EQUITY RECOMMENDATION

26 June 2014

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OVERVIEW

Written by Daniel Metcalfe

Lamboo Resources– keeping the faith as promises are delivered

Price at 26th June 2014: **80c**
Valuation: **$4.07**

Shares on Issue (Fully Diluted):	141,430,886		
Market Capitalisation (FD):	AUD 113,114m	**Major Shareholders:**	
Cash:	AUD 6.3m	OCH-Ziff	18%
Stock ticker:	LMB.ASX	Directors	33%
		Vendors of South Korean Projects	17%

Lamboo Resources (LMB) is world-class graphite focused mining company intent on the bringing two high quality, low cost flake graphite projects into production within the next 12 months. The company's initial focus is on their McIntosh Project in Australia, which they plan to bring into early production by November 2014, followed in mid-2015 by their Geumam project in South Korea.

COMMENTARY

In the past few weeks we have seen two very significant announcements from Lamboo Resources which thus far appear to have been largely ignored by the market.

Offtake Agreement

On the 18th June Lamboo announced a Binding Offtake Agreement with China Sciences Hengda Graphite Co Ltd.

The deal stipulates an initial contract to supply 50,000 tonnes of flake graphite concentrate per annum from the commencement of production through to 31st December 2018 – taking graphite from Lamboo's McIntosh project, located in the East Kimberly region of Western Australia.

Significantly, Lamboo have managed to agree a mark to market pricing structure with a ***floor*** price of no less than US$2,000 per tonne.

Scoping Study

On the 24th June Lamboo released the results of their Scoping Study for the McIntosh project.

Applying the base US$2,000 per tonne flake graphite price agreed in the offtake agreement, the study proposes production of 87,000 tonnes per annum over 21 years, delivering a Net Present Value (NPV) of US$580 million, and an internal rate of return (IRR) of 520%.

The Capital Expenditure Cost (capex) required to develop McIntosh was estimated at US$35.2 million and the Operational Expenditure Costs (opex) were estimated to cost US$483 per tonne of concentrate. Costs are low for this project as the deposit runs from the surface, meaning waste to ore ratios are low, with estimates ranging from 1.5:1 and 2:1.

Resource Potential

The existing JORC resource at McIntosh alone is 7.13 Million tonnes grading 4.73% TGC (Total Graphite Content) for contained graphite of 337,700 tonnes - bear in mind that this represents just 20% of the potential resource target at Target 1.

Target areas 2, 5 & 6, have a combined exploration target of 38-40 million tonnes grading 4-5% TGC. These areas could add materially to the overall resource and we expect further resource estimation results in the 3rd quarter of 2014.

In South Korea, Lamboo's Geumam Project has very significant potential to add to the company's overall value. Historic results here show grades up to 18.9% TGC and an initial inferred JORC deposit of 200,000 tons at 10% TGC.

At Geumam, Lamboo have previously stated an exploration target of 17-28 Million tonnes grading 5-10% TGC. Further drill results are expected in the coming weeks and a resource upgrade is also anticipated. We believe this resource could eventually be as good as or even better than McIntosh.

Valuation

We have used the initial Offtake Agreement and Scoping Study results as a base for our valuation model of Lamboo. We have assumed that Geumam can deliver a resource that is similar in size and with similar production potential. However, we have conservatively reduced the mine life and annual production at each project and made further allowances for higher capex and opex.

Based upon these assumptions we reach a valuation for Lamboo Resources of **$4.07 per share.**

Compared to the current share price of 80c, this is already enticing but we believe Lamboo can achieve a higher price for their concentrate than the base US$2,000 per tonne. This view is based on the demand /supply imbalance that is building in the high purity flake graphite market.

On the demand side companies such as Tesla and Solar City are developing markets that will require massive volumes of graphite to produce the lithium-ion batteries that fuel vehicles and store energy produced by solar panels. Most car companies now have an electric car option and even Harley Davidson has announced a new electric bike for all those green minded hogs.

On the supply side we are seeing the Chinese producers curtail production due to environmental concerns. In December 2013, Shandong Province, which accounts for roughly 20% of Chinese production, was ordered to halt production of graphite. Then, in April this year producers in the Heilongjiang Province were advised production there should also be wound up. Heilongjiang is reputed to have accounted for about 45% of Chinese production and 29% of global output in 2013 (source Industrial Minerals Data). Since these shutdowns graphite prices have risen by around 30%.

The following illustrates how various graphite prices impact our post tax valuation of Lamboo resources share price…

Graphite price (USD/ tonne)	**Lamboo share price (AUD)**
2,000	**$4.07**
2,500	**$5.61**
3,000	**$7.16**
3,500	**$8.71**
4,000	**$10.25**

Assumptions used in this valuation:

Mine life	15 years per project - (Scoping Study uses 21 years)
Production	40,000 tonnes per annum per project – (Scoping Study uses 87,000)
Base price per tonne	US$2,000 – as per Scoping Study
Opex per tonne	US$550 – (Scoping Study uses US$483)
Discount rate	10%
Tax rates	30% for McIntosh and 17% for Geumam
Capex	USD$50m per project (above Scoping Study estimated $35.2m for McIntosh)
Dilution	Assume 25m additional shares issued at $1 per share
AUDUSD	0.93

Ultimately Lamboo may well achieve a longer mine life and higher annual production than we have allowed for in our model and this would add further value to the company.

So why isn't the share price higher?

We were initially surprised by the share price reaction - or lack of it, post the release of the Offtake Agreement and then the Scoping Study.

However, if you consider the share price performance over the past 12 months, which has seen the shares rise from 8c to the current 78c, then it is likely that some of the longer term holders are taking some partial profits - although we note that actual volume of shares traded is relatively light. Also, given the tight share structure (the top 20 holders own roughly 62% of the free float) any partial selling by members of this group can potentially hold things back.

At the same time there has been a rush by competing companies in this space to get in on the action. Companies such as Bora Bora (BRR), MRL Corp (MRF), Talga (TLG) and Triton Minerals (TON) are all developing their own projects and there could be some rotation into these companies. Then there is the large cap Syrah Resources (SYR) who has their own ambitions in the graphite space.

Some of these companies may have merit, but we are mindful that Lamboo Resources one of the very few companies to have successfully proven the purity of their flake graphite within a lithium ion battery cell. This was achieved back in March when material from Lamboo's Geumam project was independently tested by Very Small Particle Company (VSPC), a leading lithium ion battery R&D specialist laboratory.

Future Price Catalysts

It appears the market is yet to fully appreciate the value proposition that exists in Lamboo Resources, but it is only a matter of time until they do. There are several upcoming developments that should act as a catalyst to prompt a closing of the current valuation gap:

- **Additional Offtake Agreements -** Given the expected 87,000 tonnes pa production outlined in the Scoping Study for McIntosh, Lamboo will be actively seeking further offtake deals to fill the additional production beyond the 50ktpa under agreement with China Hengda.
- **Vertical Integration -** Within the Offtake Agreement of 18th June, Lamboo stated:

  'In parallel with the Supply Agreement negotiations, Lamboo and Hengda have also been investigating the possibilities for closer working relations aimed at greater integration. Discussions continue with the objective of elevating the commercial relationship to a higher level'.

  We suggest that, depending upon terms, a move to integration between Lamboo and Hengda could materially add value to Lamboo. Such a combined company may then be perceived as an Industrial Technology company, rather than a pure mining operation, and would command a higher price to earnings multiple. Key to this is the understanding that China Hengda sells their processed graphite anode material at $15,000 - $20,000 per tonne, as opposed to the $2,000 per tonne that Lamboo can achieve.
- Drill results and resource upgrades - we anticipate further drilling in South Korea leading to a resource upgrade in the 4th Quarter of 2014 as well as additional drilling results from McIntosh.

Conclusion

Lamboo Resources has made significant progress in the past few months. They have proven the quality of their material in real world products, achieved possibly the best offtake agreement in the graphite market to date and have now produced an extremely robust Scoping Study.

We believe Lamboo is misunderstood by the market and that they will continue to surprise to the upside. This suggests there is an opportunity here to capitalise upon and recommend Lamboo Resources as a strong speculative buy.

Risks to our recommendation include: A fall in demand for Graphite, a failure to raise sufficient capital to progress the mines development, unforeseen delays to production, or a fall in the wider equity markets.

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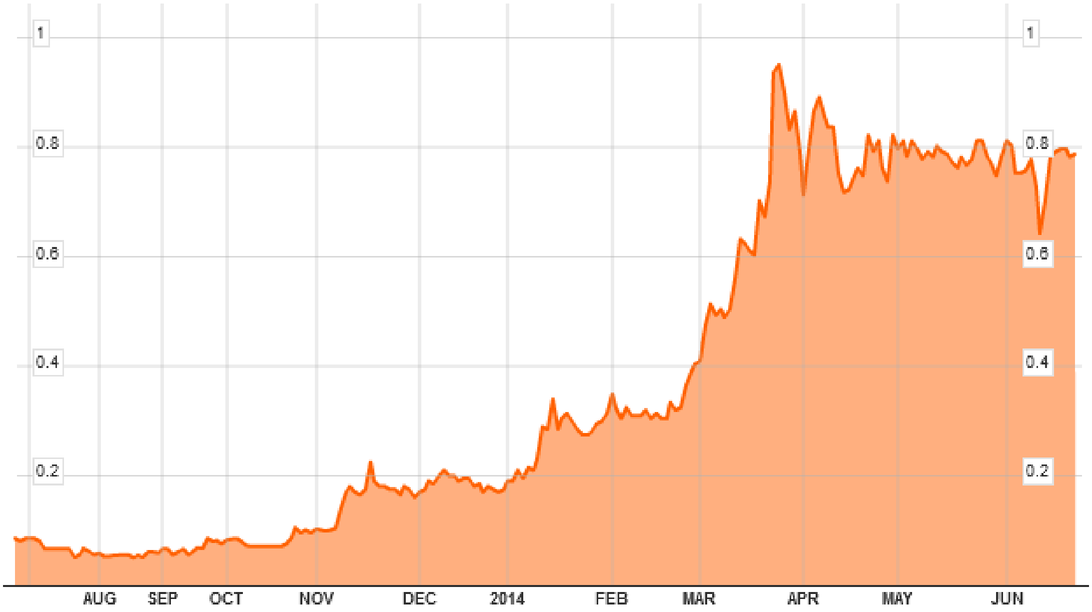

Disclosure: I, Daniel Metcalfe have a long position in Lamboo Resources.

CONTACT US

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