

Asiamet Resources*

25 September 2019

BUY

Stock Data

Share Price:	2.98p
Market Cap.:	£32.6m
Shares in issue:	1096.1m
Fully diluted equity	1133.1m

Company Profile

Sector:	Mining
Ticker:	ARS.L
Exchange:	AIM

Activities

Asiamet Resources is a copper exploration and mine development company focused on Indonesia

Performance Data



Source: LSE

Directors

Tony Manini:	Executive Chairman
Peter Bird:	CEO
James Deo:	CFO

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*Optiva Securities acts as broker to
Asiamet Resources

Steady Progress

Two recent Asiamet announcements demonstrate steady progress at BKM, as the company adds value to BKM's feasibility study whilst advancing discussions with potential strategic investors.

1. As part of the BKM 'Value Enhancement' work, last week Asiamet announced positive results of a transport study. This shows how BKM should be able to use a closer port than the one envisaged in the BFS, saving on project opex.
2. Asiamet also recently announced an MOU with China Nonferrous' EPCM subsidiary. China Nonferrous is undergoing a detailed study of BKM and will suggest improvements to engineering design, procurement, construction and project management, potentially adding value to BKM in the process.

Asiamet's share price has softened over the summer despite this progress and its, already, low market value. This share price weakness has a strong correlation with the copper price, rather than something Asiamet related. As a reminder, we believe Asiamet's Beutong porphyry is worth approx. US\$70m and BKM US\$130m. At the current circa 3p share price, we see excellent upside potential, BUY.

Transport and Logistics - Value Enhancement

Recently announced "government infrastructure initiatives" including upgrades to bridges and roads in Central Kalimantan mean that BKM could use the Sampit Port, 140km closer than the Banjarmasin Port used in the Feasibility Study. This should reduce transport costs and BKM's cash operating costs during the life of mine.

China Nonferrous MOU

On August 21st, Asiamet signed an MOU with China Nonferrous' overseas EPCM subsidiary to evaluate BKM and propose technical solutions. We expect China Nonferrous to identify areas for capex savings. China Nonferrous is actively expanding its presence in Indonesia and is currently building the Dairi Zinc Mine in Sumatra.

Beutong - a Tier 1 Copper Porphyry

Beutong has 2.4 million tonnes of contained copper (100% equity basis, Asiamet owns 80%) plus gold and molybdenum. It also comes to surface so could be developed with an initial open pit. Beutong is a project of global importance with significant exploration upside.

Risk of Unwanted Suitor

At the current share price, we believe Asiamet is vulnerable to an unwanted suitor. Although BKM is Asiamet's most advanced project, Beutong is a copper discovery of global strategic importance and is an attractive asset for a large mining company.

Investment Case and Recommendation

Investors in Asiamet get exposure to the near construction ready BKM Project and the large scale Beutong porphyry. Catalysts include drilling at BKM, finding a strategic investor, additional BKM Value Enhancements, and the results of China Nonferrous' work. We have a 15.6p target price and reiterate our BUY recommendation.

Potential Share Price Catalysts

Strategic Investor

Asiamet management is in discussions with potential Indonesian and Asian strategic investors. The recently signed China Nonferrous MOU could also introduce new potential investors to this process. Finding a strategic investor would de-risk financing and be an important catalyst.

BKM Value Enhancement Programme

The BKM BFS produced an NPV₈ of US\$133.5m, however a Value Enhancement programme is expected to add value to this number. The Value Enhancement programme includes 20 opportunities of which 15 are the current focus. In addition to the transport improvements, areas for enhancement include:

1. Changing electricity supply from gas to coal
2. Reducing construction costs by using local contractors
3. Pre-treating less leachable ores with Albion Leaching technology
4. BKM Drilling

BKM Drilling

As part of the value enhancement work, Asiamet is planning to drill near the BKM deposit to add to the reserve base. Positive drill results should act as a catalyst.

Beutong Recognition

Asiamet's other asset is its 80% stake in a large copper-gold porphyry project in Sumatra. The current Resource is a total of 5.3 billion pounds or approximately 2.4 million tonnes of copper. We believe, given the scarcity of large copper deposits, that Beutong is an important discovery and that either a strategic will come into the project, or that the equity market will recognise its value and investors will start buying Asiamet shares.

Beutong Resource Table:

	Grade					Contained Metal			
	Mt	Cu (%)	Au (g/t)	Ag (g/t)	Mo (ppm)	Cu (Kt)	Au (Koz)	Ag (Koz)	Mo (Kt)
Measured	34	0.67%	0.13	1.68	90	226	142	1,830	3
Indicated	56	0.58%	0.12	2.07	125	327	218	3,729	6
Inferred	418	0.45%	0.13	1.14	125	1,886	1,751	15,359	52
Total	508	0.48%	0.13	1.28	120	2,439	2,111	20,918	61

Source: Company, Cut-Off 0.3% Cu

Beutong Leach Testwork

Beutong comes to surface and its mineralogy is very similar to BKM's meaning that it could be started with a SX-EW operation. This would add a great deal of value to Beutong and mean a junior such as Asiamet could develop the mine. We look forward to Beutong metallurgical testwork.

Recent Strategic Placing

Asiamet recently completed a strategic placing of £1.75m (approximately \$2.1m) at a price of 3.5p. Proceeds of the placing are intended to be utilised in a number of the value enhancement initiatives outlined in the BKM Feasibility Study. These initiatives will include drilling of high priority targets in the vicinity of the proposed BKM mine, with the aim of expanding the copper resource. The placing shares were admitted to trading on August 30th.

Valuation

Our 15.6p Asiamet valuation has been updated for the recent share issue. It consists of an EV/Resource value for Beutong and a discounted cashflow model for BKM. The average EV/Resource of 4.11 US\$ cents per pound is derived from copper porphyry M&A transactions over recent years. We then risked the 4.11 US\$ cents to account for Beutong's relatively early stage of development and high percentage of Inferred resources.

EV/Resource:

Beutong Copper	(Mlbs)	5,346
Peer Average	(EV/lb)	4.11
Risk Factor	%	40%
Adjusted Value	(EV/lb)	1.64
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Beutong Value	(US\$m)	87,938,586
Ownership	%	80%
Asiamet's Value	(US\$m)	70,350,869

Our DCF model produces a US\$131m NPV_s to which we add US\$40m to reflect the results of the Value Enhancement work and probable life of mine extension. In the SOTP, we also include US\$15m for the value of the wider KSK contract of work exploration ground. Assuming the Value Enhancement work progresses well, we will reduce the 25% risk factor thereby increasing the price target.

Sum of the Parts:

BKM NAV	(US\$m)	128,250,000
Beutong NAV	(US\$m)	70,350,869
KSK NAV	(US\$m)	15,000,000
Cash	(US\$m)	N/A
Asiamet NAV	(US\$m)	213,600,869
	£	170,880,695
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Shares in Issue		1,095,960,742
Target Price		15.6

Risks

Funding risk - Asiamet is focused on funding and building the BKM Project and developing Beutong, the copper porphyry. At this stage it is unclear what the BKM funding package will look like, which will depend on whether or not an Indonesian / Asian strategic investor comes in.

Equity funding remains scarce for junior mining companies and can be highly dilutive. Although debt is more readily available, this can be expensive and highly restrictive for a company like Asiamet that has a portfolio of opportunities. Finding an Indonesian partner would significantly reduce funding risk and create a catalyst for value (as mentioned above).

Commodity price risk - although the medium-term outlook for copper is positive, a global slow down would put downward pressure on all commodity prices with few exceptions.

Political risk - Indonesia has a mixed reputation as a mining jurisdiction, especially due to its foreign ownership rules. Asiamet has clear and secure tenure across both the Kalimantan Contract of Work which holds the BKM copper project and the Beutong copper-gold porphyry project is held through an IUP contract. The divestment terms are clear for both projects and are at commercial terms.

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