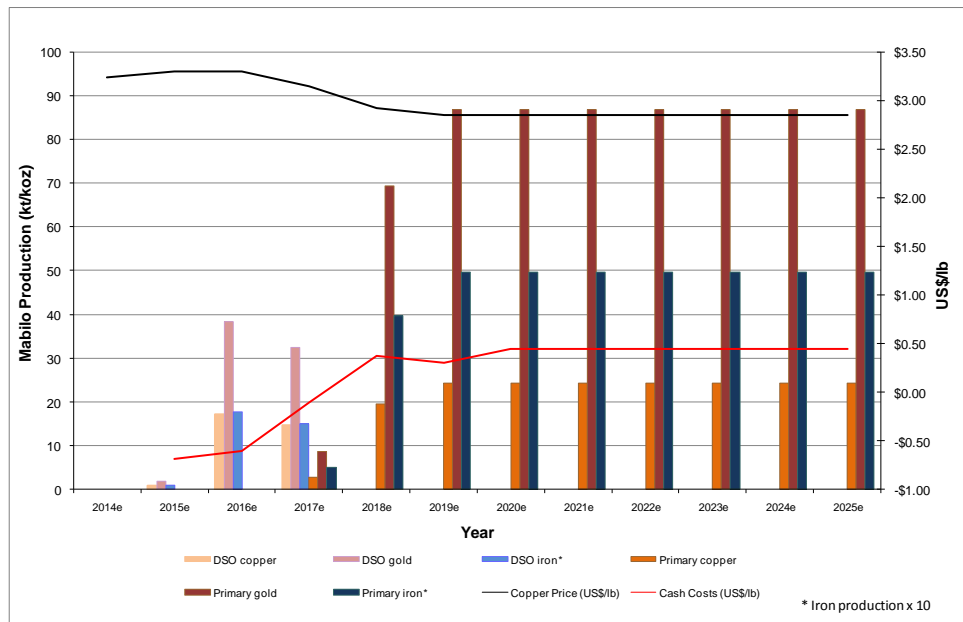
Source: GMP

While Mabilo carries some country-risk in the Philippines versus the two W.A. assets, we re-iterate our confidence in RTG management to execute in-country and highlight their track record.

Valuation and rating

On the back of the maiden resource and ahead of scoping/feasibility, we model a two year DSO operation (~490ktpa) followed by a 1.5mtpa crush, grind and float operation with an initial 8 year mine life.

Figure 5. Mabilo production profile (GMPe)



Source: GMP

Our RTG valuation is dominated (~85%) by potential operations at Mabilo. We value Mabilo on a post-tax DCF basis using a 10% discount, 0.90 AUDUSD long-term exchange rate, and US\$2.85/lb copper, US\$1,350/oz gold and US\$75/t iron ore long term commodity prices.

We also attribute A\$60m (A\$39/sh) for all exploration across the company – A\$20m at Mabilo and Nalesbitan in Eastern Luzon and A\$40m at Bunawan and the Mindanao tenements.

Figure 6. SOTP valuation for RTG

Sum of the Parts valuation	A\$m	A\$/sh
Mabilo (58%)	367	\$2.35
Mabilo/Nalesbitan exploration	20	\$0.13
Mindanao exploration	40	\$0.26
Other	-	\$0.00
Corporate	(27)	(\$0.17)
Subtotal	400	\$2.56
Other	-	\$0.00
Net cash (debt)	11	\$0.07
NAV	411	\$2.63

Source: GMP

As a developer and cum-funding for the larger project (de-risking the DSO), we risk weight our RTG DCF at 75% giving us our \$1.98/sh price target and BUY recommendation.

RTG model

RTG financial summary			Year-end 31 December									
Sum of the Parts valuation	A\$m	A\$/sh	Forecast assumptions		2012	2013	2014E	2015E	2016E	2017E	2018E	
Mabilo (58%)	367	\$2.35	Copper (US\$/lb)		\$3.70	\$3.48	\$3.24	\$3.30	\$3.30	\$3.15	\$2.93	
Mabilo/Nalesbitan exploration	20	\$0.13	Gold (US\$/oz)		\$1,672	\$1,604	\$1,314	\$1,238	\$1,250	\$1,338	\$1,350	
Mindanao exploration	40	\$0.26	Silver (US\$/oz)		\$33.17	\$28.94	\$21.47	\$22.00	\$22.00	\$22.00	\$22.00	
Other	-	\$0.00	Fe ore (US\$/t)		\$235.65	\$188.75	\$140.25	\$81.25	\$75.00	\$75.00	\$75.00	
Corporate	(27)	(\$0.17)	AUDUSD		1.03	1.03	0.92	0.94	0.94	0.94	0.92	
Subtotal	400	\$2.56	Production summary		2012	2013	2014E	2015E	2016E	2017E	2018E	
Other			Mabilo (RTG 58%)									
Net cash (debt)	11	\$0.07	Ore Processed (kt)				0	0	0	150	1,200	
NAV	411	\$2.63	Grade (Cu %)				-	-	-	1.80%	1.80%	
Asset valuation summary			Recovery (%)				-	-	-	90.0%	90.0%	
			Copper production (kt in conc)				0.0	0.9	17.3	17.3	19.4	
			Copper production (mlb in conc)				0.0	1.9	38.0	38.1	42.9	
			Gold production (koz in conc)				0.0	1.9	38.3	41.2	69.4	
			Iron ore production (kt)				0.0	8.8	176.4	196.3	371.3	
			Cash costs \$/lb (incl. royalty, net metal credits)				\$0.00	(\$0.68)	(\$0.60)	(\$0.10)	\$0.37	
			PROFIT & LOSS (A\$m)			2012	2013	2014E	2015E	2016E	2017E	2018E
			Target price calculation	A\$	Weight	A\$/sh	Revenues	-	-	0.2	9.4	182.9
SotP-derived NAV	\$411	75%	\$1.98	Cost of sales	-	-	-	0.9	17.5	27.4	74.5	
EV/EBITDA valuation		0%		Exploration write-off	-	-	-	7.5	5.0	5.0	5.0	
Average				Royalty	-	-	-	0.2	3.6	3.6	5.0	
Target price A\$/sh			\$1.98	Corporate Overheads	-	-	4.2	4.2	4.2	4.2	4.2	
Production summary			Other	-	-	-2.0	-2.0	-2.0	-2.0	-2.0		
			EBITDA	-	-	-6.0	-5.4	150.6	142.4	163.6		
			D&A	-	-	-	0.4	7.5	8.6	18.0		
			EBIT	-	-	-6.0	-5.8	143.1	133.7	145.6		
			Interest expense	-	-	-	-	(4.5)	(8.3)	(3.6)		
			Adjusted PTP*	-	-	(6.0)	(5.8)	138.6	125.4	142.0		
			Taxation	-	-	-	0.7	41.6	37.6	42.6		
			Post-tax income	-	-	(6.0)	(6.5)	97.0	87.8	99.4		
			Sig Items/Minorities	-	-	-	-	-	-	-		
			Net income (adjusted earnings*)	-	-	(6.0)	(6.5)	97.0	87.8	99.4		
			Per share data (A\$)									
Shares outstanding (fully diluted)	0.0	156.0	114.0	126.5	126.5	126.5	126.5					
BALANCE SHEET (A\$m)	2012	2013	2014E	2015E	2016E	2017E	2018E					
Assets			Net debt	-	-	(7)	4	4	(39)	(139)		
Cash & equivalents	-	-	7	-4	96	94	144					
Net tangible fixed assets	-	-	89	111	210	442	260					
Total assets	-	-	96	107	306	536	404					
Liabilities			CASH FLOW (A\$m)	2012	2013	2014E	2015E	2016E	2017E	2018E		
Interest bearing debt	-	-	-	-	-	(6.0)	(5.8)	143.1	133.7	145.6		
Total liabilities	-	-	0	1	103	16	14					
Shareholders equity	-	-	96	106	203	520	391					
Minority interests	-	-	-	-	-	-	-					
Reserves	Mt	% / g/t	kt / koz	Total cash from operating activities	-	-	(5.9)	0.6	94.4	102.4	120.3	
Mabilo	-	-	-	Net capital expenditure	-	-	(0.0)	(15.0)	(85.0)	(50.0)	(10.0)	
	Cu	-	-	Expl & Net (acquisitions)/disposals	-	-	0.5	(14.5)	(9.5)	(9.5)	(9.5)	
	Au	-	-	Cash from investing activities	-	-	(0.2)	(29.5)	(94.5)	(59.5)	(19.5)	
	Fe	-	-	Cash from financing activities	-	-	-	20.0	100.0	(45.0)	(50.0)	
Resources (GMPe)	Mt	% / g/t	kt / koz	Net cash flow	-	-	(6.0)	(8.9)	99.9	133.7	50.8	
Mabilo	11.0			PROFITABILITY & VALUATION	2012	2013	2014E	2015E	2016E	2017E	2018E	
	Cu	2.0%	220	EBIT margin, %	na	na	na	na	78%	72%	57%	
	Au	2.00	707	EV/EBITDA, x	na	na	na	na	0.8	0.9	0.8	
	Fe	43.0%	4730	PE (adj.), x	na	na	na	na	1.1	1.3	1.1	

Source: Company data, GMP estimates

* excluding non-recurring items

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