

# Metals Exploration plc

SE Asia | Mining | MTL.L

4 March 2008

## One step at a time

Resource update increases gold grade and Indicated resources to 775koz

### ■ Event - update to resources reflects 6% increase in gold grade

The company announced a resource update incorporating the outstanding assay results from the 2007 drill programme. The update reflects a 90% increase in the Indicated resources to 775koz (vs 409koz in Nov 07) with a 6% increase in the gold grade from 2.27 to 2.41g/t. Overall contained gold increased marginally to 2.1Moz (2.0Moz) as the increased grade was off-set by a reduction in tonnage. The reduced mass also impacted the moly resource, which declined by 3Mlbs to 37Mlbs contained. The total JORC-compliant Indicated & Inferred Mineral Resource is now estimated at 27.0Mt

at 2.41g/t Au and 0.062% Mo.

### ■ Analysis - project value leveraged to gold grade

Key points to consider are: 1) the project value is highly leveraged to grade - a 6% increase in grade yields a c.20% increase in project NPV 2) the substantial portion of Indicated resource is sufficient to underwrite the preliminary economic assessment (scoping study) and 3) the results continue to confirm the geological model and further reduce the discovery risk associated with the project.

### ■ Valuation leveraged to increased gold grade

The cost base of a typical gold operation is more sensitive to production throughput rather than the grade of gold contained - costs associated with mining, crushing, milling, etc stay the same irrespective of the grade of ore. Thus the 6% increase in grade is almost 'free' metal incurring minimal incremental cost, but significantly impacting the revenue stream. As such, a small increase in grade improves the project value substantially – up c.20% on an NPV basis.

### ■ Total of 775koz classified as Indicated resource

The upgrade in the resource classification improves the confidence levels of the technical/economic assessments, allowing for a reduction in contingency and other uncertainty factors. The result is an improved valuation and a better tool for further optimisation and feasibility study work.

We maintain our BUY recommendation with a 12-month target price of 63p/sh with a view towards the outcome of the scoping study.

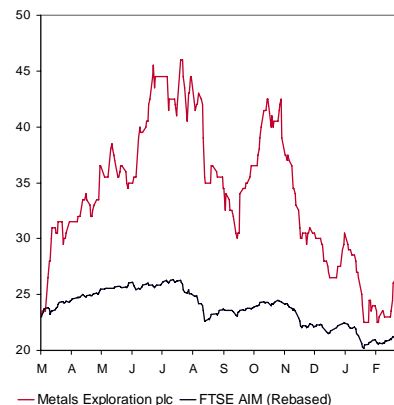
Recommendation **BUY**

Price **26p**  
Target **63p**

Market Cap: £23m  
EV: £21m

Shares issued: 89m  
Daily ave. volume: <1m

### Stock Performance



Performance	1m	3m	12m
Absolute %	6	-16	9
Relative* %	3	-14	18

Source: Datastream

\*Rel to FTSE AIM

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## Research Recommendations issued by Collins Stewart Europe Limited in Q4 2007

Recommendations	Buys	Sells	Hold/Neutral
Percentage of Total	49%	32%	19%
Percentage of which in Corporate Client stocks	16%	0%	1%

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