

MORNING SHEET

TOP TRADES

4 March 2011

Tanami Gold (TAM.ASX; \$0.97/share) – Gold price shining brightly on TAM. BUY (PT \$1.60/share).

- The strong gold price is shining brightly upon TAM - one of our preferred gold producers.
- TAM is currently producing ~40kozpa (FY11) at its Western Tanami project (100%) located in WA. We forecast a cash cost of A\$~730/oz which compares favourably to the current gold spot price of A\$1,416/oz.
- In 3QCY11 Western Tanami is expected to expand to 60-70kozpa, for an investment of ~\$14m, cash cost of A\$700/oz and EBIT ~A\$45-50m (at the current gold spot price).
- The Company is also planning to re-open the Central Tanami operation in the NT (90km away from Western Tanami Project). This will require a ~\$35m investment with commissioning expected in early CY12 and production targeting 100-130kozpa.
- The total expected combined production (~200ktpa in FY13) will launch TAM to a “mid-tier” gold producer with a cash cost of A\$~660/oz, EBIT of A\$110m (at A\$1,200/oz) and mine life of >10yrs.
- Funding for Central Tanami can be sourced from a combination of Western Tanami cash flow and TAM’s \$40m in principle line of credit.
- The company currently has ~2moz @ ~3.0 g/t with >75% in Measured and Indicated JORC category.
- TAM’s resource base has increased by 300% since June 2009. We see further expansion given the aggressive exploration program for FY11 & FY12, budgeted at A\$30m.
- We believe there is a significant upside within TAM’s 5,000 sqkm tenements since all exploration to date has shallow drilling open to depth and strike. The potential to find new production centres similar to Callie and Granites (endowment of >10moz) is significant in our view since TAM shares a similar geological host sequence.
- TAM owns 25% (diluted basis) of ABM Resources(ABU.ASX). Recently, ABU announced a maiden Inferred JORC of 1.67moz from a porphyry, located in the same region as TAM. We believe the ABU has strong potential to add further ounces with several identified targets to test. Including ABU’s new discovery, TAM’s combined resource base increases to ~2.5Moz.
- TAM has ~\$163m of tax losses and management expect the projects can fully utilise these loses. Conservatively, we have more than halved this amount for our valuation purposes (\$77m).
- **We reiterate our BUY and our price target of \$1.60/share**, which represents 65% premium to the current share price.

CONTACTS

STUART FOSTER	+612 9993 8131	stuart.foster@fostock.com.au
KEVIN MASSEY	+612 9993 8130	kevin.massey@fostock.com.au
TRENTON BROWN	+612 9993 8161	trenton.brown@fostock.com.au
TOLGA DOKUMCU	+612 9993 8144	tolga.dokumcu@fostock.com.au
GEORGE MOURTZOUHOS	+612 9993 8136	george.mourtzouhos@fostock.com.au

This document is a Sales & Trading view & not necessarily the view of our Research Department.