Stockwatch-Speculative buys

PerthNow
May 30, 2011
Type: Online media
Section: Business
Region: Perth, WA
URL: http://www.perthnow.com.au/business-old/news/stockwatch-speculative-buys/story-e6frg2qu-1226065872491

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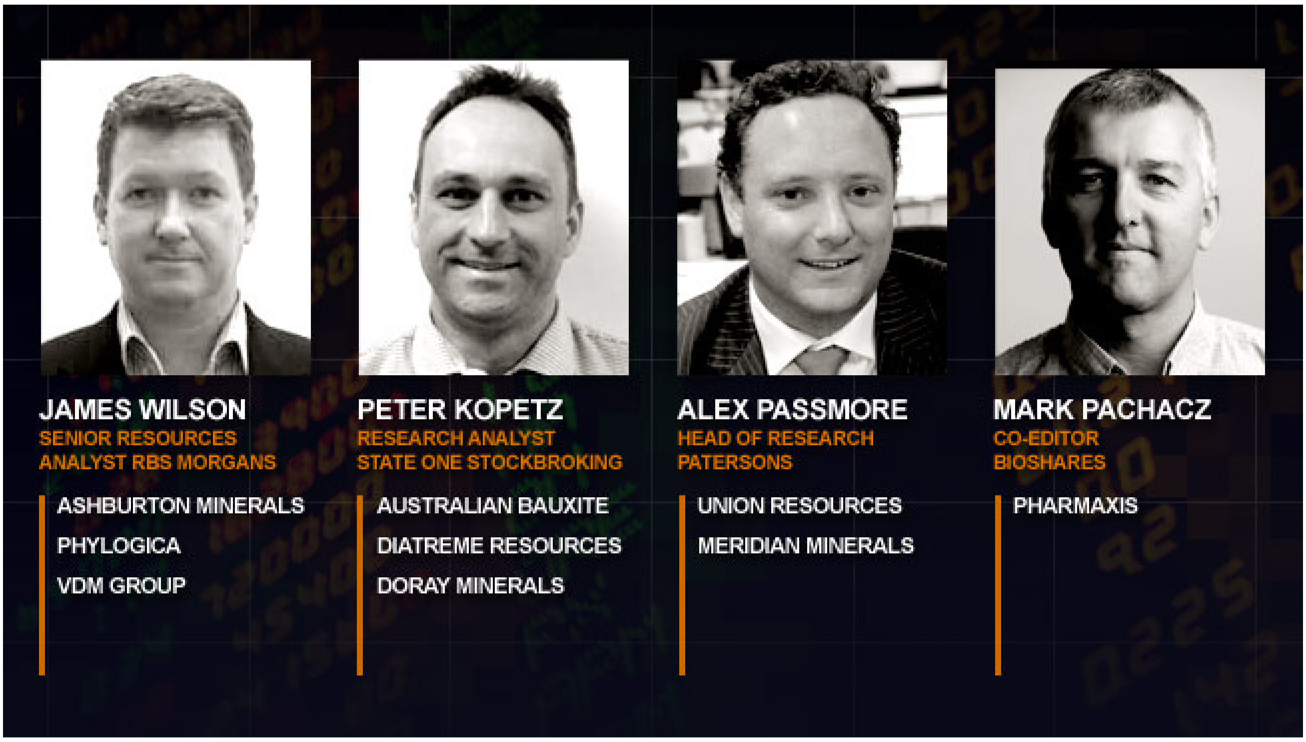
- From: *PerthNow*
- May 30, 2011 4:06PM



STOCKWATCH: Analysts give PerthNow their tips on speculative stocks.

IN this brand new series, senior analysts give us their tips on speculative stocks that may be overlooked.

James Wilson - Senior Resources Analyst, RBS Morgans

Ashburton Minerals (ATN) - Speculative Buy
ATN is just about to commence a drilling program on their Obi Island project in Indonesia. ATN's drill rig arrived on site this week and aims to complete about 4000 metres of drilling to verify previous work by BHP and to test high grade epithermal quartz veins at depth, which are currently being mined by extensive artisanal workings. ATN can earn in up to 85 per cent of the project through cash and expenditure commitments. In addition a further 6km of strike remains relatively untested.

VDM Group (VMG) - Speculative buy
VMG would appear to be one of the cheapest stocks in the mining services sector trading at half net tangible asset backing. Short term (three months) there is potentially more bad news than good including possibility of provisions on legacy contracts, downgrades to consensus forecasts and bank refinancing risk which is why, in our view, it is trading at such a deep discount. However, the industry outlook remains very buoyant, the tender book continues to grow and the company is under new management. Medium- to long-term, if bank debt is repaid through sale of property, the order book replenished and contracts executed at acceptable margins the value of the company will be multiples of what it is today.

Phylogica (PYC) - Buy
PYC announced recently an extension of its collaboration with Roche relating to cell penetrating peptides derived from Phylogica's Phylomer drug discovery platform. PYC has indicated that between now and the end of calendar year 2011, it intends to sign two extensions from existing relationships and three new collaborations with the top 10 pharmaceutical companies. To date, PYC has collaborations with Pfizer, Roche and AstraZeneca. At current prices this provides 25 per cent upside to the target. The target has been set as a short-term target and is expected to be exceed on announcements of additional collaborations. We have valued PYC at 8.5c.

**DISCLOSURE - RBS Morgans Corporate Limited was a joint lead manager to the Phylogica Ltd share placement in March 2011 and received fees in this regard.*

Peter Kopetz - Research Analyst, State One Stockbroking

Australian Bauxite (ABZ)
ABZ is part of the aluminium sector but its sole focus is bauxite, where medium- to long-term fundamentals are looking strong. It has a suite of assets on the Eastern Coast, with two possible projects emerging at Taralga and Binjour. Current JORC resources stand at about 60 million tonnes (mt) of bauxite, but we estimate a possible 150mt across its assets. The single most important factor that makes ABZ unique and valuable is the quality of bauxite they possess, especially the recently discovered bauxite at Binjour which is of extremely high quality. With quality bauxite on the decline around the globe, ABZ is well placed to supply desperate refineries with a product that will add value to their operations.

Diatreme Resources (DRX)
DRX's jewel in the crown is Cyclone, its world class zircon deposit in the Eucla Basin. Mineral sands prices and especially the valuable zircon have been appreciating at a rapid pace due to the demand/supply imbalances, thus providing development impetus to Cyclone which is in the midst of a prefeasibility study. Further interest has been shown by BaoTi, a Chinese mineral sands conglomerate who is looking to join forces with DRX and potentially fund the development. Being of a world scale, it's a matter of when not if Cyclone will be developed, especially since zircon outlook looking very strong.

Doray Minerals (DRM)
If grade is king then DRM is going to get crowned. DRM's maiden 170,000 ounce resource at Andy Well came in at an astonishing 25 grams per tonne gold which would put it among the top few grade deposits in Australia. The plan is simple for DRM, prove up a big enough resource to start mining as soon as possible and with what we have seen so far, everything is going according to plan. A high-grade mine will enable DRM to have high margins, thus making substantial returns. That's not the only thing going for DRM, with a kitty of about $20m in cash and a large portfolio of very prospective ground in the Meekatharra region.

Alex Passmore - Head of Research, Patersons

Union Resources (UCL)
The outlook for phosphate fertilisers is strong. UCL is looking at developing a major new rock export project (Sandpiper) in Namibia. The ore body is offshore, which is unconventional, however can be considered semi-proven in Namibia with De Beers running a major offshore (dredging) diamond operation. Sandpiper is 42.5 per cent owned by UCL with the remaining partners being Minemakers (MAK) and Tungeni Investments. However, there is stronger leverage into the project via UCL as it has a smaller market capitalisation and is solely focused on this development. In line with development progress, UCL is expected to release an update on resources and Mining Lease approval in June, to be followed by Environmental Approval and completion of a definitive feasibility study in September 2011.While difficult to value at this early stage, UCL is relatively cheap against MAK (UCL has a $31.5 million market capitalisation compared to MAK's $113m) and others in the sector.

Meridian Minerals (MII)
MII recently entered into an agreement to sell the Lennard Shelf lead-zinc project for $78 million to its major shareholder NWME. Considering about $27m was spent on acquisition and development of the project, MII will be realising significant value from the investment. After the transaction, MII will hold approximately $68m in cash (after tax) and is on the hunt for its next project. This could be achieved via the acquisition of Omchak, a Russian gold project which the company is proposing to buy a 75 per cent stake in. Meridian has until mid-July 2011 to complete due diligence. Our view at present is neutral on the Russian gold project, pending the outcome of MII's due diligence and an upcoming $10m drilling programme. We see MII as a cash-backed company, however, we do attribute significant upside value to management, who have a proven track record of locating and developing quality assets.

Mark Pachacz - Co-editor, Bioshares

Pharmaxis (PXS)
Pharmaxis is commercialising a new cystic fibrosis (CF) drug, which is the first new CF drug to reach the market in 15 years. It has been approved in Australia however this week received a set back from European regulators, indicating that the drug would not get approved. The company has the right to appeal, and if it does so will get a decision by November this year. Our view at Bioshares is that the drug still has a good chance to get across the line by year's end. The stock looks to be well oversold, falling more than 75 per cent.

**Each of the companies and analysts depicted may have long or short positions on these stocks.*

The stocks mentioned above are speculative in nature and readers should seek their own advice before making an investment decision.