

Buy

Price 6.0p
Sector Mining

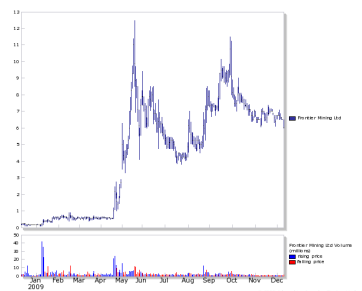
Stock Data

Main Listing	AIM
Secondary Listing	N/A
Ticker	FML
52-Week Range	12.49p-0.09p
No of shares	509.796m
Fully diluted	939.1m
Mkt Cap (£m)	£30.6m
Fiscal Year End	Dec
Average Daily Volume	2.6m
Free Float (%)	30%
Broker/Nomad	Libertas Partners LLP

Financial Statistics

Net Debt (\$000)	\$9,600
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Share Price



Source: Interactive Investor

Company Summary

Frontier Mining Ltd is an early stage mining company with a number of Kazakstani assets. They hold 50% of KazCopper LLP, a joint venture with Colville Intercorp Ltd that is developing the large low grade Benkala copper project. Gold production has just started from their 100% owned Naimanjal mine and the company is readying their Koskuduk gold project for first production. They have a number of other precious and base metal exploration projects also in Kazakhstan.

Analyst

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Please see analyst certification and important disclosures at the end of this report.

Frontier Mining Ltd (FML)

Good progress at Benkala, overburden stripping in 2010

Frontier's pre-close operational update is encouraging, with good progress at Benkala and a change in strategy for gold production. We raise our revenue forecast, and now project breakeven in 2010. We were previously expecting a US\$5m loss for 2010. There is the potential for noticeable profits in 2011.

Event

The company's update focused on initial work to bring the Benkala copper mine on stream, confirmed that the Colville convertible loan had been repaid, and set out plans to bring on stream the Koskuduk gold mine following the orderly winding down at Naimanjal.

Key Points

- **Progress at Benkala** – Oxide zone infill drilling is due for completion in February 2010. Preliminary data is said to be encouraging and the company is on track to issue a revised Joint Ore Reserves Committee (JORC) compliant resource statement in the second quarter of 2010. Power supply to the site has been connected, a 70 person camp has been constructed and a permit has been received from the local authority to pre-strip 3 million cubic metres of overburden. The joint venture company has acquired US\$3.5m of mining equipment for the project, while further plant purchases are anticipated. Overall the project is set to come on stream in 2011 at modest capital cost. 7,000 tonnes of copper is forecast to be produced in that year.
- **Change in gold mining strategy** – It has become evident that production from their Naimanjal gold mine is not going to be as profitable as expected. As such mining has temporarily ceased; but the processing of existing mined and stacked ore will continue in 2010. 1,500 oz of gold is expected from this source in 2010. The successful opening of their Koskuduk gold project has become the priority; 10,000 oz of gold is forecast by the company to be produced from Koskuduk during 2010. The Naimanjal mining fleet has already transferred, while construction and connection of the power supply, production plant, leach pads and the removal of overburden are underway.
- **2010 forecast increased**–The company's revised plans give us more confidence in our revenue forecasts for 2010. We are now looking for revenues of US\$9m (was \$4m), and with unchanged cost of sales, the company may swing into modest profits in 2010. With the possibility of first production from Benkala in 2011, we could see further margin expansion.

Performance

Year End Dec (\$000)	2008A	1H2008A	1H2009A	2009E	2010E
Revenues	-	-	-	2,600	9,000
Earnings before tax	-5,015	-1,420	-1,905	-3,900	0
Net Income	-5,320	-1,420	-1,905	-3,900	0
Diluted EPS	NM	NM	NM	NM	NM
DPS	NM	NM	NM	NM	NM
P/E (x)	NM	NM	NM	NM	NM

Source: Libertas Partners Estimates and Company Data

Strengths

- The Benkala resource is very large. The March 2007 Competent Person's Report estimated that at a 10% discount rate and a US\$1.50 per pound (/lb) copper price Benkala's Net Present Value amounted to almost US\$500m. A resource upgrade is expected before the end of Q2 2010. The current copper price is over US\$3/lb.
- Modest gold production from Naimanjal.
- Company has been successfully refinanced; the repayment of the Colville loan was the only outstanding issue. Furthermore much of this repayment has been retained within the Benkala joint venture. The company has not fully drawn down borrowings under their financing arrangement and have not yet issued shares from their standby facility.
- Other prospective exploration projects in Kazakhstan.

Weaknesses

- Kazakhstan's political situation might deteriorate. The change of plans at Naimanjal and the company's request to defer the commercial license program might not be appreciated.
- Modest financial returns in the short term. Naimanjal has not met short term production targets, and is being scaled back.
- The credit crisis has made the financing of large capital cost projects very difficult. Even the scaled down project at Benkala may be difficult to finance in the equity market.
- The company has ambitious targets to commence production from Benkala in 2011; any delays will be disappointing.

Financial Statements

Year-End Dec (US\$000)	2008A	1H08A	1H09A	2009E	2010E
Income Statement					
Revenues	-	-	-	2,600	9,000
Cost of Sales	-	-	-	-3,000	-5,000
Gross Profit	-	-	-	-400	4,000
Selling, general and administrative expenses	-4,519	-1,463	-1,187	-2,500	-3,000
Exploration write off	-	-	-	-	-
Operating loss/profit	4,519	1,463	1,187	-2,900	1,000
Net interest Income	-276	-	-611	-1,000	-1,000
Other expenses	-24	38	24	-	-
Foreign exchange loss	-211	6	-131	-	-
Loss before tax	-5,015	-1,420	-1,905	-3,900	0
Taxation	-304	-	--	-	-
Loss for the period	-5,320	-1,420	-1,905	-3,900	0
Balance Sheet					
Exploration assets	25,796	35,125	26,003	26,003	26,003
Mine development costs	16,406	6,242	17,066	18,000	23,000
Property , plant & equipment	4,650	6,838	4,739	5,000	9,000
Other assets	58	990	-	-	-
Deferred tax	808	1,112	842	850	900
Total non-current assets	47,717	50,307	48,651	49,003	58,903
Inventories	264	599	574	600	600
Receivables	236	266	580	600	700
Cash	15	383	30	630	730
Current assets	515	1,248	1,184	1,830	2,030
Payables	-1,245	-184	-1,699	-1,700	-1,700
Short term debt	-7,130	-7,130	-2,209	-209	-209
Other current liabilities	-5,122	-5,604	-4,963	-4,900	-4,900
Current liabilities	-13,496	-12,918	-8,872	-6,809	-6,809
Long term debt	-2,096	-2,113	-6,029	-9,997	-10,000
Site restoration provision	-699	-624	-699	-700	-700
Due to Kazakh Government	-649	-708	-648	-650	-650
Due to US Trade & Development Agency	-340	-340	-340	-340	-340
Deferred Tax	-182	-182	-182	-182	-182
Total non-current liabilities	-3,967	-3,968	-7,890	-11,869	-11,872
Total liabilities	-17,463	-16,886	-16,762	-17,678	-17,681
Net assets	30,769	34,668	33,063	32,155	42,252
Cash Flow					
Loss/profit	-5,320	-1,420	-1,905	-3,900	0
Non cash flow adjustments	1,686	86	739	1,000	1,500
Change in inventory	105	-176	-311	336	-
Change in receivables	-53	-48	-443	-364	100
Change in payables	1,127	67	455	455	-
Change in other current liabilities	1,920	2,378	-158	-222	-
Change in exploration assets	-1,331	-2,905	-207	-207	-
Change in mine development assets	-1,810	-221	-660	-1,594	-9,000
Change in other investing activities	1,446	192	37	37	-
Share issues	-	-	4,200	4,200	7,500
Net change in borrowings	--	-	-2,318	980	-
Change in cash	-2,230	-2,097	146	721	100
Foreign exchange change	-229	5	-131	-91	0
Closing cash	15	383	30	630	730

Source: Company Data & Libertas Partners Estimates

Important disclosures:

Libertas Capital Corporate Finance acts as a nominated advisor to this company.

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Libertas Partners LLP Recommendation Structure

Buy: Total return expected to appreciate 10% or more over a 12month period.

Neutral: Total return expected to be between +10% and -10% over a 12month period.

Sell: Total return expected to depreciate 10% or more over a 12month period.

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