

### Positive update, strong balance sheet, strange reaction

#### Buy

Price: 11.5p

Target Price: 32.0p

Sector: Metals & Mining

#### Share Price Performance



Source: London Stock Exchange

#### Key Data

arket:	AIM
TIDM:	<a href="#">HML.L</a>
1 Year Hi/Lo:	24.15p – 0.6p
Existing Shares:	116.5 million
Market Cap:	£13.4 million
ISIN:	AU000XINEAB4
SEDOL:	BD82HNO
Co. Website:	<a href="http://harvestminerals.net">harvestminerals.net</a>

Harvest Minerals' published an update earlier this week. It included a 37% increase to its high-grade Maximus resource, a 1380% increase to its overall Maximus resource, and a reference to its cash position as being "sufficient to carry out its business objectives".

We regard both pieces of information as positives and believe Harvest's share price weakness reflects profit taking - probably from investors who bought below the 10p level. Where there are concerns, we believe they are unfounded concerns about Harvest' cash and the non-specific comment above. We forecast Harvest will have **A\$0.7m** cash at the end of 2017 (calendar year), not including any potential sales revenue.

Looking forward, the share price performance should follow progress at Arapua, namely field trial results, LOIs with potential new customers, lab testwork results, stonemeal certification and first sales. Test work thus far and the views of Harvest's agronomist give us confidence that the KPFétil product will be saleable at or around US\$60/t. We reiterate our BUY recommendation.

#### Cash position and forecasts

At end of December Harvest had A\$1.55m but since then, exercised warrants have brought in A\$1.57m. Our forecasts show a A\$0.7m cash balance at the end of CY17, assuming no sales. Any KPFétil sales would go straight to the bottom line.

#### Sufficient resources at Maximus for long life operation

Harvest's recent RNS announced a 37% increase to its high-grade resource at Maximus to 1.2Mt. This was defined on only 6.7% of the area identified through mapping as Kamafugite, and only from the upper weathered zone. If we extrapolate 1.2Mt over the mapped kamafugite we get 20Mt, sufficient for a 40 year mine at 500ktpa. **N.B. Maximus is the best license within the Arapua project.**

#### 2017 potential catalysts

Harvest has an important 12 months ahead with potential catalysts including, Veloso field trial results, laboratory results, first sales, stonemeal certification, and additional LOIs with other local agricultural companies.

#### Trial mining license in use, first 50kt being mined

Harvest took 16t of bulk samples for use in field trials and testwork, but started trial mining at Arapua in December. Under the trial mining license, Harvest can apply for successive 50kt permits, so could theoretically produce several hundred thousand tonnes per year.

#### Veloso Letter of Intent

Harvest and Veloso signed a Letter of Intent for 45kt of KPFétil at R\$200/t approximately US\$60/t. This is a very good indicator of the product's eventual price, and hopefully the start of a long commercial relationship between the two companies. Assuming the Veloso field trials go well, we expect Veloso to place its first order. This could be as soon as mid-year.

#### Recommendation and valuation

Our valuation includes \$12.5m for Harvest's potash project but is dominated by our 500ktpa Arapua mine model. Our valuation includes a 40% risk factor that will reduce as the project is de-risked.

Charles Long  
Research Analyst

[charles.long@beaufortsecurities.com](mailto:charles.long@beaufortsecurities.com)  
+44 020 7382 8384

Sheldon Modeland, P.Geo.  
Research Analyst

[sheldon.modeland@beaufortsecurities.com](mailto:sheldon.modeland@beaufortsecurities.com)

## Valuation and risks

Our valuation is based on a conceptual model that incorporates Phase 1 and a larger scale Phase 2 operation. The main inputs for Phase 2 are a 500ktpa operation, capex of c.\$1.0m, total mine operating costs of \$7/t and a conservative long-term sales price of \$55/t. We used an 8% discount rate and a mine life to 2028.

The model produces a \$68m NPV<sub>8</sub> for Arapua that we have risked by 40%. Our sum of the parts also includes G&A costs and \$12.5m for the potash project. We expect to reduce the risk factor as the project progresses and we detail the method below. We would also change our long-term \$55/t product sales price according to guidance from Harvest.

### Sum of the parts valuation:

Description				
Arapua NPV	\$m	68.1	£m	52.4
Risk factor	%	40%		
Arapua risked NPV	\$m	40.9	£m	31.4
G&A	\$m	-5.4	£m	-4.2
Potash	\$m	12.5	£m	9.6
<b>Total</b>	<b>\$m</b>	<b>47.9</b>	<b>£m</b>	<b>36.9</b>

Price target	(p)	32
Current share price	(p)	11.5

Source: Beaufort Securities

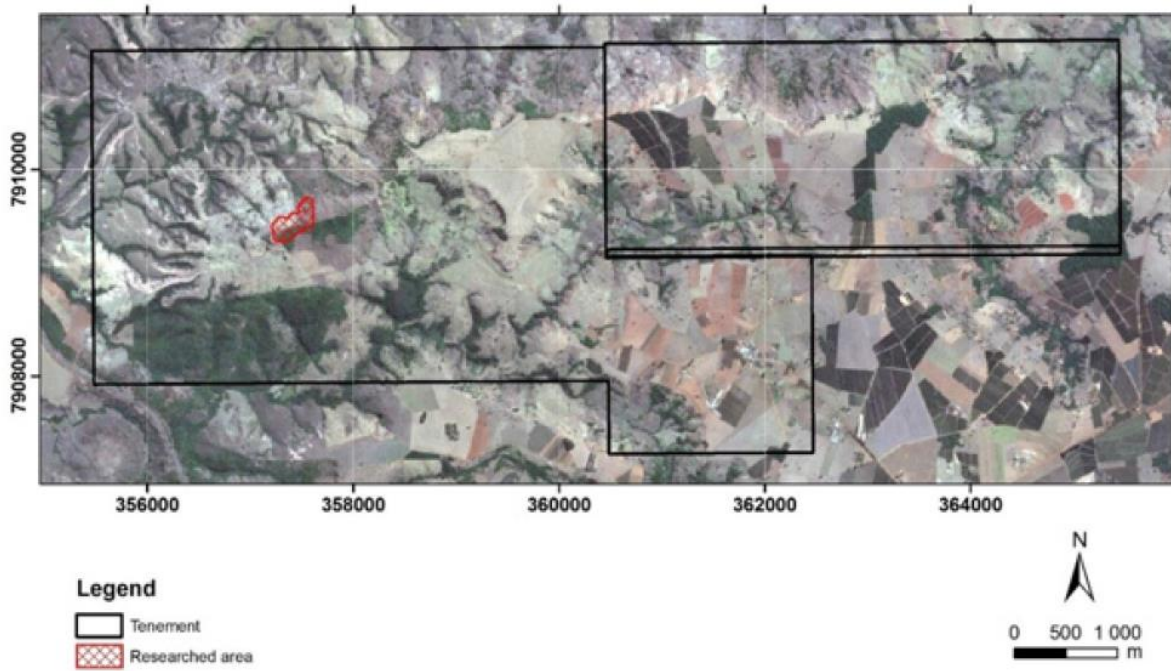
Note: Shares in issue 116.5m

## Sales price

Our Arapua valuation is negatively impacted by our use of a 40% risk factor and potentially our use of a \$55/t long term sales price. Although \$55/t is below the \$60/t in the Veloso LOI, we have already increased it from our original \$45/t assumption and we prefer to leave some scope for change.

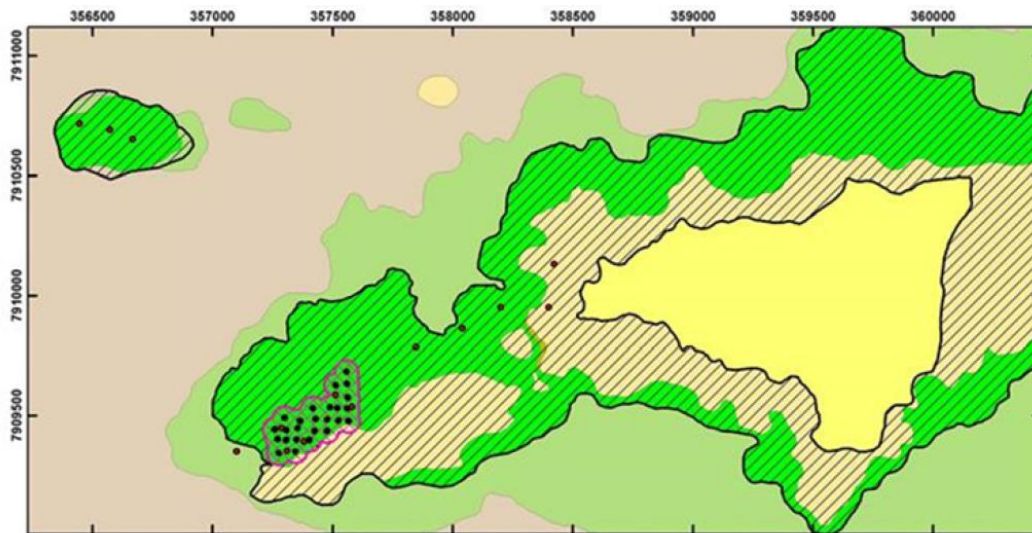
Appendix

Maximus tenement map – resource area in red



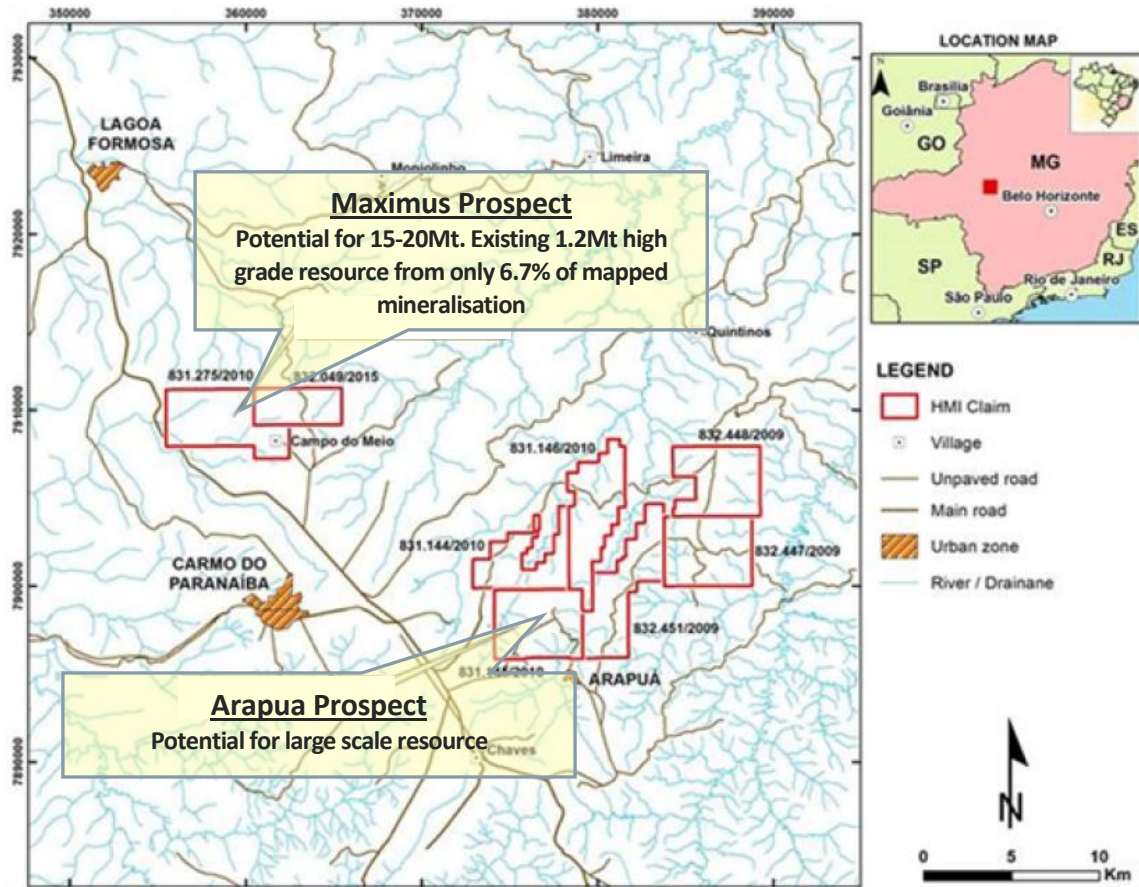
Source: Beaufort Securities, Company

Maximus exploratory potential....15-20mt?



Source: Beaufort Securities, Company

Further Arapua exploration potential...



Source: Beaufort Securities, Company



## Financials

The cashflow statement immediately below shows calendar halves for 2017. Below this is our annual P&L, cashflow and balance sheet forecasts for Harvest's year end to June.

<i>Cashflow Statement (A\$m)</i>	Dec '16	Jun '17	Dec '17
<b><u>Operating cashflow</u></b>			
Profit/ (loss) before tax	(1.4)	(1.1)	(1.1)
Share based payments	0.1	-	-
Depreciation	0.1	0.0	0.0
Impairments	-	-	-
Other	0.1	-	-
<b>Sub-total</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(1.1)</b>
	-	-	-
<b><u>Changes in working capital</u></b>			
Decrease/ (increase) in receivables	-	-	-
Increase / (decrease) in payables	-	-	-
Decrease/ (increase) in inventories	-	-	-
(Gain)/loss on foreign exchange	-	-	-
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest paid	-	-	-
Taxes paid	-	-	-
<b>Operating cashflow</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(1.1)</b>
	-	-	-
<b><u>Investing cashflow</u></b>			
Purchase of property, plant and equipment	-	(0.1)	(0.1)
Purchase of intangibles	(0.8)	(0.1)	(0.1)
Sustaining capital	-	-	-
Other	-	-	-
<b>Investing cashflow</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>(0.2)</b>
	-	-	-
<b><u>Financing cash flows</u></b>			
Equity financing	0.8	-	-
Warrant exercise	-	1.6	-
Issue costs	(0.0)	-	-
Borrowing	-	-	-
Other	-	-	-
<b>Financing cash flows</b>	<b>0.8</b>	<b>1.6</b>	<b>-</b>
	-	-	-
<b>Net change in cash</b>	<b>(1.1)</b>	<b>0.3</b>	<b>(1.3)</b>
<b>Cash start period</b>	<b>2.7</b>	<b>1.6</b>	<b>1.9</b>
FX effect	(0.0)	-	-
<b>Cash end period</b>	<b>1.6</b>	<b>1.9</b>	<b>0.7</b>

Source: Company. Beaufort Securities

<i>Income Statement (A\$m) Jun Y/E</i>	2015A	2016A	2017E	2018E	2019E	2020E
<b>Revenue</b>	-	-	-	1.4	12.4	24.2
Production costs	-	-	(0.0)	(0.3)	(2.5)	(3.6)
<b>Gross profit</b>	-	-	(0.0)	1.1	9.9	20.6
Exploration & other impairments	(0.8)	(0.0)	-	-	-	-
G&A	(0.8)	(2.2)	(1.8)	(1.7)	(1.5)	(1.5)
Other	(0.1)	(0.6)	(0.5)	(0.2)	-	-
Operating profit	(1.6)	(2.8)	(2.4)	(0.7)	8.4	19.1
<b>Operating profit</b>	(1.6)	(2.8)	(2.4)	(0.7)	8.4	19.1
<b>EBITDA</b>	(1.6)	(2.8)	(2.5)	(0.7)	8.5	19.3
<b>EBITDA margin (%)</b>	N/A	N/A	N/A	nm	69%	80%
<b>Finance costs</b>	-	-	-	-	-	-
<b>Profit (loss) before tax</b>	(1.6)	(2.8)	(2.4)	(0.7)	8.4	19.1
<b>Income tax expense</b>	-	-	-	-	-	-
<b>Profit / (loss) after tax</b>	(1.6)	(2.8)	(2.5)	(0.8)	7.9	17.9
<b>EPS</b>	(6.1)	(4.0)	(2.4)	(0.7)	6.8	15.4

Source: Company. Beaufort Securities

<i>Cashflow Statement (A\$m) Jun Y/E</i>	2015A	2016A	2017E	2018E	2019E	2020E
<b><u>Operating cashflow</u></b>						
Profit/ (loss) before tax	(1.6)	(2.8)	(2.5)	(0.7)	8.4	19.1
Share based payments	0.1	-	0.1	-	-	-
Depreciation	0.0	0.0	0.1	0.0	0.1	0.1
Impairments	0.8	0.0	-	-	-	-
Other	-	-	0.1	-	-	-
<b>Sub-total</b>	<b>(0.8)</b>	<b>(2.8)</b>	<b>(2.2)</b>	<b>(0.7)</b>	<b>8.5</b>	<b>19.3</b>
<b><u>Changes in working capital</u></b>						
Decrease/ (increase) in receivables	(0.0)	0.0	-	-	-	-
Increase / (decrease) in payables	0.0	(0.0)	-	-	-	-
Decrease/ (increase) in inventories	-	-	-	-	-	-
(Gain)/loss on foreign exchange	(0.1)	0.2	-	-	-	-
<b>Sub-total</b>	<b>(0.9)</b>	<b>(2.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest paid	-	-	-	-	-	-
Taxes paid	-	-	-	-	(0.2)	(1.0)
<b>Operating cashflow</b>	<b>(0.9)</b>	<b>(2.7)</b>	<b>(2.2)</b>	<b>(0.7)</b>	<b>8.4</b>	<b>18.3</b>
<b><u>Investing cashflow</u></b>						
Purchase of property, plant and equipment	(0.0)	(0.0)	(0.1)	(0.1)	(1.3)	-
Purchase of intangibles	(0.6)	(0.8)	(0.9)	(0.1)	(0.2)	-
Sustaining capital	-	-	-	(0.0)	(0.1)	(0.1)
Other	-	-	-	-	-	-
<b>Investing cashflow</b>	<b>(0.6)</b>	<b>(0.8)</b>	<b>(0.9)</b>	<b>(0.2)</b>	<b>(1.6)</b>	<b>(0.1)</b>
<b><u>Financing cash flows</u></b>						
Equity financing	2.5	5.2	0.8	-	-	-
Warrant exercise	-	-	1.6	-	-	-
Issue costs	(0.1)	(0.4)	(0.0)	-	-	-
Borrowing	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Financing cash flows</b>	<b>2.4</b>	<b>4.8</b>	<b>2.3</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>0.9</b>	<b>1.4</b>	<b>(0.8)</b>	<b>(0.9)</b>	<b>6.7</b>	<b>18.2</b>
<b>Cash start period</b>	<b>0.5</b>	<b>1.5</b>	<b>2.7</b>	<b>1.8</b>	<b>1.0</b>	<b>7.7</b>
FX effect	0.1	(0.2)	(0.0)	-	-	-
<b>Cash end period</b>	<b>1.5</b>	<b>2.7</b>	<b>1.8</b>	<b>1.0</b>	<b>7.7</b>	<b>26.0</b>
<b>Net cash (debt)</b>	<b>1.5</b>	<b>2.7</b>	<b>1.8</b>	<b>1.0</b>	<b>7.7</b>	<b>26.0</b>

Source: Company, Beaufort Securities

<i>Balance sheet (A\$m) Jun Y/E</i>	2015A	2016A	2017E	2018E	2019E	2020E
<u>Non-current assets</u>						
Property & plant	0.0	0.0	0.0	0.1	1.4	1.3
Intangible assets	1.4	4.0	5.6	5.7	5.9	5.9
<b>Total non-current assets</b>	1.4	4.0	5.6	5.7	7.2	7.2
<u>Current assets</u>						
Cash and equivalents	1.5	2.7	1.9	1.1	7.8	26.0
Trade and other receivables	0.0	0.1	0.0	0.0	0.0	0.0
Inventory	-	-	-	-	-	-
<b>Total current assets</b>	1.6	2.8	1.9	1.1	7.8	26.1
<b>TOTAL ASSETS</b>	3.0	6.8	7.5	6.8	15.1	33.2
<u>Current liabilities</u>						
Trade and payables	0.7	0.1	0.2	0.3	0.6	0.9
Short-term borrowings	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total</b>	0.7	0.2	0.2	0.3	0.6	0.9
<u>Non-current liabilities</u>						
Medium and long-term borrowings	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	0.7	0.2	0.2	0.3	0.6	0.9
<b>NET ASSETS</b>	2.3	6.6	7.3	6.6	14.4	32.3
<u>Equity capital</u>						
Share capital	14.2	21.3	24.3	24.3	24.3	24.3
Reserves	2.7	2.8	3.0	3.0	3.0	3.0
Other	-	-	-	-	-	-
Accumulated loss	(14.6)	(17.4)	(20.0)	(20.8)	(12.9)	5.0
<b>Total</b>	2.3	6.7	7.3	6.6	14.4	32.3

Source: Company. Beaufort Securities



## Recommendations

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63 St Mary Axe, London EC3A 8AA

Company Name	Disclosure
Harvest Minerals	7

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