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Analyst

Peter Chapman 612 8224 2847

Authorisation

Fleur Grose 612 8224 2845

Apex Minerals (AXM)

AXM has restarted operations at the Wiluna gold mine and reached the important initial production target of 120kozpa making it one of the few independent WA producers. As AXM is at the high risk/reward stage of its evolution we rate it Speculative Buy.

Recommendation

Spec Buy

Price

\$0.21

Target (12 months)

\$0.40

Year end June	2008a	2009f	2010f	2011f
NPAT (reported) (A\$m)	-60.4	-22.7	43.4	36.9
NPAT (adj) (A\$m)	-60.4	-6.1	43.4	36.9
EPS (adj) (cps)	-15.2	-4.8	9.3	7.9
EPS growth (%)	na	na	-291.1	-15.1
PER (x)	na	-4.3	2.3	2.7
P/Book (x)	na	7.5	1.7	1.6
P/NTA (x)	na	na	2.0	1.4
Dividend (¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	0.0	-21.8	26.1	16.2

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Expected Return

Capital growth **90%**

Dividend yield **0**

Total expected return **90%**

Company Data & Ratios

Enterprise value **\$130m**

Market cap **\$92m**

Issued capital **463m**

Free float **91%**

12 month Price range **\$0.18-0.90**

GICS sector **Materials**

Commercial Production Attained

Wiluna back in business at 120kozpa

AXM has attained its initial target of 120kozpa from the recommissioned Wiluna gold mine, having poured 9,500oz in April and close to 10,000oz/m at month's end. Ramp up occurred during the March quarter with a total of 17,000oz poured in the quarter. The Wiluna underground mine produced 67,500t at 5.0g/t and open pit ore from the East Pit was 126,000t at 4.2g/t. Open pit mining ceased in May with production continuing from underground stopes and ROM stockpiles.

Cash is tight but cash flow positive ahead

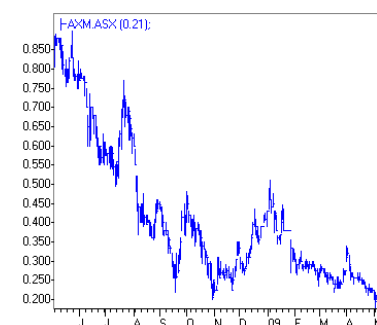
Cash at the end of the quarter was \$3m while borrowings, end December 2008, were \$47m with an additional \$52.3m derivatives liability. The cash flow position has improved considerably in April/May due to the higher production rate and the completion of open pit mining. Our projections show a turnaround of cash flow and a cash build up in the December half 2009.

Speculative Buy

Attaining initial stage production rates is a significant achievement for the company that should deliver it positive operating cash flows. We forecast cash flow from operations of \$60m in FY10 and positive free cash flow (after capex and exploration) of \$10m. However, as cash levels are low at present due to a delay in reaching ramp up, there is an element of financial risk relative to its peers. We view the stock as a Speculative Buy reflecting its high risk/reward position (previously Buy) with a target price of \$0.40/sh representing a conservative 33% premium to NPV.

Southern Cross Equities acted as co-lead arranger in a \$19.6m capital raising in January 2009 and received a fee.

Absolute Price

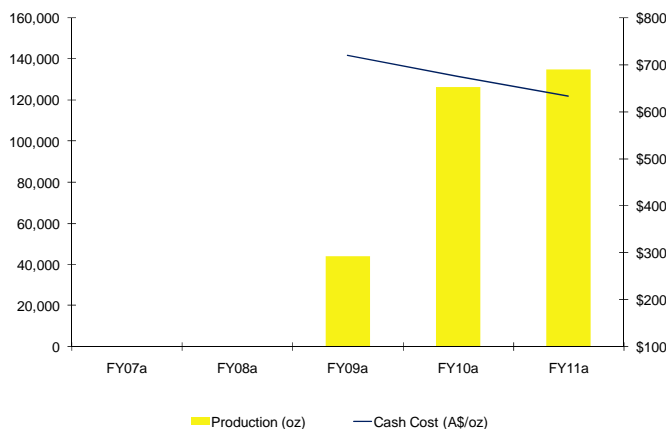


SOURCE: IRESS

Investment Indicators

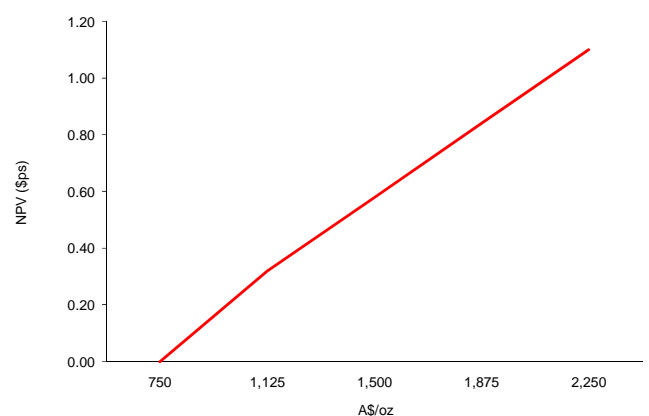
- **First production target 120koz pa.** Operations ceased in 2008 to allow reserves to be extended and the plant to be upgraded. Production commenced in the December quarter 2008 and reached design rates of 10,000oz/month in early May.
- **Cash operating costs mid range.** We are forecasting cash costs at under A\$700/oz at design rates, following completion of the ramp up phase (Fig 1).
- **NPV of \$0.30 (SCE base case)** gives AXM a discount to valuation of 35% (Fig 2).
- **NPV sensitivity to gold price.** Despite the Gold Upside Participation notes (GUP) on issue, that limit the leverage, valuations and earnings are highly sensitive to the gold price.
- **Free cash flow turnaround.** FY10 should see a sharp turnaround to positive free cash flow, the first year of full production (Fig 3).
- **Debt \$47m.** Borrowings at the end of December 2008 were \$47.6m comprising \$24.7m finance lease for mobile mining equipment and \$23.1m secured notes (Fig 4). GUP notes and warrants represent another \$52.3m liability.

Figure 1 - Production and Costs



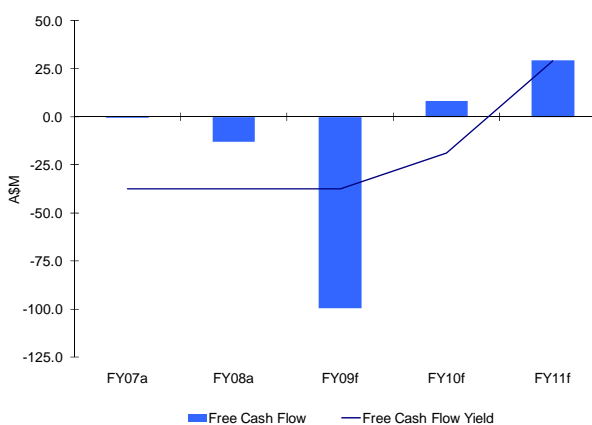
SOURCE: COMPANY AND SOUTHERN CROSS EQUITIES ESTIMATES

Figure 2 - NPV Sensitivity to Gold Price



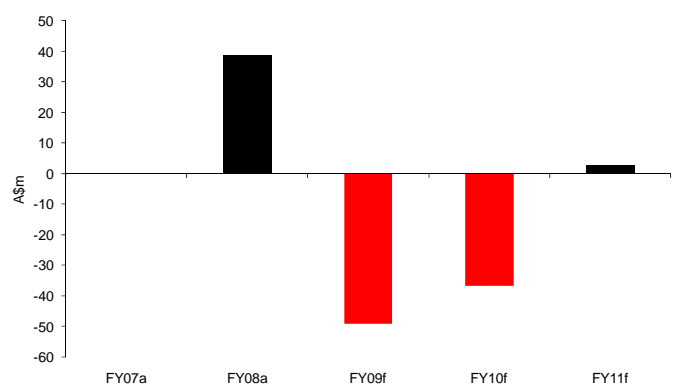
SOURCE: COMPANY AND SOUTHERN CROSS EQUITIES ESTIMATES

Figure 3 - Free Cash Flow and Yield



SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Figure 4 - Net Cash (Debt)



SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Apex Minerals

as at 5 May 2009

Recommendation

Spec Buy

Price

\$0.21

Target (12 months)

\$0.40

Table 1 - Financial summary

Apex Minerals NL (AXM)						Share price: A\$					\$ 0.21
As at						Market Cap: A\$					\$ 97
5-May-09											
PROFIT AND LOSS (A\$)						VALUATION DATA (A\$)					
Y/e Jun 30	2007a	2008a	2009f	2010f	2011f	Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
Sales revenue	0	1	53	157	165	Net profit adj (\$m)	-6	-60	-6	44	37
EBITDA	-6	-59	5	67	67	EPS (c)	-3.2	-15.23	-4.84	9.3	7.9
D&A	0	-1	-4	-13	-14	EPS growth (%)	na	na	na	-29.2	-15
Other	0	0	0	0	0	P/E ratio (x)	na	na	-4.3	2.3	2.7
EBIT	-6	-60	0	54	53	CFPS (c)	na	na	-2.1	12.6	12.9
Other income (expenses)	0	0	0	0	0	Price/CF (x)	na	na	-9.8	1.7	1.6
Net Interest Expense	1	2	-6	-5	-4	DPS (c)	0	0	0	0	0
Pre-tax profit	-6	-60	-6	49	50	Yield (%)	0	0	0	0	0
Tax	0	0	0	-5	-12	Franking (%)	0	0	0	0	0
Net Profit	-6	-60	-6	44	37	EV/EBITDA	na	na	na	2	1
Adjustments	0	0	0	0	0	EBITDA margin (%)	na	na	na	42	41
SCEQ adj profit	-6	-60	-6	44	37	Valuation per share:					0.31
One-off items	0	0	-17	0	0	Target price (12 mth):					0.40
Reported net profit	-6	-60	-23	44	37	Total Return (including yield)					90%
CASHFLOW (A\$)						PROFITABILITY RATIOS					
Y/e Jun 30	2007a	2008a	2009f	2010f	2011f	Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
Receipts from customers	0	1	53	157	165	EBITDA/sales (%)			9	42	41
Payments to suppliers	-4	0	-55	-88	-88	EBIT/sales (%)			0	34	32
Net interest	0	1	-9	-5	-4	Return on assets (%)			-9	13	10
Tax paid	0	0	0	-5	-12	Return on equity (%)			-21	25	16
Other	0	0	0	0	0	Return on funds empl'd (%)			-15	21	17
Operating cashflow	-4	2	-10	59	61	Dividend cover (x)			0	0	0
Capex	0	-33	-80	-43	-11	Effective tax rate (%)			0	10	25
Investments	0	0	0	0	0	LIQUIDITY AND LEVERAGE					
Asset sales	0	0	0	0	0	Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
Other	-1	-53	-26	-4	-10	Net debt/(cash) (\$m)	-13	-39	44	32	-8
Investing cashflow	-1	-86	-106	-47	-21	Net debt/equity (%)	-95	-41	40	18	-4
Change in borrowings	-1	-1	66	0	0	Net interest cover (x)			0	-10	-14
Equity raised	12	110	19	0	0	Current ratio (x)			1	1	3
Dividends paid	0	0	0	0	0	Inventory turnover			9	7	7
Other	0	0	-4	0	0	Inventory/sales			34	7	8
Financing cashflow	11	109	80	0	0	INTERIMS (A\$)					
Net change in cash	6	25	-35	13	40	Y/e Jun 30 (\$m)	2007a	2008a	2009f	2010f	2011f
Cash at end of period	13	39	4	16	56	Sales revenue		0	0	72	83
BALANCE SHEET (A\$)						EBITDA		-28	-15	32	34
Y/e Jun 30	2007a	2008a	2009f	2010f	2011f	D&A		0	0	-6	-7
Cash	13.3	38.9	3.6	16.1	55.9	Other		0	0	0	0
Receivables	0	2	3	8	8	EBIT		-28	-15	26	27
Inventories	0	2	4	13	13	Other income (expense)		0	0	0	0
Investments	0	0	0	0	0	Net interest		1	-4	-3	-2
Other	13	44	10	37	77	Pre tax profit		-28	-18	24	25
Current assets						Tax		0	0	0	-5
PPE	0	95	209	252	262	Net Profit		-28	-18	24	20
Investments	0	0	0	0	0	Adjustments		0	0	0	0
Intangibles	0	0	21	25	35	SCEQ adj profit		-28	-18	24	20
Other	3	2	12	12	12	One-off items		0	-17	0	0
Non-current assets	3	97	242	289	310	Reported net profit		-28	-35	24	20
Total assets	16	141	252	325	387	Production (koz)					
Payables	2	12	5	16	16	Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
Debt	0	0	48	48	48	Wiluna			44	126	135
Provisions	0	30	35	35	35	Other					
Other	0	3	55	55	55	Total			44	126	135
Total liabilities	3	46	143	153	154	Cash Cost (A\$/oz)					
Shareholders' equity	14	95	109	172	233	Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
Minorities	0	0	0	0	0	Wiluna			720	675	634
Total shareholders funds	14	95	109	172	233	Other					
Total funds employed	1	56	153	203	224	Average			720	675	634
W/A diluted shares on issue						ASSUMPTIONS					
182	397	469	469	469	469	Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
						Gold Price (US\$/oz)	638	823	867	1000	950
						A\$	0.79	0.89	0.72	0.69	0.72
						Gold Price (A\$/oz)	811	920	1211	1449	1319

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 0% and +15% on a 12 month view

Reduce: Expect -15% and 0% total return on a 12 month view

Sell: Expect <-15% total return on a 12 month view

Peter Chapman
Analyst Authorisation

Fleur Grose
Authorisation

Research Team

Daniel Blair
Industrial Analyst
Telecommunications
T 612 8224 2886
E dblair@sceq.com.au

Peter Chapman
Senior Resources Analyst
Oil/Gas/Gold
T 612 8224 2847
E pchapman@sceq.com.au

Fleur Grose
Resources Analyst
Iron Ore/Coal/Diversifieds
T 612 8224 2845
E fgrose@sceq.com.au

Johan Hedstrom
Senior Resources Analyst
Energy
T 612 8224 2859
E jhedstrom@sceq.com.au

TS Lim
Financials Analyst
Banks/Regionals
T 612 8224 2810
E tslim@sceq.com.au

Sanjay Magotra
Senior Industrial Analyst
Infrastructure/Utilities
T 612 8224 2880
E smagotra@sceq.com.au

Sarah McCloy
Executive Assistant
Research Team
T 612 8224 2885
E smccloy@sceq.com.au

Alexandra McPhee
Senior Industrial Analyst
Consumer/Rural/Retail
T 612 8224 2894
E amcphee@sceq.com.au

David O'Halloran
MBA *UNSW*, BSc *UoN*, MSDIA, SF Fin
Research Co-ordinator
T 612 8224 8817
E doh@sceq.com.au

Andrew Peros
Analyst
Materials
T 612 8224 2838
E aperos@sceq.com.au

Stuart Roberts
Industrial Analyst
Healthcare/Biotech
T 612 8224 2871
E sroberts@sceq.com.au

Mathan Somasundaram
Quantitative Analyst
Head of Quant & Data Services
T 612 8224 2825
E mathan@sceq.com.au

Lafitani Sotiriou
Analyst
Financials/Industrials
T 612 8224 2813
E lsotiriou@sceq.com.au

Joel Weiss
Quantitative Analyst
T 612 8224 2895
E jweiss@sceq.com.au

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Southern Cross Equities Ltd and its associates hold 8,974,906 shares and 1,500,000 options in AXM as at the date of this report. This position is subject to change without notice.



Limited Incorporated ACN 071 935 441

Level 32, Aurora Place
88 Phillip Street, Sydney 2000

Telephone +61 2 8224 2811

Facsimile +61 2 9231 0588

Email general@sceq.com.au

www.sceq.com.au