

# AMBRIAN

**Metals Exploration - Resource Upgrade - Increase underpins the economics of the Runruno deposit** Buy

<b>Metals Exploration</b> (AIM:MTL)	<b>Mkt Cap:</b> £23.1m	<b>Price:</b> 25p	<b>BUY</b>
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## Resource Upgrade - Increase underpins the economics of the Runruno deposit

**Metals Exploration** has announced a 90% increase in indicated resource — from 409,000oz to 775,000oz gold — at its Runruno gold deposit in the Philippines, with an associated 6% increase in grade from 2.27 g/t to 2.41 g/t. The total gold resource has increased by 49,000oz. The full resource now stands at 27Mt @ 2.41 g/t gold and 0.062% molybdenum for 2.1Moz gold and 36.7Mlbs on molybdenum.

Following from the resource upgrade in November 2007, this increase is based on additional drilling from November and December last year, as well as samples awaiting assay at the time of the last upgrade.

### Comment

This increase further underpins the economics of the Runruno deposit. Once full feasibility studies are complete, indicated resources typically convert to probable reserves, ie, ounces that are to be mined.

In our view, the size and grade of the resource is definitely economic from a top-down perspective. The challenge for the company now is to define the economic parameters on mining (metallurgy, tailings, production rates, etc). As such, the next major price driver will be the release of a scoping study on the deposit. To this end, late last year the company recruited heavyweight Ian Holzberger to complete the scoping study.

It is early days yet for this junior, but looking at AIM-listed peers there is clear upside in Metals Exploration as management moves the asset toward production. In Indonesia, Archipelago Resources\* aims to take its 1.75Moz Toka Tindung deposit into production at 170,000oz pa, which we value at around £125m once permitting is achieved. In Papua New Guinea, Allied Gold, with a current market cap of £121m, has recently commenced production at its 0.8Moz Simberi project at 84,000oz pa. In Indonesia, Medusa Mining, with a market cap of £91.3m, is producing at under 20,000oz pa as it ramps up production to 60,000oz pa at its 0.7Moz Co-O mine.

Looking at these peers, it is immediately obvious that Runruno — with its larger resource and potential for molybdenum recovery — could achieve a higher valuation. Looking at a potential timeframe of mid-year for the scoping study release, mid-2009 for full BFS release, and 2011 for commencing production, should the project have a value in line with peers of £125m investors would be looking at a return of over 100% a year for three years assuming some equity dilution.

For this reason we maintain our **BUY** recommendation on Metals Exploration, which remains one of the cheapest +1Moz gold plays

## Focus

Company	Price	Rec.
Afren (AFR)	123p	Buy
Leyshon Resources (LRL)	28p	Buy
MP Evans (MPE)	476p	Buy
Nighthawk Energy (HAWK)	61p	Buy
Zenergy (ZEN)	264p	Buy

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on the market in terms of Market Cap per Resource Ounce, at around US\$22/oz excluding molybdenum. We expect share price growth to come from progress on the project as well as development at the recently-acquired Waigeo Island nickel laterite resource in Indonesia.

- Brock Salier

**Recommendation - Buy**

[www.metalexploration.com](http://www.metalexploration.com)

## Commodity Prices

Commodity	Price	Change		
		1 Month	6 Months	12 Months
<b>Energy</b>	/			
WTI	\$102.45/bbl	15.2%	38.4%	66.2%
Brent	\$100.62/bbl	10.7%	35.4%	63.2%
WTI/Brent spread	\$1.92/bbl	-	-	-
<b>Metals</b>	/			
Gold	\$982/oz	8.8%	44.1%	52.9%
Silver	\$20/oz	21.2%	65.2%	57.6%
Platinum	\$2246/oz	24.9%	76.2%	87.0%
Palladium	\$581/oz	35.9%	74.2%	68.2%
Nickel	\$33050/tonne	22.0%	15.2%	-19.6%
Zinc	\$2800/tonne	13.4%	-5.1%	-15.7%
Copper	\$8555/tonne	17.8%	17.0%	42.1%
Aluminium	\$3125/tonne	17.3%	27.5%	13.7%
Tin	\$18975/tonne	12.3%	24.1%	43.8%
Lead	\$3430/tonne	22.3%	14.4%	84.9%
Molybdenum	\$34/lb	1.6%	5.1%	25.0%
<b>Soft commodities</b>	/			
Palm oil	\$1,250.00/tonne	31.9%	62.3%	101.6%
Soy oil	€1,087.00/tonne	23.2%	59.4%	100.6%
Corn (Denver)	\$5.38/bushel	13.3%	58.5%	30.1%
Sugar	¢16.70/lb	16.1%	44.7%	34.2%
<b>Emissions</b>	/			
ECX Emissions 2008	€20.35 /tonne	6.0%	-2.7%	37.0%
ECX Emissions 2009	€21.40 /tonne	8.8%	5.1%	39.0%

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