

Noventa Ltd

Religare Capital Markets is company broker to Noventa Ltd

Stock Code (AIM)	NVTA
Closing Share Price as of Jul 09 2010	5.8p
52 Week High / Low	11.0 / 2.0
Number of Shares in Issue	256.7mn
Market Capitalisation	£14.9mn
Average Daily Volume	0.5mn
Estimated Free Float	55%

Major Shareholders	(%)
Highland African Ventures	31.0
Fidelity Investments Ltd	8.2
Blackrock World Mining Trust	4.8
Directors & Management	4.8
New City Investment Management	3.8
JMM trading	3.8
Hargreave Hale	3.3

Source: Bloomberg, Noventa

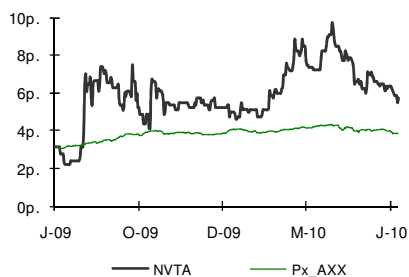
Noventa plans to supply 7% of world demand for tantalite by 2012

Noventa is an AIM listed producer of tantalum feedstock, which is used in the manufacture of electronic capacitors, turbine blades and industrial cutting tools. Its operations in Mozambique have been in pre-commercial production since April 2010. On 10th June the company announced its plans to expand the existing operation to produce >500klbs of tantalite per annum, which would make it the one of the largest primary tantalite producers in the world.

Tantalum market fundamentals are improving

The tantalum feedstock market is estimated to reach 7 million lbs by 2012. Currently the fundamental supply position is tight, with half of global primary production shut down due to high operating costs. Governments are now looking to replenish exhausted stockpiles and customer stocks are at historic low levels. In response, the spot price¹ has risen strongly, up 65% to US\$66/lb since December 2009.

Share price performance



Source: Bloomberg

The expansion plans contain significant upside

We estimate that Noventa is currently trading on an implied EV/EBITDA multiple of less than 4x using the most conservative tantalum pricing, grade and recovery assumptions. We find that a +10% change in any one of these variables would add ~£9mn to the value of the business. Given Noventa is one of only two certified ethically sourced tantalum producers in the world and is currently in pre production, we believe it is in the strongest position of any suppliers to meet the rising demand for ethically sourced tantalum over the next few years.

In the last 12 months, since the new board and management team began the turnaround, NVTA shares have outperformed the AIM 100 index. In addition, the new team has successfully raised interim financing to maintain and recruit key operational staff and should obtain a dual listing on the Toronto Stock Exchange within the next three months. Noventa is currently assessing funding options to finance the US\$23mn (£15mn) capital requirement for the expansion project.

Financial highlights

DEC YE US\$ mn	FY 07a	FY 08a	FY 09a
Sales	1.6	5.9	5.7
EBITDA	-15.0	-4.1	-3.2
NPAT	-14.3	-29.2	-11.1
EPS (USc)	-47	-82	-8

Source: NVTA, RCM estimates

Valuation & risks

Should the project be successfully financed we would expect a value range of between £24 - 73 mn on a pre-money basis and even on our most conservative case, should generate an IRR of 33%. Variances in the four key operating variables (price, grade, plant recovery and operating costs) account for the range and are discussed in greater detail further in the note. The project is considered high risk as the company does not yet have the funds required to execute its strategic plan.

¹ Spot price is for Ta₂O₅ 30% concentrate delivered to Rotterdam warehouse

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Profit and loss statement

Y/E December (US\$ mn)	FY07	FY08*	FY09
Revenues	1.62	5.89	5.71
Growth (%)	-	263.3	-3.0
EBITDA	-15.01	-9.34	-10.19
Growth (%)	-	-	-
Depreciation & amortisation	1.56	3.74	0.00
EBIT	-16.88	-22.26	-10.66
Growth (%)	-	-	-
Net interest expense	0.00	-0.38	-1.11
Other income			
PBT	-17.02	-22.30	-10.77
less Income tax	-2.69	7.09	0.10
Effective tax rate (%)	-	-	-
Extraordinary items			
M in int / inc from associates			
Reported net income	-14.34	-29.17	-11.07
Adjustments			
Adjusted net income	-14.30	-29.17	-11.07
Growth (%)	-	-	-
Shares outstanding (mn)	30.77	39.45	232.73
FDEPS (US\$) (adj)	-0.47	-0.82	-0.08
Growth (%)	-	-	-
DPS (GBP)	0.00	0.00	0.00

Balance sheet

as at 31 December (US\$ mn)	FY07	FY08*	FY09
Cash and cash eq	2.15	2.54	5.03
Accounts receivable	0.69	0.87	0.10
Inventories	0.86	3.31	0.49
Other current assets	1.16	0.00	0.00
Property plant & equipment	10.27	0.00	0.04
Exploration & Intangibles	0.00	0.00	0.00
Other assets	8.90	0.00	0.00
Total Assets	24.03	6.72	5.66
Accounts payable	1.51	3.91	2.16
ST borrowings	0.00	0.06	0.00
Other current liabilities	1.07	0.28	0.00
Provisions	0.00	0.25	0.26
LT borrowings	0.00	0.00	0.00
Other liabilities	0.23	0.00	0.00
Total Liabilities	2.81	4.22	2.69
Net assets	21.22	2.50	2.96
Equity capital	0.03	0.03	0.16
Reserves & surplus	34.30	43.07	54.34
Retained earnings	-13.03	-51.66	-60.48
Outside equity interest	0.00	0.00	0.00
Shareholder's equity	21.22	2.50	2.96

Cash flow statement

Y/E December (US\$ mn)	FY07	FY08*	FY09
Net income + Depreciation	-12.74	-25.43	-11.07
Dividends received			
Net interest			
Tax paid			
Other	-0.51	9.34	0.00
Cash flow from operations	-12.97	-9.38	-6.14
Capital expenditure	-3.36	-0.91	-0.51
Exploration expenditure	0.00	0.00	0.00
Change in investments	0.01	0.00	0.00
Other investing cash flow	0.00	0.08	0.00
Cash flow from investing	-3.35	-0.83	-0.51
Issue of equity	11.16	5.66	5.66
Issue/repay debt	0.00	5.00	3.69
Dividends paid	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	0.00
Cash flow from financing	11.16	10.60	9.12
Change in cash & cash eq	-5.16	0.40	2.49
Closing cash & cash eq	2.15	2.54	5.03

Financial ratios

Y/E December	FY07	FY08*	FY09
Profitability & Return (%)			
EBITDA margin	-	-	-
EBIT margin	-	-	-
Net profit margin	-	-	-
ROE	-	-	-
ROCE	-	-	-
Working Capital & Liquidity			
Receivables (days)	-	-	-
Inventory (days)	-	-	-
Payables (days)	-	-	-
Current ratio (x)	-	-	-
Quick ratio (x)	-	-	-
Turnover & Leverage (x)			
Total asset turnover	-	-	-
Net interest coverage ratio	-	-	-
Netdebt/equity	-	-	-
Valuation (x)			
EV/Sales	-	-	-
EV/EBITDA	-	-	-
P/E	-	-	-
P/BV	-	-	-

Source: Noventa * FY08 accounts restated



Valuation

Summary

Noventa recently announced its intention to expand production at its Marropino mine to >500klbs pa by 2012. The company estimates that this will require US\$23mn in new capital.

Previously, the company had intended to expand in three separate stages:

- Stage 1 tailings reprocessing
- Stage 2 crushing of existing oversize stockpiles
- Stage 3 reopen main pit

Having completed Stage 1 and a new strategic business plan in June, the company believes shareholder value is best created by combining Stages 2 and 3 together into a single phase and to expand annual production beyond 500klbs Ta₂O₅.

We have prepared two scenarios for valuation using known operating variables and the recently released information by Noventa to come up with an estimate of the potential value created by the new expansion decision.

We find that currently, the market appears to be paying for a very conservative scenario. The current market capitalisation of £14.9mn reflects a sustainable EBITDA of only US\$5.5mn pa assuming GBPUSD = 1.50 and EBITDA multiple of 4x. Even our most conservative case assumes an EBITDA 69% higher at US\$9.3mn pa.

Exhibit 1: Range of estimates

Driver	Conservative	Aggressive	Abs. change	% change
Ta price US\$/lb	55	70	15.0	27%
Plant recovery %	50	60	10.0	20%
EBITDA US\$ mn	9.3	23.7	14.4	154%
EBITDA margin %	34%	57%	23.0	67%
Pre money NPV £ mn	23.5	73.4	49.9	212%

Source: RCM

Given that there appears to be significant upside, we believe it is worth examining in more detail the variation that could be expected in estimating a potential value range for Noventa, should the company be successful in raising the necessary capital to fund the expansion project.



Exhibit 2: Conservative cash flow estimate

		2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e
Modelled Resource	kt	28,500	28,500	27,500	25,500	23,500	21,500	19,500	17,500	15,500	13,500	11,500	9,500
ROM ore	kt	0.0	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Head grade	ppm	225	225	225	225	225	225	225	225	225	225	225	225
Recovery	%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Ta2O5 production	kilbs	0.0	248	496	496	496	496	496	496	496	496	496	496
Ta2O5 (26%)	US\$/lb	55	55	55	55	55	55	55	55	55	55	55	55
Gross revenue	US\$ mn	0.0	13.6	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
marketing/commissions	US\$ mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
net revenue	US\$ mn	0.0	13.6	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
operating cost	US\$ mn	0.0	9.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
depreciation	US\$ mn	0.0	0.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
royalties	US\$ mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
taxable income	US\$ mn	0.0	3.8	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
tax paid	US\$ mn	0.0	0.0	0.0	0.0	0.0	0.0	2.1	2.1	2.1	2.1	2.1	2.1
net profit	US\$ mn	0.0	3.8	7.6	7.6	7.6	7.6	5.5	5.5	5.5	5.5	5.5	5.5
Capex - expansion	US\$ mn	23.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
free cashflow	US\$ mn	-23.0	4.6	9.3	9.3	9.3	9.3	7.2	7.2	7.2	7.2	7.2	7.2
Cash costs	US\$/lb		36	36	36	36	36	36	36	36	36	36	36
Operating costs	US\$/lb		40	40	40	40	40	40	40	40	40	40	40
Project NPV 100%	US\$mn	35.3	64.1	65.4	61.7	57.7	53.2	48.4	45.3	42.0	38.3	34.3	29.8
Project NPV @ LT GBP	£ mn	23.5	42.7	43.6	41.1	38.5	35.5	32.2	30.2	28.0	25.5	22.9	19.9
Modelled Insitu resource	Mlbs	14.1											
NPV per pound of resource	US\$ / lb	2.49											
Industry Multiples													
P/sales	1.5	0.0	20.5	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9
EV/EBITDA	4.0	0.0	18.6	37.1	37.1	37.1	37.1	37.1	37.1	37.1	37.1	37.1	37.1
P/earnings	8.0	0.0	30.4	60.8	60.8	60.8	60.8	43.8	43.8	43.8	43.8	43.8	43.8
5yr average US\$m	32.4	0.0	23.1	46.3	46.3	46.3	46.3	40.6	40.6	40.6	40.6	40.6	40.6
Single variable sensitivity +10%													
Ta2O5 price US\$/lb	14.6	Key assumptions base case											
Grade ppm	12.4	LT Ta2O5 price US\$/lb			55	Discount rate %			10%	Ore processed ktpa			2,000
Recovery %	15.5	Cash Cost / US\$ / lb			36	Head Grade g/t			225	Annual production klb			496
		Capex US\$m			23	LT GBP USD rate			1.50	Plant recovery %			50%
NPV (£ mn) @ Ta2O5 price (US\$/lb)													
		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80	
	40%	-25.5	-17.9	-10.3	-2.8	4.8	11.2	17.0	22.3	28.7	34.0	38.7	
	45%	-16.0	-7.5	1.0	8.8	15.8	22.2	28.7	34.7	40.2	47.0	51.6	
vs Recovery (%)	50%	-6.6	2.9	11.2	18.7	25.5	32.4	38.7	46.2	51.6	58.8	66.1	
	55%	2.9	11.8	19.8	27.9	35.5	42.5	50.8	56.7	64.7	72.7	80.7	
	60%	11.2	19.8	28.7	37.1	44.7	51.6	60.3	69.0	77.8	86.5	91.0	
		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80	
	175	-27.6	-20.2	-12.9	-5.5	1.9	8.7	14.4	20.0	25.5	30.7	36.7	
	200	-17.1	-8.7	-0.2	7.7	14.4	20.9	27.3	33.3	38.7	45.4	52.1	
vs Grade (ppm)	225	-6.6	2.9	11.2	18.7	25.5	32.4	38.7	46.2	51.6	58.8	66.1	
	250	4.0	12.9	20.9	28.1	36.7	43.7	52.1	58.0	66.1	74.2	82.3	
	275	12.9	21.8	29.8	37.8	47.1	54.0	62.9	71.8	80.7	89.6	94.1	
		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80	
	5%	-3.2	9.9	21.0	30.9	40.1	49.5	58.2	68.4	76.1	86.1	96.0	
	8%	-5.4	5.3	14.6	22.9	30.5	38.3	45.4	53.9	60.0	68.2	76.4	
vs Discount rate (%)	10%	-6.6	2.9	11.2	18.7	25.5	32.4	38.7	46.2	51.6	58.8	66.1	
	12%	-7.5	0.9	8.4	15.2	21.3	27.5	33.1	39.8	44.5	51.0	57.5	
	15%	-8.7	-1.5	5.0	10.9	16.2	21.5	26.2	32.1	36.0	41.6	47.1	
		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80	
	16	2.4	10.7	18.2	25.0	31.9	38.1	45.7	53.3	58.3	65.6	72.9	
	18	-6.6	2.9	11.2	18.7	25.5	32.4	38.7	46.2	51.6	58.8	66.1	
vs Annual OPEX (US\$m)	20	-15.5	-6.0	3.4	11.5	18.7	26.1	32.9	39.2	46.8	52.1	59.4	
	22	-24.4	-15.0	-5.5	4.0	12.0	19.2	26.6	33.5	39.8	47.3	52.7	
	24	-33.3	-23.9	-14.4	-5.0	4.5	12.6	19.7	27.1	34.0	40.3	47.9	

Source: RCM



Exhibit 3: Aggressive cash flow estimate

		2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e
Modelled Resource	kt	28,500	28,500	27,500	25,500	23,500	21,500	19,500	17,500	15,500	13,500	11,500	9,500
ROM ore	kt	0.0	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Head grade	ppm	225	225	225	225	225	225	225	225	225	225	225	225
Recovery	%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Ta2O5 production	klbs	0.0	298	595	595	595	595	595	595	595	595	595	595
Ta2O5 (26%)	US\$/lb	70	70	70	70	70	70	70	70	70	70	70	70
Gross revenue	US\$ mn	0.0	20.8	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7
marketing/commissions	US\$ mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
net revenue	US\$ mn	0.0	20.8	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7
operating cost	US\$ mn	0.0	9.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
depreciation	US\$ mn	0.0	0.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
royalties	US\$ mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
taxable income	US\$ mn	0.0	11.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
tax paid	US\$ mn	0.0	0.0	0.0	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
net profit	US\$ mn	0.0	11.0	22.0	15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8
Capex - expansion	US\$ mn	23.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
free cashflow	US\$ mn	-23.0	11.8	23.7	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5

Cash costs	US\$/lb		30	30	30	30	30	30	30	30	30	30	30
Operating costs	US\$/lb		33	33	33	33	33	33	33	33	33	33	33
Project NPV 100%	US\$mn	110.1	146.4	148.1	136.8	131.3	125.1	118.4	110.9	102.8	93.8	83.9	73.0
Project NPV @ LT GBP	£ mn	73.4	97.6	98.7	91.2	87.5	83.4	78.9	74.0	68.5	62.5	55.9	48.7

Modelled Insitu resource	Mlbs	14.1											
NPV per pound of resource	US\$ / lb	7.79											

Industry Multiples													
P/sales	1.5	0.0	31.3	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5
EV/EBITDA	4.0	0.0	47.3	94.7	94.7	94.7	94.7	94.7	94.7	94.7	94.7	94.7	94.7
P/earnings	8.0	0.0	87.9	175.9	126.6	126.6	126.6	126.6	126.6	126.6	126.6	126.6	126.6
5yr average US\$m	71.1	0.0	55.5	111.0	94.6	94.6	94.6	94.6	94.6	94.6	94.6	94.6	94.6

Single variable sensitivity +10%	US\$mn	Key assumptions base case										
Ta2O5 price US\$/lb	14.6	LT Ta2O5 price US\$/lb	70	Discount rate %	10%	Ore processed ktpa	2,000					
Grade ppm	12.4	Cash Cost / US\$ / lb	30	Head Grade g/t	225	Annual production klb	595					
Recovery %	15.5	Capex US\$m	23	LT GBP USD rate	1.50	Plant recovery %	60%					

NPV (£ mn) @ Ta2O5 price (US\$/lb)		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80
	40%	-25.5	-17.9	-10.3	-2.8	4.8	11.2	17.0	22.3	28.7	34.0	38.7
	45%	-16.0	-7.5	1.0	8.8	15.8	22.2	28.7	34.7	40.2	47.0	51.6
	50%	-6.6	2.9	11.2	18.7	25.5	32.4	38.7	46.2	51.6	58.8	66.1
	55%	2.9	11.8	19.8	27.9	35.5	42.5	50.8	56.7	64.7	72.7	80.7
60%	11.2	19.8	28.7	37.1	44.7	51.6	60.3	69.0	77.8	86.5	91.0	
vs Recovery (%)		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80
	175	-12.9	-4.0	4.8	12.1	18.7	25.5	31.9	37.7	44.7	51.8	56.4
	200	-0.2	9.1	17.0	24.4	31.9	38.7	46.7	52.5	60.3	68.1	75.8
	225	11.2	19.8	28.7	37.1	44.7	51.6	60.3	69.0	77.8	86.5	91.0
	250	20.9	29.8	38.7	48.8	56.4	66.1	75.8	85.6	91.0	100.3	109.6
275	29.8	39.7	50.8	59.3	70.0	80.7	87.2	97.5	107.7	117.9	128.2	
vs Grade (ppm)		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80
	5%	21.0	32.3	44.4	55.8	66.4	76.1	88.1	100.0	111.9	123.9	131.1
	8%	14.6	24.1	34.2	43.5	52.2	60.0	69.8	79.7	89.5	99.4	104.7
	10%	11.2	19.8	28.7	37.1	44.7	51.6	60.3	69.0	77.8	86.5	91.0
	12%	8.4	16.1	24.2	31.7	38.5	44.5	52.3	60.2	68.0	75.8	79.5
15%	5.0	11.7	18.7	25.1	30.9	36.0	42.7	49.4	56.1	62.8	65.6	
vs Discount rate (%)		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80
	16	18.2	26.6	35.0	42.7	51.7	58.3	67.0	75.8	84.5	89.0	97.4
	18	11.2	19.8	28.7	37.1	44.7	51.6	60.3	69.0	77.8	86.5	91.0
	20	3.4	13.2	22.0	29.8	37.7	46.8	53.6	62.3	71.0	79.8	88.5
	22	-5.5	5.9	15.1	23.4	31.9	39.8	48.8	55.6	64.3	73.1	81.8
24	-14.4	-3.1	8.0	16.9	25.5	34.0	41.8	50.9	57.6	66.3	75.1	
vs Annual OPEX (US\$m)		\$40	\$44	\$48	\$52	\$56	\$60	\$64	\$68	\$72	\$76	\$80
	16	18.2	26.6	35.0	42.7	51.7	58.3	67.0	75.8	84.5	89.0	97.4
	18	11.2	19.8	28.7	37.1	44.7	51.6	60.3	69.0	77.8	86.5	91.0
	20	3.4	13.2	22.0	29.8	37.7	46.8	53.6	62.3	71.0	79.8	88.5
	22	-5.5	5.9	15.1	23.4	31.9	39.8	48.8	55.6	64.3	73.1	81.8
24	-14.4	-3.1	8.0	16.9	25.5	34.0	41.8	50.9	57.6	66.3	75.1	

Source: RCM



Ta₂O₅ Price

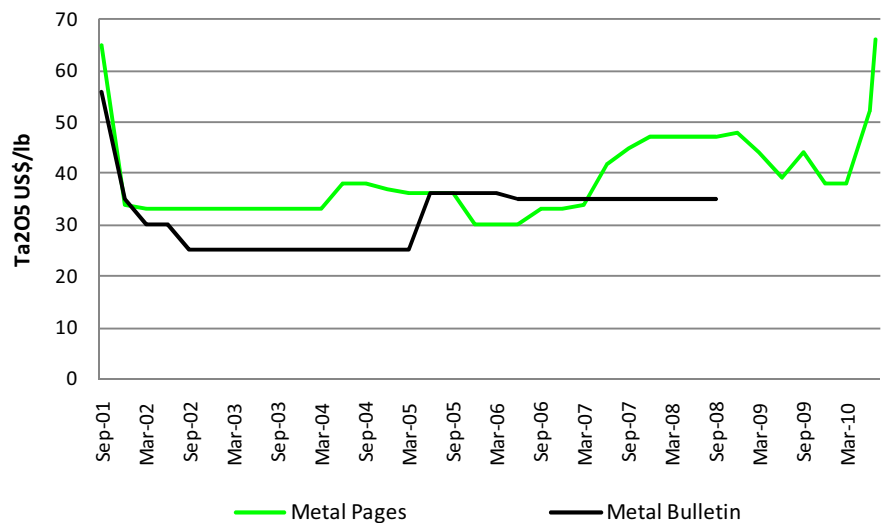
For producers of tantalite it is necessary to engage customers in off take agreements since:

- The tantalite market is small (~ US\$350mn) and too illiquid to justify the setting up of a terminal trading market (i.e. LME) through which spot and forward curves could be generated
- Finding a buyer/seller in a specialised market is difficult

Hence, Ta₂O₅ prices tend to be settled using contracts between buyers (wire & powder manufacturers) and sellers (miners). Currently Noventa has two separate off take agreements but has not disclosed the price nor the identity of the buyers to protect the commercial confidentiality of the agreements. We have assumed that as part of Noventa’s strategic outlook, key customers have been supportive of the stated expansion plans and have agreed to take on the bulk of future production under contract.

Noventa’s guidance with respect to prices in previous off take agreements in 2009 were in the mid US\$50’s /lb at a time when the spot market was between US\$35 – 40/lb. We note since the guidance was provided, spot tantalite prices (as reported by Metal Pages (<http://www.metal-pages.com/metalprices/>) have risen 65% to US\$66/lb. We are thus confident that contractual prices have at least been maintained in the mid US\$50’s/lb, if not closer to US\$60/lb. We note that industrial metals consultants Roskill suggested US\$70/lb would be a sustainable price once global demand recovers.

Exhibit 4: Tantalite spot prices 30% basis



Source: Metals Bulletin Metals Pages

We also note that the primary source of publically available spot price information was published weekly in the Metals Bulletin up until October 2008. The price series was discontinued due, we suspect, to the closure of Talison’s Greenbush’s operation, as it formed the basis of the spot market at that time. Since then, the only publically available spot pricing for tantalite is published by Metal Pages, a UK based information provider in minor metals. Exhibit 4 shows a comparison of prices between the two series whilst they were being reported together.

Given that achievable tantalite prices should be at least US\$55/lb we note that a 10% increase to US\$60/lb would lift the project value by £8.9mn. The following table shows the impact of an incremental US\$10/lb change in the tantalite price on the project NPV in £mn and forecast sustainable EBITDA in US\$mn.



Exhibit 5: Impact of contract price change

Price (US\$/lb)	Conservative	Conservative	Aggressive	Aggressive
	NPV £mn	EBITDA US\$ mn	NPV £mn	EBITDA US\$ mn
40	-6.6	1.8	11.2	5.8
50	14.9	6.8	32.4	11.8
60	32.4	11.8	51.6	17.7
70	50.0	16.7	73.4	23.7
80	66.1	21.7	91.0	29.6

Source: RCM

In our valuation sensitivities we assume a range between US\$40 – 80/lb (Exhibit 2 & 3). Using our conservative scenario, break even for the investment is US\$47/lb.

Production volumes

Noventa have yet to release a detailed mine plan however management’s intention to produce >500klbs pa for 15 years is feasible given the following assumptions:

Throughput

We have assumed an average throughput of 2,000ktpa over the life of the project. This allows for 14.5 years of full mine production and will involve mining all known resources. It ignores all exploration over the next 10 years as well as any yet to be discovered extensions to known mineralisation. The capital that needs to be raised will be focussed on scaling up the current plant at Marropino (~1,300ktpa) and ensuring the mining fleet is matched to the higher level of output.

Head grade

We have assumed an average head grade of 225ppm over the life of the project. In 2008, the average head grade measured through Marropino when it was operating was ~220ppm, a 6% discount to in-situ grade. In-situ grades are higher than head grades because they do not account for the effects of waste rock and geological dilution. We note that Marropino will be the first mine to be brought online and hence the early years should be similar to previous experience. Until a more detailed mine plan is provided we will continue to assume this global average grade however we note that from Exhibit 6 Marropino has the lowest grade of all the planned pits and therefore we should expect future head grades to be higher.

Exhibit 6: HAMC Summary of Mineral Resources

Category		Tonnes (Mt)	Ta2O5 grade (ppm)	In-situ Ta2O5 (klbs)
Marropino	Indicated	9.89	228	4,971
	Inferred	1.13	295	735
	Total	11.02	235	5,706
Mutala	Indicated	0	0	0
	Inferred	10.31	236	5,364
	Total	10.31	236	5,364
Morrua	Indicated	4.65	510	5,228
	Inferred	3.12	393	2,703
	Total	7.77	463	7,931
Global	Indicated	14.54	318	10,199
	Inferred	14.56	274	8,802
Global	Total	29.1	296	19,002

Source: Noventa July 2006 note: includes ~300klbs of sold Ta2O5 since 2006.

In our valuation sensitivities we assume a range between 175 – 275ppm (Exhibit 2 & 3). Using a US\$55/lb price, break even for the investment is 195ppm.



Plant recovery

In our conservative case we have assumed a 50% plant recovery for the life of the operation. The existing plant at Marropino was designed for a recovery of 60% but managed at best only 30% due to issues outlined in detail in our previous reports. Noventa has spent considerable time, money and effort over the past 12 months studying the plant recovery problems and feel confident that they can achieve results closer to the optimum design of 60% recovery due to the better understanding gained through studying the liberation properties of the ore body, as well as conducting laboratory testing with independent experts. The final results will be critical as a 10% change in the plant recovery (i.e. from 50 to 55%) adds US\$15mn (£10mn) to the value of the company.

Exhibit 7: Impact of change to plant recovery

Recovery (%)	Conservative	Conservative	Aggressive	Aggressive
	NPV £mn	EBITDA US\$ mn	NPV £mn	EBITDA US\$ mn
40	2.9	3.8	25.5	9.8
45	13.8	6.6	36.8	13.3
50	23.5	9.3	50.0	16.7
55	33.4	12.0	60.7	20.2
60	42.5	14.7	73.4	23.7

Source: RCM

In our valuation sensitivities we assume a range between 40-60% (Exhibit 2 & 3). Using a US\$55/lb price, break even for the investment is a 39% recovery.

Operating costs

From past data we estimate all in operating cash costs of US\$15mn per annum. If we assume that 60% of operating costs are fixed (~US\$9mn) then by increasing the variable component by 53% to account for the scaling up provides us with a total annual operating cost estimate of US\$18mn. Using our conservative case of 50% recovery, grade of 225ppm and throughput of 2,000ktpa, we arrive at an annual operating margin of 34% or cash cost of US\$36/lb. This represents a 20% increase in total operating costs based on the increase in plant capacity (1,300 – 2,000ktpa).

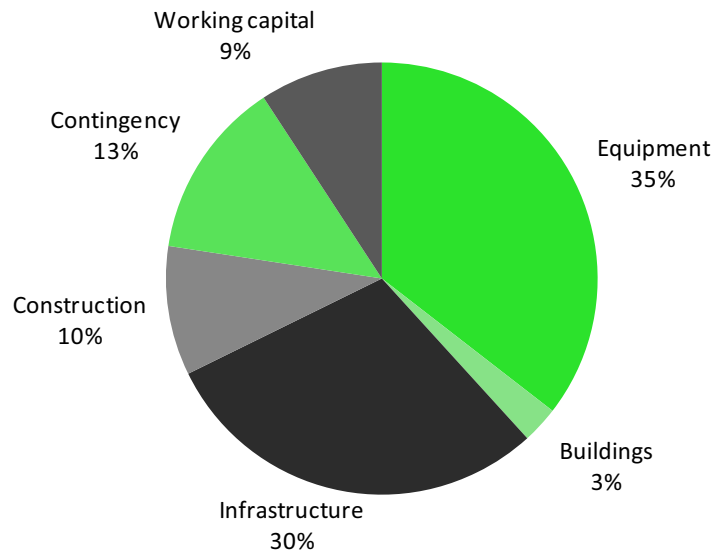
In our valuation scenarios we assume a range between US\$16 – 24mn (Exhibit 2 & 3). Using a US\$55/lb price, break even for the investment is US\$24.5mn in annual operating costs.

Capital costs

In line with the latest strategic plan to exceed 500klbs of annual Ta₂O₅ production, Noventa estimate they need to invest a total of US\$23mn (£15mn). The majority of this will be spent on upgrades to the Marropino plant and associated infrastructure. The capital also includes an element of working capital as well as relocation of a portion of the wet plant once Marropino is exhausted.



Exhibit 8: Allocation of new capital US\$23mn

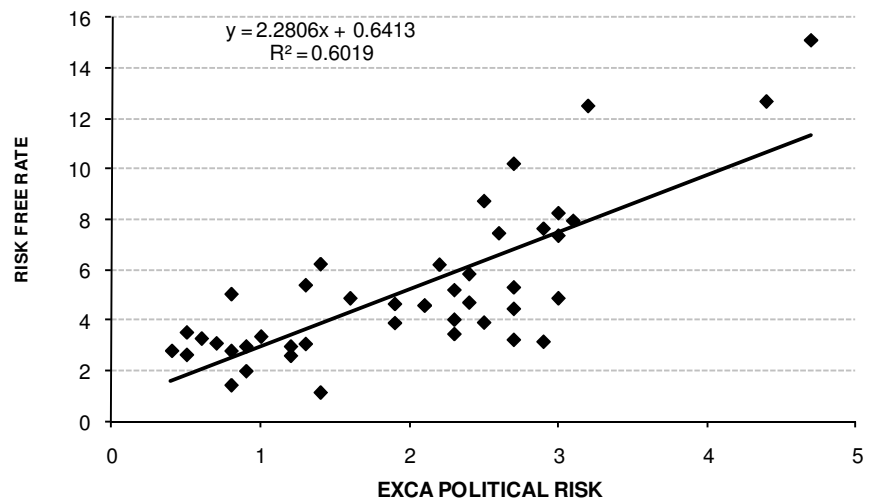


Source: NVTA

Discount rate – base assumption 10%

In calculating an appropriate rate of return we have used the CAPM method. In order to capture the geopolitical risk associated with investing in Mozambique we would normally have based the risk free rate on the 10 year Mozambique Government bond. However, since this instrument does not exist, we have reverted to an implied risk free rate using data from an independent risk consultancy firm Exclusive Analysis (EA). Exhibit 8 shows that a linear relationship exists between EA’s political risk factors and known yields on 10 year government bonds. EA apply a political risk factor of 2.6 to Mozambique which implies a 10 year bond yield of 6.58%. The market risk premium and stock beta has been derived from the London AIM market data to arrive at an equity cost of capital of 12.6%.

Exhibit 9: Geo-political risk vs. 10 year Government Bond YTM %



Source: Bloomberg, EXCA



We believe that over the life of the project the company will borrow in order to improve returns to shareholders. Should this occur we would anticipate industry standard gearing around 30% which would reduce the WACC to approximately 10% on known lending rates (Exhibit 10).

Exhibit 10: WACC

Parameter	Value
Risk free rate (MOZ implied 10Y Gov bond yield)	6.6%
Market risk premium	6.0%
Beta	1.0
Cost of equity	12.6%
Cost of debt, after tax	5.6%
Target D/E ratio	30.0%
WACC	10.0%

Source: RCM

In our valuation sensitivities we assume a WACC range between 5 – 15% (Exhibit 2 & 3). Using US\$55/lb price, the internal rate of return of the project is 33%.

Industry multiples

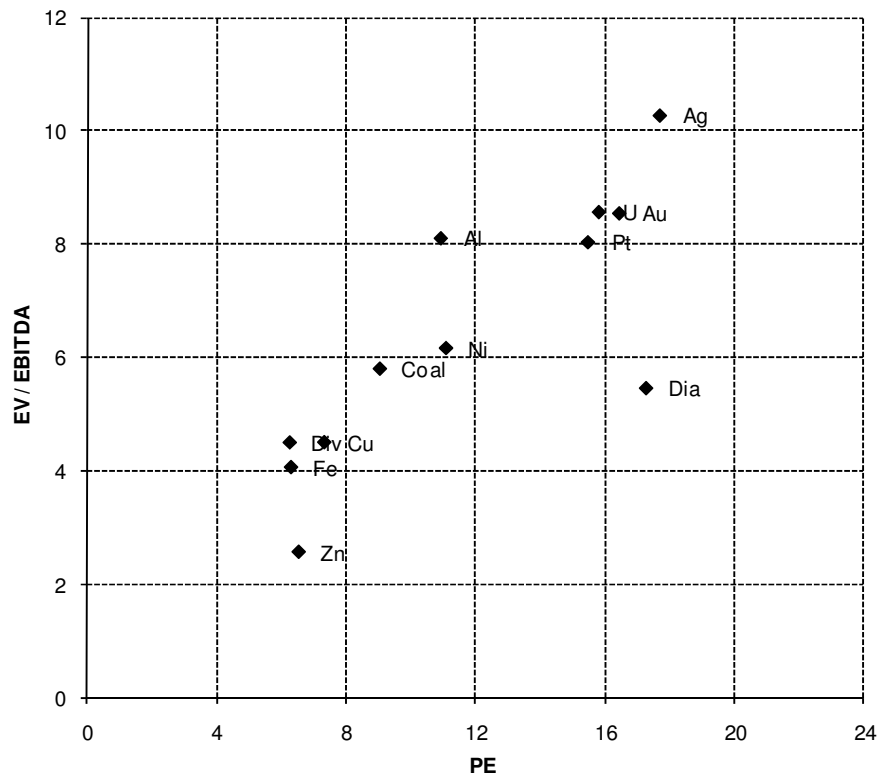
In previous notes we have tried to compare Noventa to other tantalum producers which have proved difficult as there are no pure play tantalum producers that are listed. With Marropino in commissioning the mine is only one of two known ethically certified tantalite mines in the world. The only other mine belongs to the much larger Brazilian conglomerate, (Parapanema SA; PMAM3 BZ; R5.13; not covered), making it difficult to be used as a useful comparison.

Exhibit 11 shows the current 12 month forward EV/EBITDA and PE multiples for various sectors in the metals and mining industry. Tantalum as a speciality metal has no obvious peer but as a rule we would expect it to be valued in line with demand for other industrial metals such as copper given its main role in electrical applications.

Current market conditions are weak with many mining companies trading on quite low multiples. However, in our experience EV/EBITDA multiples in the range of 4 – 6x and earnings multiples in the range of 8 – 12x are the norm. As a base we have chosen to use EV/EBITDA of 4x and a PE of 8x for this exercise but this would be expected to improve in line with a recovery in the global economy.



Exhibit 7: Current industry multiples



Source: Bloomberg median 12M fwd consensus as July 2010

Risks

Funding raise & mix

- The key risk at this stage is first obtaining the required US\$23mn followed by the structure of the deal (i.e. debt / equity split). Until the funding decision becomes clear it is not possible to estimate values per share.

Estimates of mineral reserves & resources

- It is important to note that due to the complex nature of the tantalum ore bodies, it was not possible at this time to classify proven reserves or measured resources, and that this implies a higher level of uncertainty related to estimates contained in the reported resource statement.

Commodity & currency risk

- Noventa receives revenues in US Dollars but its costs are denominated in a mix of US Dollar, South African Rand and Mozambique Metical. Noventa does not have a policy to hedge foreign currency exposure.
- Historically, domestic rates of inflation in Mozambique have been high (IMF forecast future inflation in the range of 5.6% pa). High domestic inflation rates will tend to put upward pressure on locally denominated operating costs such as labour and without similar currency depreciation against the US dollar will tend to have a negative impact on profit margins.



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Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between -5% and 15%
Sell	Less than -5%

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