

EQUITY RECOMMENDATION

4 March 2014

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OVERVIEW

Written by Daniel Metcalfe

Lamboo Resources

Price at 3rd March 2013: 40c
Target price: \$1.77

Shares on Issue (Fully Diluted):	141,430,886	OCH-Ziff	
Market Capitalisation (FD):	AUD 56,723m		18%
Cash:	AUD 6.3m	Directors	33%
Stock ticker:	LMB.ASX	Vendors of South Korean Projects	17%
		Pinnacle Investment Management	4%
		Caledonia Investments Plc.	4%

Major Shareholders:

Lamboo Resources (LMB) is a world-class graphite focused mining company intent on bringing their two high quality, low cost flake graphite projects into production within the next eighteen 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.

Both projects contain very high grade flake graphite, a product that is highly sought after by the industry for the production of lithium ion batteries, nuclear reactors, graphene and super capacitor fuel cells.

With major industrial and technology companies such as Tesla, General Electric and Panasonic positioning for the rapid acceleration in demand for battery powered cars and energy storage, we see increasing demand for high quality graphite.

Standard, lower grade graphite is used in traditional industrial applications such as steel, auto parts, and in lubricants, and commands a lower price. Lamboo's high grade material is quite different and is suitable for use in the battery market and therefore commands a much higher price, in the range of US\$1,600-US\$5,000 per ton.

Each project is forecast to require limited capital expenditure (capex) and operational expenditure (opex) is also anticipated to be very low. Importantly, each project is located close to good infrastructure which reduces freight costs and gives the company a significant advantage over competitors.

McIntosh Project, East Kimberly, Australia

- Resource: 7.3m tons at 5% tgc (total graphitic carbon) for 365,000 contained tons
- Memorandum of Understanding (MOU) with China Hengda, a major industrial group
- Further resource expansion expected as additional 15km of strike identified
- Port Wyndham within 280km distance along Great Northern highway
- Scoping Study due for completion by second quarter 2014
- Pilot mining is due to commence in November with full production scheduled for mid-2015. There is however potential to bring full production forward, should the MOU with China Hengda advance to allow delivery of concentrate rather than a fully beneficiated end product.

Geumam Project, South Korea

- Located 67km Southwest of Seoul
- Drill results grading up to 18.9% Total Graphite Carbon
- Initial inferred JORC deposit of 200,000 tons at 10% tgc
- Exploration target of 17-28 Million tons, grading 5-10% tgc
- Target for first production is 2nd Quarter 2015

Advanced Particle Group (APG)

Lamboo have established a technology development arm which is working with Monash University to exploit new technology applications for flake graphite. The Singaporean government has shown interest in this project and has earmarked \$5 million of potential funding. APG will be separately funded and seeks to collaborate with external parties and capitalise on the products within the fields of graphene, pebble bed technology within nuclear reactors, super capacitors and lithium ion batteries.

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COMMENTARY

Comparable projects and companies

Probably the most comparable company to measure Lamboo against is the Canadian listed Focus Graphite. At 55c Focus is currently valued at CA\$56 million and have recently announced a ten year graphite offtake agreement supplying a Chinese industrial consortium with up to 40,000 tons per annum. This is the first graphite specific mining company to have secured an offtake agreement, a positive sign for Lamboo, which by comparison looks much more attractive than Focus.

Focus' initial capex estimate of CA\$154 million is considerably higher than Lamboo's \$50 million and their greater distance from China further decreases their competitiveness.

Analysts at Fundamental Research Corp, have estimated fair value for Focus Graphite as CA\$1.44 per share or CA\$154 million.

Valuation

We forecast fair value for Lamboo of AUD\$1.77 per share based on a Net Present Value model.

In this model we use the following assumptions:

Capital Expenditure (capex):	USD\$50 million (\$25m per operation)
Operational Expenditure (opex):	USD\$400 per ton
Assumed Sales price per ton:	USD3, 000
Annual production rate:	40,000 tons p.a. (20,000 per operation)
Fully Diluted shares on issue:	141,430,886
Tax rate:	17% (blended tax rate between Korea and Australia)
Discount rate:	10%

Future price catalysts

There are a number of factors that could potentially act as price catalysts in the coming months for Lamboo:

- McIntosh Scoping Study completion
- Resource expansion
- Technical studies through Lamboo's Advanced Particle Group (APG)
- Announcement of an offtake agreement
- Commencement of mining

Recommendation – Speculative Buy

Lamboo has rallied strongly in the past few months for a number of reasons:

- Resource expansion;
- Memorandum of Understanding with China Hengda;
- A quickly taken up Capital Raising (participants include Och Ziff - the world's fifth largest hedge fund); and
- the increasing perception by markets of the graphene market

As a result of this we expect there will be a period of consolidation and an opportunity to accumulate the shares between 35 – 40c per share, with a view to making larger gains over the coming six to twelve months as the company announces further milestones and works towards production and first cash flow.

Risks to our recommendation include: A fall in demand for Graphite, a failure to raise sufficient capital to progress the mines development or a wider market downturn.

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CHART:



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

CONTACT US

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Daniel is an Authorised Financial Adviser (“AFA”) under the Financial Advisers Act 2008 and further details about him and OMF are contained in our disclosure statements which are available free of charge on our website www.omf.co.nz or upon request.

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