QMines Ltd (QML)

Rating: Buy | Risk: High | Price Target: $0.72

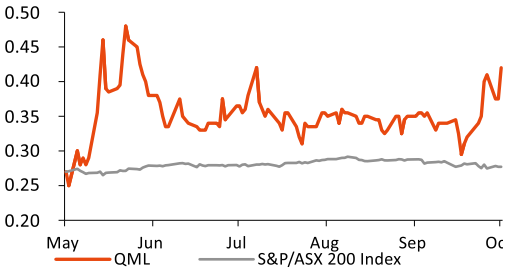
Exploration success at Mount Chalmers – on track for resource upgrade in late CY21

Key Information	
Current Price ($ps)	0.42
12m Target Price ($ps)	0.72
Target Price Upside (%)	71.5%
TSR (%)	71.5%
Reporting Currency	AUD
Market Cap ($m)	47
Sector	Materials
ASX 200 Weight (%)	0%

Fundamentals				
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales ($m)	0	0	0	0
NPAT ($m)	(2)	(2)	(2)	(2)
EPS (cps)	(2.9)	(1.7)	(1.6)	(1.3)
EPS Growth (%)	n/a	39.7%	10.0%	17.2%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios				
YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(13.1)	(24.3)	(27.1)	(32.7)
EV/EBITDA (x)	(29.5)	(23.4)	(22.9)	(23.4)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance				
YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	23.7%	23.8%	15.3%	n/a
Absolute (%)	20.0%	20.0%	15.1%	n/a
Benchmark (%)	(3.7%)	(3.8%)	(0.2%)	21.6%



Price performance indexed to 100 *Source: FactSet*

Major Shareholders	
Andrew Sparke	33.6%
James Andeson	12.6%
Daniel Lanskey	7.4%
Elissa Hansen	2.1%

Event

Qmines has released results from its drilling program at the Mount Chalmers copper project in Queensland. The company has encountered high grade mineralisation outside the existing Resource and looks on track to announce a resource upgrade before the end of CY21. The recent intercepts appear higher grade in zinc and lead than the existing resource, which is positive, but may add complexity to the ultimate development plans.

Highlights

- QMines holds a 100% interest in the Mount Chalmers project, located approximately 17km north-east of Rockhampton in Queensland. It is a historic copper/gold mine that operated sporadically between 1898 and 1982. Historical production totalled 1.24Mt @2.0% Cu, 3.6g/t Au and 19g/t Ag. The mine had both underground and open pit operations, with 810kt produced from open pit and 430kt from underground operations.
- Mount Chalmers currently has an inferred resource of 3.9Mt @ 1.15% Cu, 0.81g/t Au and 8.4g/t Ag for 71kt of contained copper equivalent. QMines has an objective of increasing the resource to around 200kt of copper equivalent over the next two years through a 30,000m drilling program.
- The company has today announced the results of 35 holes totalling 3,498m of drilling. The 30,000m drilling program is ongoing with two rigs active. High grades have been intersected in multiple drill holes including;
    - 41.51 g/t Au and 7.16% Cu from hole MCDD017,
    - 17.4 g/t Au and 5.13% Cu from hole MCDD018,
    - 2.45 g/t Au and 11.65% Cu from hole MCDD015, and
    - 7.2g/t Au, 224g/t Ag, 6.18% Pb and 33.9% Zn from hole MCRC001.
- The mineralisation has been encountered outside the existing resource which remains open in all directions. Qmines has drilled several of these holes in previously untested area on the western side of the main pit. These results are highly encouraging and suggest QMines is on-track for a resource upgrade before the end of CY21 as planned.
- Mt Chalmers is a Volcanic Hosted Massive Sulphide (VHMS) deposit. These deposits are typically characterised by multiple deposits within a cluster. QMines technical team believe there is strong potential of finding further VHMS mineralisation around the existing mine site.
- The exploration program has three main components; increasing the size of the existing Mount Chalmers main resource, drilling near mine exploration targets, and discovering additional VHMS deposits in the region.
- QMines is exploring for additional mineralisation near the existing Mount Chalmers open pit, particularly along strike and down-dip of the existing resource. The company has advanced exploration targets at Woods Shaft, Botos and Mt Warminster.
- QMines has reworked and digitised historical soil sampling in the region and has identified four strong exploration leads at Striker, and at three locations to the west of Mount Chalmers (T1, T2 and T3).

Recommendation

We recently initiated coverage on QMines (QML:ASX) with a Buy recommendation and 69cps price target which we today increase to 72cps. Our price target is set based on an EV/resource multiple benchmarked against a range of copper exploration peers. We assume QMines successfully increases the resource to 120kt of contained copper and we use a A$589/t multiple which is in-line with the peer average.

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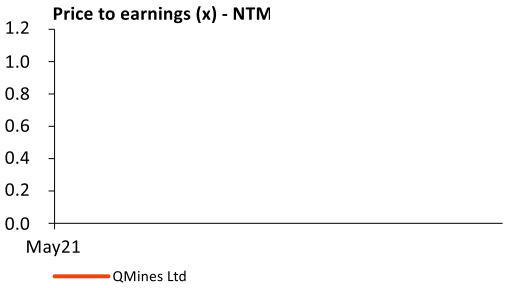
QMines Ltd
Materials
Materials
FactSet: QML-AU / Bloomberg: QML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.42
Target Price ($ps)	0.72
52 Week Range ($ps)	-
Shares on Issue (m)	111
Market Cap ($m)	47
Enterprise Value ($m)	47
TSR (%)	71.5%

Company Description

QMines Minerals is a copper exploration company, which is focussed on the Mount Chalmers project in Queensland. Muont Chalmers is a previously mined copper project with regional exploration upside.



Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	**n/a**	**(2.9)**	**(1.7)**	**(1.6)**	**(1.3)**
EPS (Underlying) (cps)	**n/a**	**(2.9)**	**(1.7)**	**(1.6)**	**(1.3)**
EPS (Underlying) Growth (%)	n/a	n/a	39.7%	10.0%	17.2%
PE (Underlying) (x)	**n/a**	**(13.1)**	**(24.3)**	**(27.1)**	**(32.7)**
EV / EBIT (x)	**nm**	**(29.5)**	**(23.4)**	**(22.9)**	**(23.4)**
EV / EBITDA (x)	**nm**	**(29.5)**	**(23.4)**	**(22.9)**	**(23.4)**
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	n/a	0.0%	0.0%	0.0%	0.0%

Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	0
Other Operating Income	0	0	0	0	0
EBITDA	**0**	**(2)**	**(2)**	**(2)**	**(2)**
EBITDA Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Depreciation & Amortisation	0	0	0	0	0
EBIT	**0.0**	**(1.6)**	**(2.0)**	**(2.0)**	**(2.0)**
EBIT Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Net Interest	0	0	0	0	0
Pretax Profit	0	(2)	(2)	(2)	(2)
Tax	0	0	0	0	0
Tax Rate (%)	*nm*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
NPAT Underlying	**0**	**(2)**	**(2)**	**(2)**	**(2)**
Significant Items	0	0	0	0	0
NPAT Reported	**0**	**(2)**	**(2)**	**(2)**	**(2)**

Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	0	(2)	(2)	(2)	(2)
Payments to Suppliers	0	(3)	(2)	(2)	(2)
Receipts from Customers	0	0	0	0	0
Tax Paid	0	0	0	0	0
Change in Working Capital	0	0	(0)	0	0
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	0	0	0
Operating Cashflow	**0**	**(3)**	**(2)**	**(2)**	**(2)**
Capex	0	(1)	0	0	0
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	**0**	**(1)**	**0**	**0**	**0**
Equity Raised / Bought Back	0	13	0	10	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0
Other	0	0	0	0	0
Financing Cashflow	**0**	**13**	**0**	**10**	**0**
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	**0**	**9**	**(2)**	**8**	**(2)**

Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	0	9	7	15	13
Accounts Receivable	0	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	0	5	5	5	5
Total Assets	**0**	**14**	**12**	**20**	**18**
Accounts Payable	0	0	0	0	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	0	0
Total Liabilities	**0**	**0**	**0**	**0**	**0**

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	n/a	(22.6%)	(14.6%)	(12.2%)	(9.6%)
Gearing (%)	nm	(181.0%)	(127.5%)	(277.9%)	(243.2%)
Net Debt / EBITDA (x)	nm	5.7	3.4	7.2	6.5

QMines

QMines IPO'd on the ASX on May 6th, raising $11.55m at $0.30ps to fund exploration at its flagship Mount Chalmers copper project in Queensland.

QMines holds a 100% interest in the Mount Chalmers project, located east of Rockhampton in Queensland. The Mount Chalmers copper and gold mine produced 1.24 Mt @ 2.0% Cu, 3.6g/t Au and 19g/t Ag during periodic mining between 1898 and 1982.

Mount Chalmers currently has an inferred resource of 3.9Mt @ 1.15% CU, 0.81g/t Au and 8.4g/t Ag for 71kt of contained copper equivalent.

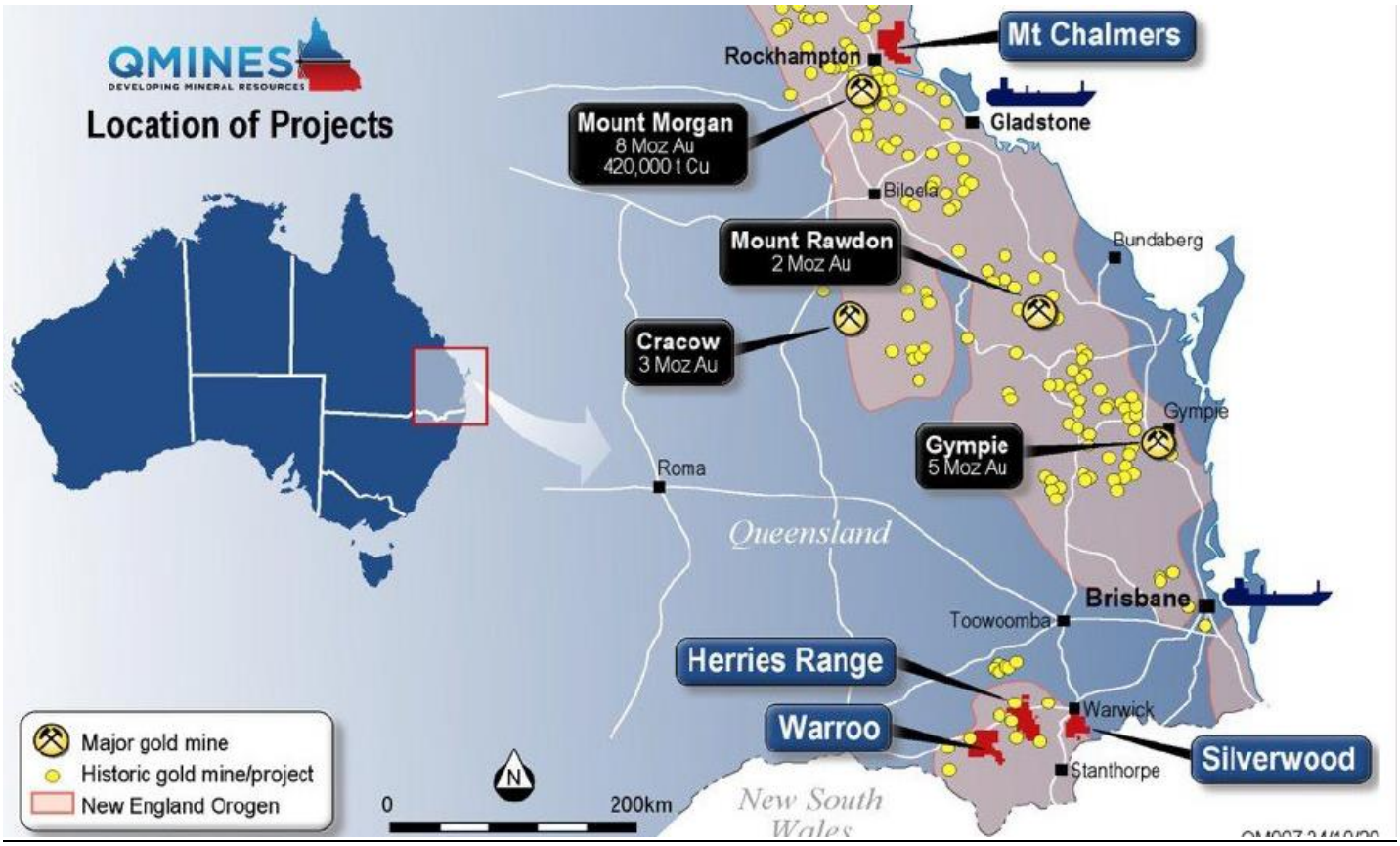
Mt Chalmers is a Volcanic Hosted Massive Sulphide (VHMS) deposit. These deposits are typically characterised by multiple deposits within a cluster. QMines technical team believe there is strong potential of finding further VHMS mineralisation around the existing mine site.

The Company also holds a 100% interest in the Silverwood, Warroo and Herries Range projects located south west of Brisbane in Queensland. These projects are at an earlier stage than Mount Chalmers.

Exploration has commenced at Mount Chalmers, with the company recently completing an 11 hole 1,575m diamond drilling program. The results were highly encouraging and were well received by the market.

The copper price is currently trading at US$9,091/t and so the IPO of QMines appears well timed. There are very few ways for investors on the ASX to gain exposure to copper outside of the major diversified miners and larger companies such Oz Minerals and Sandfire.

Figure 1: QMines project locations



Source: QMines presentation

Mount Chalmers Copper Project

Mount Chalmers is located approximately 17km north-east of Rockhampton in Queensland. It is a historic copper/gold mine that operated sporadically between 1898 and 1982. Historical production totalled 1.24Mt @2.0% Cu, 3.6g/t Au and 19g/t Ag. The mine had both underground and open pit operations, with 810kt produced from open pit and 430kt from underground operations.

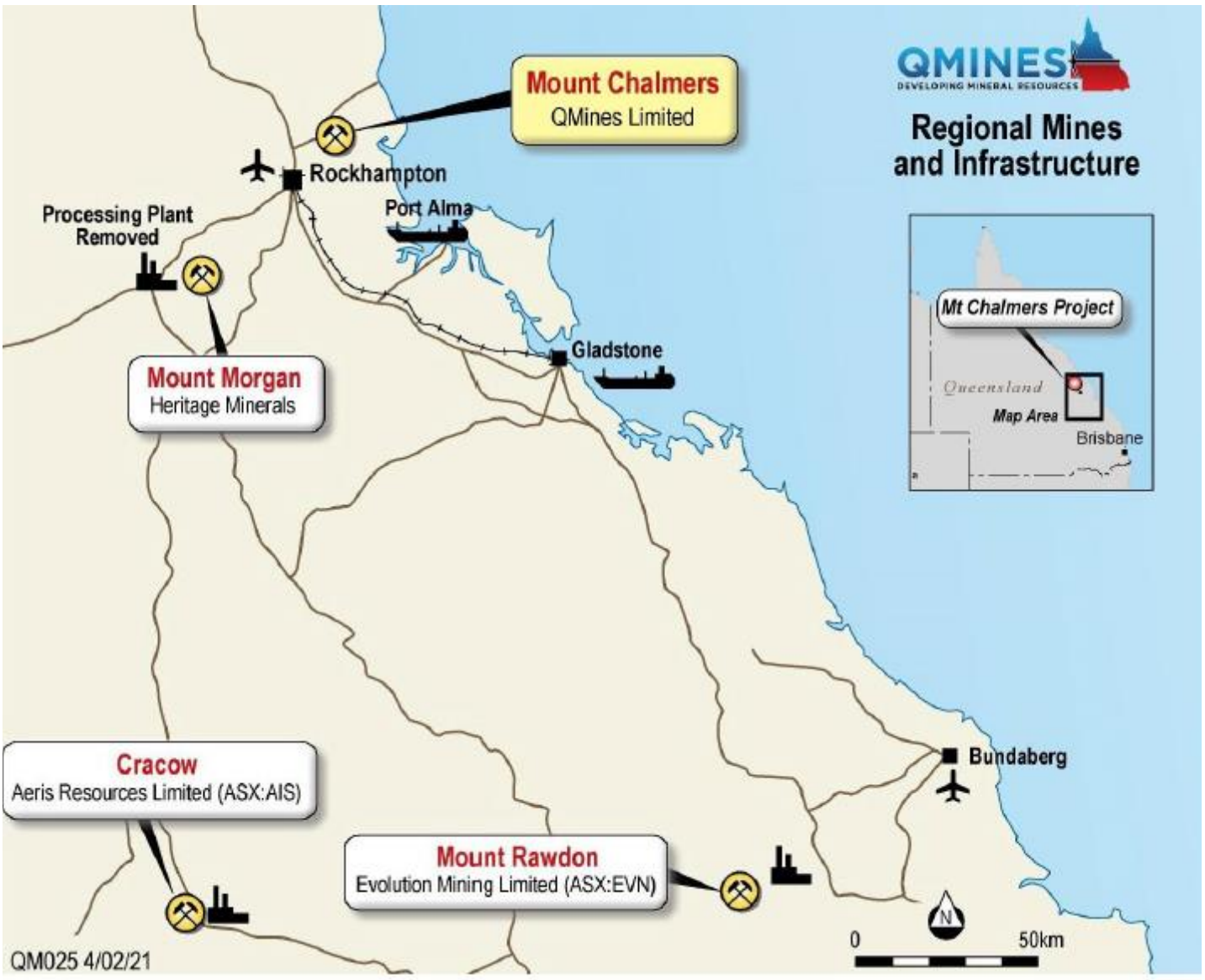
The mine was last operated by Mount Morgan between 1979 and 1982 before closing because of low commodity prices.

The deposit is a volcanic hosted massive sulphide deposit (VHMS) and the system contains copper, gold, silver, lead and zinc mineralisation. The mineralisation is near surface and open in all directions.

Mount Chalmers currently has an inferred resource of 3.9Mt @ 1.15% CU, 0.81g/t Au and 8.4g/t Ag for 71kt of contained copper equivalent. QMines has an objective of increasing the resource to around 200kt of copper equivalent over the next two years through a 30,000m drilling program.

QMines is intending to rapidly expand and upgrade the existing Mount Chalmers resource and return the mine to production.

Figure 2: Mount Chalmers project location



Source: QMines presentation

Drilling update October 2021

The company has today announced the results of 35 holes totalling 3,498m of drilling. The 30,000m drilling program is ongoing with two rigs active. High grades have been intersected in multiple drill holes from including;

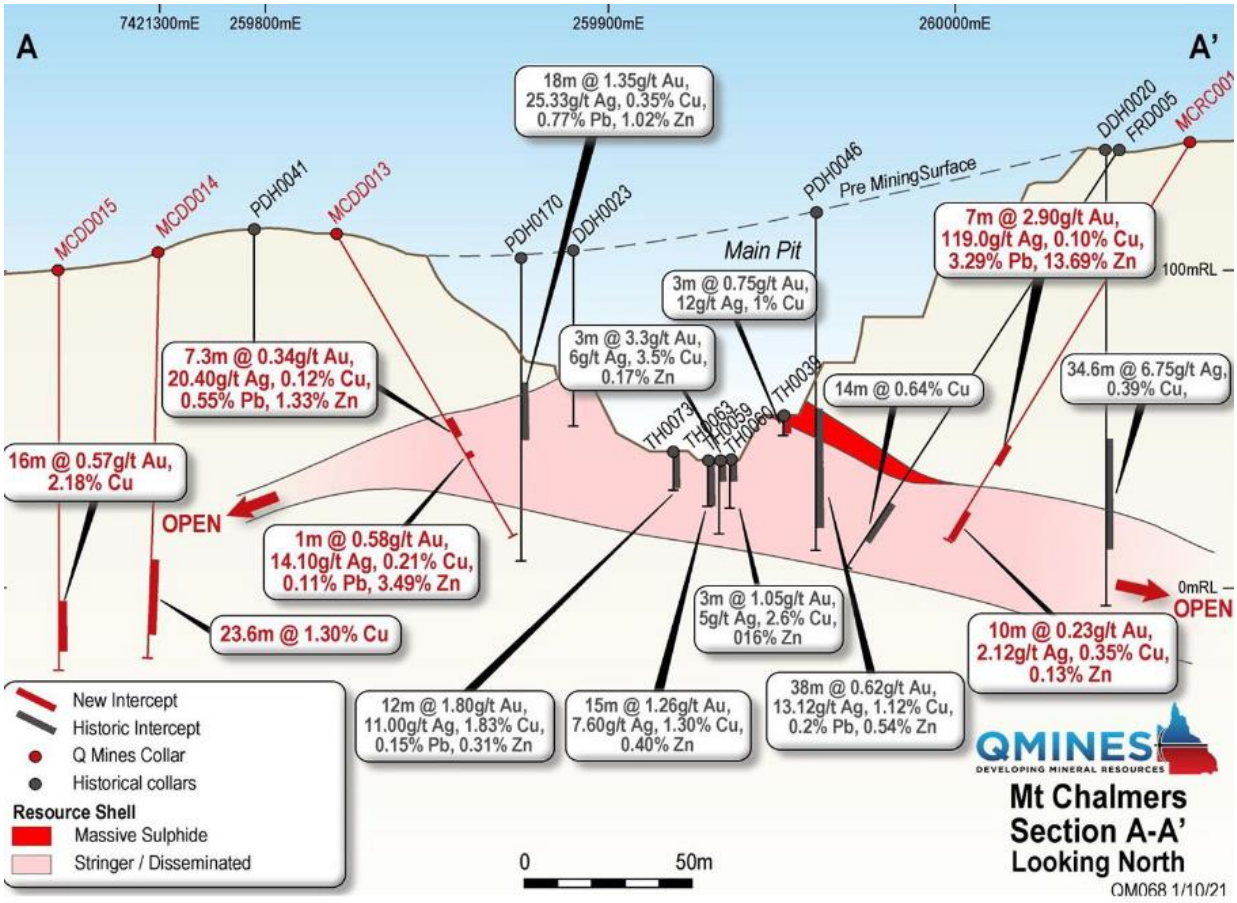
- 41.51 g/t Au and 7.16% Cu from hole MCDD017,
- 17.4 g/t Au and 5.13% Cu from hole MCDD018,
- 2.45 g/t Au and 11.65% Cu from hole MCDD015, and
- 7.2g/t Au, 224g/t Ag, 6.18% Pb and 33.9% Zn from hole MCRC001.

The mineralisation has been encountered outside the existing resource which remains open in all directions. Qmines has drilled several of these holes in previously untested area on the western side of the main pit. These results are highly encouraging and suggest QMines is on-track for a resource upgrade before the end of CY21 as planned.

Figure 3: Mount Chalmers drill hole locations and cross section locations

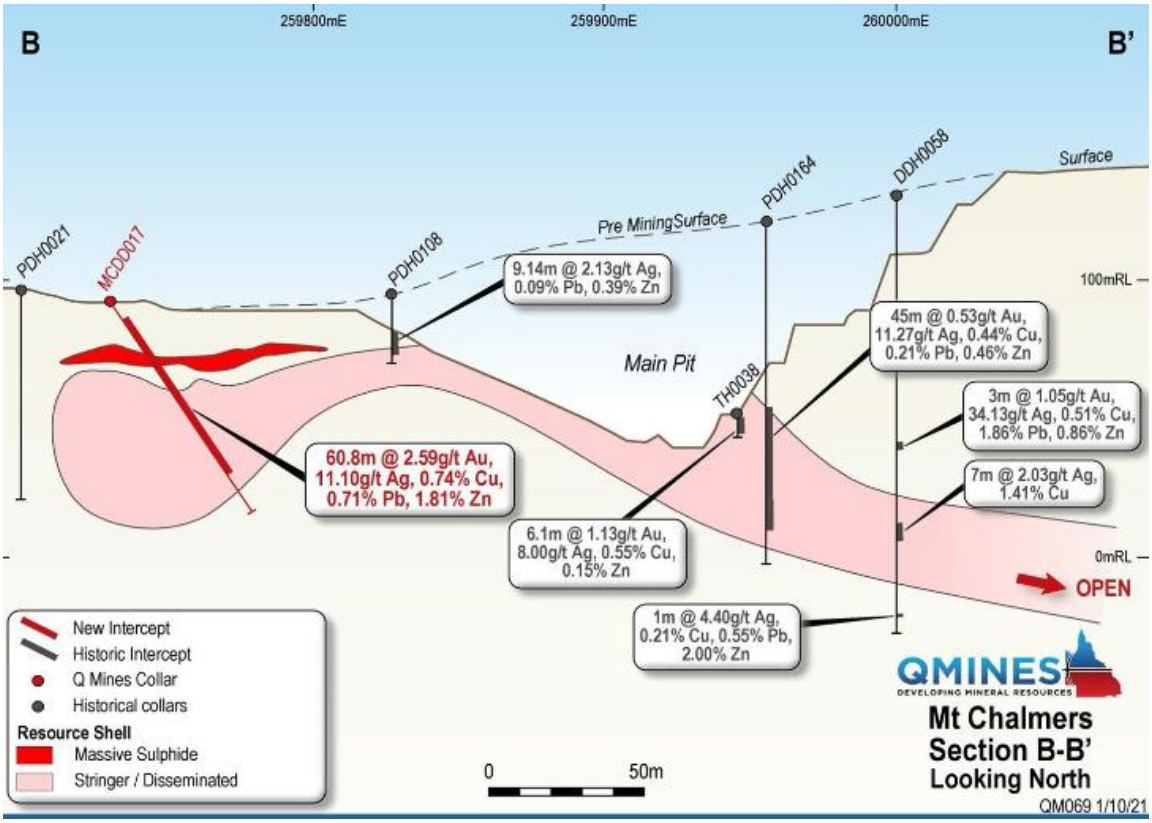
Source: QMines ASX Release Oct 6th 2021

Figure 4: Cross Section A-A



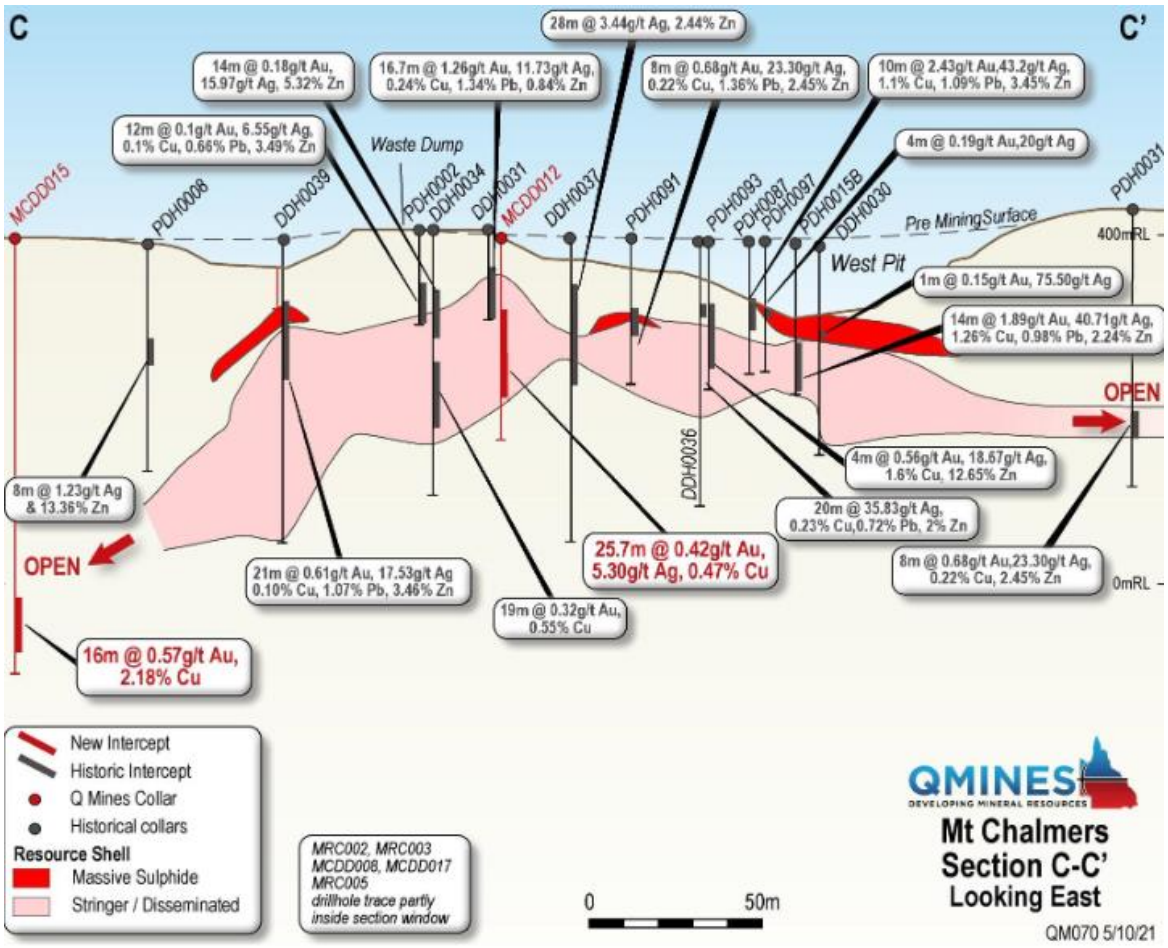
Source: QMines ASX Release Oct 6th 2021

Figure 5: Cross Section B-B



Source: QMines ASX Release Oct 6th 2021

Figure 6: Cross Section C-C



Source: QMines ASX Release Oct 6th 2021

QMines has reworked and digitised historical soil sampling in the region and has identified four strong exploration leads at Striker, and at three locations to the west of Mount Chalmers (T1, T2 and T3).

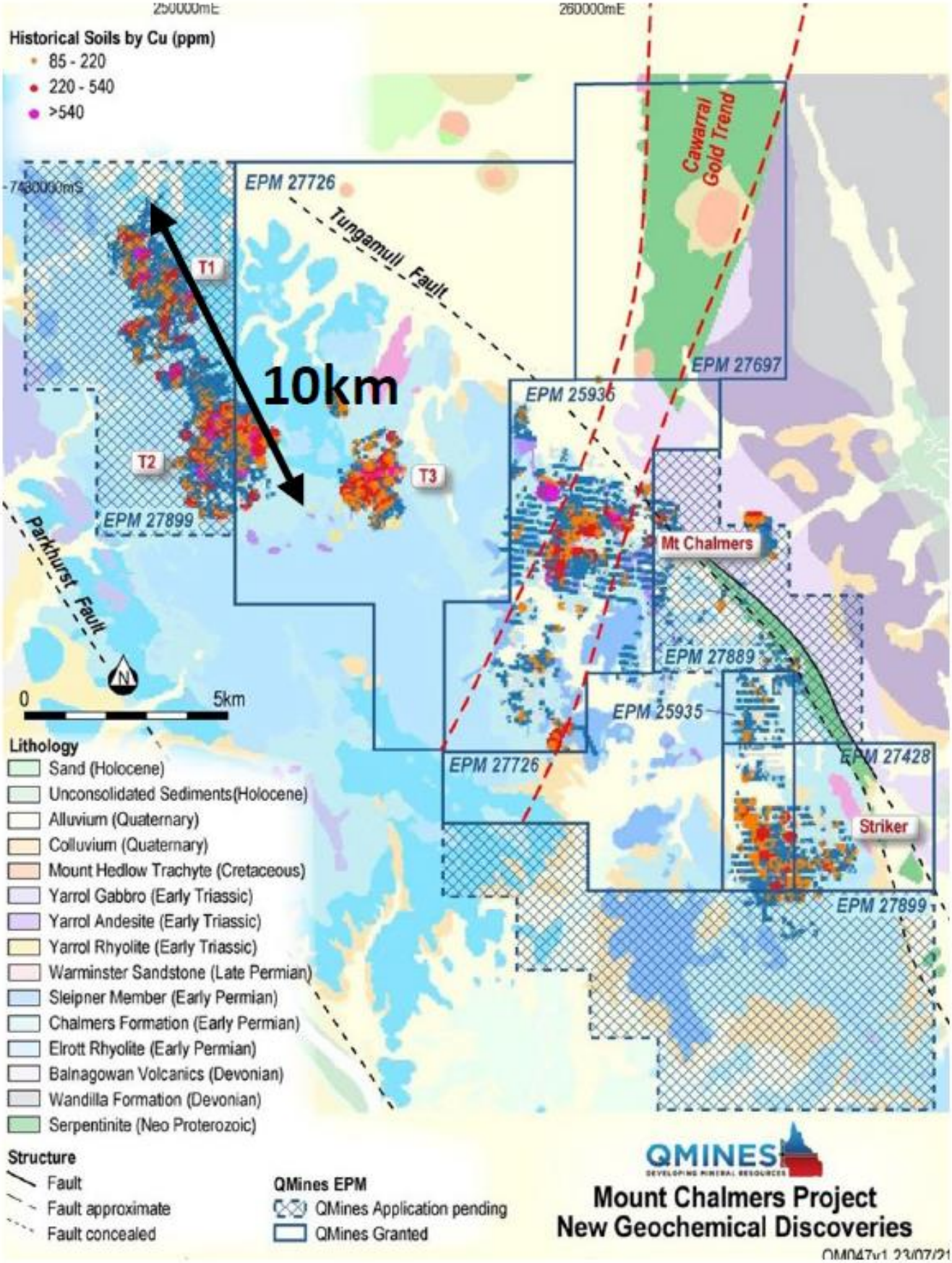
QMines is also intending to explore for additional mineralisation near the existing Mount Chalmers open pit, particularly along strike and down-dip of the existing resource. The company has advanced exploration targets at Woods Shaft, Botos and Mt Warminster.

Figure 7: Mount Chalmers exploration targets

PROJECT	PROSPECT	Mt	Au (g/t)	Cu (%)	Zn (%)	CUT OFF
Mt Chalmers	Woods Shaft	1.0 to 1.5	0.6 to 1.0	0.2 to 0.3	n/a	0.5g/t Au
Mt Chalmers	Botos	1.5 to 2.5	0.5 to 0.8	0.1 to 0.2	1.1 to 1.4	0.5g/t Au
Mt Chalmers	Mt Warminster	1.5 to 1.8	n/a	0.1 to 0.2	0.5 to 0.7	1% Zn Eq

Source: QMines Annual Report

Figure 8: Mount Chalmers geology and geochemistry



Source: QMines Annual Report

Valuation and Copper comparables

The following table outlines a number of companies which could be considered 'peers' for QMines. On an EV/t of copper resource basis QMines is trading at $459/t, which is a 22% discount to the peer comparables.

We have set our price target and valuation of QMines at A$0.72ps, which is based on the company successfully increasing its resource to 120kt in the current exploration program and trading at A$589/t in-line with its peer average.

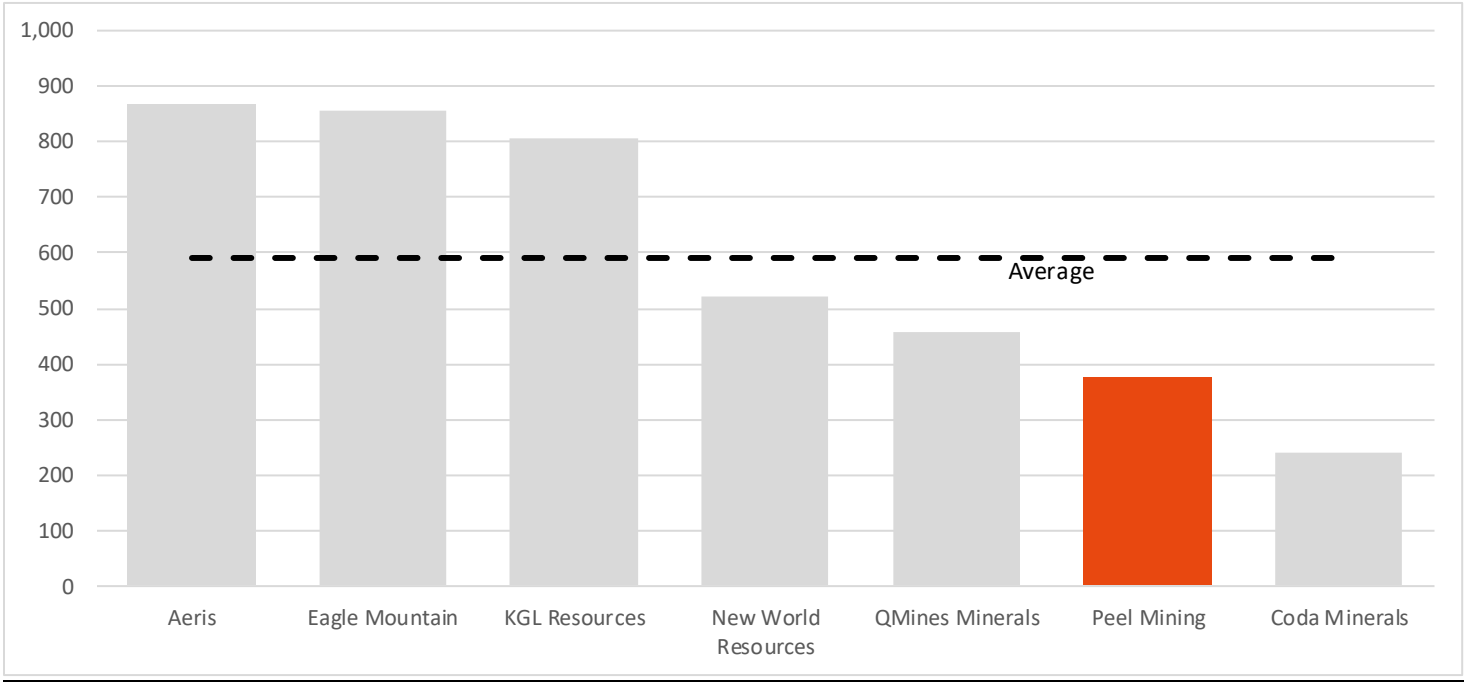
We have not built a financial model of a potential development at Mount Chalmers. Following further exploration success, the company is likely to move to scoping and pre-feasibility studies in late 2022.

Figure 9: Comparable EV/t copper equivalent resource (A$/t).

Copper Developers / Explorers	ASX Code	Cu Equiv Resource (kt)	MKt Cap A$m	Cash A$m	EV/t Resource
Aeris	AIS	302	368	106	868
Eagle Mountain	EM2	184	166	9	855
KGL Resources	KGL	222	204	25	806
New World Resources	NWC	160	106	23	520
QMines Minerals	QML	71	42	9	459
Peel Mining	PEX	222	100	17	377
Coda Minerals	COD	280	89	22	241
Average		**206**	**154**		**589**

Source: Factset, Shaw and Partners analysis

Figure 10: Comparable EV/t copper equivalent resource (A$/t).



Source: Factset, Shaw and Partners analysis

Key risks

- Qmines is predominantly an exploration company and therefore carries significant exploration risk. There is no guarantee that future exploration results will be positive.
- The Mount Chalmers Copper Project is not yet producing and there is a risk that QMines is unable to bring the operation in to production. The project may cost more than expected to build and may not operate as expected.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company then it could delay projects or exacerbate operational risks.
- The copper price is currently trading well above cost curve support and there are risks that if demand for copper does not meet expectations then the copper price could revert to historical averages.

Core drivers and catalyst

- Mount Chalmers currently has an inferred resource of 3.9Mt @ 1.15% CU, 0.81g/t Au and 8.4g/t Ag for 71kt of contained copper equivalent. QMines has an objective of increasing the resource to around 200kt of copper equivalent over the next two years through a 30,000m drilling program.
- Mt Chalmers is a Volcanic Hosted Massive Sulphide (VHMS) deposit. These deposits are typically characterised by multiple deposits within a cluster. QMines technical team believe there is strong potential of finding further VHMS mineralisation around the existing mine site.
- The company is expected to regularly release drilling results over coming months and is expected to release an updated Mount Chalmers resource in late 2021.
- Once the resource has increased to a reasonable size (150-200kt) we expect the company to move to scoping and pre-feasibility studies in late 2022 and into 2023.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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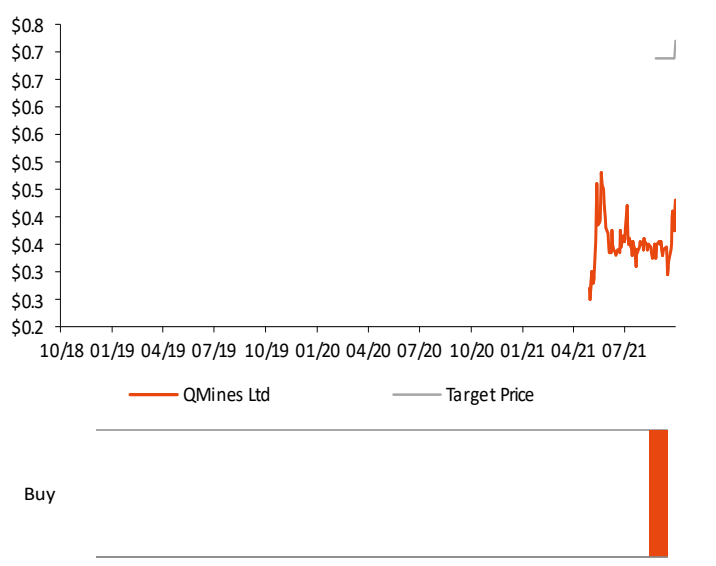
Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	76	83%
Hold	15	16%
Sell	1	1%

History of Investment Rating and Target Price - QMines Ltd

Date	Closing Price ($)	Target Price ($)	Rating
6-Oct-21	0.43	0.72	Buy
1-Sep-21	0.33	0.69	Buy



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