



MINING RESEARCH

Polo Resources

4.4p

Change in Holdings

21 January 2010

Polo Resources (AIM: PRL) has made changes to several of its holdings which materially impact our NAV estimate for the company. Most significantly, Polo has re-acquired a stake in Berkeley Resources (AIM: BKY) from Areva in exchange for Polo's holding in Marenica Energy (ASX: MEY) plus A\$7.42m in cash, whilst liquidating its remaining holding in Uranex (ASX: UNX). The current share price is at a 36% discount to our NAV of 6.88p. Despite Caledon announcing it was no longer actively seeking a sale of the company, potential corporate action remains pending on several other Polo investments. In response, we maintain our BUY recommendation and target price of 7p per share.

Bull points

- Trades at 36% discount to NAV
- Extract Resources (ASX: EXT) – Polo's largest holding expects feasibility study on Rossing South in mid 2010 and potential partnership decision
- Possible development decision for GCM Resources (AIM: GCM) imminent
- A-Cap (ASX: ACB) and Impact Resources (ASX: IPT) could be sold to CGM by 23 March 2010
- Coal focused joint venture in Mongolia with US company, Peabody Energy

Bear points

- No guarantee offers will be made
- Timing uncertain

Current NAV

Component	Value (£m)	Per Share (p)	% of Total Value
A-Cap Resources	£2.84	0.10	1.45%
Berkeley Shares	£10.56	0.37	5.36%
Caledon Resources Ordinary Shares	£21.72	0.76	11.03%
- 8.5% Convertible Loan Notes	£4.70	0.16	2.39%
Extract Resources	£101.34	3.54	51.48%
GCM	£14.73	0.51	7.48%
Impact Resources	£0.73	0.03	0.37%
Western Australian Metals Options	-	0.00	0.00%
Mongolia Peabody JV	£14.13	0.49	7.18%
Cash	£5.89	0.21	2.99%
ITM Options/ Warrants	£20.20	0.71	10.26%
Net Asset Value (NAV)	£196.84	6.88	100%
Share Capital (Fully diluted ITM)	2862.85		
NAV per Share		6.88p	

BUY**ANALYST**

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Polo is focused on acquiring and developing advanced stage uranium and coal projects.

INVESTMENT DATA

Ticker	PRL
Listing	AIM
No. of shares	2,346.6m
Market cap	£103.3m
Enterprise value	£97.4m

SHAREHOLDERS Holding (%)

Chiropo Company SA	4.29%
Ingalls & Snyder LLC	4.25%
Luxor Capital Group, L.P.	4.12%
RAB Capital Plc	4.10%
Regent Pacific Group Limited	3.92%
CRMC	3.61%
GCM Resources plc	3.19%
Millennium Capital Partners	3.16%

*As of 2 November 2009

SHARE PRICE PERFORMANCE

12m relative performance	70.9%
3m relative performance	-15.94%
1m relative performance	13.96%

12M SHARE PRICE PERFORMANCE

*FTSE All Share rebased to PRL

For important regulatory disclosures, please refer to the information on page 5 of this report.

Changes to holdings

Since our note of 24 November 2009, Polo has made changes to several of its holdings which materially impact our NAV estimate for the company. Over the summer, in order to participate in a fundraising in its largest investment Extract Resources (ASX: EXT), Polo closed several positions. These included selling its entire holding in Berkeley Resources (AIM: BKY) and significantly reducing its holdings in A-Cap Resources (ASX: ACB), Impact Minerals (ASX: IPT), Marenica Energy (ASX: MEY) and Uranex (ASX: UNX).

However, since then, Polo has re-acquired a stake in Berkeley from Areva in exchange for Polo's holding in Marenica Energy (ASX: MEY) plus cash, whilst liquidating its remaining holding in Uranex (ASX: UNX).

Marenica Energy shares swapped for Berkeley shares with Areva

Marenica announced to the market on 21 December that Polo sold its 47.56m shares or 10.57% stake in Marenica to French nuclear group, Areva. As part of the deal, Areva will exercise its 10.6m options in Berkeley Resources and sell these shares plus its existing 3.5m shares to Polo. The difference in value, equivalent to ~6.4m Berkeley shares, will be met by Polo paying Areva A\$7.42m - the average trading price over the ninety days prior to the 30 November 2009.

The 47.56m Marenica shares are the remainder of 49.56m shares that Polo purchased in June 2009 at A\$0.12 as part of Marenica raising A\$9.9m. Polo retained the 24.78m options in Marenica it received as part of the fundraising. These are exercisable at A\$0.25 each by 30 June 2011. This is good news for Marenica as Areva is the only real partner for the Marenica uranium project in Namibia which is adjacent to Areva's Trejkoppe project.

Polo previously held 10.3m Berkeley shares and 5.67m options at A\$0.75 but sold these over the summer in order to participate in the raising by Extract Resources. However, in discussions the company has always remained positive about the outlook for Berkeley.

As a consequence of the deal Berkeley announced on 12 January 2010 that Areva's rights for off-take or marketing of the uranium production from Berkeley's projects had been terminated.

On 2 December Berkeley released the results of its scoping study for the Salamanca uranium project in Spain and hopes to have the feasibility study completed by November 2010.

Uranex stake sold on market, A-Cap and Impact under option

As well as selling its entire holding in Berkeley over the summer, Polo also significantly reduced its holdings in A-Cap Resources, Impact Minerals, Marenica Energy and Uranex. Since our last note, we believe that Polo has sold its remaining 4.3m shares in Uranex in the open market.

Polo sold down its stakes in A-Cap Resources and Impact Resources to China Growth Minerals Limited (CGM), a Hong Kong based investment company. CGM purchased 13 million A-Cap Resources shares and 5.92m shares in Impact Resources from Polo. CGM also has an option to purchase the remaining shares in A-Cap and Impact Polo hold at the 15-day Volume-Weighted Average Price (VWAP). The option expires on 23 March 2010.

Other Developments

Caledon sale aborted

Polo holds 54.4m shares, equivalent to 25.94% of the issued share capital in Caledon Resources (AIM: CDN), as well as £4.7m in 8.5% Convertible Loan Notes. We had expected the company to be sold at a price of up to 80p per share. However on 8 December, Caledon announced that it was no longer actively seeking the sale of the company. On the news the share price fell away considerably, but has recovered some of the lost ground since then. We met with the company a few days later and although management was not particularly forthcoming with respect to cost forecasts, the outlook for coal is positive and we expect Caledon's share price to strengthen during the year.

GCM licence rumours continue

Polo holds 15.2m shares or 29.83% of the issued share capital of GCM Resources (AIM: GCM). GCM has been waiting since 2005 for governmental approval to develop the Phulburi coal project in Bangladesh. Bangladesh has no national coal policy and needs to finalise one before coal can be extracted from this or any of the other four coal fields which contain around 2.55bn tonnes of reserves in total including the 572m tonnes at Phulbari.

However, the Times of London reported on 14 January 2010 that GCM is “on the verge of being awarded a long-awaited licence in Bangladesh”. This has caused the GCM share price to rally strongly up nearly 50% over the past month. There has been no formal statement from either the company or the government but if the licence is granted, we expect a substantial re-rating in the value of GCM and consequently in Polo’s holding.

Extract drilling and results continue to impress

Extract Resources released an exploration and drilling update on 11 January 2010. The company now has 13 drill rigs on site at its Rossing South uranium project in Namibia and expects to have additional rigs on site over the next 4 to 6 weeks to accelerate the resource definition and exploration efforts. The latest drill results at Zones 1 and 2 continue to return high grades. All the zones of mineralisation are still open at depth and along strike in at least one direction. A RadonX survey has been completed over the zone of alluvial cover in the Rossing South area and has identified further drill targets and an area suitable for the processing plant and tailings storage, which the company is currently drilling to sterilise the ground.

We still expect the total resource to increase from the current 267Mlbs U₃O₈ to 500-600Mlbs. Extract is also progressing with the feasibility study which is due to be completed in mid-2010 ahead of entering production in Q2 2013. There have been no further announcements concerning possible partnerships after Extract invited interested parties to submit proposals last November.

Revised NAV

We have incorporated the recent changes to Polo’s holdings in our NAV estimate to give a current NAV of £209.56m.

NAV calculation

Component	Value (£m)	Per Share (p)	% of Total Value
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Source: Company, Westhouse estimates

At the current share price, all the 415.5m outstanding Peabody warrants and 100.75m other options are now in the money. This accounts for 10% of our NAV and makes the fully diluted ITM share capital 2862.85m.

Our calculated NAV per share is now 6.88p, down from 6.95p in November and means the share price is trading at a 36% discount to NAV.

Recommendation

Since our last note, our NAV has fallen slightly from 6.95p to 6.88p per share. However, the share price continues to trade at a 36% discount to our NAV estimate as the company is viewed as an investment trust rather than a mining company. This is appropriate as nearly 93% of the company's assets are investments in other companies, cash or ITM options and warrants. However, in our opinion, the discount should be closer to 30%.

In our discussions with the company last year, Polo is aware of this and keen to remove the discount. However, we can only see this happening if the company was to liquidate its other holdings leaving its JV with US Peabody Energy in Mongolia.

Despite the failure of Caledon to find a buyer, Polo could still liquidate several of its holdings over the coming months. Firstly, China Growth Minerals Limited may purchase Polo's remaining stakes in A-Cap Resources and Impact Resources within the next few months. At today's prices, this would be worth £3.75m to Polo. With renewed interest in GCM an offer may be made and given the current interest in coking coal we do not rule out another bid for Caledon. However, with over 50% of the NAV being derived from its holding in Extract Resources, whether the Extract management decides to sell, JV or develop Rossing South will materially impact Polo.

With the current capex requirement at Extract's Rossing South uranium project currently at US\$704m we believe, as discussed in our previous note, that the company will need a partner. This could present a potential exit point for Polo if the price was right and definitely higher than the summer's peak of A\$11.37 per share.

Based on our NAV, we believe that the current share price should be at 4.81p per share. However, due to the interest in the majority of Polo's holdings we believe Polo could comprise mainly in cash with only the JV with Peabody as its major asset. The timing of these events is uncertain but with Polo continuing to trade at a significant discount to its NAV and potentially significant price drivers remaining in several of its holdings including GCM and Extract, we continue with our **BUY** recommendation for Polo Resources and maintain our six month target price of 7p per share.

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