

Ferrex

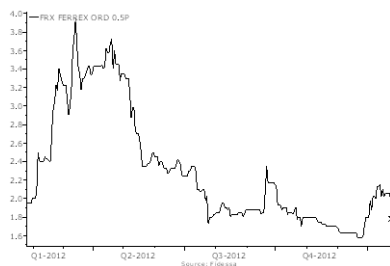
Speculative Buy

Price: 1.65p – 1.75p

AIM: FRX.L (FTSE AIM All Share)

Sector: Mining

Share price performance



Source: Fidessa

Key Data

12m high-low	3.95p - 1.575p
Mkt. cap:	£11.26m
No. of shares:	634.3m
Website:	ferrexplc.com

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Exploration and Development of Iron ore and Manganese in Africa: Recent Acquisition in Gabon - potential game-changer

Ferrex has a portfolio of iron ore and manganese projects in South Africa, Togo and Gabon. The Malelane iron project in South Africa is of most value but the recently acquired Mebaga iron ore project in Gabon could potentially be a game changer. With an historic resource and exploration target of 20mt with a grade of 60% iron offers huge potential: the key is confirming the size and grading of the Mebaga asset.

The company's strategy is to advance low capex deposits which offer significant value uplift potential through resource delineation, into production. In order to achieve value, the company sets milestone driven development programmes targeting near term production and cash flow, whilst reviewing synergistic acquisition opportunities.

Management Track Record

Management has been involved with the following feasibility studies and completed Mines:

- Eureka Gold Mine, Zimbabwe – 1.8mtpa (Delta Gold)
- Ngezi Platinum Mine, Zimbabwe – 2.2mtpa (Zimplats)
- Leeuwkop Platinum Mine, South Africa – commenced development before takeover (Afplats)
- Stellite Chrome Mine – South Africa - 480,000 tpa (Chromex)

Management has also executed company trade sales:

- Zimplats (ASX) – c.US\$400m (D Reeves, R Pitchford)
- Afplats (AIM) – c.US\$600m (D Reeves, R Lamming, B Moritz, R Pitchford,)
- Chromex (AIM) – c.US\$50m (R Lamming, B Moritz)

Directors:

MD - Dave Reeves, Chairman - Brian Moritz, Finance Director James Carter, Non-Exec Directors – Russell Lamming and Roy Pitchford. All participating in fund raise.

Friday's RNS Fund Raise and Company Synopsis is a description of projects, where the priorities lie and the Company's immediate plans are:

Ferrex announces a £2.165 Million Placing and Notice of General Meeting

Ferrex plc, the AIM quoted iron ore and manganese development company focused in Africa, is pleased to announce that it has conditionally raised £2.165 million (before expenses) by means of a Placing of 135,312,500 new Ordinary Shares at a price of 1.6 pence per new Ordinary Share.

The Company intends to utilise the proceeds of the Placing to fast-track the development of its iron ore and manganese portfolio of low-capex assets in Africa, which benefit from their location close to established infrastructure, up the development curve and into production. The Company's portfolio includes the Nayega manganese project in Togo ('Nayega'), the Megaba iron ore deposit in Gabon ('Megaba'), and the Malelane iron ore project in South Africa ('Malelane').

Ferrex is due to conduct a Bankable Feasibility Study at Nayega which is due for completion in H1 2013. The Nayega deposit has an Indicated JORC resource of 7.3Mt at 14.7% Mn and initial Scoping Study results indicate that the project could produce 250,000 tonnes of 38% concentrate per annum. From here, the Company plans to commence development at Q4 2013/Q1 2014, with a view to production. Low Capex US\$15m, low Opex US\$2/dmtu (Company Figures, see Iron Ore paragraph below for dmtu definition)

At the Company's recently acquired Megaba deposit in Gabon, which has been shown to include Direct Shipping Ore grade iron ore, defined over 1.8km of strike, based on previous exploration undertaken by the French public earth sciences institution, Ferrex plans to define a JORC compliant resource (exploration target 20Mt at 60% Fe) and take the project through to a Scoping Study stage by the end of 2013.

At its Malelane iron ore project in South Africa (in which the Company has a 74% interest), which has an Inferred JORC resource of 139Mt at 37% Fe, the Company has recently announced an updated Scoping Study which underpins the robust economics of the project and its viability as an open pit mining operation producing 1.8Mt per annum at 57% Fe over a 16.6 year mine life. NPV US\$4523m at 10% discount rate, capex US\$139m.(Company Figures)

Ferrex CEO Dave Reeves said, "Through the successful implementation of key exploration and development initiatives at our Nayega and Malelane projects, along with the acquisition of a highly synergistic iron ore asset in Gabon, we have significantly enhanced the value of Ferrex's manganese and iron ore portfolio over the last six months. Furthermore, we are delivering on our strategy to acquire and advance high quality, low capex projects with near term production potential. With this in mind, this £2.1 million fundraise will enable us to apply our sequential operational strategy. This is focused on conducting a bankable feasibility study at the Nayega manganese project in Togo, which is on target to become our first production project, generating cash to help fund the future development of our prospective iron ore assets, in tandem with proving up and expanding resources at our Mebaga and Malelane iron ore projects respectively. In addition, environmental studies and labour plans are currently being drafted and a Pre-Feasibility is targeted to commence H2 2013 at Malelane. With these developments in mind, this is a highly active time for Ferrex and we look forward to updating shareholders regarding our progress on a regular basis."

Further details

The net proceeds of the Placing will primarily be used to provide working capital to advance the Group's projects as follows:

- **Nayega, Togo - to fund production of a bankable feasibility study;**
- **Mebaga, Gabon - to fund exploration work with a view to producing an initial resource and scoping study; and**
- **Malelane, South Africa - to progress development work.**

In addition, up to £500,000 of the net proceeds will be used to cover overhead and administrative costs, including an early repayment to director James Carter of, in aggregate, £97,020 (excluding interest), pursuant to the terms of the Working Capital Facility entered into by the Company on 21 December 2012.

A notice convening the General Meeting to be held at Craven House, West Street, Farnham, Surrey GU9 7EN at 10.30 a.m. on 12 February 2013 is expected to be posted to shareholders by Monday 28 January. Under the Direct Subscription the Directors, other than James Carter, have agreed to subscribe for , in aggregate,12,500,000 Placing Shares directly with the Company at the Placing Price pursuant to the Subscription Agreements in the following proportions.

Director	Number of Placing Shares	Interests in Ordinary Shares on Admission	% of Enlarged Share Capital
Dave Reeves	9,375,000	112,488,189	14.62
Brian Moritz	1,250,000	14,583,333	1.89
Russell Lamming	937,500	42,881,944	5.57
Roy Pitchford	937,500	78,993,055	10.26

Under the AIM Rules each of Dave Reeves, Brian Moritz, Russell Laming and Roy Pitchford are separately treated as related parties of the Company. James Carter who is not participating in the Placing considers, having consulted with FinnCap, the Company's nominated adviser, that the terms of the Direct Subscription between the Company and each of Dave Reeves, Brian Moritz, Russell Laming and Roy Pitchford are fair and reasonable insofar as the Shareholders are concerned.

Iron Ore Market & Demand

Iron ore and manganese are the two main ingredients in steel making.

BHP Billiton, Rio Tinto and Vale currently control 75% of the seaborne iron ore trade. Long term iron ore demand and price is supported by:

- Demand growth driven from China
- Rising capital intensity
- Replacement of higher cost Chinese production

Manganese price currently US\$5.40/dmtu*

Iron Ore spot price currently US\$147.50/t**

*Ferroalloy.net

DMTU means dry metric tonne unit. A 'unit' is 10kg, or 1 tonne divided into 100 units. Essentially \$8/dmtu is equal to \$800/tonne of pure manganese metal.

***Article from ft.com 24/01/2012 Fortescue Metals give their opinions:*

<http://www.ft.com/cms/s/0/615da72e-65ef-11e2-bb67-00144feab49a.html#axzz2lyYWIGR5>

2013 Value Drivers

Nayega Manganese Project – Togo

- Secure exploitation permit
- Complete Definitive Feasibility study H1 2013
- Fast-track to mine development H2 2013

Malelane Iron ore Project – South Africa

- Increase and upgrade resource
- Complete environmental study
- Pre-feasibility H2 2013

Mebaga DSO project – Gabon

- Define a maiden DSO resource
- Fast track to Scoping Study status by Q4 2013

Continued evaluation of synergistic opportunities in Africa

- Complement low-capex/ near to infrastructure/early production investment criteria

Conclusion

Two of the projects have a JORC Compliant resource; the new Gabon (Mebaga) project has a resource of magnitude that, if confirmed, could be a potential game-changer. The Nayega project is a medium term producer and we are expecting a Bankable Feasibility Study in H1 2013. Add the track record of the management and with the Broker, FinnCap, having a valuation of 12p (using an Iron Ore price below US\$100) we regard the company as excellent value, especially with upside from Mebaga and we put an initial target price of 9p ahead of news in first half 2013. Speculative BUY

Strengths and Weaknesses

Strengths

- *Jorc Resource at Malelane;*
- *Jorc Resource at Nayega;*
- *Bankable Feasibility study (BFS) due H1 2013 at Nayega;*
- *Define Jorc Resource at Mebaga: potential game changer.*

Weaknesses

- *Iron ore price may fall;*
- *BFS may prove uneconomic;*
- *Jorc resource at Mebaga may not be forth coming or delayed*
- *There are country risks associated with Africa.*

Source: HB Markets

Sources

Ft.com. ferrexplc.com, Ferrex RNS, Finn Cap notes, general mineral websites, Company Presentation

Recommendations

During the three months to end-December 2012, the number of stocks on which HB Markets has published recommendations was 156, and the recommendations were as follows: Buy - 54; Speculative Buy - 78; Hold - 20; Sell - 3.

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