

24 February 2008

ASX Code: CGG
12 month Target: \$0.45
SPECULATIVE BUY

Citadel Resources Group Ltd

Resource Boost Confirms Value of Jabal Sayid...

Citadel boosts its JORC resources at Jabal Sayid

Mineral resource has increased 61% to 74.3mt from 46.2mt. Uplift in contained Copper of 20% to 1,000,000 tonnes contained Cu and increase in contained Zinc of +400% to 440,000 tonnes contained Zn. The indicated and inferred resource includes 52mt at 1.6% Cu, 0.1% Zn, 4mt at 1.9% Cu, 1.3% Zn, and 18mt at 2.1% Zn and 0.5% Cu. The JORC resource does not include gold and silver credits and remains open at depth and most directions along strike. The upgrade further shows lode 1, 2 and 4 could be part of one large system.

Resource upgrade re-confirms the value of the project

The resource upgrade will help to further de-risk the project. Comparable mines to Jabal Sayid are Oxiana's Prominent Hill at 152.8mt at 1.21% Cu for 1.85mt copper, Pan Australian's Phu Kham at 144mt at 0.56% Cu for 810,000 copper, and Kagara Zinc's Mungana deposit at 1.96mt at 14.4% Zn for 282,240t zinc. Citadel Resources 50% stake in Jabal Sayid constitutes to an inexpensive EV/Resource \$A/lb of \$0.07. This compares favourably to an EV/Resource \$A/lb of around \$0.38 for Pan Australia Resources (PNA), \$0.14 for Hillgrove (HGO), \$0.24 for CuDeco (CDU), and \$1.01 for CopperCo (CUO).

Drilling at Jabal Sayid intensifying

Three diamond core drill rigs are currently operating at Jabal Sayid with a fourth multi-purpose being shipped to site. Infill and extension drilling of the current Mineral Resource will continue during 2008 with another updated JORC resource estimated toward end of 2008.

Pre-feasibility underway

A 20,000m drilling program is currently ongoing at Jabal Sayid. A pre-feasibility study is set to be released within the next 6 months and could lead to a share price re-rating.

Twelve month target remains

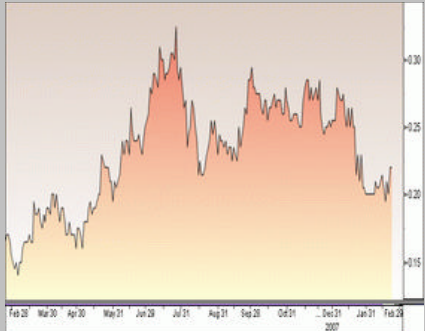
Our 12-month target remains and no earnings revision has been made. Completion of a pre-feasibility and further upgrades to resource could lead to a re-rating. Risk for further dilution, commodity price volatility, and timing delay to production remain.

Capital Structure	
Sector	Materials
Share Price	A\$0.24
12 Month Target Price	A\$0.45
Fully Paid Ordinary Shares	952.7m
Options on issue	143.4m
Market Capitalisation (diluted)	\$249.4m

Management	
Fletcher Quinn	Non-Executive Chairman
Kris Knauer	Non-Executive Director
Ines Scotland	Chief Executive Officer
Ralph Stagg	Technical Director

Major Shareholders	
Vertex	40.0%
CMCI	25.0%

Analyst	
Resources Analyst	
Sven Restel	
+61 2 8198 7220	
svenr@rmwiseresearch.com.au	

Share Price Performance	
	

Potential Earnings*	2011F	2012F	2013F	2014F	2015F
NPAT	24.30	199.20	197.40	227.00	146.10
EPS Fully Diluted	0.02	0.17	0.17	0.20	0.13
FCF	28.80	201.00	106.00	240.00	161.00

*Based on the Jabal Sayid project only

Source: Citadel Resources Group Limited, RMWise Research

Management

Fletcher Christeson Quinn

Non-Executive Chairman

Mr Quinn has been a Director of ADV Group since 8 August 2007. He is a member of the Australian Institute of Management, the Australian Institute of Directors and an Associate of the Australasian Institute of Mining & Metallurgists. He has extensive public company and merchant banking experience and is a former Director of FSA Group Limited.

Kris David Knauer

Non-Executive Director

Mr Knauer was appointed Director on 24 February 2006 and Managing Director 21 June 2006. He has extensive experience as a geologist and is a licensed securities adviser with extensive experience in financial markets. His expertise is put to good use when it comes to appraising the Saudi projects and for capital raisings. After the acquisition of Vertex he took on the role of non-executive director and remains a major shareholder.

David Regan

Non-Executive Director

Mr Regan has significant experience in the resources industry and in the Middle East and Northern African regions in particular. Mr Regan was with BHP Billiton from 1996 to 2004 as the Vice President Operations in Algeria and then VP Business Development North Africa & Middle East Regions. Prior to this Mr Regan was with Arco Coal in Australia in various positions including Corporate Solicitor, Marketing and Project Planning. Mr Regan's last position with Arco was as President Arco El Djazzair (1993 to 1996). Mr Regan holds a Bachelor of Laws from the University of Sydney, where he graduated in 1973 and a Management Development Certificate from Harvard Business School completed in 1993.

Ines Scotland

Chief Executive Officer

A founding Director of Vertex, Ines has fifteen years experience in the mining industry the majority of which was working for Rio Tinto. Ines has worked in professional positions in Australia, Papua New Guinea, USA and the Middle East and is currently located in Saudi Arabia with Vertex.

Ralph Stagg

Technical Director

Technical Director of Vertex and Bariq, Ralph is a geologist and has over 35 years experience in all facets of gold and base metal exploration and development. Ralph has extensive experience in Australasia, Africa and the Middle East, with International companies such as Cominco, Falconbridge and Pennzoil (Battle Mountain). Mr Stagg has considerable experience serving on the boards of ASX listed companies.

Brett Butlin

Exploration Manager

Brett has more than 12 years experience as a geologist working most recently at Jabiru Metals as a Senior Exploration Geologist at Teutonic Bore in Western Australia. Prior to joining Jabiru, Brett worked for Barrick Gold for more than five years as well as a number of other Australian-based exploration and mining companies

Jabal Sayid project metrics, based on a 10 year mine life

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Throughput, open cut	Mt	0.25	1.50	1.50	1.00	-	-	-	-	-	-	-
Copper grade	%	1.45	1.45	1.45	1.45	-	-	-	-	-	-	-
Gold grade	g/t	0.65	0.65	0.65	0.65	-	-	-	-	-	-	-
Zinc grade	%	1.33	1.33	1.33	1.33	-	-	-	-	-	-	-
Recovery (copper)	%	92.00	92.00	92.00	92.00	-	-	-	-	-	-	-
Recovery (gold)	%	40.00	40.00	40.00	40.00	-	-	-	-	-	-	-
Recovery (zinc)	%	80.00	80.00	80.00	80.00	-	-	-	-	-	-	-
Copper produced	t	3,335	20,010	20,010	13,340	-	-	-	-	-	-	-
Gold produced	oz	2,275	13,650	13,650	9,100	-	-	-	-	-	-	-
Zinc produced	t	2,660	15,960	15,960	10,640	-	-	-	-	-	-	-
Throughput, underground	Mt	0.25	1.50	1.50	3.00	3.00	3.00	3.00	4.50	4.50	4.50	4.50
Copper grade	%	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79
Recovery (copper)	%	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00
Copper produced	t	4,117	24,702	24,702	49,404	49,404	49,404	49,404	74,106	74,106	74,106	74,106
Copper price received	US\$/t	5,800	5,800	5,725	5,600	5,600	5,800	5,725	5,500	5,250	5,250	5,000
Gold price received	US\$/oz	700	680	650	600	-	-	-	-	-	-	-
Zinc price received	US\$/t	2,500	2250	2250	2000	-	-	-	-	-	-	-
Total sales revenue	\$	51.46	304.50	300.70	378.10	276.60	286.50	282.80	407.50	389.10	389.10	370.50
Operating costs	\$ per t	1,680.00	1,680.00	1,680.00	1,680.00	1,680.00	1,456.00	1,456.00	1,456.00	1,456.00	1,456.00	1,456.00
Total operating costs	\$	6.90	41.49	41.49	82.99	82.99	71.93	71.93	107.89	107.89	107.89	107.89
Operating profit	\$	44.60	263.00	259.40	295.20	193.60	214.60	210.90	299.70	281.20	281.20	262.60
Operating margin	%	86.60	86.40	86.20	78.10	70.00	74.90	74.60	73.50	72.30	72.30	70.00
EBITDA	\$	42.30	260.50	256.50	292.10	190.30	202.90	198.80	295.20	276.30	175.80	256.60
Tax @ 20%	\$	-6.08	-49.79	-49.34	-56.75	-36.53	-39.32	-38.39	-58.34	-54.69	-34.74	-51.33
NPAT	\$	24.30	199.20	197.40	227.00	146.10	157.30	155.10	233.40	218.80	138.90	205.30
Free cash flow	\$	28.80	201.40	106.20	240.70	161.30	172.30	81.10	248.20	233.00	154.60	222.30
EPS		0.0214	0.1757	0.1741	0.2002	0.1289	0.1387	0.1368	0.2059	0.1930	0.1225	0.1811

Financial Model on Jabal Sayid

Financial Year	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Sales revenue	1.000	1.000	51.5	304.5	300.8	378.1	276.6	286.5	282.8	407.6	389.1	289.1	370.5
Other revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	1.000	1.000	51.5	304.5	300.8	378.1	276.6	286.5	282.8	407.6	389.1	289.1	370.5
Operating costs	-5.500	-5.500	-6.9	-41.5	-41.5	-82.9	-82.9	-79.9	-79.9	-107.9	-107.9	-107.9	-107.9
Branch expenses	-1.000	-1.000	-2.30	-2.53	-2.78	-3.06	-3.37	-3.70	-4.07	-4.48	-4.93	-5.42	-5.97
Gross Profit	-5.5	-5.5	42.3	260.5	256.5	292.1	190.3	202.9	198.8	295.2	276.3	175.8	256.6
Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	-5.5	-5.5	42.3	260.5	256.5	292.1	190.3	202.9	198.8	295.2	276.3	175.8	256.6
EBIT	-5.6	-5.6	42.3	260.5	256.5	292.1	190.3	202.9	198.8	295.2	276.3	175.8	256.6
Net interest	-0.4	-2.1	-11.9	-11.5	-9.8	-8.4	-7.7	-6.3	-4.9	-3.5	-2.8	-2.1	-
NPBT	-6.00	-7.73	30.4	249.0	246.7	283.7	182.6	196.6	193.9	291.7	273.5	173.7	256.6
Tax	-	-	-6.08	-49.79	-49.34	-56.75	-36.53	-39.32	-38.79	-58.34	-54.69	-34.74	-51.33
NPAT	-6.00	-7.73	24.3	199.2	197.4	227.0	146.1	157.3	155.1	233.4	218.8	138.9	205.3
Retained profits	-6.00	-7.73	24.3	199.2	197.4	227.0	146.1	157.3	155.1	233.4	218.8	138.9	205.3
Tax on EBIT	-	-	8.460	52.094	51.303	58.428	38.067	40.579	39.765	59.044	55.254	35.155	51.327
CAPEX	30.0	\$140.0	-	-	90.0	-	-	-	90.0	-	-	-	-
EBITDA less capex	-35.5	-145.50	42.30	260.47	166.52	292.14	190.33	202.90	108.83	295.22	276.27	175.78	256.63
D&A	-0.096	-\$0.128	-	-	-	-	-	-	-	-	-	-	-
Net working capital	6.931	3.371	-5.00	-7.00	-9.00	7.00	9.00	10.00	12.00	12.00	12.00	14.00	17.00
FREE CASH FLOW	-28.45	-142.13	28.84	201.38	106.21	240.71	161.27	172.32	81.06	248.17	233.02	154.62	222.31

Valuation Summary	
Tax (%)	20.00
Assumed rate for debt (%)	7.00
WACC (%)	10.00
\$US/\$A	1.25
Present value of project (US\$)	\$706.10
Equity Value (US\$)	\$416.60
Shares outstanding	952.70
Diluted	1133.80
After assumed cap raising (diluted)	1254.80
NPV of project (A\$)	\$0.82
ADS 50% stake (A\$)	\$0.41
Diluted value of stake (A\$)	\$0.355

Research Analysts

Guy Le Page	Head of Resources Research	+61 8 9321 3277	gtlepage@rmwiseresearch.com.au
Michael Mech	Resource Analyst	+61 8 9321 3277	michaelm@rmwiseresearch.com.au
Nick Jolly	Resource Analyst	+61 8 9482 0525	nickj@rmwiseresearch.com.au
Richard Monti	Resource Analyst	+61 8 9482 0502	richardm@rmwiseresearch.com.au
Dennis Trlin	Industrial Analyst	+61 8 9321 3277	dennist@rmwiseresearch.com.au
Kevin Branton	Industrial Analyst	+61 3 9787 7455	kevinb@rmwiseresearch.com.au
Simon Guzowski	Equities Analyst	+61 2 8198 7245	simong@rmwiseresearch.com.au
Imran Valibhoy	Equities Analyst	+61 2 8198 7246	imranv@rmwiseresearch.com.au
Sven Restel	Equities Analyst	+61 2 8198 7220	simonr@rmwiseresearch.com.au
Tim Morris	Junior Equities Analyst	+61 2 8198 7214	timm@rmwiseresearch.com.au

Registered Offices

Sydney

Suite 6.01 Level 6,
233 Castlereagh Street
Sydney NSW 2000

Perth

1175 Hay Street
West Perth WA 6005

GPO Box 154
West Perth WA 6872

Email / Website

info@rmwiseresearch.com.au
www.rmwiseresearch.com.au

Phone: +61 1300 306 308

Fax: +61 1300 304 306

Phone: +61 8 9321 3277

Fax: +61 8 9321 8399

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Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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