

# Alliance Resources (AGS)

Trading at 50% discount to cash backing

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## Key Points

- Alliance Resources (AGS) is a junior resource company that currently has ~\$26m cash following the sale of its interest in the Four Mile uranium mine. Of the \$74m sale price ~\$50m was recently returned to shareholders.
- With a market capitalisation of ~\$12m AGS is trading at ~50% discount to their cash backing. The market would appear to be pricing in the possibility of an additional cash hand back and is also waiting for a copper-uranium discovery in Chile or acquisition announcement.
- We initiate with a speculative Buy recommendation and a High Risk Rating. Our price target of \$0.047sh is based on a 25% discount to the cash position.

## Cashed up and looking

**Asset Sale:** Until recently AGS's main asset was 25% stake in one of Australia's higher grade uranium deposits (Four Mile, South Australia). Following what could be described as a break down in the JV relationship the decision was made to sell the position to the JV partner for \$74m. Given the nature of the JV agreement and the risk of delay in receiving revenue we see the decision to sell as logical.

**Return to Shareholders:** A cash hand back to shareholders of \$50m was completed in October 2015 and when the paperwork is finalised AGS will be left with ~\$26m in the bank, versus a current market capitalisation of \$12m.

Therefore following the sale of the South Australian uranium assets AGS is in the fortunate position be able to fund a new direction. *The immediate focus will be exploration for copper and uranium in Chile and acquisition of opportunities in the resources sector.*

**Additional Cash Hand Back:** At the time of the Four Mile sale and associated cash hand back AGS flagged that they might also hand back an additional 3cps based on the outcome of a ruling from the Australian Taxation Office on the tax implications of the sale. As the final outcome will not be known till post FY16 it is unlikely that a decision will be made till then.

**Future Direction:** In addition to their current exploration projects AGS has stated that they are actively looking to acquire new projects and/or Farm-In Joint Ventures. With a strong cash position it is likely they will be offered a number of prospective projects.

**We initiate coverage with a Speculative Buy recommendation** and a price target of \$0.047/sh, based on a 25% discount to the cash backing per share.

**Catalysts:** AGS is leveraged to exploration success from the Chilean or western Australian projects. The first drilling for copper and uranium in Chile is scheduled for 1QCY16.

In addition news flow on a potential acquisition or investment would be a likely catalyst event for AGS. Likewise news from the company on the possibility of an additional cash hand back could also generate a share price response for AGS.

## Recommendation

## Speculative Buy

Previous Recommendation	Initiation
Risk Rating	High
Current Share Price	\$0.029
12 Month Price Target	\$0.047
Price Target Methodology	Discount to cash backing
Total Return (Capital + Yield)	62%
DCF Valuation	na
Market capitalisation	\$12.1m
Liquidity – Daily Value	\$m

## Investment Summary

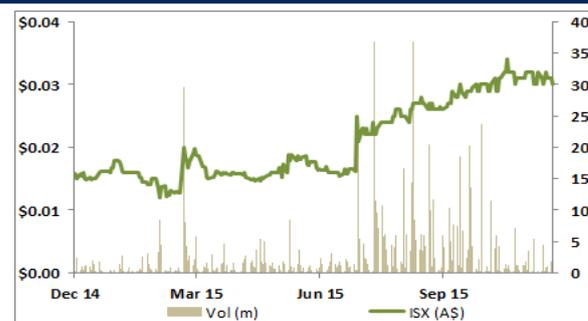
**Investment Summary:** Whilst the assets in Chile offer upside potential to AGS from exploration success the main asset for AGS is its available cash. Capital for resources projects is difficult to come by in the current market, therefore AGS balance sheet is a strategic advantage.

At the current stage in the resources cycle there are a number of opportunities becoming available as the ability of project holders to raise capital decreases. It will be important for AGS to not fall into the trap of geo tourism and spend its cash looking for the perfect project. We have raised this point with the management team and they are aware of it.

Given that the team behind AGS has also been associated with a number of other early stage resources companies, that have been corporately active, we see the risk of AGS procrastinating on potential value add opportunities as low.

**Risks:** AGS is an exploration company and therefore share price performance is closely tied to high risk exploration success. Capital management and allocation of the available funds is at the discretion of management and a number of options are available.

## AGS share price performance



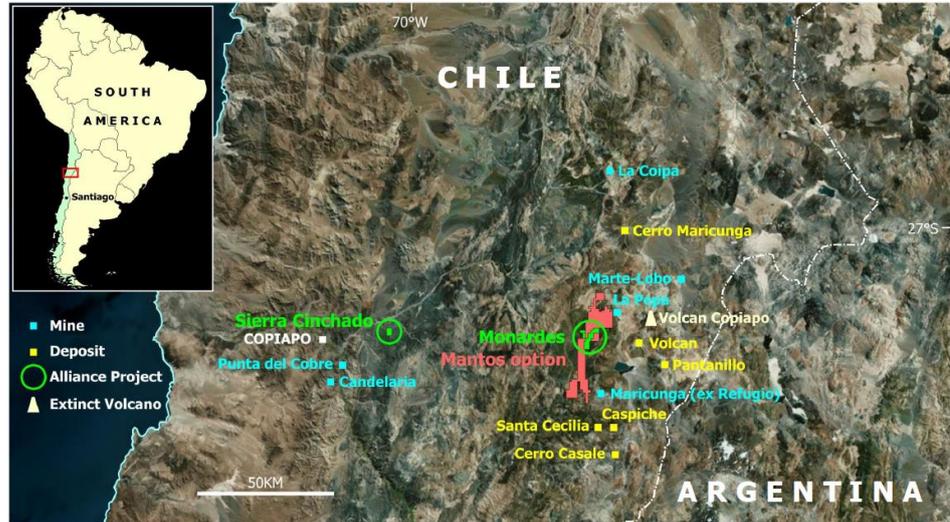
# Chilean Assets

**AGS has been in Chile since early 2012**

Alliance has been actively exploring in Chile since 2012 and has two project areas located in the mineral rich northern Chile, centred on the regional city of Copiapo. The project areas are in proven mineralised regions with initial surface sampling supporting AGS's exploration initiatives and tenement acquisitions.

## Alliance's Chilean Project Locations

**AGS's projects are located in a mining region of Chile.**



Source: Company Presentation

### Monardes Copper-Uranium Project, Chile

The Mondares Project is located within the Monardes basin adjacent to the Maricunga Belt metallogenic province of Atacama Region III, 95 km east of Copiapo in northern Chile.

Outcropping within the project area are two sub-parallel uranium-anomalous units that have been interpreted from airborne radiometrics to extend for ~9km in strike length.

AGS has undertaken some early stage sampling of the quartz-pebble conglomerate target horizon for copper and uranium. Evidence of copper mineralisation has been reported in existing historic small scale mines.

Highlights from the limited rock chip sampling include:

- from the eastern unit 13 out of 29 samples reported >10,000 ppm copper, with the highest value 3.36% Cu. Also 5 of the samples reported >2000 ppm uranium.
- From the western unit all 4 samples reported >3,000ppm copper (highest Cu value 3.34%)

**Drilling to start 1Q CY16**

Plans are under way for a 10 hole drilling program for 2,000m to be undertaken in 1QCY16. This will be the test for the project to determine if additional exploration should expand.

**New Geological Model**

Alliance has recognised that the uranium and copper mineralisation is associated with a reduced conglomerate within a lower red-bed sandstone sequence. This is potentially a new mineralisation model for the region and could open up new exploration targets, the test will be drilling the horizons to test the mineralisation at depth.

**Strategic land position**

Recently AGS announced that it had entered into an option to purchase additional ground taking the ground holding from 18km<sup>2</sup> to 200km<sup>2</sup>. The terms of the agreement are that AGS will pay an initial option fee of \$200,000 to secure the right to undertake due diligence and exploration over the tenements. Then they can elect to pay A\$2.5m by 31 October 2016 payable in AGS shares and or cash to earn a 100% interest. The vendor will retain a 1% NSR (Net Smelter Return) royalty.

**Outcropping Mineralised Horizon with in the Monardes Project**



Source: Company Presentation

**Sierra Cinchado Copper-Silver Project, Chile (100% AGS)**

The project is located 25km east of Copiapo in northern Chile. The project is prospective for Manto style copper and silver mineralisation. The project area has a number of mine workings with limited modern exploration. At this stage it would appear that the current focus for AGS is the Monardes Project with limited work being undertaken recently at Sierra Cinchado.

**Australian Project**

In line with AGS's edit of looking for low cost entries into projects they have recently announced the pegging of two tenements prospective for nickel in the Kalgoorlie region (Western Australia).

**Nepean South Project**

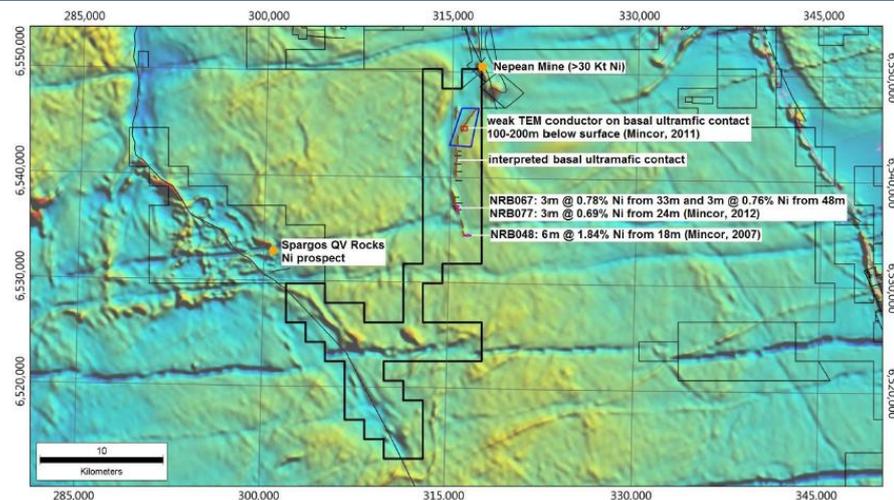
One of the tenement applications are located adjacent to the historic Nepean Mine. The mine, which is now owned by Focus Minerals (ASX:FML) produced 32,303 of nickel at an average grade of 2.99% nickel over a 17 year period from 1987. The mine is currently on care and maintenance.

Reassessment of previous drilling shows potential for nickel sulphides.

Historical drilling on the project has identified nickel mineralisation with grades including 6m @ 1.84% nickel reported in 2007. The operator at the time interpreted the results to be associated with a lateritic nickel setting. AGS's geologists have reassessed the previous drilling and considers there is potential for cumulate textured ultramafics which are the host rocks for primary sulphide occurrences. Whilst still a very early stage project this changes the potential economics of the project and would justify additional exploration.

Geophysical trend extends from known nickel mine into AGS's tenement.

**Location of the Nepean South Project overlaid on the Magnetics and position of TEM conductors.**



Source: Company Report

## Major Shareholders

**Top 20 shareholders hold 55.1%**  
**Board and Management hold 32.1%**

Holder	Shares Held	%
Abbotsleigh Pty Ltd (Ian Gandel)	119,829,750	28.7%
HSBC Custody Nominees (Australia) Limited	13,061,887	3.1%
J P Morgan Nominees Australia Limited	10,486,719	2.5%
Home Ideas Show Pty Ltd <UB Promotions SPF A/C>	8,781,364	2.1%
Nefco Nominees Pty Ltd	7,752,000	1.9%

## Investments

AGS holds 22m shares in Octagonal Resources (ORS:ASX), based on a share price of \$0.01/sh this values the investment at \$220,000. ORS is currently subject to a privatisation proposal which involves a cash payment and the issuing of shares in A1 Consolidated Gold (ASX:AYC)

## Board and Management

The Board and Management hold ~32% of shares in AGS.

**John Dunlop**  
**Non-Executive Chairman**

John Dunlop is a consultant mining engineer with more than 40 years surface and underground mining experience both in Australia and overseas spanning more than 25 countries. John is also a former director of the Australasian Institute of Mining & Metallurgy (AusIMM) (2001-2006). John is also Chairman of Alkane Resources Ltd (appointed 4 July 2006).

**Steve Johnston**  
**Managing Director**

Steve Johnston is a geologist with more than 30 years exploration and mining experience within Australia for commodities including gold, base metals (including nickel) and uranium. He has been employed by AGS since 2003 in varying capacities including as General Manager and Chief Executive Officer. Prior to joining Alliance, Steve held executive roles with ASX listed Croesus Mining NL then Exco Resources NL between 1993 to 2001. Steve is a Corporate Member of the Australasian Institute of Mining and Metallurgy and a Member of the Society of Economic Geologists Inc.

**Ian Jeffrey Gandel**  
**Non-Executive Director**

Ian Gandel is a Melbourne businessman with extensive experience in retail and retail property management. He has had an involvement in the construction and leasing of Gandel Shopping Centres and has been a Director of Gandel Retail Trust. He has previously been involved in the Priceline Retail Chain and the Corporate Executive Offices serviced office chain. Ian has been an investor in the mining industry since 1994, and is currently a substantial shareholder of a number of publicly listed Australian companies and is involved in exploration in his own right. Other current directorships: director of Alkane Resources Ltd (appointed on 24 July 2006) and non-executive Chairman of Octagonal Resources Ltd (appointed on 10 November 2010).

**Anthony (Tony) Lethlean**  
**Non-Executive Director**

Tony Lethlean is a geologist with over 10 years mining experience specialising in underground operations, including Kalgoorlie's Golden Mile (WMC & KCGM) and Bellevue (Plutonic). For over 15 years he has been in banking and stock broking, including the global mining group at CIBC World Markets. Other current directorships: non-executive director of Alkane Resources Ltd (appointed 30 May 2002) and unlisted TIN International Ltd (appointed 12 September 2011).

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## Recommendation Criteria

### Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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