ShawandPartners
Financial Services

QMines Ltd (QML)

Rating: Buy | Risk: High | Price Target: $0.74

Drilling activity at Mt Chalmers ramping up. Early metallurgy results look positive

Key Information	
Current Price ($ps)	0.28
12m Target Price ($ps)	0.74
Target Price Upside (%)	163.1%
TSR (%)	163.1%
Reporting Currency	AUD
Market Cap ($m)	32
Sector	Materials
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

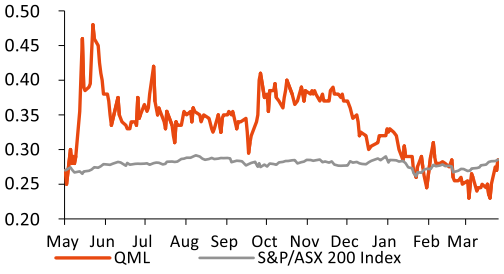
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales ($m)	0	0	0	0
NPAT ($m)	(2)	(2)	(2)	(2)
EPS (cps)	(2.9)	(1.7)	(1.6)	(1.3)
EPS Growth (%)	n/a	39.7%	10.0%	17.2%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(13.1)	(16.2)	(18.0)	(21.8)
EV/EBITDA (x)	(20.1)	(15.9)	(15.6)	(15.9)
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 (%)	5.9%	(3.2%)	(10.2%)	n/a
Absolute (%)	11.8%	3.6%	(10.9%)	n/a
Benchmark (%)	5.9%	6.8%	(0.7%)	10.8%



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%

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Event

QMines has released the results of some early metallurgical test work at its Mount Chalmers copper/gold project in Queensland. The results are very encouraging, but not unexpected given the historical production from this asset. Drilling activities are ramping up, and assay results from 11 diamond drill holes are pending. Another resource update is expected in 2Q22.

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.
- The Mount Chalmers resource increased in late 2021 by 38% to 5.8Mt @ 1.04% Cu and 0.63 g/t Au, from 3.9Mt @ 1.15% Cu and 0.81g/t Au. The contained copper equivalent resources increased from 73kt to 101kt. We expect another resource upgrade in 2Q22.
- Importantly, the quality and confidence in the resource improved significantly with the last upgrade. 78% of the Resource is now in the Measured and Indicated category, whereas previously the resource was 100% inferred. This will allow Qmines to progress development studies in parallel with the ongoing drilling activities. Qmines may move directly to a Pre-feasibility Study (PFS) in 2022.
- Drilling recommenced in February 2022 with an eight hole 1,000m diamond drill program being completed. This adds to three diamond drill holes that were completed in Dec-21. Assay results from all 11 holes are pending.
- A 10,000m RC drilling program has now commenced. This program will continue to focus on infill drilling at Mt Chalmers and will also target the Woods Shaft exploration target with the objective of converting the exploration target into Resource.
- QMines has also released the results from initial metallurgical testwork on the stringer and massive sulphide mineralisation at Mt Chalmers.
- A composite of stringer mineralisation with a head-grade of 1.22% Cu, 0.2% Pb, 0.02% Zn and 1.05g/t Au was subjected to two preliminary open circuit flotation tests. Sequential flotation was successful in producing a copper rougher concentrate. Copper recovery was 97.1%. The lead and zinc grade in this composite were low and therefore a copper only circuit flowsheet can be considered for this mineralisation type.
- A composite of massive sulphide (copper, lead and zinc exhalite) with a head-grade of 1.28% Cu, 1.42% Pb, 3.51% Zn and 4.31g/t Au was subjected to ten preliminary open circuit flotation tests. Sequential flotation was successful in producing rougher concentrates of copper/lead and zinc. Recoveries of 88.8% copper, 76.6% lead and 83.6% zinc are very encouraging for these initial tests.
- 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.

Recommendation

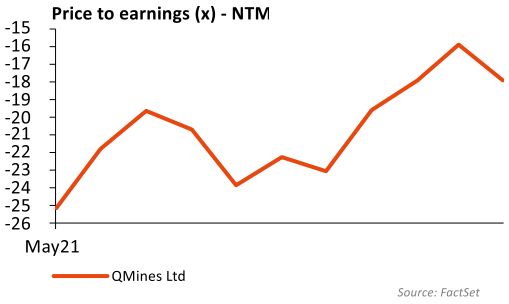
We maintain our Buy recommendation and price target of 74cps. Our price target is set based on an EV/resource multiple benchmarked against a range of copper exploration peers. We assume QMines successfully increases the resource to 130kt of contained copper and we use a A$558/t multiple which is in-line with the peer average.

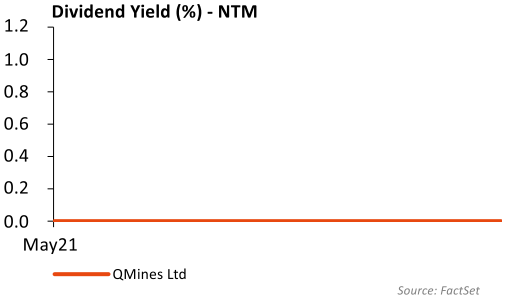
QMines Ltd
Materials
Materials
FactSet: QML-AU / Bloomberg: QML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.28
Target Price ($ps)	0.74
52 Week Range ($ps)	-
Shares on Issue (m)	114
Market Cap ($m)	32
Enterprise Value ($m)	32
TSR (%)	163.1%

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)**	**(16.2)**	**(18.0)**	**(21.8)**
EV / EBIT (x)	**nm**	**(20.1)**	**(15.9)**	**(15.6)**	**(15.9)**
EV / EBITDA (x)	**nm**	**(20.1)**	**(15.9)**	**(15.6)**	**(15.9)**
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

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 a Resource of 5.8Mt @ 1.04% Cu and 0.63 g/t Au for 101kt 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 2Q22.
- 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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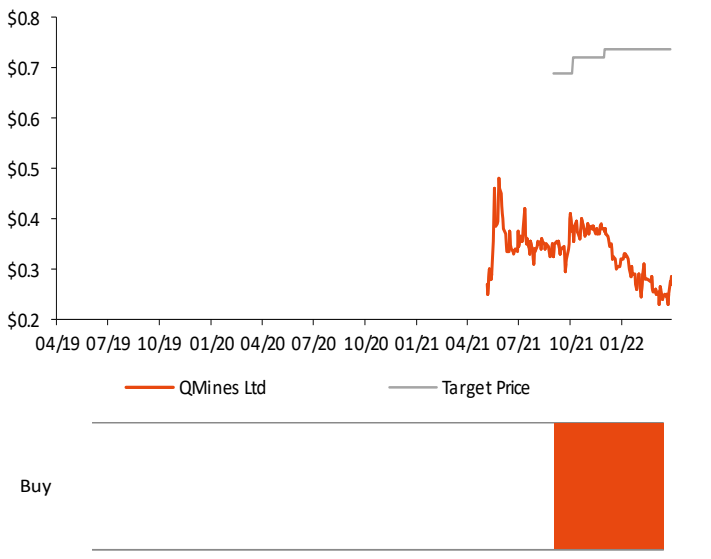
Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	100	85%
Hold	16	14%
Sell	2	2%

History of Investment Rating and Target Price - QMines Ltd

Date	Closing Price ($)	Target Price ($)	Rating
30-Mar-22	0.29	0.74	Buy
1-Dec-21	0.38	0.74	Buy
6-Oct-21	0.38	0.72	Buy
1-Sep-21	0.33	0.69	Buy



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