

## Getting on with the job

We retain our **SPECULATIVE BUY** rating on Axiom Mining (AVQ). AVQ is targeting development of the Isabel nickel deposit in the Solomon Islands, with a plan to produce ~2.0Mtpa in direct shipping ore as Stage 1 of the project. Whilst AVQ waits for a decision regarding the prospecting licence for the Kolosori tenement, AVQ has announced it is getting on with the job, by commencing an initial 2,500m drill program on the nearby San Jorge tenement (80% AVQ). Depending on the results of this drill program, and whether there are further delays in relation to the Kolosori prospecting licence, San Jorge has the potential to become Axiom's first priority to develop. Our target price of \$0.40ps provides a 12 mth potential TSR of 78%.

### Key points

**Drilling program commences on San Jorge (80% AVQ):** Axiom has announced it has commenced drilling on the San Jorge deposit, which it has a prospecting licence over. The company is pursuing a 200 hole (2,500m program) for an initial drill program which, if successful, would be used along with historical drilling and pit data to define a maiden JORC resource on the San Jorge tenement (previous JORC resource estimates relate only to the Kolosori tenement, but we note part of the historical non-JORC resource relates to the San Jorge tenement). We expect first assay results to be announced within the next month, with the potential for a San Jorge maiden JORC resource by Nov-16.

**Still awaiting news on Kolosori:** AVQ is waiting for news from the Solomons government in regards to its application for a prospecting licence over the Kolosori tenement. Whilst the timing of this decision is not clear, in our view the company's strategy to pursue drilling, and potentially development, of the San Jorge tenement is the best course of action.

**Valuation:** On our revised modelling we value AVQ at \$0.40ps on a risked basis, based on a DCF with a WACC of 14.5% and a 75% risk weighting (\$0.53ps on an un-risked basis).

### Risks and catalysts

**Risks:** a) Risk around the potential granting of the prospecting licence and mining lease over Kolosori, b) development costs higher than the company estimates, or c) a delay in the development timetable.

**Catalysts:** a) Granting of the prospecting licence over Kolosori tenement; b) drill results and updated JORC resource at Isabel; c) arranging finance for the project.

### Recommendation

**BUY**

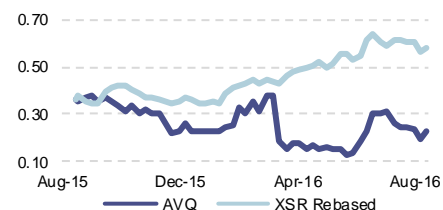
12-mth target price (AUD)	\$0.40
Share price @ 07-Sep-16 (AUD)	\$0.23
Forecast 12-mth capital return	77.8%
Forecast 12-mth dividend yield	0.0%
<b>12-mth total shareholder return</b>	<b>77.8%</b>

Market cap	\$76m
Enterprise value	\$77m
Shares on issue	337m
Sold short	
ASX 300 weight	n/a
Median turnover/day	\$0.1m

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### 12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	-10.0	-26.2	-38.4
Rel return (%)	-3.4	-51.1	-98.4

### Key changes

	21-Jul	After	Var %
<b>Revenue:</b> FY16F	0	0	0.0%
(\$m) FY17F	53	19	-64.5%
FY18F	122	113	-7.3%
<b>EBITDA:</b> FY16F	-8.0	-8.0	0.0%
(\$m) FY17F	13.0	3.7	-71.5%
FY18F	44.7	50.2	12.2%
<b>EPS:</b> FY16F	-1.8	-1.8	N/A
norm FY17F	0.9	0.2	-80.2%
(cps) FY18F	4.2	4.6	8.4%
<b>Price target:</b>	<b>0.40</b>	<b>0.40</b>	<b>1.1%</b>
<b>Rating:</b>	<b>BUY</b>	<b>BUY</b>	

### Earnings forecasts

Year-end September (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue (\$m)	0.1	0.0	0.0	18.9	112.9
EBITDA margin (%)	-15710	-180886	-80487650	20	44
NPAT norm (\$m)	-14.4	-12.3	-7.6	0.9	23.4
Consensus NPAT (\$m)			-7.6	4.2	20.6
EPS norm (cps)	-0.4	-1.2	-1.8	0.2	4.6
EPS growth (%)		-178	-49	109	2605
P/E norm (x)	-52.3	-18.8	-12.7	133.4	4.9
EV/EBITDA (x)	-5.3	-6.1	-9.5	20.7	1.5
CFM (x)	-6.1	-8.9	-25.2	17.0	2.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Source: Company data, Wilsons estimates, S&P Capital IQ

### Wilsons Research

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**Table 1: AVQ – financial summary**

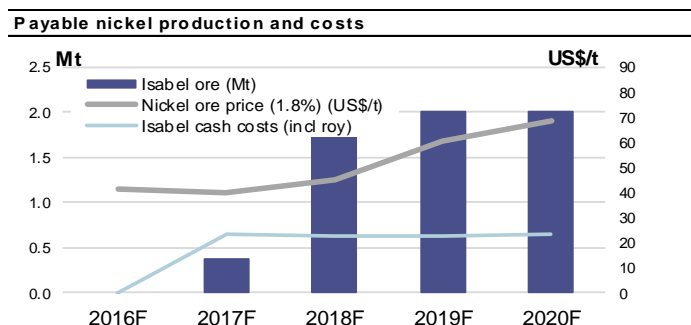
Capital Profile	
Number of shares, fully diluted (m)	457
Market capitalisation (A\$m)	103
Enterprise value (A\$m)	102
Enterprise value (US\$m)	76

Resources	Tonnes (kt)	Ni Grade (%)
Limonite resources (Mt)	8,400.0	100%
Limonite reserves (Mt)	-	-
Saprolite resources (Mt)	3,900.0	170%
Saprolite reserves (Mt)	-	-

Valuation	Un-risked A\$m	Un-risked A\$ps	Risked A\$ps
Isabel project	258	0.51	0.38
<b>Total Operations</b>	<b>258</b>	<b>0.51</b>	<b>0.38</b>
Net cash / (debt)	1	0.00	0.00
New eq capital	8	0.02	0.02
Option premiums	3	0.01	0.01
Corporate overheads	-15	-0.03	-0.03
Exploration	10	0.02	0.02
<b>Total Valuation</b>	<b>264</b>	<b>0.53</b>	<b>0.40</b>
<b>Target price</b>			<b>0.40</b>
<b>P/NPV</b>		<b>0.43</b>	<b>1.77</b>

Operational NPV split	Valuation inputs	
	Rf rate	5.3%
	MRP	6.0%
	Equity beta	2.17
	Ke	13.3%
	Kd	8.0%
	Gearing	30%
	Tax rate	30%
	WACC	14%
	Risked DCF (A\$)	0.40
	Prem/disc	0%
	Target (A\$)	0.40

Sensitivity (A\$m)	NPV (A\$ps)	2017F (\$m)	2017F (\$m)
<b>NPV / NPAT - Base case</b>	<b>0.398</b>	<b>-12</b>	<b>-8</b>
Ni ore + 10% increase	0.456	-12	-8
Ni ore + 10% increase (%)	15%	0%	0%
AUDUSD +10% increase	0.363	-12	-8
AUDUSD +10% increase (%)	-9%	0%	0%



Source: Company data, Wilsons

Sept year end	2015A	2016F	2017F	2018F
NPAT Reported (A\$m)	-12.5	-17.5	0.9	23.4
NPAT Normalised (A\$m)	-12.3	-7.6	0.9	23.4
EPS (A¢)	-12	-1.8	0.2	4.6
CFPS (A¢)	-3.2	-0.6	0.9	7.5
DPS (A¢)	0.0	0.0	0.0	0.0
P/E (x)	-18.8	-12.7	133.4	4.9
P/CF (x)	-7.0	-38.3	25.8	3.0
EV/EBITDA (x)	-9.0	-14.0	17.5	2.0
EPS Growth	-83%	49%	-109%	2605%
Yield (%)	0.0%	0.0%	0.0%	0.0%
<b>Assumptions</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Nickel ore price (1.8%) (US\$/t)	60.00	41.00	40.00	45.00
AUD/USD	0.84	0.73	0.73	0.74
<b>Production</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Isabel ore (Mt)	0.0	0.0	0.4	2.0
<b>Costs</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Isabel cash costs (incl roy)	n.a.	n.a.	23.5	22.2
<b>Profit &amp; Loss (A\$m)</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Sales revenue	0	0	19	113
Other revenue	0	0	0	0
Total revenue	0	0	19	113
Operating costs	-11	-7	-13	-62
EBITDA	-11	-7	6	51
Depreciation	0	0	-3	-8
EBIT	-12	-7	3	43
Net interest benefit / (expense)	-1	0	-1	0
Pre-tax profit	-12	-8	2	43
Tax benefit / (expense)	0	0	-1	-13
Profit after tax	-12	-8	2	30
Minorities	0	0	-1	-7
NPAT (underlying)	-12	-8	1	23
Significant items	0	-10	0	0
NPAT (reported)	-12	-17	1	23
<b>Profitability Analysis (%)</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
EBIT margin	n/m	n/m	16%	38%
EBITDA margin	n/m	n/m	31%	45%
Effective tax rate	0%	-2%	-30%	-30%
ROA - EBIT / (total assets - cash)	-95%	-81%	8%	129%
ROE - NPAT / equity	-230%	-67%	5%	56%
<b>Cashflow</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
EBITDA	-11	-7	6	51
Operating cashflow	-8	-3	6	40
Capex	-4	-5	-29	-1
Free cashflow (post growth capex)	-12	-8	-23	38
Investing cashflow	-6	-9	-30	-3
Financing cashflow	14	15	24	-15
Net Change in cash	-1	3	0	22
<b>Balance Sheet Analysis</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Debt	1	1	15	0
Equity	5	11	16	42
Assets	14	13	43	61
Cash	1	4	5	28
Net debt / (cash)	0	-3	10	-28
Gearing - net debt/equity	-3%	-26%	64%	-66%
Gearing - net debt/ (net debt + equity)	-3%	-36%	39%	-19%
Net debt / EBITDA	0.0	0.4	1.7	-0.5
EBIT / net interest	17.8	22.1	-3.7	-17319.7
EBITDA / net interest	17.3	21.6	-7.0	-20425
Free cashflow yield	-12%	-8%	-22%	37%

## Highlights – changes to our modelling

- We have revised our modelling of the Isabel nickel project. We now estimate capex at US\$20m (including working capital) and operating costs, at the full run rate of 2.0Mtpa, of US\$15.50/t, free on board (incl royalties).
- We now model first production in the Jun-16 qtr, a 3mth delay against our prior estimates.
- LOM ore extraction is ~13Mt, between FY17-24.
- We have also updated our number of shares and cash balance, post the recent \$5.0m capital raising.

## Changes to forecasts

	2015A	2016F	2017F	2018F	NPV (A\$ps)	Target price (A\$ps)
<b>Normalised NPAT (A\$m) - revised</b>	-12.3	-7.6	0.9	23.4	0.40	0.40
Normalised NPAT (A\$m) - previous	-12.3	-7.6	4.2	20.6	0.40	0.40
Change (A\$m)	0.0	0.0	-3.3	2.8	0.00	0.00
Change (%)	0%	0%	-79%	13%	1%	1%

Source: Company data, Wilsons

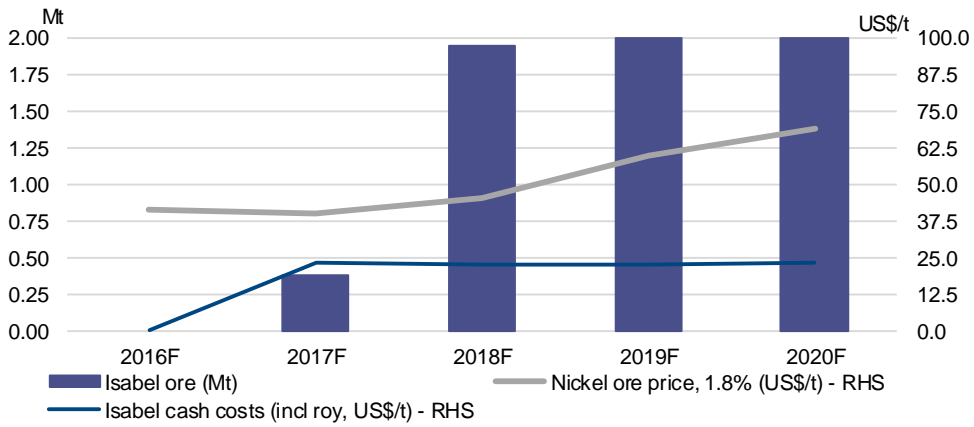
Figure 1: Kolosori and San Jorge tenements



*Axiom is commencing a drill program on San Jorge (where it has a Prospecting Licence). Axiom is still waiting for the outcome of their application for a Prospecting Licence on Kolosori*

Source: Company presentation

Chart 1: Isabel nickel project – production and cash cost profile



Source: Company data, Wilsons

Price target		
	Unrisked val	Riskd val
Isabel project	257.57	0.38
<b>Total operations</b>	<b>257.57</b>	<b>0.38</b>
Net cash/(debt)	1.00	0.00
New eq capital	8.00	0.02
Option premiums	3.00	0.01
Corporate overheads	-15.31	-0.03
Exploration	10.00	0.02
<b>Total valuation</b>	<b>264.26</b>	<b>0.40</b>

Key assumptions						
Year-end September (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
AUD/USD	0.918	0.836	0.726	0.733	0.735	0.745
Nickel ore price (US\$/t)	66.0	60.0	41.0	40.0	45.0	60.0
<b>Isabel</b>						
Ore mined - Isabel (kt)	0	0	0	375	1,950	2,000
Nickel sales (kt)	0	0	0	345	1,950	2,000
Cash costs (US\$/t)	0.0	0.0	0.0	11.7	22.2	22.7

Interims (\$m)				
Half-year (AUD)	Mar 15	Sep 15	Mar 16	Sep 16
	1HA	2HA	1HA	2HE
Sales revenue	0.0	0.0	0.0	0.0
EBITDA	-4.7	-8.0	-7.4	-0.6
EBIT	-4.8	-8.2	-7.6	-0.6
<b>Net profit</b>	<b>-4.5</b>	<b>-7.8</b>	<b>-7.2</b>	<b>-0.4</b>
<b>Norm EPS</b>	<b>-0.3</b>	<b>-2.9</b>	<b>-2.1</b>	<b>-0.1</b>
EBIT/sales (%)		-		-
		116,585.7		6,287,650.0
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

Profit and loss (\$m)						
Year-end September (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
Sales revenue	0.1	0.0	0.0	18.9	112.9	128.8
EBITDA	-14.5	-12.7	-8.0	3.7	50.2	74.1
Depn & amort	0.2	0.3	0.1	2.7	7.8	6.4
<b>EBIT</b>	<b>-14.7</b>	<b>-13.0</b>	<b>-8.2</b>	<b>1.0</b>	<b>42.4</b>	<b>67.7</b>
Net interest expense	-0.3	-0.7	-0.4	-1.3	-0.9	-2.0
Tax	0.0	0.0	-0.2	0.7	13.0	20.9
Minorities/pref divs	0.0	0.0	0.0	0.7	6.9	10.3
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit (pre-sig items)</b>	<b>-14.4</b>	<b>-12.3</b>	<b>-7.6</b>	<b>0.9</b>	<b>23.4</b>	<b>38.5</b>
Abns/exts/signif	-1.5	-0.2	-9.9	0.0	0.0	0.0
<b>Reported net profit</b>	<b>-15.9</b>	<b>-12.5</b>	<b>-17.5</b>	<b>0.9</b>	<b>23.4</b>	<b>38.5</b>

Financial stability			
Year-end Sep (AUD)	FY15A	FY16F	FY17F
Net debt	2.7	-3.0	11.5
Net debt/equity (%)	50.1	<0	72.5
<b>Net debt/EV (%)</b>	<b>3.5</b>	<b>&lt;0</b>	<b>14.9</b>
Current ratio (x)	2.3	6.9	3.2
Interest cover (x)	19.2	19.0	<0
<b>Adj cash int cover (x)</b>	<b>13.5</b>	<b>8.3</b>	<b>&lt;0</b>
Debt/cash flow (x)	<0	<0	0.2
Net debt (cash)/share (\$)	0.0	<0	0.0
NTA/share (\$)	0.0	0.0	0.0
Book value/share (\$)	0.0	0.0	0.0
Payout ratio (%)	0	0	0
Adj payout ratio (%)	0	0	0

Cash flow (\$m)						
Year-end September (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
EBITDA	-14.5	-12.7	-8.0	3.7	50.2	74.1
Interest & tax	0.3	0.7	0.4	1.6	-9.8	-16.5
Working cap/other	1.8	3.5	4.6	0.4	-0.6	-0.5
<b>Operating cash flow</b>	<b>-12.4</b>	<b>-8.5</b>	<b>-3.0</b>	<b>5.7</b>	<b>39.7</b>	<b>57.2</b>
Maintenance capex	0.0	0.0	0.0	-1.2	-1.3	-1.1
<b>Free cash flow</b>	<b>-12.4</b>	<b>-8.5</b>	<b>-3.0</b>	<b>4.5</b>	<b>38.4</b>	<b>56.1</b>
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Development capex	-1.0	-6.3	-9.2	-28.9	-1.6	-1.6
Invest/disposals	-0.2	0.0	0.0	0.0	0.0	0.0
Other inv flows	0.0	-0.5	0.0	0.0	0.0	0.0
<b>Cash flow pre-financing</b>	<b>-13.6</b>	<b>-15.2</b>	<b>-12.2</b>	<b>-24.4</b>	<b>36.8</b>	<b>54.5</b>
Funded by equity	14.5	7.9	10.2	10.0	0.0	0.0
Funded by debt	0.6	6.3	5.1	14.0	-15.0	0.0
Funded by cash	-1.6	1.0	-3.1	0.4	-21.8	-54.5

EPS reconciliation (\$m)				
	FY15A		FY16F	
	Rep	Norm	Rep	Norm
Sales revenue	0	0	0	0
EBIT	-13.2	-13.0	-18.1	-8.2
<b>Net profit</b>	<b>-12.5</b>	<b>-12.3</b>	<b>-17.5</b>	<b>-7.6</b>
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-12.5</b>	<b>-12.3</b>	<b>-17.5</b>	<b>-7.6</b>
Diluted shrs (m)	1,031	1,031	428	428
<b>Diluted EPS (c)</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-4.1</b>	<b>-1.8</b>

Balance sheet summary (\$m)						
Year-end September (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
Cash	2.3	1.3	4.3	3.8	25.6	80.2
Current receivables	1.1	1.1	0.0	3.3	5.4	6.9
Current inventories	0.0	0.0	0.0	0.0	0.0	0.0
Net PPE	2.1	2.0	6.0	31.8	25.0	18.3
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles/capitalised	2.5	9.2	3.1	3.1	3.1	3.1
Other	0.0	0.0	0.1	1.4	2.3	2.9
<b>Total assets</b>	<b>7.9</b>	<b>13.6</b>	<b>13.4</b>	<b>43.4</b>	<b>61.4</b>	<b>111.3</b>
Current payables	1.8	3.9	0.3	11.9	18.7	18.8
Total debt	3.0	4.0	1.3	15.3	0.3	0.3
Other liabilities	0.2	0.3	0.3	0.3	0.3	0.3
<b>Total liabilities</b>	<b>4.9</b>	<b>8.3</b>	<b>2.0</b>	<b>27.6</b>	<b>19.3</b>	<b>19.4</b>
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder equity</b>	<b>3.0</b>	<b>5.3</b>	<b>11.4</b>	<b>15.8</b>	<b>42.1</b>	<b>91.9</b>
<b>Total funds employed</b>	<b>6.0</b>	<b>9.3</b>	<b>12.8</b>	<b>31.2</b>	<b>42.3</b>	<b>92.2</b>

Returns				
	FY15A	FY16F	FY17	FY18
ROE (%)	-296	-91	6	81
ROIC (%)	-155	-70	4	135
Incremental ROE	175	111	161	147



## Axiom Mining (AVQ)

### Business description

Axiom Mining Ltd (AVQ) is an aspiring nickel laterite DSO producer listed on the ASX. The main asset is the 80% owned Isabel Nickel Laterite Project located on Isabel Island, Solomon Islands. Axiom also has a portfolio of exploration tenements in the Solomon Islands, Vietnam and Australia.

### Investment thesis

The Isabel Nickel Laterite Project is the key asset of AVQ. Drilling by previous owners during the 1970s of >6,000 drill holes and test pits yielded a non-JORC resource of 159Mt ~ 1.045% Ni and 0.07% Cobalt. AVQ has now defined a JORC resource of Saprolite of 3.9Mt @ 1.7% and 8.4Mt of Limonite @ 1.0% Ni. AVQ's preliminary estimate for capex is ~US\$20m (owner-operator), with life of mine cash costs of US\$15/t (incl royalty), compared to a spot price for 1.8% Nickel laterite ore of ~US\$40/t (Sept 2016).

### Revenue drivers

- Nickel price
- Nickel production volumes
- Cash costs

### Balance sheet

- Cash: \$1.6m (30 Jun 2016), \$5m subsequently raised
- Debt: \$1.3m (30 Jun 2016)

### Key assets

The Isabel nickel laterite project on Isabel Island, Solomon Islands. The company's initial target is production of up to 2.0Mtpa of DSO nickel laterite. A second stage of the project may involve potential on-site processing of the ore.

### Reserves & resources

- Maiden JORC resource:  
Limonite: 8.4Mt @ 1.0% Ni, 0.11% Co  
Saprolite: 3.9Mt @ 1.7% Ni.

### Board

- Robert Barraket: Chairman and Independent Director
- Ryan Mount: CEO & Managing Director
- Jeremy Gray: Non-Executive Director
- Paul Frederiks, Company secretary

### Key issues/catalysts

- Granting of prospecting licence over Kolosori tenement – 2HCY16.
- Ongoing drilling results from Isabel, and updated JORC resource – 2HCY16.
- Mining Lease approval for Isabel – 2HCY16.
- Potential links with strategic investors, and completion of financing – ongoing.

### Management

- Ryan Mount: CEO
- Mr Jovenal Gonzalez: Exploration Manager, Isabel Nickel Project

### Risk to view

- The ongoing process involving Axiom's application for a prospecting licence over the Kolosori tenement – this is a key risk
- Any issues in proving up a larger economic resource, or the size of such a resource is smaller than targeted,
- Development costs higher than the company estimates or a delay in the development timetable.

### Miscellaneous and other

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### Recommendation structure and other definitions

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