





## The Clayton's Equity Raising Or A Prudent Move?

In June 2004, SMY's Managing Director Peter Harold in a disclosure to the market, said that he did not envisage that the company would need to raise additional capital (equity) to finance the Lanfranchi deal, despite the indicated high level of gearing in the short to medium term. Our bias at that time, despite the company's view, was to believe that the banks would require further "comfort money" in the form of a further equity raising, in order to provide additional debt financing. Subsequently, the Sally Malay project commissioned smoothly and we felt that that the need to raise further equity reduced but was not eliminated.

Despite, given the circumstances, the potential negative signal that such a raising sends to the market, we believe that the raising represents a prudent decision.

Although the company may have been overly optimistic in its assessment of the time required to complete bank debt financing, it is likely that the current demand for mining services of all types has further impacted the time required for the banks to carry out due diligence, assess documentation and so forth. Furthermore, it is likely that WMR and SMY would have agreed a timetable for the deal to be completed, and it is conceivable that this timetable was being compromised by the financing timetable. In turn this raises the question as to how WMR may have responded if any deadline had not been met and how the other tenderers for the Lanfranchi asset may have then responded. It must also be remembered that the Lanfranchi JV had entered into a conditional contract to purchase Lanfranchi, with the condition being the attainment of bank debt financing.

By raising \$10m immediately, SMY has placed itself in a position to waive its self imposed debt financing condition, and proceed to complete the transaction. Furthermore, with title to the asset, the company can in principle move to utilise the remainder of its existing hedging facility, and take advantage of the current very strong nickel price. By achieving first production on schedule, it is also likely that initial nickel sold into the spot market will attract more favourable pricing than otherwise would be the case.

In summary, while the banks may have ultimately required a further equity raising, and we are unlikely to now know, in our view the reasons for the equity raising at this stage represent a prudent business decision rather than an imposed condition by the company's financiers.

## Commodity Price Revisions

Our forecasts and valuations per this note incorporate relevant revisions to our commodity price and exchange rate forecasts that we are progressively rolling out across our stock coverage. The changes which impact SMY are summarised in the table below.

Previous Forecasts						
	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	LT
Copper (US\$/lb)	1.25	1.04	0.86	0.84	0.85	0.85
Nickel (US\$/lb)	5.90	5.44	5.00	3.67	3.20	3.50
Cobalt (US\$/lb)	20.00	15.00	10.00	10.10	10.00	10.00
US\$/A\$	0.73	0.78	0.79	0.77	0.74	0.65
New Forecasts						
	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	LT
Copper (US\$/lb)	1.29	1.13	1.04	0.91	0.90	0.85
Nickel (US\$/lb)	6.35	6.00	5.50	4.50	4.00	3.50
Cobalt (US\$/lb)	23.00	20.00	15.00	10.10	10.00	10.00
US\$/A\$	0.73	0.76	0.78	0.76	0.74	0.65

Source: WilsonHTM



In summary, our revised forecasts capture a more modest fall in commodity prices in calendar 2005 than we had been previously forecasting. We also capture modest above long term pricing into 2006.

At this stage, we are substantially maintaining our view that the US\$/A\$ will be stronger than present levels in 2005 (see WilsonHTM report 20 July 2004). However, we have moderated our view slightly given the now widely held view that bulk commodity prices will increase significantly for JFY2005 (beginning 1/3/05), yet despite this, the somewhat modest exchange rate response to date. Our H1 2005 forecast is now 0.76 (0.78), and H2 0.78 (0.79).

### **Target Price**

Applying our 3.5x multiple to forecast FY2006 operating cashflow, our 12 month target price has increased from \$1.10/share to now \$1.22/share.

We note that at the present time, SMY is trading on just over 4.0x cashflow, suggesting that our 12 month target may prove to be conservative.



