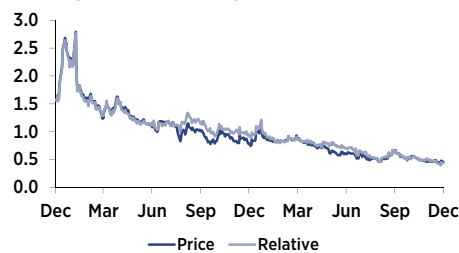


Ortac Resources (AIM:OTC)3,5,F

BUY

Share price	0.4p		
Target price	5.5p		
1096% Upside			
Market cap (£m)	10.7		
Net cash (£m)	6.4		
Enterprise value^ (£m)	4.3		
No. of shares (m)	2,315.7		
Free float (%)	93.0		
Average daily vol ('000, -3m)	4,863		
Dividend yield (%)	0.0		
PER at Target price (Y1)	(85.0)		
Sector PER	14.4		
Price/book	0.6		
12 month high/low (p)	1/0		
(%)	1m	3m	12m
Absolute	-2.1	-28.1	-47.7
FTA relative	-6.1	-28.2	-51.7

Price & price relative (-2yr)



Source: Datastream

Share price as at close: 20 December 12

Next news

Ongoing exploration/appraisal results

Business

Precious metal exploration & development in Central Europe

www.ortacresources.com

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Christmas cracker

In its interim results published this week, Ortac confirmed that it remains on track to complete the Pre-Feasibility Study on its Sturec gold project in Slovakia next quarter; that it has more than sufficient funds to complete a subsequent Bankable study; the property's mining licence is in good standing and that the company remains fully engaged with the local community regarding project development. Based on this position we fail to understand the stock's downward movement and believe a strong investment opportunity exists.

New Year's resolutions

While the news flow has been relatively light from Ortac in recent months, considerable work has been underway and the results should start to come through in the New Year. The Pre-Feasibility Study on Sturec, which is expected before the end of 1Q13, should see the project's economics further clarified and also allow the company to advance its permit applications. Ortac is fully funded through to the point of decision to mine at Sturec and continues to engage with all stakeholders to design an operation which can bring long term benefits to the surrounding district. At the interim stage the company reported a loss of £0.79m (0.003p/s) and a cash position of £6.7m as of 30 September. We estimate cash stands at £6.2m today (0.27p/share).

Golden gift

We recently raised our gold price forecast by up to 21.7% during CY2013-16 with our long term price assumption (from 2017 onwards) now set at US\$1,250/oz (+22.5%). As the table overleaf shows, this still leaves our forecast looking conservative against the recent Bloomberg average, but our focus remains on 'stress testing' future production under tougher price environments as opposed to relying on rising metal prices to support projects. However, we continue to believe that the risk lies on the upside for the gold price given the inflationary/currency crisis we are forecasting (see SP's December 2012 Thunder Road report, 'Inflationary Deflation: creating a new bubble in money').

Stocking filler

Applying our new gold price forecast to Sturec's 86kozpa gold equivalent production profile as outlined in the Scoping Study, lifts our NPV by 38% to 5.3p/ share. The company's current cash position takes the overall valuation to 5.5p, 13x today's price.

3,4,5 Please see regulatory disclosure notes at the end of this document

F Forecast change

A draft of this research has been shown to the company following which minor factual amendments have been made.

Year end	Revenue	EBIT*	PBT*	Tax	Adj. EPS*	PER	EV/EBIT*	Div yield
March	(£m)	(£m)	(£m)	(%)	(p)	(x)	(x)	(%)
2011A	0.0	(2.1)	(1.7)	0.0	(0.1)	n/a	n/a	0.0
2012A	0.0	(1.8)	(2.2)	0.0	(0.1)	n/a	n/a	0.0
2013E	0.0	(1.5)	(1.5)	0.0	(0.1)	n/a	n/a	0.0
2014E	0.0	(1.5)	(1.4)	0.0	(0.1)	n/a	n/a	0.0
2015E	50.0	21.1	15.4	0.0	0.7	0.7	0.2	0.0

* excludes exceptional items and amortisation of acquired intangibles. ^ EV calculation adjusted for core cash, investments etc.

Source: Seymour Pierce Ltd

Golden glow

Following another decent performance from gold in the year to date (+6.4%), we recently moved our gold price forecast up by between 9.7% and 21.7% during 2013-16 with our long term price assumption (from 2017 onwards) set at US\$1,250/oz (+22.5%).

Gold price assumptions (Changes since March 2012)

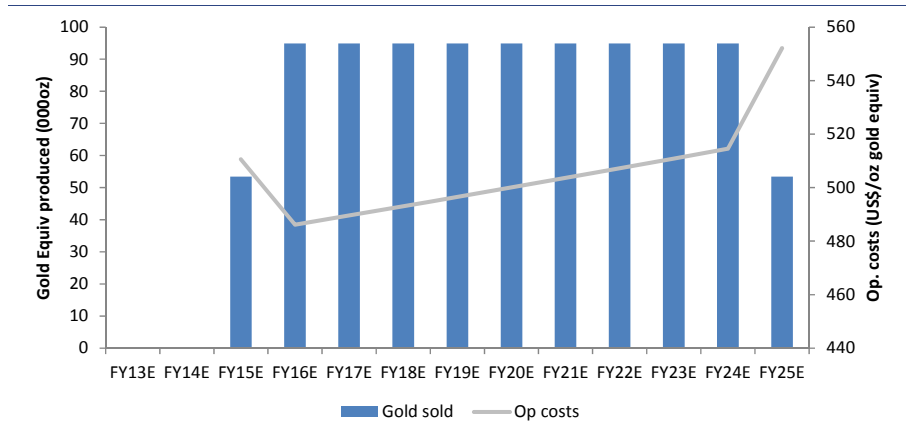
US\$/oz	2011A	2012E	2013E	2014E	2015E	2016E	2017E
Bloomberg (Dec year end)		1,682	1,829	1,817	1,591	n/a	n/a
Seymour Pierce (Dec year end)	1,571	1,700	1,700	1,550	1,400	1,325	1,250
% change	0.0%	0.0%	+9.7%	+14.8%	+21.7%	+12.4%	+22.5%
Seymour Pierce (Mar year end)	1,313	1,604	1,700	1,663	1,513	1,381	1,306
% change	0.0%	0.0%	+2.2%	+10.9%	+16.3%	+24.1%	+30.0%

Source: Seymour Pierce Ltd & Bloomberg

Risk/Reward

Our valuation of Ortac assumes that the company’s wholly own Sturec project is developed into a 2Mtpa operation from late 2014 giving annual average production of 86koz gold equivalent during an 11 year life.

Sturec production profile (assumes cost inflation at 4% pa)



Source: Seymour Pierce Ltd & compnay

Our previous 12-month target price drew on our NPV calculation at US\$1,200/oz gold, matching the Scoping Study’s base case assumption (3.8p/share) and the company’s then net cash position of c. £8m (0.4p/share). Re-running the model with the gold price projection outlined above lifts our NPV by 38% to 5.3p/share with the company’s current cash position (c.£6.2m) taking our overall valuation to 5.6p/share, which we round down to 5.5p.

At some 13x the current price level, Ortac looks severely undervalued, trading at just 8.0% of NPV with the market apparently unwilling to place any meaningful value on the company’s assets beyond its cash reserves and investments. As a result Ortac is trading on an ‘EV/Adjusted gold oz equivalent’¹ of US\$3.0/oz vs. the average for our European pre-production universe at US\$43/oz. We struggle to understand the scale of this discount, but we assume that the market believes that the project can’t be developed. We disagree. From an operating perspective, the project is relatively modest in scale and does not appear to pose any significant mining or mineral treatment challenges, requiring only orthodox equipment and processing techniques. Furthermore, at c.£100m in total we view the capital requirement as manageable and an achievable level for Ortac. For reference, if the company was to raise £25m as the

¹ Adjusted oz = 100% Measured +75% Indicated +50% Indicated resource

equity contribution for the initial capital requirement at recent prices (resulting in 7,998m in issue) our target price would adjust to 1.5p/share, still 3.4x current levels.

We also consider that there is a reasonable probability that the project should receive the permissions required for development. In a country facing up to the long term effects of the Eurozone debt crisis and unemployment rates around 14% we believe that the c.230 direct job created by the project and the potential tax and royalty streams (SP est. €99m) should provide strong incentives for the authorities. However, mine development remains a sensitive issue and hence Ortac is, very appropriately, pursuing a strategy which would see the Sturec project provide the foundation for economic growth beyond the mine in the neighbouring Kremnica town and the local district.

Ortac Resources NPV (8% discount rate)

Pricing Scenario (long term gold price)	US\$m	£m	p/share*
Scoping study base case price (US\$1,200/oz)	140.3	87.1	3.8
SP forecast (US\$1,250/oz)	193.5	121.7	5.3
Spot price (US\$1,710/oz)	367.0	230.8	10.0

*based on current shares in issue

Source: Seymour Pierce & company

While the company can offer no guarantees on the mine's permitting, the successful completion of work programmes to date and the company's ongoing engagement with all stakeholders should provide some confidence. Confirmation of the good standing of the Kremnica mining licence in the interim results and the recent renewal of the adjacent Lutilla exploration licence should also be taken as positive in our view. Hence, if the heavy discounting of the stock relative to its peers does relate to this issue, we believe it is unjustified.

Financial model

Income Statement

Year end March (£m)	2011A	2012A	2013E	2014E	2015E
Group revenue	0.0	0.0	0.0	0.0	50.0
Cost of sales	0.0	0.0	0.0	0.0	(18.7)
Gross profit	0.0	0.0	0.0	0.0	31.4
Total operating expenses	(2.1)	(1.8)	(1.5)	(1.5)	(10.2)
EBIT	(2.1)	(1.8)	(1.5)	(1.5)	21.1
Net interest/financial income/(cost)	0.5	(0.4)	0.0	0.0	(5.7)
Associate and Other non-op. income/(cost)	0.0	0.0	0.0	0.0	0.0
PBT	(1.1)	(2.8)	(1.5)	(1.4)	15.4
Tax	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Earnings	(1.1)	(2.8)	(1.5)	(1.4)	15.4
EBITDA	(2.0)	(1.8)	(1.5)	(1.4)	29.5
Adjusted EBITDA*	(2.0)	(1.8)	(1.5)	(1.4)	29.5
Adjusted EBIT*	(2.1)	(1.8)	(1.5)	(1.5)	21.1
Adjusted PBT*	(1.7)	(2.2)	(1.5)	(1.4)	15.4
Adjusted earnings*	(1.7)	(2.2)	(1.5)	(1.4)	15.4
DPS (p)	0.0	0.0	0.0	0.0	0.0
EPS (p)	(0.1)	(0.1)	(0.1)	(0.1)	0.7
EPS [F. Dil.] (p)	(0.1)	(0.1)	(0.1)	(0.1)	0.6
EPS [Adj.]* (p)	(0.1)	(0.1)	(0.1)	(0.1)	0.7
EPS [Adj. F. Dil.]* (p)	(0.1)	(0.1)	(0.1)	(0.1)	0.6
Weighted average no. shares (m)	1,413.5	2,315.7	2,315.7	2,315.7	2,315.7
Fully dil. w. ave. no. shares (m)	1,594.8	2,492.0	2,552.0	2,552.0	2,552.0
Year end no. shares (m)	2,315.7	2,315.7	2,315.7	2,315.7	2,315.7

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

Cashflow Statement

Year end March (£m)	2011A	2012A	2013E	2014E	2015E
Operating income	(2.1)	(1.8)	(1.5)	(1.5)	21.1
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Amortisation of other intangibles	0.0	0.0	0.0	0.0	0.0
Depreciation	0.2	0.0	0.0	0.0	8.4
Net change in working capital	0.1	(0.2)	0.0	0.0	(3.8)
Other	0.9	0.3	0.0	0.0	0.0
Operating cash flow	(1.0)	(1.6)	(1.5)	(1.4)	25.7
Capital expenditure	0.0	0.0	0.0	(92.2)	(2.3)
Investment in Other intangibles	(0.3)	(1.4)	(3.5)	(1.8)	(1.8)
Net interest/financial income/(cost)	0.0	0.1	0.0	0.0	(5.7)
Tax paid	0.0	0.0	0.0	0.0	0.0
Net acqns./disposals	1.0	(0.1)	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow before financing	(0.3)	(3.0)	(5.0)	(95.4)	15.9
Proceeds from shares issued	10.8	0.0	0.0	25.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net movement in cash/(debt)	10.5	(3.0)	(5.0)	(70.4)	15.9
Opening net cash/(debt)	0.0	10.6	7.7	2.7	(67.7)
Adjustments (Forex, etc.)	(0.0)	0.1	0.0	0.0	0.0
Closing net cash/(debt)	10.6	7.7	2.7	(67.7)	(51.8)

Source: Company data, Seymour Pierce Ltd

Balance Sheet

Year end March (£m)	2011A	2012A	2013E	2014E	2015E
Property plant and equipment	0.3	0.3	0.3	92.5	86.4
Goodwill and Acquired intangibles	0.0	0.0	0.0	0.0	0.0
Other intangibles	9.7	10.0	13.5	15.3	17.1
Other fixed assets	0.0	0.0	0.0	0.0	0.0
Non current assets	10.0	10.3	13.8	107.8	103.5
Stocks & WIP	0.0	0.0	0.0	0.0	4.3
Trade receivables	0.1	0.1	0.1	0.1	4.2
Cash	10.6	7.7	2.7	3.5	5.2
Other current assets	0.7	0.3	0.3	0.3	0.3
Current assets	11.3	8.1	3.2	4.0	14.0
Total assets	21.3	18.5	17.0	111.8	117.4
Trade creditors	(0.3)	(0.2)	(0.2)	(0.2)	(4.7)
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Long term borrowings	0.0	0.0	0.0	(71.2)	(57.0)
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	(0.3)	(0.2)	(0.2)	(71.4)	(61.6)
Net assets	21.0	18.3	16.8	40.4	55.8
Issued share capital	0.0	0.0	0.0	0.0	0.0
Share premium account	30.0	30.0	30.0	55.0	55.0
Retained earnings	(11.6)	(13.5)	(15.0)	(16.4)	(1.0)
Other reserves	2.6	1.8	1.8	1.8	1.8
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	21.0	18.3	16.8	40.4	55.8

Source: Company data, Seymour Pierce Ltd

Key Ratios

Year end March	2011A	2012A	2013E	2014E	2015E
Revenue growth (%)	n/a	n/a	n/a	n/a	n/a
Adj. EBITDA* growth (%)	n/a	n/a	n/a	n/a	n/a
Adj. EBIT* growth (%)	n/a	n/a	n/a	n/a	n/a
Gross margin (%)	n/a	n/a	n/a	n/a	62.7
Adj. EBITDA* margin (%)	n/a	n/a	n/a	n/a	59.1
Adj. EBIT* margin (%)	n/a	n/a	n/a	n/a	42.2
Gearing (%)	n/a	n/a	n/a	167.7	92.7
Interest cover (x)	n/a	n/a	n/a	n/a	3.7
Net debt/Adj. EBITDA* (x)	n/a	n/a	n/a	n/a	n/a
Dividend cover (x)	n/a	n/a	n/a	n/a	n/a
ROE (%)	0.0	0.0	0.0	0.0	27.7
ROIC (%)	0.0	0.0	0.0	0.0	14.6
ROCE (%)	0.0	0.0	0.0	0.0	37.9
Operating cash conversion (%)	49.2	91.8	100.0	100.0	87.0
Net cash conversion (%)	28.5	106.2	331.5	6,613.4	103.1
Net working cap / revenue (%)	0.0	0.0	0.0	0.0	18.6
Cap Ex / revenue (%)	n/a	n/a	n/a	n/a	4.5

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

Valuation Metrics

Year end March	2011A	2012A	2013E	2014E	2015E
PER (x)	n/a	n/a	n/a	n/a	0.7
EV / Revenue [^] (x)	n/a	n/a	n/a	n/a	0.1
EV / Adj. EBITDA ^{^*} (x)	n/a	n/a	n/a	n/a	0.1
EV / Adj. EBIT ^{^^} (x)	n/a	n/a	n/a	n/a	0.2
EV / IC [^] (x)	0.2	0.2	0.3	0.1	0.1
EV / Taxed Adj. EBIT ^{^^} (x)	n/a	n/a	n/a	n/a	0.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
P / CFPS (x)	n/a	n/a	n/a	n/a	0.7
NAV per share (p)	0.9	0.8	0.7	1.7	2.4

* excludes exceptional items and amortisation of acquired intangibles.

[^] EV calculation adjusted for core cash, investments etc.

Source: Company data, Seymour Pierce Ltd

Target Price & Recommendation History



Source: Datastream, Seymour Pierce Ltd

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Rating	Definition
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Add	Absolute return expected to be between 5% and 10%
Hold	Absolute return expected to be between -5% and +5%
Reduce	Absolute return expected to be between -5% and -10%
Sell	Absolute return expected to be less than -10%

As from 25 October 2010 the nomenclature of our recommendation was changed. Prior to that time Add recommendations were described as Outperform and Reduce recommendations were described as Underperform.

As at 30 September 2012 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	57.4%	59.5%
Add	5.4%	14.3%
Hold	26.4%	0.0%
Reduce	1.7%	0.0%
Sell	2.3%	0.0%
None	7.0%	88.9%

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