

# Atomic Resources Limited (ATQ)

## Speculative Buy

Price: 14.0¢  
 12-month Target: 40.0¢  
 Enterprise Value: \$12.2m

### Summary Information:

#### Capital Structure:

Share Price	\$0.14
Ord Shares	99.7m
<b>Market Capitalisation</b>	<b>\$14.0m</b>
Cash (Mar 2010)	\$1.8m
<b>Enterprise Value</b>	<b>\$12.2m</b>
Options (25¢ exercise)	28.9m
52 week Low/High	9.2¢ / 18.5¢

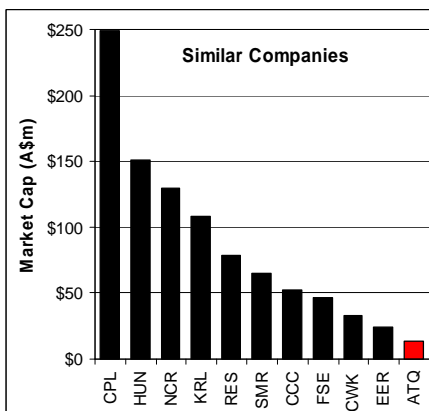
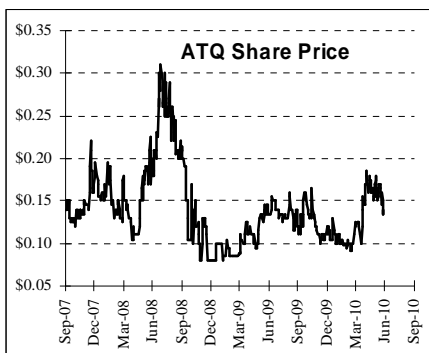
#### Directors:

Non-Exec Chairman	Clive Hartz
Managing Director	Clinton Cairn
Non-Exec Director	Alastair Walker

#### Major Shareholders:

Clive Hartz & associates	18.4%
RBC Dexia Investor Services	12.5%
David Boyer	5.3%
ANZ Nominees	4.3%

Top 20 Shareholders hold 57.2% of the issued stock



### Company Description:

Atomic Resources Limited (ATQ) is an Australian company, headquartered in Perth, Western Australia, focused on the exploration and development of major thermal coal assets in Tanzania, and uranium projects in Australia.

ATQ holds its Tanzanian coal assets via its 85% owned subsidiary Pacific Corporation East Africa (PCEA), which in turn holds a 70% interest in Tancoal Energy Limited (Tancoal), the holder of the Tanzanian tenements. The remaining 30% stake in Tancoal is owned by the National Development Corporation (NDC) of Tanzania, the primary Government agency responsible for the development of Tanzania's natural resources.

The Ngaka coal deposit (the groups most advanced project) currently has a JORC-compliant resource of 212 million tonnes of medium ash, low moisture, low sulphur sub bituminous coal. The company is currently conducting a Bankable Feasibility Study (BFS) on the project, forecast for completion by the end of August 2010. ATQ are quoted as saying that they expect to increase this resource to at least 400mt during the June quarter.

The Tancoal JV recently announced it had made the shortlist for significant coal and iron ore concessions located in Tanzania. The Tancoal Energy/Tata International Joint venture made the shortlist for both the Mchuchuma coal concession (nine parties selected to proceed to next stage) and the Liganga iron ore concession (five parties selected to proceed to next stage).

The groups Australian based uranium assets while interesting are not the group's major focus, and are not commented on in this report.

### Key Points:

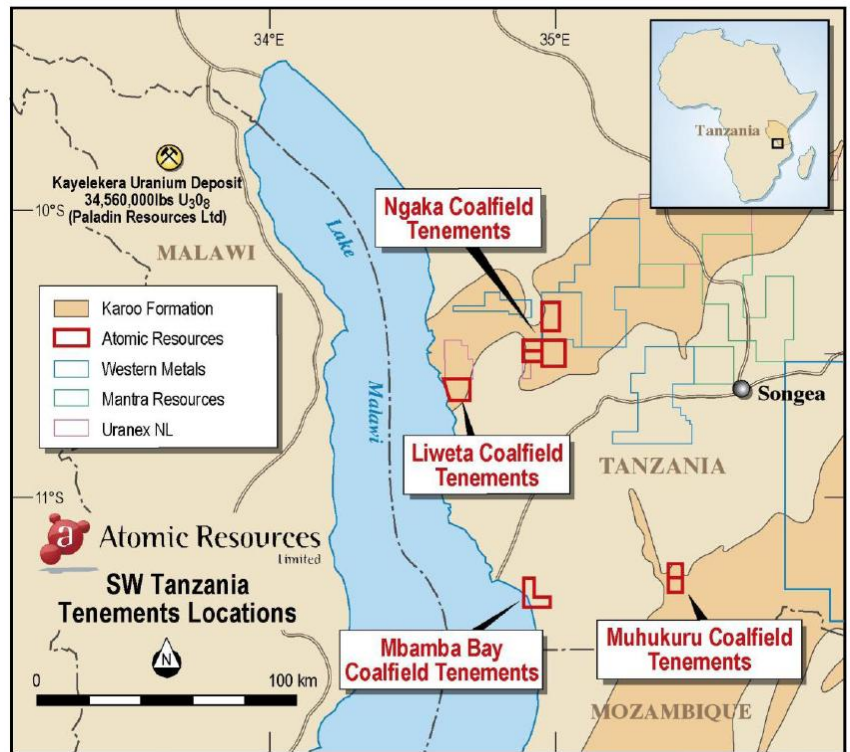
- All coal assets in Tanzania are held through Tancoal Energy Limited, with the Tanzanian government holding a 30% stake via the National Development Corporation (NDC). This effectively makes ATQ a partner of the Government.
- JORC compliant thermal coal resource at Ngaka of 212mt, expected to increase to at least 400mt by the end of the June quarter (ATQ equity share 59.5% or ~240mt of coal).
- Tancoal plans to commence small scale mining by the end of the year, initially producing 250,000tpa (raising to 500,000tpa) to satisfy the Tanzanian domestic market and replace the coal currently imported from South Africa and Malawi. Production is expected to increase to over 2Mtpa by 2013 to feed the proposed 400Mw Power Station to be built at Ngaka.
- ATQ being one of the first movers in Tanzania has managed to gain control of some of the countries best coal concessions, and although there is no developed coal industry, many of the largest global resource companies are tendering for projects in the country including BHP Billiton, Rio Tinto, and Vale.
- Our sum of the parts valuation for ATQ generates a value of ~A\$40m (~40¢ per share) at present, with the potential for the valuation to increase to in excess of A\$100m within 12 – 18 months if everything goes to plan.
- We have placed a speculative buy on the company as the share price is currently trading at a 65% discount to our valuation, and a 12-month share price target of 40¢ per share.

**Brief Description ATQ's Major Coal Project**

**Ngaka is ATQ's most advanced project**

The Ngaka Thermal Coal Project is ATQ's most advanced project, with a Bankable Feasibility Study (BFS) currently in progress to investigate the development of a 4mtpa coal mining operation. The Ngaka coalfields are situated in the resource-rich western minerals province of Tanzania, approximately 600km from the major port city of Dar Es Salaam. See figure below.

**BFS is progress to examine potential of 4mtpa operation**



**212 million tonne JORC resource at Ngaka at present**

Atomic, through its 85% owned subsidiary Pacific Corporation East Africa ("PCEA") has entered into a joint venture with the Tanzanian Government (Tancoal - PCEA 70% / Tanzanian Govt. 30%) to conduct a Bankable Feasibility Study (BFS) into the development of a thermal coal mining operation at Ngaka. Ngaka has a JORC-compliant resource of 212 million tonnes of thermal coal.

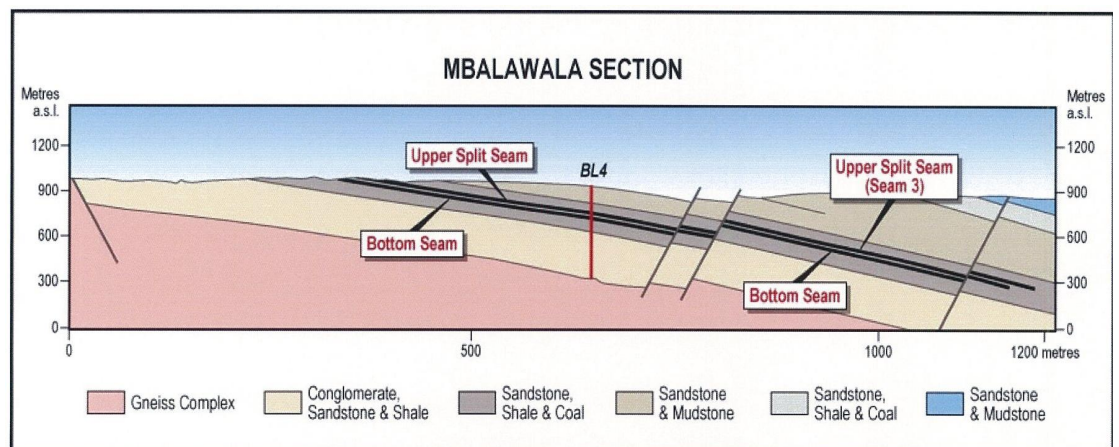
**Resource expected to increase to a least 400mt**

The coal resource at Ngaka is expected to increase to over 400 million tonnes when a new resource calculation is completed once the results of the current drilling program are assessed. This resource upgrade does not include the new concession area that where recent granted to Tancoal.

Initially, Tancoal anticipates producing 250,000tpa of coal (rising to 500,000tpa for local demand), to satisfy the Tanzanian domestic market and replace the coal currently imported from South Africa and Malawi. Production is expected to increase to over 2Mtpa by 2013 to feed the proposed 400Mw Power Station to be built at Ngaka.

**1,000t bulk sample from Ngaka to be mined in June 2010**

Negotiations with local Tanzanian companies that require coal are at an advanced stage. The local companies have tested coal samples from Tancoal in their own laboratories with very positive results. An initial 1,000 tonne bulk sample programme for the two main cement companies will commence once the seasonal rains ease. This program is expected to take a month and once complete, washable coal samples should be available for testing in June 2010.



## Other Coal Projects

### **NDC recently granted an addition two coal concessions to Tancoal**

The National Development Corporation (NDC) granted two additional coal leases to Tancoal during the March quarter (Mbamba & Liweta). These two leases offer the opportunity for further coal to be identified close to the margins of Lake Nyssa. Preliminary estimates put the coal potential of these two new leases at 40mt – 60mt.

#### **Mbamba**

At Mbamba Bay, previous work in the region by Harkness (1953) and others identified coal at surface. Initial proximate analysis completed on surface samples collected during the field work in the 1950's show:

Ash	Moisture	VM	Sulphur	CV Kcal/kg
13 – 27%	0.8 – 13%	21.3 – 30.1%	0.3 – 0.4%	6,040 – 7,810

Based upon the main seam thickness of approximately 2 metres seen in outcrop and dip determined from the outcrop sampled combined with the aerial extent of the basin, ATQ anticipates that a target potential tonnage of between 20 -30 million tonnes of moderate ash, low sulphur thermal coal with a calorific value exceeding 6,000Kcal/Kg lies within the concessions.

#### **Liweta**

The primary coal bearing formation is estimated. from work on the exposed coal field up dip from the optioned concessions, to be approximately 50m thick with up to 6 contained seams up to a maximum individual seam thickness seen in outcrop of 1.5m.

Ash	Moisture	VM	Sulphur	CV Kcal/kg
28%	unknown	31%	0.7%	8,080

Atomic estimates Liweta has a target potential tonnage of between 20 – 30 million tonnes of moderate ash, low sulphur thermal coal with a high calorific value exceeding 8,000 Kcal/kg. Geologically the coal is within outliers of Karoo sediments within the main Mchuchuma Formation, the coal bearing formation at Ngaka and Mchuchuma coal fields.

### **Mbamba has potential to contain 30 million tonnes of thermal coal**

### **Liweta has potential to contain 30 million tonnes of thermal coal**

### **Part of a consortium short listed to tender for additional coal and iron ore concessions in Tanzania**

## Shortlisted for the Mchuchuma & Liganga Concessions

Tancoal Energy (ATQ equity ~59.5%) in conjunction with Tata International Ltd of India as per a Joint Venture between the two companies where among the submissions shortlisted to progress to the next stage of the tender process for the Mchuchuma coal concession and Liganga iron ore concessions. The shortlist was announced in late February 2010 by the National Development Corporation of Tanzania (NDC).

The Mchuchuma Coal Field is located some 600km inland in the Southern Western part of Tanzania near Lake Nyasa and close to its border with Malawi in the West and Mozambique in the South. It is situated in the Ludewa district of Tanzania. The NDC has estimated a resource of greater than 500mt of moderate ash thermal power generation quality coal.

The Liganga iron ore Field is located some 600km southwest of Dar Es Salaam, it is situated in the Ludewa district of Tanzania. The NDC has described the project as containing deposit as a high titaniferous magnetite with average grades of 51% Fe, 12.9% TiO<sub>2</sub>, and 0.5% V<sub>2</sub>O<sub>5</sub>.

### **Reporting formats vary between companies so necessary to standardise**

## **Comparison of Coal Quality for ASX listed Peers**

Coal quality is reported in various formats that can affect the interpretation of the coal quality, for this reason it is necessary to make adjustments to the reported figures to make like for like comparisons meaningful. The most common basis for reporting coal analysis are:

Term	Symbol	Definition
As Received	(ar)	The analysis of coal as it is received which includes both free moisture and inherent moisture , i.e. Total Moisture (TM)
Air Dried	(ad)	As above but with the free moisture removed by exposure to air, but still containing Inherent Moisture (IM)
Dry Basis	(db)	Excludes all moisture by heating coal to around 110°C
Dry Ash Free	(daf)	Excludes all moisture and Ash

As the various coal components are removed the calorific value of the remaining material increases. For this reason it is important to standardise the results.

## Comparison of Coal Quality for ASX listed Peers (cont.)

More work required on sulphur content (a little high)

Below we have standardised the results to a Air Dried Basis (ar), the major points to be taken from the table is the high calorific value of ATQ's coal compared to its peers, although the sulphur content of ATQ's coal is a bit on the high side.

Company	Area	IM (%)	Ash (%)	VM (%)	FC (%)	S (%)	CV Kcal/Kg	Comments
East Energy (EER)	AUS	14.2	12.5	31.2	42.1	0.4	4,900	Washed F1.60
Coalworks (CWK)	AUS	16.5	18.2	24.0	41.3	0.3	4,600	In-Situ
Stanmore Coal (SMR)	AUS	Not broken down to components						
NuCoal Resources (NCR)	AUS	Not broken down to components						
Coalspur (CPL)	CAN	4.5	11.9	33.7	49.9	0.3	6,200	Washed Values
Hunnu Coal (HUN)	MNG	No reported resource yet						
Kangaroo Resources (KRL)	IDN	Not broken down to components						
Continental Coal (CCC)	ZAF	2.5	31.6	18.2	47.7	n/a	5,100	In-Situ
Firestone Energy (FSE)	ZAF	2.5	32.5	25.7	40.0	0.9	4,900	De-Shaled
Resource Generation (RES)	ZAF	3.6	33.1	25.7	37.7	1.0	4,500	De-Shaled
Atomic (ATQ)	TZA	2.8	22.8	27.1	47.3	1.5	6,000	In-Situ

ATQ's calorific value is superior to its peers

In the comments sections, Washed means the coal has undergone an upgrading stage to remove some of the ash, De-shaled means the coal has had waste material (shale) removed before analysis, and In-Situ means that the coal has not undergone any upgrading, i.e. raw as mined coal.

## Valuation

As ATQ has not yet released a study on the viability of its Tanzanian coal assets, and is yet to generate any income, we have decided to value the company using a sum of its parts basis. We have presented two valuations for the group, 1) current value of projects, and 2) potential value of the projects in 12 – 18 months if everything goes according to plan.

Sum of the Parts valuation for ATQ of A\$39.3m at present.

The groups major asset (Ngaka) has been valued at a conservative \$30m, which is based on a 30% – 50% discount to the 40¢ - 50¢ a tonne valuation generally applied to a coal resources of this nature.

Potential for valuation increase to >A\$120m in next 12 – 18 months.

Item	Equity	Current		Potential	
		(\$m)	Share	(\$m)	share
Ngaka	59.5	30.0	30.0¢	80.0	n/a
Mbamba	59.5	3.0	3.0¢	7.0	n/a
Liweta	59.5	3.5	3.5¢	8.5	n/a
Mchuchuma	29.8	-	-	15.0	n/a
Liganga (Fe)	29.8	-	-	10.0	n/a
Uranium assets		3.0	3.0¢	3.0	n/a
Cash		1.8	1.8¢	1.8	n/a
Corporate		(2.0)	(2.0c)	(2.0)	n/a
<b>Total</b>		<b>39.3</b>	<b>39.3¢</b>	<b>123.3</b>	<b>n/a</b>

ATQ trading at 65% discount to current valuation

We have not applied a per share value for the potential value of the group as we believe ATQ is likely to raise additional equity capital in the near future, and it is not possible to determine the amount of funds to be raised or at what price the funds will be raised.

*On our valuation of ~40¢ per share, ATQ is trading at 65% discount to fair value, and has the potential for significant further capital gains if the groups future plans come to fruition.*

## Final Thoughts

Future value for ATQ's equity share of Tanzanian assets could be as high as A\$250m

If ATQ plays its cards right, and a bit of luck goes its way, its assets in Tanzania have the potential of being a company maker. It does not take much imagination to see the value of ATQ's projects in Tanzania being worth in excess of \$100m. potentially as much as \$250m in the future.

We believe the easiest and most profitable way forward for ATQ would be for Tancoal to form a partnership with one of the larger resource companies to provide the capital required to get a substantial resource project off the ground.

Little downside risk at current share price levels.

We see little downside in the current price of ATQ at under 20¢, although we are aware that the groups cash balance is getting low and will need to conduct a capital raising in the near future. Our opinion is that a smallish raising (\$2 – \$4m range) would provide the best outcome as it would not dilute existing shareholders excessively.

The author of this report currently owns shares in ALG, ALGO, ATQ, CEU, DMG, NQM, RVE, RVEO, TAH, and TBR.

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