



Chinalco Yunnan Copper Resources

action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

Oct 26th 2015

Chinalco Yunnan Copper advances 10,000tpa smelter in DRC

Chinalco Yunnan Copper Resources (ASX:CYU) has wasted no time with its recently confirmed expansion plan into the Democratic Republic of Congo, with a proposed smelter operation already on track for prefeasibility results by the end of next month.

Forecast economics of the proposed plant appear strong, with a net profit estimated at US\$9.05 million per annum. This was based on a copper price of US\$5,392 per tonne which is well below the LME average of US\$6,500 per tonne over the past 10 years.

The company along with its major shareholder Yunnan Copper Industry (YCI) has moved to engage Chinese engineering consultancy Nerin Engineering to manage feasibility activities for the development of a solvent extraction-electrowinning copper smelter in the country.

This follows completion of Nerin's scoping work on the project, which would include a 10,000-tonnes-per-annum copper cathode operation located near Kolwesi in southeastern DRC.

YCI is pursuing approval from China Copper Corporation Limited (a subsidiary of CYU's ultimate largest shareholder, Chinalco) and other necessary regulatory approvals in China to engage CYU to assume control of the feasibility study activities and ultimately to bring the project into full operation.

Because the feasibility study for the smelter is based significantly upon other, almost identical, smelters in the DRC, it is expected to be completed in April next year.

Smelter details

CYU proposes that the new smelter will be located about 25 kilometres to the east of Kolwesi, near existing copper mining operations which are likely to provide the future source of copper ore.

Kolwesi is fast becoming a major centre for the copper-cobalt mining and smelting operations within the greater Katanga Region of southern DRC. There are already several large mining, mineral processing and mining services companies operating in and around Kolwesi.

The smelter is being designed as a two-staged process, with the first stage being a preliminary ore dressing and extraction and a second stage of electrowinning.

The final cathode product (to contain a grade of at least 99.99% copper) will be exported via the ports of Dar Es Salaam in neighbouring Tanzania.

The 300-kilometre road between Kolwesi and Lubumbashi is asphalted and road transport services are generally convenient.

Emerging logistical options

Although trucking product to DarEs Salaam is currently the only means of transporting minerals out of the DRC, the

Price: A\$0.033

Market Cap: A\$16.083M

1 Year Share Price Graph



Share Information

Code: CYU

Listing: ASX

Sector: General Mining

Website: www.cycal.com.au

Company Synopsis:

Chinalco Yunnan Copper Resources (ASX:CYU) is a resource exploration and development company with project interests in the Mount Isa region of north Queensland.

Author:
Proactive Investors +61 2 9299 5001

action@proactiveinvestors.com.au



China Railway Engineering Corporation has successfully rebuilt the 1336km Benguela rail line connecting the Angolan export port of Lobito to the DRC border.

Swiss-based Trafigura Group is managing the refurbishment of the rail line connecting Kolwesi to the Benguela line. Work on this connection is likely to be completed in early 2016 and is expected to create a significant improvement (and reduction in transportation costs) by opening up a new export option for copper and cobalt production.

The proposed location of the new CYU smelter at Kolwesi is not only aimed at capitalising on the new export facilities via Lobito, but will be constructed nearby (within no more than a 10-kilometre radius) of the mining operations that will supply ore to the new smelter.

Commercial discussions have already taken place with these mining operations and concluded ore supply arrangements will form part of the final feasibility study.

Financial backing

CYU's copper project acquisition and development ambitions for the DRC first flagged only a few weeks ago have already attracted A\$4.5 million in funding from Beijing-based JCHX Group as part of a long-term strategic cooperation deal.

JCHX controls a Shanghai-listed operator, JCHX Mining Management (SHA:603979), and is valued at 9.33 billion yuan (A\$2 billion). It is one of China's largest mining services companies.

JCHX has a long-established business relationship with YCI, being the mining contractor at several exiting YCI copper mines.

It is considered an important investor in CYU as it will be able to leverage its African mining experience (including 4 mining services projects in Zambia) to support the DRC development drive.

Analysis

The copper smelter project is another important step in the process of transforming CYU into a mid-tier copper producer.

The smelter plan represents an advanced-stage project, jumpstarting CYU's initial plans for establishing a footprint in the DRC and allowing for a relatively quick onset to productive operations.

Updates on the refining of the smelter plan and eventual operations and a PFS due by the end of November 2015 represent significant potential price catalysts for CYU, which is quickly transforming itself with an international platform and major Asian financial backing to fast track development projects.

The preliminary analysis establishes the smelter as a significantly profitable operation. Capex and project funding based on the PEA looks achievable with a completed Feasibility Study due by April 2016 offering another share price driver.

Forecast economics of the proposed plant provide a net profit estimated at US\$9.05 million per annum (based on a copper price of US\$5,392 per tonne) which highlights the vast undervaluation of CYU based on the current share price of \$0.033 and market capitalisation of \$15.9 million.

The JCHX deal also offers considerable upside to CYU's share price; in fact it completely changes the valuation landscape of what is possible for CYU. We see further significant share price upside for CYU despite the recent run-up.

The financial weight of a heavyweight like JCHX Mining Management (valued at \$2 billion) bodes well for a concerted effort to close copper processing and mining agreements in the DRC.

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