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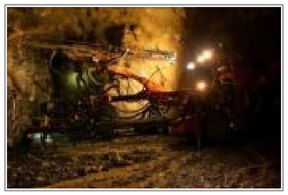
PROJECT WATCH Fri 25/10/2013

Exploration key to YTC upside

Richard Roberts, 16 October 2013



Hera underground.

QUALITY emerging Australian gold and copper company YTC Resources will maintain its focus on the under-explored eastern edge of the Cobar Basin in New South Wales as it brings its first mine into production and starts generating significant cash. M&A is, at least at this stage, not going to distract management from a Cobar/NSW growth emphasis, according to managing director Rimas Kairaitis.

The ASX-listed company, which has China's Yunnan Tin group and Glencore Xstrata as major shareholders, has cash-at-hand and funding to see it through development of the Hera and early-stage Nymagee projects. Both are within 100km of historically significant CSA (copper-silver), The Peak (copper-gold) and Endeavor (copper-lead-zinc-silver).

Hera, under construction and less than a year away from first metal sales, is a gold and silver project with base metal credits that should ensure high-margin delivery of about 50,000 gold-equivalent ounces per annum. It will produce gold and silver doré bars, and a bulk lead-zinc concentrate.

The Hera DFS completed in September 2011 pegged operating costs at about $A400/oz of gold (post lead-zinc credits). Stockbroker Hartleys, which recently visited the site, has cash costs for the first year of production (FY15) currently at $A652/oz gold-equivalent.

In a research note just released the broker says Hera decline development has advanced more than 1600m and "by all accounts is now currently 96% on schedule". Ore is expected to be reached in the next quarter and production stopes should deliver first ore to the ROM pad in the first three months of 2014. Hartleys said installation of the mine's primary ventilation fan was recently completed and orders for all long-lead-time plant and equipment had been placed.

Kairaitis told ***HighGrade.net*** stage two of Hera's personnel camp would be finished in December this year, along with the first stage of the tailings dam, while practical completion of the Hera mill was set down for June next year. He said continuing to deliver the project on time and budget was a key to getting the inherent value in the company and its asset base better reflected in its sharemarket capitalisation (currently about $A71 million).

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EDITION ARCHIVE

That and further exploration success in the district.

"I think we are blessed with some of the most prospective geology around and with such a strong Cobar-district precedent for high-grade deposits which expand in size and grade at depth, we need to be always mindful of exploring within our means for the discovery or deposit expansion," Kairaitis said.

"[YTC is] not very active on the acquisition front, but we are always looking at things. I think the value of discoveries inside our project area would add a greater multiple for us. I rate our chance of success on his front pretty highly; we have a number of strong targets that we plan to test over the next 6-12 months."

Hartleys analyst Mike Milikan said YTC appeared to be on the cusp of making a significant new copper discovery at Nymagee North, just north of its existing Nymagee deposit (8.1Mt at 1.2% copper, 9gpt silver, plus minor zinc and lead) and about 5km north of Hera.

Defined mineralisation at Hera and Nymagee is also open at depth and along strike, with exploration so far relatively shallow compared to the depths probed at CSA (plus-1.5Mt of copper found to depths exceeding 1.5km).

Hartleys puts YTC's all up share price valuation (NAV) at more than twice the current level – A62c, for an enterprise value of about $168 million.

Kairaitis told ***HighGrade.net*** he expected the Hera project to turn cash-positive around October 2014. Payback on Hera-Nymagee's $A160 million or so of capex was currently slated for around June 2018 "on just the Hera reserve".

"Nymagee is expected to be added sometime in 2015 which, being a 'capital-lite' development, substantially shortens the payback period," Kairaitis said. "Just how much of a difference will be finalised in the Nymagee feasibility."

Asked about any impact from softening labour, construction and other project input costs in the slowing resources investment environment, he said indicators were positive.

"We are seeing a bit, although I suspect that in the next few months we will start to see substantial savings around that we can grab," Kairaitis said. "The main benefit at the moment is that costs have stopped escalating and we are seeing more providers tendering for each internal project, which is all helping. So far we have seen some costs fall, but not all, and not by a huge amount – yet."

Kairaitis said underground mine ground conditions were "pretty much as expected".

That is, good.

"There is a higher water flow than modelled, but at the moment that is working to our favour as we are building the tailings wall and need all that water for the conditioning of the TSF wall," he said.

"If that flow continued post commissioning we will pretty much have our process water need covered without having to turn on the rest of the borefield."

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Also in the October 16 - 22, 2013 edition