

Mining

Mawson West Limited

BUY

Impressive drilling results at Safari North

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ASX code | MWE

Last price | \$0.155

Fully diluted shares | 120.3M

Market cap | A\$18.6M

52 week hi/low | \$0.38 / \$0.12

12 month price target¹ | \$0.34

Valuation | \$0.34

Valuation methodology | DCF

KEY POINTS

- MWE has received assay results from the first holes drilled at the Safari North prospect, 2.4km south of the Katanga prospect, which has been the focus of earlier drilling.
- The second hole in the program returned an intersection of 30m @ 4.25% Cu and 9.8g/t Ag from 53m with a higher grade zone of 18m @ 6.57% Cu and 15.9g/t Ag from 53m.
- A total of seven holes have been drilled at Safari North and further assay results should be received in coming weeks.
- At Katanga, a total of 17 holes have now been drilled with assay results from the last four holes expected back in February.
- The best result at Katanga was drill hole number ten which returned an intersection of 28m @ 4.1% Cu from 83m and was released in late December.

COMMENT

The results from the first two holes at Safari North are extremely encouraging. Seven holes have already been drilled at Safari North and with two rigs now operating at Kapulo, we expect to see further positive drilling results in coming months. We note that drilling is focused on defining the strike length of the mineralisation at both Katanga and Safari North.

As more drilling results are released we expect the market will become more comfortable with the potential of the Katanga and Safari North deposits. The addition of a second drill rig should enable MWE to accelerate its drilling program ahead of defining an initial resource for the project later this year.

INVESTMENT VIEW

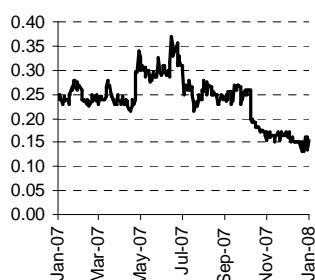
MWE is focused on exploring and developing the Kapulo copper project in the Democratic Republic of Congo (DRC) in Africa. The company is earning a 65% interest in the project from Anvil Mining Limited (AVM) by spending US\$4.0M over a four year period. MWE commenced drilling at Kalpulo in mid 2007 with initial activity concentrated on the Katanga prospect.

After securing a second drill rig, MWE commenced drilling on the Safari North prospect in late 2007. Initial results from both Katanga and Safari North have been extremely encouraging. With drill rigs now in operation on both Katanga and Safari North, MWE should be able to drill 12-16 holes per month.

We are reiterating our BUY recommendation on MWE following the impressive first up drill results at Safari North. The constant flow of exploration results over the course of 2008 should provide some positive momentum for MWE's share price ahead of the release of an initial JORC compliant resource later in the year.

Our \$0.34/share valuation is based on a development scenario at Kapulo that assumes a total 3.5Mt of sulphide ore is mined from the Katanga and Safari North deposits over a period of 10 years. We have assumed pre-production capital costs of US\$30M and life of mine cash costs of US\$0.90-1.00/lb with first production in mid 2009.

Share price performance | MWE



Year end June	2007A	2008F	2009F	2010F
Revenue - A\$M	0.0	0.0	0.0	25.2
EBITDA - A\$M	(2.3)	(1.3)	(1.9)	15.5
NPAT - A\$M	(2.4)	(1.4)	(1.9)	9.9
Free Cash Flow - A\$M	(2.2)	(4.1)	(11.3)	(6.3)
EPS - cents	(2.0)	(1.0)	(1.1)	5.1
EPS - % chg	na	na	na	na
PER - x	na	na	na	3.1
DPS - cents	0.0	0.0	0.0	0.0
Dividend Yield - %	0.0	0.0	0.0	0.0
Franking - %	0.0	0.0	0.0	0.0

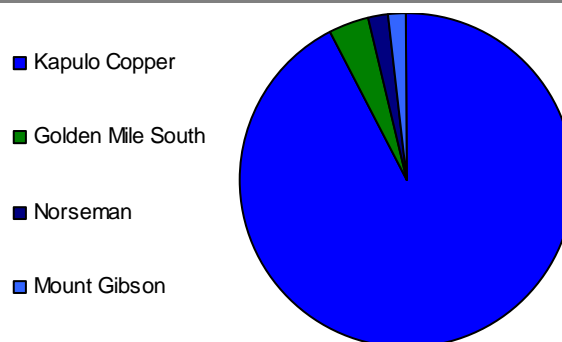
Notes: 1. Price target is equivalent to our DCF valuation.

Year end June	2007A	2008F	2009F	2010F
PROFIT & LOSS SUMMARY (A\$M)				
Sales revenue	0.0	0.0	0.0	25.2
Other revenue	0.1	0.2	0.3	0.3
Operating Costs	(0.5)	(0.2)	(0.2)	(7.9)
Exploration Expense	(0.6)	(0.3)	(0.3)	(0.4)
Corporate & Admin	(1.3)	(1.0)	(1.6)	(1.7)
EBITDA	(2.3)	(1.3)	(1.9)	15.5
Depreciation	(0.0)	(0.0)	(0.0)	(4.1)
EBIT	(2.4)	(1.4)	(1.9)	11.4
Interest Expense	0.0	0.0	0.0	(1.5)
Pre-tax profit	(2.4)	(1.4)	(1.9)	9.9
Tax expense	0.0	0.0	0.0	0.0
Net income	(2.4)	(1.4)	(1.9)	9.9
Minorities & Abnormals	0.0	0.0	0.0	0.0
NPAT	(2.4)	(1.4)	(1.9)	9.9
CASHFLOW SUMMARY (A\$M)				
NPAT	(2.4)	(1.4)	(1.9)	9.9
Int, Tax, Expl Expensed	0.6	0.3	0.3	1.9
Int, Tax, Expl Incurred	(1.6)	(2.9)	(1.4)	(2.3)
Depreciation/Amortisation	0.0	0.0	0.0	4.1
Working Capital (Inc)/Dec	(0.0)	0.1	0.0	(1.3)
Other	1.4	0.0	0.0	0.0
Operating Cash Flow	(1.9)	(3.8)	(3.0)	12.3
Capex(net of asset sales)	(0.3)	(0.2)	(8.3)	(18.6)
Disposals/(Acquisitions)	(0.0)	0.0	0.0	0.0
Other investing cash flows	0.0	0.0	0.0	0.0
Free Cash Flow	(2.2)	(4.1)	(11.3)	(6.3)
Dividends	0.0	0.0	0.0	0.0
New Equity	5.5	2.3	9.5	0.8
Debt Drawdown/(Repay)	0.0	0.0	7.9	7.6
Net Cash Inc/(Dec)	3.3	(1.8)	6.1	2.0
FX impact on cash	0.0	0.0	0.0	0.0
Cash at End Period	3.7	1.9	8.0	10.0
Net Cash/(Debt)	3.7	1.9	0.0	(5.5)
BALANCE SHEET (A\$M)				
Cash	3.7	1.9	8.0	10.0
Receivables	0.0	0.0	0.0	1.3
Inventories	0.0	0.0	0.0	2.0
Other current assets	0.0	0.0	0.0	0.0
Total current assets	3.7	1.9	8.0	13.3
Plant & equipment	0.3	0.5	8.9	23.4
Expl, eval & development	2.6	5.2	6.3	6.7
Other non-current assets	0.0	2.0	2.0	2.0
Total non-current assets	3.0	7.7	17.2	32.1
Total assets	6.7	9.6	25.2	45.4
Payables	0.1	0.0	0.0	0.5
Short-term debt	0.0	0.0	1.6	3.1
Other current liabilities	0.0	0.0	0.0	1.3
Total current liabilities	0.2	0.0	1.6	4.9
Long-term debt	0.0	0.0	6.4	12.4
Other non-current liabilities	0.0	2.2	2.2	2.4
Non-current liabilities	0.0	2.2	8.5	14.8
Total liabilities	0.2	2.2	10.1	19.7
NET ASSETS	6.5	7.4	15.1	25.7
Contributed equity	22.0	24.2	33.7	34.5
Retained profits	(15.4)	(16.8)	(18.7)	(8.8)
Minority interests	0.0	0.0	0.0	0.0
EQUITY	6.5	7.4	15.1	25.7

Year end June	2007A	2008F	2009F	2010F
RATIOS AND MULTIPLES				
Income				
Revenue growth %	na	na	na	na
EBITDA growth %	na	na	na	na
EBITDA margin %	na	na	na	61.5
EBIT margin %	na	na	na	45.3
Effective Tax rate %	na	na	na	0.0
Net interest cover x	na	na	na	7.6
Balance Sheet				
ROA %	na	na	na	21.8
ROE %	na	na	na	38.5
Net debt/equity %	(56.2)	(25.1)	(0.3)	21.4
Net debt/(debt+equity) %	(128.2)	(33.4)	(0.3)	17.6
Shares Outstanding				
Basic M	108.4	123.4	183.4	185.9
Other M	11.9	11.9	11.9	9.4
Fully diluted M	120.3	135.3	195.3	195.3
Valuation metrics				
Market cap M	17	19	28	29
Net debt (cash) \$M	(4)	(2)	(0)	6
Options \$M	2	2	2	1
Enterprise value \$M	15	19	30	36
EV/EBITDA x	na	na	na	2.3
EPS c	(2.0)	(1.0)	(1.1)	5.1
P/E x	na	na	na	3.1
FCF / Share c	(2.0)	(3.3)	(6.2)	(3.4)
Price / FCF x	na	na	na	na
Dividend Yield %	0.0	0.0	0.0	0.0
Franking %	0.0	0.0	0.0	0.0

VALUATION		
NPV by project	(A\$M)	A\$/sh
Kapulo Copper	51.8	0.27
Golden Mile South	2.1	0.01
Norseman	1.0	0.01
Mount Gibson	1.0	0.01
Investments	0.0	0.00
Unpaid capital	3.4	0.02
Forwards	0.0	0.00
Corporate	(6.9)	(0.04)
New Equity	11.8	0.06
Cash	1.6	0.01
Debt	0.0	0.00
NPV @ 12%	65.8	0.34

NPV BY PROJECT



Year end June 2007A 2008F 2009F 2010F

PRODUCTION SUMMARY

Copper Production (kt)				
Kapulo Copper	0.0	0.0	0.0	3.3
Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	3.3
Silver Production (koz)				
Kapulo Copper	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0

CASH COSTS

Kapulo Copper	0.00	0.00	0.00	0.88
Other	0.00	0.00	0.00	0.00
Average (US\$/lb)	0.00	0.00	0.00	0.88

COMMODITY PRICE ASSUMPTIONS

Year end June	2007A	2008F	2009F	2010F	Long-term
Gold (US\$/oz)	638	818	867	817	700
Silver (US\$/oz)	12.77	14.88	15.76	14.86	14.00
Copper (US\$/lb)	3.21	3.28	3.10	3.00	2.00
US\$/A\$ FX	0.74	0.82	0.82	0.81	0.80

BOARD OF DIRECTORS

Mark Stowell	Non-Executive Chairman
David Frances	Managing Director
Anthony Lloyd	Non-Executive Director
Glenn Zamudio	CFO & Company Secretary
Jonathan Asquith	Non-Executive Director

SUBSTANTIAL SHAREHOLDERS

Shareholder	Shares (M)	(%)
Race Capital	5.7	5.3
Mark Stowell	4.7	4.3
Top 20	39.6	36.6

RESERVES AND RESOURCES

Resources			
Project	Tonnes	g/t	oz
Maybell	440,000	2.8	40,300
Lord Percy	320,000	3.8	39,000
Total	760,000	3.25	79,300

1 Kapulo Project

PROJECT OVERVIEW

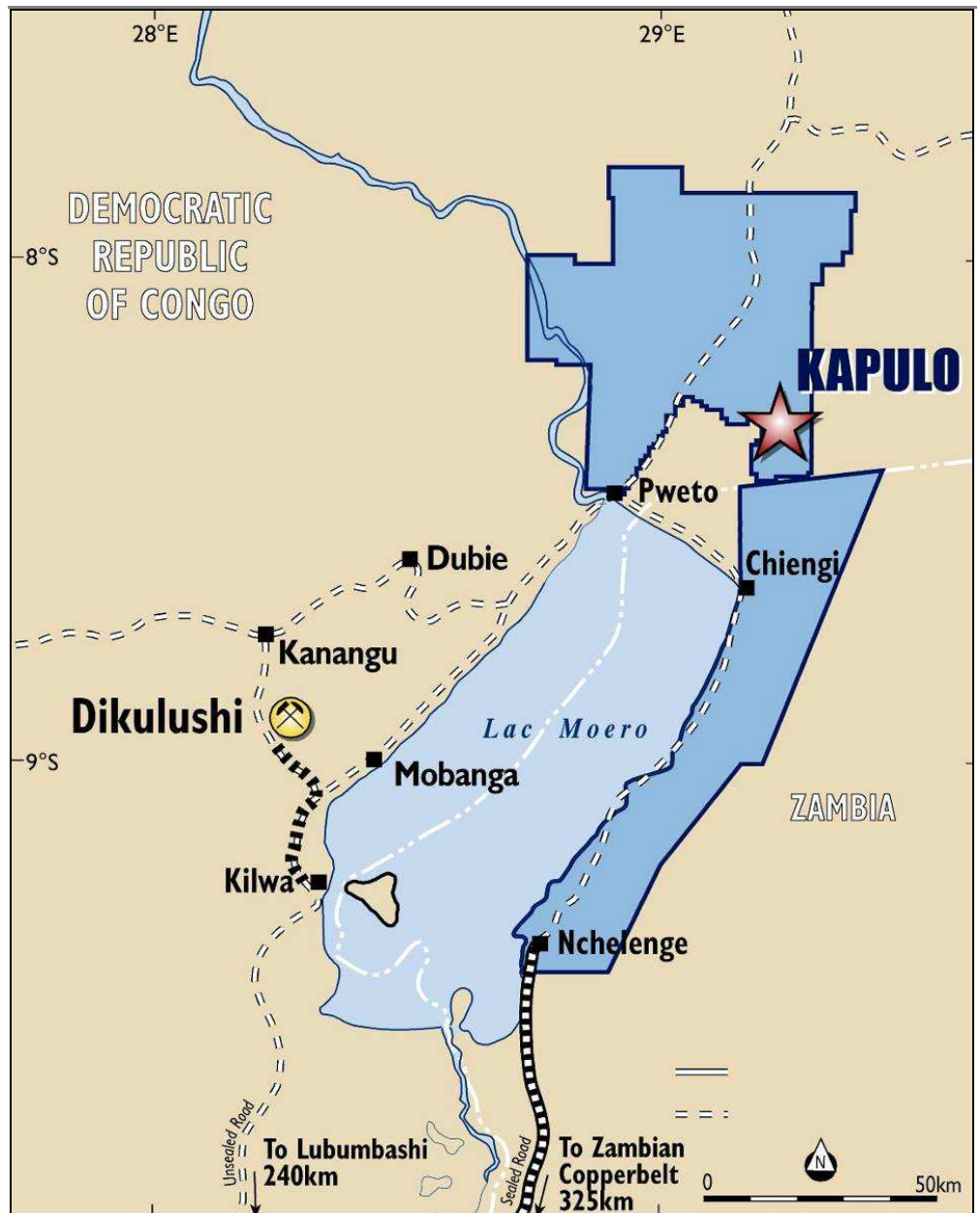
The Kapulo Copper Project is located in the Democratic Republic of Congo (DRC) in Central Africa. The project consists of 5,500km² of contiguous tenements that extend into Zambia and are located just 13km north east of Anvil Mining Limited's (AVM) Dikulushi mine.

MWE IS EARNING A 65% INTEREST BY SPENDING US\$4.0M OVER 4 YEARS

MWE is earning a 65% interest in the project from AVM by spending US\$4.0M over a four year period, but can earn a 51% stake by defining a JORC resource of 50kt of contained copper at 4.0% head grade or better. AVM will be granted 10.0M shares once MWE has earned 51%.

A significant amount of exploration work has been carried out at Kapulo over the past 50 years including a major exploration program undertaken by Falconbridge in the 1970s. The majority of work has been preliminary in nature and has involved only limited drilling. However systematic channel sampling enabled a conceptual non-JORC resource of 750-850kt @ 4.7-5.7% Cu to be estimated.

Kapulo project overview



Source: MWE

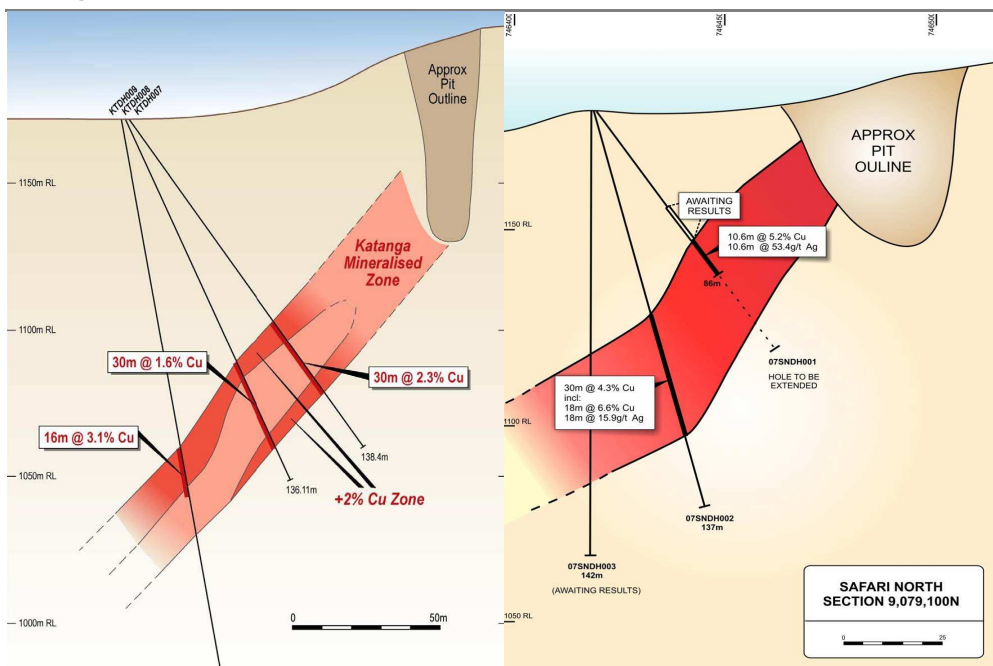
DRILLING HAS DEFINED HIGH GRADE COPPER MINERALISATION AT BOTH KATANGA AND SAFARI NORTH

DRILLING UPDATE

MWE has drilled a total of 17 holes at Katanga and 7 holes at Safari North. Results released to date have been extremely encouraging with a high grade core of mineralisation being defined at Katanga, while broader high grade mineralisation appears to exist at Safari North. The diagrams below are interpretations of the mineralisation at both Katanga and Safari North.

Katanga cross section

Safari North cross section



Source: MWE

DEVELOPMENT SCENARIO

OUR DEVELOPMENT SCENARIO SEES PRODUCTION COMMENCING IN EARLY 2010

Drilling at Kapulo is expected to accelerate over the remainder of 2008 with two diamond drilling rigs now on site. The Katanga and Safari North deposits are expected to contain a significant proportion of the total resources at Kapulo.

MWE has indicated it expects to be able to calculate an initial resource at Kapulo, which is expected to consist of both the Katanga and Safari North prospects, in late 2008. Our development scenario includes a mineable inventory assumption of 3.5Mt @ 3.0% Cu and we believe the initial resource will account for around 50% of our mining inventory assumption.

Assuming a sufficient resource is defined, MWE could commence production in early 2010. Given the shallow depth of both the Katanga and Safari North deposits and relatively straight forward processing technique used in the metallurgical test work, we believe the capital cost for the project will probably be less than US\$30M.

DRILLING SUCCESS IS REQUIRED TO ACHIEVE OUR ESTIAMTES FOR THE PROJECT

We have assumed project construction commences in mid 2009 allowing first production by early 2010. Our preliminary forecasts assume our 3.5Mt mineable inventory is extracted over a ten year period. This equates to copper in concentrate production around 10ktpa. The most likely product produced at Kapulo would be a 30% copper concentrate. We anticipate that MWE will sell its concentrate to AVM's Kinsevere smelter which is currently under construction.

We note that our production assumptions for the Kapulo project are preliminary. Our mining inventory assumption is larger than the conceptual resource models that have previously calculated for the project, hence, drilling success is required before a JORC compliant reserve can be calculated. Any variance from the JORC reserve and our mineable inventory assumption would impact our production scenario for the project.

2 Other Projects

MWE HAS A 40% FREE CARRIED INTEREST

WOOLSHED JOINT VENTURE

The Woolshed JV consists of 453km² of tenements near Mount Gibson in Western Australia. Prosperity Resources Limited (PSP) is earning a 60% interest in the project from MWE by spending \$0.5M over three years. Surface mapping has identified banded iron formation sequences that could be 30-50m thick. Drilling is scheduled to commence in February.

PROSPECTIVE FOR MAGNETITE MINERALISATION

MOUNT GIBSON SOUTH JOINT VENTURE

The Mount Gibson South JV consists of 172km² of tenements near Mount Gibson in Western Australia. Accent Resources NL (ACS) is earning an 80% interest in the project by spending \$0.6M over three years. Analysis of recent drilling has returned magnetite mineralisation with a weight recovery in excess of 45%. The recovery is above most Pilbara and Midwest magnetite projects. The prospect is located near Mount Gibson Iron Limited's (MGX) Extension Hill project.

KIABY WELL JOINT VENTURE

The Kiaby Well JV consists of 84km² of tenements near Mount Gibson in Western Australia. Silver Swan Group Limited (SWN) is earning a 60% interest in the project by spending \$0.3M over three years. SWN is exploring for gold, base metals and iron ore on this tenement.

GOLDEN MILE SOUTH JOINT VENTURE

MWE has a 20% free carried interest in the Golden Mile South Joint Venture in which St Barbara Mines Limited (SBM) can earn a 70% interest through a staged exploration spend totalling \$5.5M over a five year period. SBM has completed a significant air-core drilling program at Golden Mile South as part of the initial \$0.5M earn in. SBM can commit the second stage earn in to 51% by spending \$3.0M.

SALE PROCESS UNDERWAY

NORSEMAN PROJECT

The Norseman tenements contain a number of gold prospects including Maybell, Lord Percy, Black Cat, Lady Mary, Daisy West and Lady Miller. MWE has defined JORC resources of 40koz @ 2.8g/t at Maybell and 39koz @ 3.8g/t at Lord Percy. MWE appointed Prime Corporate Finance to dispose of its Norseman assets. The sale is expected to be completed by March 2008.

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Analyst Certification

As at the time of writing this report, the author held shares in Mawson West Limited (MWE).

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