

15 July 2010

Nevsun Resources

Year End	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	0.0	(7.2)	(5.6)	0.0	N/A	N/A
12/09	0.0	(5.0)	(3.9)	0.0	N/A	N/A
12/10e	0.0	(20.7)	(4.3)	0.0	N/A	N/A
12/11e	559.6	377.9	73.0	64.3**	5.4	16.2

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items;
** Maximum potential payout.

Investment summary: Nearer to production

Nevsun Resources has announced that its Bisha Au-Ag-Cu-Zn mine remains on-track to enter production in early 2011. Construction is progressing well, and Bisha should move into the commissioning stage early in the fourth quarter this year.

Commissioning will take 60 days, after which commercial production should be achieved by end Q111. Procurement is now 95% complete, and the company is confident its end June 2010 cash position of US\$83m is sufficient to meet the remaining requirements. Bisha should achieve quarterly production of 100koz gold during its gold-rich mining phase, at a cash cost of US\$250/oz.

First mover advantage in a prospective land

The geology of Eritrea is relatively poorly understood, but there is good indication that it is a continuation of a geological system across the Red Sea that has yielded many gold VMS mineralisation occurrences. As the understanding of Eritrean geology increases, Nevsun can only benefit from the development of the country's first mine since the 1930s. While a US arms embargo is still in place on Eritrea, it has had little effect on development to date, and is not expected to affect production. Also, Eritrea is making good progress in satisfying demands that could lift the embargo.

Valuation

We have adjusted our forecasts to reflect recent moves in external markets (metals prices, forex, etc). While this has caused a slight reduction to our revenue forecast in FY11 it is irrelevant within the context of the overall valuation of the company. Our discounted dividend flow model indicates that Nevsun shares are worth US\$4.03 based on our assumptions for Nevsun's mining operations. To this needs to be added an additional US\$1.74 in respect of the government's acquisition of an additional 30% stake in the project, to give a total value for Nevsun's shares in current money terms of US\$5.77 per share. Nevsun's shares have risen c 30% since our initiation note (published 14 May) and now stand at a 31% discount to our valuation. We would expect this to narrow as Bisha moves towards development, and to move to a premium once profitable production has been achieved.

Price C\$4.09
Market Cap C\$788m

Share price graph



Share details

Code NSU
Listing TSX
Sector Mining
Shares in issue 192.637m

Price

52 week High Low
C\$4.1 C\$1.6

Balance Sheet as at 31 December 2009

Debt/Equity (%) N/A
NAV per share (US\$) 0.47
Net cash (US\$m) 29.1

Business

Nevsun Resources is developing the Bisha Au-Ag-Cu-Zn volcanic massive sulphide deposit in western Eritrea. The company expects production from the project in 2011. Nevsun is debt free.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	67%
P/CF	N/A	N/A	3.7
EV/Sales	N/A	N/A	2.3
ROE	N/A	N/A	78%

Geography based on revenues (2011e)

	UK	Europe	US	Other
0%	0%	0%	0%	100%

Analysts

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Exhibit 1: Financials

	US\$ '000s	2008	2009	2010e	2011e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	559,568
Cost of Sales		(6,114)	(5,456)	(8,500)	(167,930)
Gross Profit		(6,114)	(5,456)	(8,500)	391,637
EBITDA		(8,089)	(5,456)	(8,500)	391,637
Operating Profit (before GW and except.)		(8,097)	(5,462)	(22,269)	377,869
Intangible Amortisation		0	0	0	0
Exceptionals		(487)	(490)	(10,552)	0
Other		(12)	414	1,492	0
Operating Profit		(8,597)	(5,538)	(31,329)	377,869
Net Interest		935	30	73	20
Profit Before Tax (norm)		(7,174)	(5,018)	(20,704)	377,888
Profit Before Tax (FRS 3)		(7,661)	(5,508)	(31,256)	377,888
Tax		0	0	0	(143,598)
Profit After Tax (norm)		(7,174)	(5,018)	(20,704)	234,291
Profit After Tax (FRS 3)		(7,661)	(5,508)	(31,256)	234,291
Average Number of Shares Outstanding (m)		128.1	130.3	192.5	192.5
EPS - normalised (c)		(5.6)	(3.9)	(4.3)	73.0
EPS - FRS 3 (c)		(6.0)	(4.2)	(9.7)	73.0
Dividend per share (c)		0.0	0.0	0.0	64.3
Gross Margin (%)		N/A	N/A	N/A	70.0
EBITDA Margin (%)		N/A	N/A	N/A	70.0
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	67.5
BALANCE SHEET					
Fixed Assets		43,395	125,926	241,087	227,318
Intangible Assets		0	0	0	0
Tangible Assets		43,395	125,926	241,087	227,318
Investments		0	0	0	0
Current Assets		42,995	35,827	49,867	93,741
Stocks		207	2,276	24,453	46,631
Debtors		1,842	3,201	16,397	45,992
Cash		40,655	29,067	7,897	0
Current Liabilities		(10,312)	(13,080)	(13,092)	(13,104)
Creditors		(10,312)	(13,080)	(13,092)	(13,104)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	(410)	(1,550)	(1,550)
Long term borrowings		0	0	0	0
Other long term liabilities		0	(410)	(1,550)	(1,550)
Net Assets		76,078	148,262	276,312	306,406
CASH FLOW					
Operating Cash Flow		(4,249)	(3,289)	(41,799)	341,877
Net Interest		935	30	73	20
Tax		0	0	0	(143,598)
Capex		(41,837)	(80,533)	(137,629)	0
Acquisitions/disposals		28,074	28	881	0
Financing		37,270	72,175	157,305	0
Dividends		0	0	(0)	(206,196)
Net Cash Flow		20,193	(11,589)	(21,169)	(7,897)
Opening net debt/(cash)		(20,462)	(40,655)	(29,067)	(7,897)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(40,655)	(29,067)	(7,897)	0

Source: Edison Investment Research, company accounts

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