Eastern Platinum Ltd.

ELR : TSX : C$2.62

BUY

Target: C$3.50 ↑

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COMPANY STATISTICS:

Price	C$2.62
52-week Range:	C$1.10- 2.70
Market Capitalization	C$1,395M
Shares Out	532.271M
Issued capital fully diluted	762.517M

EARNINGS SUMMARY:

FYE Jun		2007E	2008E	2009E
Pt prod'n attrib	'000oz	44	91	148
Total PGM attrib	'000oz	87	177	283
Sales	$C mill	131	303	481
EBITDA	$C mill	17	128	255
Net profit adj.	$C mill	1	53	121
Operating free cash	$C/sh	0.07	0.26	0.50
Shares on issue	million	532	638	638
EPS	$C/sh	0.00	0.08	0.19
Dividend	$C/sh	0.0	0.0	0.0
EV/EBITDA		na	15.6	7.8
PER		na	31.8	13.8
Free cash yield	%	2.6	9.8	18.9
Dividend yield	%	0.0	0.0	0.0
EBITDA margin	%	13.0	42.3	53.1

SHARE PRICE PERFORMANCE:

All amounts in C$ unless otherwise noted.
Share price data COB 15 May 2007.

Metals and Mining -- Precious Metals and Minerals

TARGET PRICE UPGRADE

Event

We are upgrading our NAV-based target price for Eastern Platinum from C$2.40/share to C$3.50/share, partly on the back of detail contained in the recent quarterly report and partly on the back of strength in the PGM market.

Action

We maintain our BUY rating on this stock that we consider is under-priced in a sector characterised by corporate activity and some of the strongest fundamentals underpinning underlying commodity prices.

Rationale

The company has brought forward its planned ramp up of ore production from Crocodile River operations from 70,000t/m to 160,000t/m by about 12-months to the middle of 2008 (the cost of accelerated development associated with this ramp up was a major contributor to the higher total costs for the period just ended). Overall plant recovery of PGMs at crocodile River operations is proving to be about two percentage points higher than we expected and this should continue to improve as the contribution of primary ore expands to 160,000t/m, and PGM prices continue to outstrip expectations. We now estimate underlying value in this company (NAV) at C$3.62/share while recent corporate activity prices the company's resources and other assets in the current market at C$3.57/share, both estimates support our higher target price of C$3.50/share.

Investment risks

Relatively high cost structure compared to other producers. We estimate total cash costs for the 12-months to June 2007 will be US$733 per ounce PGM (5PE+Au) in concentrate and US$920 after smelter terms. We expect these to come down to US$586 and US$735 by 2009 for reasons laid out in this report.

QUARTERLY RESULTS - MAIN POINTS

We believe headlines on the wire services seen immediately after the results missed the point. The headlines we saw announced “Q3 net loss widens on a year ago”. Statutory accounting results were always going to be volatile in the ramp up stage of early production, in our opinion. In our view, investors need to focus on two key numbers at this stage of development – production and operating cash flow. In our view, if these two parameters continue to improve the rest will fall into place as the operation matures. In our view, Eastern Platinum operations looked good for two reasons:

- Production continued to expand with total PGM up 3.6% Q/Q despite the impact of a strike in the quarter resulting in dismissal of 305 employees that had not bought into regime change on site. These dismissals mean no unions now on site, which we believe bodes well for future operations.
- The company estimated underlying costs continued to fall and were down 15% Q/Q to C$640/oz after stripping out the cost of the strike and taking out the cost of accelerated reserve development that is required to bring forward the planned ramp up from 70,000 tonnes of ore per month to 160,000 tonnes of ore per month from early 2009 to mid 2008. The rate of development underground has been increased significantly to 2,357m for the quarter up 48% Q/Q to meet this objective and the cost of this additional development has been expensed. Typically, good mining practice would have 18-24 months of production fully developed.

Production losses due to the strike, the cost of accelerated development, and cost of stock-based compensation charged to the P&L will likely delay transition to reported profits for the 12-months to June 2007. We anticipated the company would report a small profit for the year to June 2007 of C$23 million compared to the loss of C$4.7 million last year. This now looks unlikely and we expect the company to essentially break-even after tax for the 12-months to June 2007. But, our advice is not to sell the stock on this issue; rather, we reinforce our long-held BUY on the stock:

- We would point to the strong cash flow from operations, which we estimate at C$47.3 million for the year to June 2007 and the C$169 million we expect next year as evidence of the strong operations.
- We would also point to our now upgraded NAV estimate for the stock of C$3.62/share, fully diluted for the recently issued 105.921 million shares and all outstanding options and dividends, Figure 1, based on now higher PGM prices and better recoveries evident in the latest operating results.

Figure 1: Net asset value for Eastern Platinum

Net Present Values @10.0%	Interest	C$M
Spitzkop	93.6%	617
Mareesburg	75.5%	288
Crocodile River	85.0%	678
Kennedy's Vale	85.0%	542
Corporate and overheads	100.0%	-11
Platinum asset values		**$2,114**
Net current assets as at March 30th, 2007		260
Debt and other liabilities as at Mar 30th 2007		-24
Net asset value		**$2,349**
Other assets		
Kareespruit mineralisation at $12.6/oz	85%	44
Smelter option	20.0%	136
Share capital growth	**M shares**	
Shares out as at Jun 30 2006	513.229	
Acquisition of Spitzkop 1% NSR	12.000	
Shares issued to Afriminerals	3.000	
New shares issued for capital March 2007	105.921	
Exercise of warrants	3.780	
Exercise of options	0.263	
Options outstanding	40.225	70
Warrants outstanding	84.099	160
Total shares and net asset value	**762.517**	**$2,760**
Fully Diluted NAV/share		**C$3.62**

Source: Canaccord Adams estimates

We expect ore feed from underground to be 850,000 tonnes for the year rising to 1.5Mt for the year to June 2008. We project total ore feed including slimes and third-party ore to reach 1.55Mt this year rising to 2.32Mt next. Other production details are summarised in Figure 2.

Figure 2: Production summary for Crocodile River

Ore feed		2006	2007E	2008E	2009E	2010E
CRM underground	'000 tonnes	697	850	1,500	2,250	2,500
Third party purchases	'000 tonnes	78	100	100	-	-
Slimes	'000 tonnes	402	600	720	720	720
Total ore feed	'000 tonnes	1,176	1,550	2,320	2,970	3,220
Average grade (3PE + gold)	gms / tonne	3.2	3.2	3.2	3.4	3.5
Average total Recovery	%	63%	64%	67%	71%	71%
PGMs (5PE + gold) in concentrate	**'000 ozs**	**78**	**102**	**162**	**230**	**256**
Cash costs PGM in concentrate	US$/oz	589	733	698	586	487
Basket price before smelter terms	US$/oz	1,046	1,377	1,453	1,452	1,170
Cash margin after smelter terms	%	50%	50%	66%	98%	91%

Source: Company data, Canaccord Adams estimates

We now forecast revenue for the year to June 2007 at C$131 million, Figure 3, compared to our earlier estimate of C$150 million. But, we now estimate lower underlying cash costs than previously – we forecast C$84 million for the year instead of C$92 million leaving cash from operations at circa C$47 million.

We expect G&A charges to be up a little at around C$16 million compared to our previous estimate of C$11 million for the year. The big charge we had not foreseen is the cost to the P&L of stock-based compensation issued during the quarter as a C$14.2 million non-cash charge and the non-cash DD&A charges, which we now expect to come in at around C$11 million for the year compared to our estimate of C$5 million previously.

Figure 3: Eastern Platinum pro-forma profit and loss account

Income statement	FYE June	2006	2007E	2008E	2009E	2010E
Revenue	C$ '000	14,082	131,158	302,623	480,513	611,624
Costs of goods sold	C$ '000	8,637	83,878	159,367	201,396	234,785
Cash from operations EBITDA	C$ '000	5,445	47,280	143,256	279,118	376,839
Depletion and depreciation	C$ '000	2,328	10,924	19,869	25,673	42,850
Operating profit	**C$ '000**	**3,117**	**36,356**	**123,387**	**253,445**	**333,989**
General and administrative costs		6,541	15,739	15,131	24,026	24,465
Loss on property sales		0	0	0	0	0
Stock-based compensation		5,330	14,500	0	0	0
Write-offs		0	0	0	0	0
EBIT	**C$ '000**	**-8,754**	**6,117**	**108,256**	**229,419**	**309,524**
Interest income		2,200	4,696	7,221	6,298	12,659
Interest expenses		-993	-3,142	-5,690	-9,702	-13,615
Foreign exchange gain (loss)		2,642	0	0	0	0
Profit before taxes		-4,905	7,671	109,787	226,015	308,568
Taxation		-293	2,301	32,936	67,804	92,570
Minority interests		48	4,848	24,228	37,418	37,886
Net profit after tax	**C$ '000**	**-4,660**	**521**	**52,622**	**120,792**	**178,112**
Basic earnings per share	**C$ / sh**	**-0.03**	**0.00**	**0.08**	**0.19**	**0.28**
Weighted average SOI	x million	166	532	638	638	638

Source: Company data, Canaccord Adams estimates

Recent corporate activity suggests to us a market value for undeveloped resources of around US$12.60/oz, being the average of the two recent transactions. Details of these transactions can be found in our earlier Daily Letter *Site Visit Update* dated 3 May 2007. On our analysis, this transaction price for undeveloped resources and an implied price elsewhere in the market for developed resources already in production of US$55/oz equates to a market price for Eastern Platinum's PGM resources of C$2.17/share fully diluted and a total value for all tangible assets of Eastern Platinum at C$3.57/share, including conversion of options and warrants, Figure 4.

Figure 4: Market Value of ELR resources

Resources under infrastructure	Share	Total	ELR	US$/oz	US$ mill
ZanfonteinUG2	85.0%	8.07	6.86	55.0	**377.5**
Maroelabult UG2	85.0%	0.74	0.63	55.0	**34.5**
Crocette UG2	85.0%	3.87	3.29	55.0	**180.8**
Resources undeveloped					
Kennedy's Vale UG2	85.0%	40.36	34.31	12.6	**432.4**
Kennedy's Vale Merensky	85.0%	19.40	16.49	12.6	**207.8**
SpitzkopUG2	93.6%	9.30	8.70	12.6	**109.7**
SpitzkopMerensky	93.6%	3.70	3.46	12.6	**43.6**
Mareesburg UG2	75.5%	2.02	1.53	12.6	**19.2**
Market value of resources					**1,405.6**
Cash and short term investments	CAD 260				220.7
Cash on conversion of hybrid debt					196.2
Kareespruit PGMs for 15 years	85.0%	3.47	2.95	12.6	37.2
Smelter option as % of CRM value	20.0%				112.6
Kennedy's Vale shafts (2x1000m ea)	85.0%	ZAR	million		364.4
Total assets	US$ mill				**2,336.7**
Debt and other liabilities	US$ mill				**20.7**
Net assets	US$ mill				**2,316.0**
Net assets	C$m mill				**2,724.7**
Shares on issue fully diluted	x million				762.5
Value of all tangible ELR assets	C$/share				**3.57**

Source: Company data, Canaccord Adams estimates

The following comprise risks to our target price and rating.

Currency metal price and development risks

Significant exchange rate variations will effect the company's operating costs since the company's product is essentially sold in US dollars and we estimate 90% of costs are in rand. We estimate the impact of a ZAR1 shift in the Rand/US$ exchange rate from ZAR7.5 to the US$ to ZAR6.5 to the US$ would reduce our valuation of Eastern Platinum by C$0.20 per share or 8% and reduce earnings in 2007 by C$0.01/share.

As for underlying metal prices, platinum is both a precious and an industrial metal and the fundamentals of the platinum market are tight. As such, the platinum market has seen extreme price volatility in recent years and, in our view, this is likely to continue. Key factors that may influence prices are policies in the key PGM-producing nations, South Africa and the Russian Federation.

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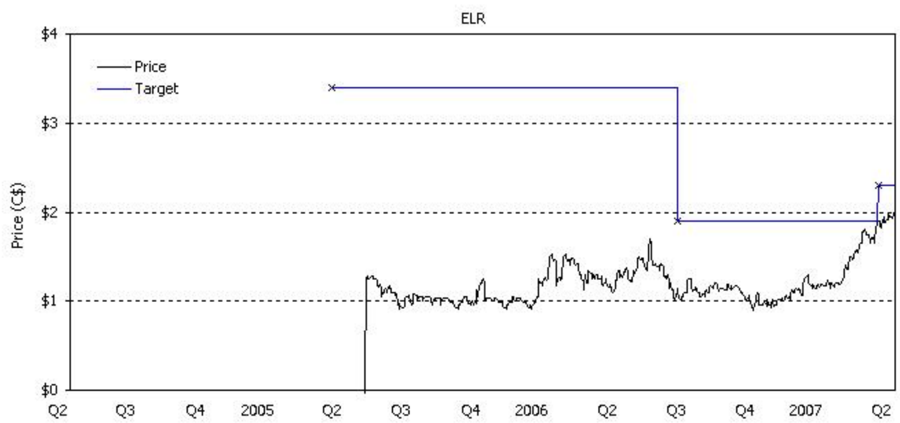
Site Visit: An analyst has visited the issuer's material operations in South Africa. No payment was received from the issuer for the related travel costs.

Price Chart:*



	Date	Analyst	Rating	Target Price
1)	03/15/05	DH	Buy	3.50
2)	06/16/06	DH	Buy	2.00
3)	03/09/07	DH	Buy	2.40

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 1 May 2007)

	Coverage Universe		IB Clients
Rating	#	%	%
Buy	310	58.5%	41.9%
Speculative Buy	64	12.1%	71.9%
Hold	132	24.9%	34.1%
Sell	24	4.5%	4.2%
	530	100.0%	

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