

Alliance Resources (AGS)

Still trading under cash backing

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Key Points

- With a cash balance of ~\$25m and a market cap of ~\$14m Alliance Resources (AGS) continues to trade at a discount to cash backing. Expenditure during March Qtr was ~\$870k, with ~80% of that going in the ground.
- AGS has tested their Chilean copper project and decided to relinquish the ground after a “technical success”. Whilst continuing to look for new assets AGS have pegged exploration projects in NSW and WA.
- AGS remains well funded at a time when resources projects are still available. The recent reduction in overheads by 48% will reduce the spend rate whilst AGS continue to access new opportunities.
- We maintain a Buy recommendation and a High Risk Rating. Our price target of \$0.047sh is based on a 25% discount to the cash backing. AGS are leveraged to exploration success or acquisition news.

Tested Chile now back in Australia

New South Wales Project: AGS has announced that they have pegged ground in central NSW, prospective for molybdenum-tungsten-copper-gold, located 30 km south of Mudgee. The project has been selected for the prospectivity to host porphyry-style copper-gold mineralisation.

Limited previous exploration undertaken from the 1970's has included geological mapping/sampling, geophysics (IP) and drilling. A large tonnage, low grade Molybdenum-Tungsten, currently sub-economic, non JORC resource was defined by previous operators.

The focus for AGS will be on the copper potential of the prospect. Previous drilling on the edge of the Molybdenum-Tungsten zone has reported localised copper mineralisation that will be followed up.

Western Australian Nickel: AGS has been granted new exploration tenements located in the goldfields of Western Australia. The tenements are located 26km SW of Coolgardie and include 14km strike length of ultramafics. The ultramafics are interpreted to be an extension of the units that host the Nepean Mine. The Nepean nickel sulphide mine operated over a 17 year period from 1987 and produced 32,303 of nickel at an average grade of 2.99% nickel. Historical drilling (2007) on AGS tenements reported nickel mineralisation, with highlights including 6m @ 1.84% nickel

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

Previous Research: [AGS Nov 2015 \(initiation Note\)](#)

Recommendation

Buy

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$0.034
12 Month Price Target	\$0.047
Price Target Methodology	Discount to cash backing
Total Return (Capital + Yield)	38%
DCF Valuation	na
Market capitalisation	\$14m
Liquidity – Daily Value	\$ m

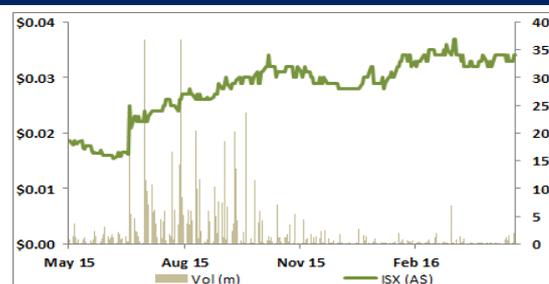
Cutting Overheads

Corporate Changes: Recently AGS has undertaken a restructuring of the board and remuneration levels to reflect the change in company to an explorer and acquirer assets. The main changes were the retirement of the longstanding (22years) Chairman, John Dunlop, a significant reduction in Board Member fees along and a reduction in operating costs. The estimated annual cost saving to AGS is 48%.

Chilean Projects: During the March quarter Alliance undertook a drilling program at their Monardes Project, targeting copper-uranium mineralisation. A total of 10 holes were completed, at an average depth of 121m. The results reported some moderate copper mineralisation and limited uranium mineralisation, with the highlights being: 4m @ 0.18% Cu from 119m including 1m @ 0.33% Cu from 121m and 2m @ 0.19% Cu from 60m

The aim of testing for ‘red – bed’ copper mineralisation was a technical success but not of economic interest. Subsequently Alliance has withdrawn from the project and Chile altogether. In our view Alliance tested a valid geological model with low cost exploration and based on the results has decided to minimise expenditure and focus on new projects.

AGS share price performance



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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.

Risk Rating

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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