

**Date:** 9 June 2016  
**Recommendation:** Speculative Buy  
**Valuation:** \$0.68

### Company Information

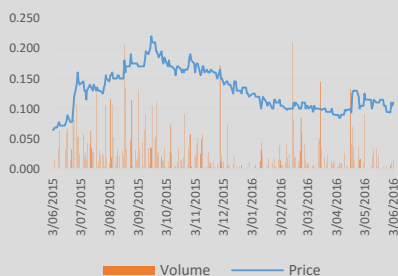
Code	AGR.ASX
Last Price	A\$0.12
Diluted Shares on Issue	376.3m
Diluted Market Capitalisation	\$43.3m
Daily Volume	305,426

Factset

### 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
<b>Underlying NPAT (\$m)</b>	(10.7)	(2.3)	(2.5)	(2.8)
<b>Reported NPAT (\$m)</b>	(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

### Share Price Performance



Source: Factset

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## Agua Resources Ltd (AGR-AU): Management Update

### Agua reports improved results from revised metallurgy test work

#### EVENT

- AGR reports positive new column flotation testwork:** AGR has engaged Eriez Flotation Division of Pennsylvania to determine the phosphate recovery and concentrate grades of the fresh and oxide ore from the Três Estradas project. Testwork using several stages of column flotation on fresh ore yielded a final concentrate grade of 30.25% and a total circuit recovery of 84.6%. This is a major improvement on the original testwork that was done as part of the original PEA where recoveries were reported at 65% with a concentrate grading of 28%. These results from the fresh ore bring the recoveries and concentrate grade in line with the grades and recoveries that have been achieved processing the oxide ore. It has also been shown through this testing that oxide ore can be processed through the same column arrangement with only an adjustment to reagents which will save on capital costs as only a single circuit needs to be developed has opposed to the separate oxide and fresh ore rock circuit that was originally envisaged.
- Calcite testwork is also underway to produce commercial aglime concentrate:** AGR are able to produce a calcite concentrate by-product that can be used in the agriculture industry. The use of aglime is extensive the region as there is a strong demand for the product from local farmers to balance the soil pH. AGR is currently undertaking testwork to determine the appropriate process for the development of a commercial aglime concentrate.
- Environmental impact assessment targeted for early August:** As part of its permitting process, AGR is planning to submit its environmental impact assessment in early August. The Environmental Agency has issued AGR with the terms of reference for the EIA submission.
- Results expected from a revised PEA and updated JORC resource:** AGR is in the process of optimising its PEA and is in the process of incorporating these improved metallurgical results into the study. AGR expects to release the optimised PEA in the next 2 months.
- AGR has secured an option agreement on a property adjacent to Três Estradas:** AGR has announced that it has secured an agreement on 2 claims totalling 3,553 hectares adjacent to the Três Estradas deposit. These tenements have a 2km long geophysical anomaly similar to Três Estradas. AGR has also identified 400m of outcropping carbonatite along strike and grab samples have returned grades of up to 6.37% P<sub>2</sub>O<sub>5</sub>.

#### ANALYSIS

The improved metallurgical results will have a significant positive impact on project economics. As we have previously stated, AGR's phosphate projects enjoy a significant geographical advantage in that AGR's projects are potentially the only potential domestic source of phosphate in this part of Brazil. Rio Grande is a vast agricultural region that produces a wide variety of agricultural products of which some are valuable exports and exports that earn foreign currency are currently key to the Brazilian economy.

The upgraded testwork has shown that Três Estradas has similar metallurgical performance as other key phosphate projects such as the Vale's Cajati mine in Brazil and Yara's Siilinjärvi mine in Finland. The fact that Três Estradas's metallurgy compares well to other producing projects is encouraging.

We have not changed our model at this point as AGR has stated it is likely to release a new PEA in the next month or so. When the optimised PEA is released we will incorporate the upgrades in resources and recoveries into our valuation. However, the improved recoveries are an important step and will, in our opinion, have a materially positive impact on the project economics. To this end we have modelled the *potential* impact on NPV and IRR if we applied the upgraded metallurgical results to our mine model. As can be seen from the table below these changes could upgrade the NPV by circa 55% and the IRR by circa 32%.

Model Inputs	NPV @ 10% Discount Rate	IRR
Original PEA	\$207,887,000	28%
Upgraded Metallurgical Results	\$321,393,000	37%

AGR are planning to release an optimised PEA in the next 2 months and at that point we will take the expected changes to the metallurgical test work, upgraded calcite recoveries and upgraded JORC into account. At this point we will revisit all of our assumptions and update our project economics and overall company valuation.

## CATALYSTS

- **Updated PEA:** Ultimately, towards the end of Q2, we should see the updated PEA, which will include results from a number of optimisation studies. We believe this PEA will then be a launch pad into a BFS and ultimately the establishment of an optimised path to production.
- **Ongoing progress with permitting:** As the project moves closer to BFS ongoing progress in permitting will be positive.
- **Agreement with a fertiliser producer:** There are a number of global fertiliser operations in the regions that will have an interest in the output from AGR's operation. If AGR were to secure an offtake agreement and/or a financing deal from a one of these parties it will be very positive for AGR.

## RECOMMENDATION

- **Maintain our Speculative Buy recommendation:** We maintain our Speculative Buy recommendation on AGR and \$0.68 valuation.

### Agua Resources Limited

Shares on Issue (m) 376.3  
Market Capitalisation (\$m) 45.2  
Year End 30-Jun

Date 9/06/2016  
Share Price (\$) 0.12  
Valuation (\$) 0.68

### Equity Valuation, Return

Equity Valuation		A\$/share
Value of the Firm		0.68
Return		469%
Real Discount Rate		10%
<b>Shares on Issue</b>		
Issued Shares (End of Period)		367
Options on Issue		8
Diluted Shares incl options		376

### Profitability

Key Metrics				
	2015a	2016e	2017e	2018e
Revenue Growth	0%	0%	0%	0%
EBIT Growth (Adj)	(15%)	12%	10%	10%
NPAT Growth (Adj)	0%	0%	0%	0%
EBITDA Margin (Adj)	0%	0%	0%	0%
EBIT Margin (Adj)	0%	0%	0%	0%
EPS - Reported	(0.03)	(0.01)	(0.01)	(0.01)
EPS - Fully Diluted Adjusted	(0.03)	(0.01)	(0.01)	(0.01)
EPS Growth	(0%)	(0%)	0%	0%
Effective Tax Rate	0%	0%	0%	0%

### Financial Ratios

Earnings & Cash Flow Multiples (A\$)				
	2015a	2016e	2017e	2018e
EPS	(0.03)	(0.01)	(0.01)	(0.01)
EPS Growth	(0%)	(0%)	0%	0%
P/E	na	na	na	na
EV/EBIT	na	na	na	na
EV/EBITDA	na	na	na	na
<b>Balance Sheet</b>				
	2015a	2016e	2017e	2018e
Gearing (Debt/Equity)	5.0%	3.3%	3.6%	3.0%
Gearing (Net Debt/Equity)	1.4%	-12.7%	-1.1%	-1.6%
EBIT Interest Cover	na	na	na	na
ROE	na	na	na	na
ROA	na	na	na	na
Price to Book	0.05¢	0.08¢	0.07¢	0.09¢



### Income Statement

Full Year Summary (A\$m)				
	2015a	2016e	2017e	2018e
Sales Revenue	0.00	0.00	0.00	0.00
EBITDA	(2.08)	(2.33)	(2.56)	(2.82)
Depreciation & Amortisation	(0.04)	(0.04)	(0.05)	(0.05)
EBIT	(2.12)	(2.37)	(2.61)	(2.87)
Net Interest Expense	0.01	0.01	0.01	0.01
Profit Before Tax	(10.74)	(2.31)	(2.54)	(2.80)
Income Tax Expense	0.00	0.00	0.00	0.00
Underlying NPAT	(10.74)	(2.31)	(2.54)	(2.80)
Abnormal Items	0.00	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	1.00
Reported NPAT	(10.74)	(2.31)	(2.54)	(2.80)
Normalised Earnings	(10.74)	(2.31)	(2.54)	(2.80)

### Cash Flow Statement

Full Year Summary (A\$m)				
	2015a	2016e	2017e	2018e
EBITDA	(2.08)	(2.33)	(2.56)	(2.82)
Other Items	0.00	0.00	0.00	1.00
Operating Cash Flow	(2.08)	(2.33)	(2.56)	(1.82)
Capital Expenditure	(12.81)	(0.26)	(4.56)	38.74
Other	0.00	0.00	0.00	1.00
Free Cash Flow	(14.89)	(2.59)	(7.12)	37.93
Equity Raised	0.00	0.00	0.00	0.00
Dividends Paid	0.00	0.00	0.00	0.00
Inc/(Dec) in Borrowings	1.00	0.00	0.00	0.00
Financing Cash Flow	1.00	0.00	0.00	0.00
Effects of Exchange Rates	0.00	0.00	0.00	1.00
Movement in Net Cash	(12.89)	(2.59)	(7.12)	38.93

### Balance Sheet

Full Year Summary (A\$m)				
	2015a	2016e	2017e	2018e
Cash	0.71	4.88	1.32	1.53
Current Assets	5.02	1.48	1.70	0.00
Total Assets	2.19	3.89	3.57	4.04
Debt	1.00	1.00	1.00	1.00
Other Liabilities	1.00	1.00	1.00	1.00
Total Liabilities	1.94	2.03	2.14	2.25
Total Shareholders' Equity	20.01	30.66	28.10	33.69

### Dividends

	2015a	2016e	2017e	2018e
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

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RCAN1345

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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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