North River digs deep

Economic study to illustrate lead/zinc miner's potential

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A feasibility study on **North River Resources' (NRRP:AIM)** Namib lead/zinc project in Namibia is expected to show significant economic appeal. Although the document will not be published until the first quarter of 2014, the shares look primed to re-rate ahead of the study. There is renewed market interest in lead and mining investors are also seeking near-term cashflow stories. North River ticks both boxes.

A research report by VSA Capital last week (8 Oct) gives a teaser for the potential numbers in the Namib feasibility study. VSA calculates a post-tax internal rate of return (IRR) of 165% and a $29 million (£18.1 million) net present value. This equates to a 2p price target, implying 223% upside on the shares at the time of writing.

The IRR is exceptionally high thanks to low up-front capital expenditure (capex) and anticipated high operating margins. Many mining projects struggle to get an IRR above 15% and the higher the number, the more attractive the asset.

Commenting on last week's largest annual gathering of the metals industry, LME week, investment bank Macquarie says lead is one of the preferred metals among LME attendees. Macquarie forecasts lead will average $2,151 per tonne this year, $2,225 in 2014 and rise to an average of $2,400 per tonne in 2016. Its forecasts also imply the worst is over for the zinc price whereby the metal will start to appreciate once more from 2014.

PRICE POTENTIAL

This backdrop makes North River hugely appealing. Zinc is forecast to average $1,933 per tonne this year before hitting $2,375 in 2016. VSA's calculations for its North River valuation use a $1,900 per tonne zinc price and $2,000 per tonne for lead, no more than spot prices. These figures show how Namib should be profitable even without the expected commodity price uplift.

North River needs $18 million (£11.3 million) to build the Namib operation. Managing director Martin French says this should be funded 60% debt, 40% equity. That means the small cap would need to raise £4.5 million by next summer.

French reckons the total capex bill is at the top end of its requirements as it assumes new mining equipment whereas the reduction in global mining developments means there is lots of good second-hand equipment on the market, for a cheaper route. Banks have already been on site with a view to finalising the debt component. Directors have regularly bought stock and the company's last placing was oversubscribed.

Namib has low capex because it used to be an operating mine and still benefits from good local infrastructure. North River will start by processing tailings and then move underground.

VSA forecasts £8.9 million pre-tax profit in 2015, which exceeds the company's present market capitalisation. Namib looks a small but profitable mining operation. It has a short lifespan, presently expected to be seven years, yet there is exploration upside to increase the mine life and/or annual production. There are other projects in the company's portfolio including interests in iron ore and copper, but we do not believe they will generate any value near-term as the focus is firmly on Namib.

NORTH RIVER RESOURCES: OUTLOOK

Year	EPS (p)	PE	DPS (p)	Yield (%)
2014E	-0.23	n/a	n/a	n/a
2015E	0.55	1.1	n/a	n/a

Source: VSA Capital

Net asset value	0.82p*
Net debt(cash)/equity:	(18.9%)*
Beta	0.8

* Source: Company accounts ** Source: Thomson Reuters Datastream

NORTH RIVER RESOURCES

(NRRP:AIM) 0.62p

Stop loss: 0.49p

BUY

Market value:
£6.9 million

Prospective PE Dec 2014:
n/a

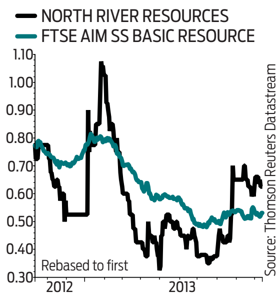
Prospective PE Dec 2015:
1.1

1-month relative strength:
-9.4%

1-year relative strength:
-29.5%

Prospective dividend yield:
n/a

Bid/offer spread:
7.7%



Growth: HIGH
The first year's forecast profit is greater than the current market cap.

Risk: HIGH
It needs cash to re-open the mine, the bid/offer spread is quite large and there is always high operational risk at new mining projects.

Quality: LOW
The company is at least a year away from generating revenues and commodity prices can be very volatile.