

Date 6 July 2016

Recommendation: **Speculative Buy**
 Valuation: **\$0.68**

Company Information

ASX Code	AGR
Last Price (\$)	\$0.12
12 month share low	\$0.08
12 month share high	\$0.22
Shares on Issue (m)	358m
Market Capitalisation (\$m)	\$44m
Daily Volume	400k

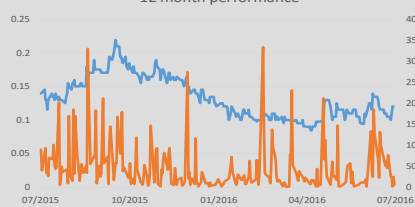
Bloomberg, DJC Research

Financial Summary

	FY15a	FY16e	FY17e	FY18e
Revenue (\$m)	(2.08)	(2.33)	(2.56)	(2.82)
EBITDA (\$m)	(2.08)	(2.33)	(2.56)	(2.82)
D&A (\$m)	(0.04)	(0.04)	(0.05)	(0.05)
EBIT (\$m)	(2.12)	(2.37)	(2.61)	(2.87)
Net Interest (\$m)	0.01	0.01	0.01	0.01
Income Tax (\$m)	0.00	0.00	0.00	0.00
Underlying NPAT (\$m)	(10.7)	(2.3)	(2.5)	(2.8)
Reported NPAT (\$m)	(10.7)	(2.3)	(2.5)	(2.8)
EPS Reported (¢)	(0.03)	(0.01)	(0.01)	(0.01)
EPS growth (%)	na	na	na	na
DPS (¢)	0.0	0.0	0.0	1.0
Cash (\$m)	0.7	4.9	1.3	1.5
Net debt (\$m)	0.3	(3.9)	(0.3)	(0.5)
Net debt / equity (%)	0.7	4.9	1.3	1.5
ROE (%)	0.3	(3.9)	(0.3)	(0.5)
ROA (%)	1.4%	-12.7%	-1.1%	-1.6%
Price to Book	na	na	na	na
PE (x)	na	na	na	na
EV/EBITDA (x)	0.05	0.08	0.07	0.09

Performance

12 month performance



Source: FactSet Data

Analyst Details

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Agua Resources Ltd (AGR)

AGR announces premium calcite by-product from recent met testwork

EVENT

- **Premium quality calcite by-product:** Metallurgical studies by AGR confirms that a high quality calcite by-product can be produced from the company's Três Estradas phosphate project in southern Brazil.
- **Secondary revenue stream:** The confirmation of the calcite quality opens potential for a second revenue stream from the project.
- **Local demand:** Calcite of the quality displayed is used in southern Brazil in various industries not least of which is the local agricultural sector where it is used as aglime and in various other uses including the cement industry.

ANALYSIS

- A premium grade calcite by-product can be produced from the rougher column tailings from the phosphate floatation process used at Tres Estradas. The resulting concentrate grades at 48.55% CaO with a recovery of 83.1% and has low concentrations of magnesium, iron, aluminium and silica. The process, developed by Eriez Flotation Division of Pennsylvania, a world leader in advanced flotation technology, involves low to mid-intensity magnetic separation followed by mica flotation of the rougher phosphate tailings.
- The calcite by-product also has a very fine grain size with 100% passing 212 microns. Effectively this renders the concentrate 100% reactive resulting in a +95% neutralizing reactive power (PNRT). Therefore, farmers using this product would have to buy fewer tonnes of aglime to achieve the same results as a less pure, less reactive product.
- Other industries where a product of these specification would be employed include the animal nutrition market and thermoelectric plants to neutralise sulphur emissions.
- The enhancements are directly related to the metallurgical optimisation work recently completed which showed significant improvements in phosphate recoveries by utilising column flotation technology. This work showed an improvement in fresh rock phosphate recovery of 20% over the previous processing route. AGR believe that the lab-scale testwork will be improved still further upon full-scale column flotation tests.
- We included CaO production in our model but at lower recoveries (60%) and lower grades (34%). The new metrics could make a significant circa \$50m improvement in total revenue over the life-of-mine and increase the internal rate of return (IRR) by circa 4% to 32%.

CATALYSTS

- **Further activities:** AGR has a number of news flow items over the next few months. They include project development updates, a new resource update and reporting on initial exploration activity on newly acquired claims. Ongoing permitting and potential for a fertiliser off-take party are further catalysts.
- **New PEA:** The above work will define a new PEA (Preliminary Economic Assessment). Once this has been published, we will take the optimised project metrics and update our financial model to derive a new valuation.

RECOMMENDATION

- **No change:** We maintain our Speculative Buy recommendation on AGR and \$0.68 valuation.

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Recommendation Definitions

SPECULATIVE BUY – 10% out-performance, but high risk

BUY – 10% or more out-performance

ACCUMULATE – 10% or more out-performance, buy on share price weakness

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months. Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries Index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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