



26 May 2011

Price

7.0p

WESTHOUSE**BUY**

Target price

13.0p

Stratex International plc*Mining***COMPANY DESCRIPTION**

Exploration and development company focusing on gold and high-value base metal projects in Turkey and East Africa.

Key data

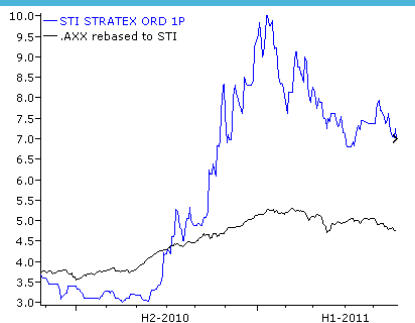
Ticker	STI
Listing	AIM
No. of shares (m)	298.41
Market cap (£m)	20.73
Ent. value (£m)	19.73

Top shareholders % holding

Teck Resources Limited	11.97
Forest Nominees Ltd	8.70
Mr NJ Graham	7.87
Richmond Partners	7.24
Kairos Eurasia Fund	4.90
David Hall	4.36
Hunter (CI) Nominees	3.38
Other Directors/Officers	3.07

Relative performance

Over:	1mn	3mn	12mn
Perf (%)	0.2	-5.5	46.8

Price/AIM All-Share rebased to STI

Unless otherwise stated, all pricing in this report is from Fidessa, as of 24 May 2011.

Marketing communication

Westhouse Securities acts as nomad and broker to Stratex International

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New strategic alliance with Antofagasta Minerals

Stratex International plc (Stratex) has announced a strategic alliance (the Agreement) with Antofagasta Minerals SA (Antofagasta), a subsidiary of Antofagasta plc, to explore for copper and copper/gold deposits in Turkey.

The Agreement is yet more positive news for Stratex and comes on the back of a second JV with Centerra Gold (Centerra) at the company's Altunhisar project in Turkey. The combination of these two developments, and adoption of the company's mid-range long-term gold price of US\$1,200/oz in our models for the Inlice and Altintepe projects, has meant that we have revised our target price to 13p, while retaining our BUY recommendation.

- Antofagasta has committed US\$1m for the first 16 months of exploration and has an option to continue funding further exploration at a minimum expenditure of US\$250,000 per annum.
- Any project identified will be held 51% by Antofagasta and 49% by Stratex. Antofagasta will then have the option to increase its holding to 70% of that project, upon the expenditure of an additional US\$3m within a further two years.
- This follows a second JV agreement with Centerra in Turkey at Stratex's Altunhisar project, where Centerra has committed to fund US\$0.5m over one year. It then has the option to earn 51% of the project by spending a further \$1m within the initial three-year period, with a further entitlement to increase its share to 75%, upon further expenditure of US\$2m within the subsequent two years.
- Since our last note, there have also been positive developments in East Africa, where Stratex has a number of exploration targets. These include the Afar project, which it holds as a JV with Thani Ashanti; and Blackrock, an exciting new epithermal discovery.
- The company is expecting to complete drilling programmes on at least six properties during the 2011 calendar year, of which four are funded by JV partners but managed by Stratex. Stratex's Turkish partner, NTF, is also considering a full feasibility study at Altintepe, having already completed one at Inlice. Inlice is due to enter production in H1 2012, with Altintepe potentially following it in 2013, should NTF decide to continue with the feasibility study.

Recent developments

Stratex made huge strides in 2010 with a succession of positive news items from both Turkey, where it was proving resources and creating new partnerships, and East Africa, where it has discovered an extensive new gold district. In 2011, the pattern has been more of the same, as the company has delivered consistently positive news flow in the form of new joint ventures, resource updates and the announcement of further exciting discoveries in East Africa.

Strategic agreement with Antofagasta Minerals announced, with a mandate to explore for copper and copper/gold projects in Turkey

Stratex's new agreement with Antofagasta is a real show of support for all of Stratex's work to date in Turkey, as it shows that not only is it operating in an attractive location but that it is going the right way about finding properties of note. Although the numbers involved are small – \$1m over 16 months with a minimum potential spend of \$250,000 pa thereafter – the implied support for Stratex is significant. Stratex will also be working with seconded Antofagasta personnel on an *ad hoc* basis and the blue-sky potential of finding a world-class copper porphyry deposit, using their combined expertise, is considerable.

Second joint venture with Centerra

Since our last note was published, Centerra has agreed a second joint venture with Centerra, this time at the Altunhisar project in Turkey. As part of the agreement Centerra has committed to fund \$0.5m in year one, after which, should its expenditure reach \$1.5m over the initial three years, it will be able to acquire 51% of the project. It will then have the option to increase its stake to 75% by spending a further \$2m over two years. That Centerra has once again asked Stratex to run the project, not to mention agreeing a second JV, demonstrates the level of confidence and belief it has in Stratex's exploration and development ability.

Öksüt resource update

At the end of March, Stratex announced a 115% resource upgrade at the Öksüt project in Turkey. This took the project to 317,256oz gold in two of the six zones which have currently been identified. JV partner Centerra has committed to fund geophysical surveys, which will be followed by a 4,600m diamond drilling campaign during 2011. Judging by previous successes, we are hopeful that further good news will follow the upcoming work programme.

East Africa

During a site visit to the Afar and Blackrock projects by Westhouse in mid-April, it was noted that both were highly promising and have significant potential. Should the ongoing 3,000m drilling programme at the Afar Project, which will be primarily focused on Megenta, prove successful, then the read-across to Blackrock is very positive, due to its geological similarities. The work carried out to date in the Rift Valley has indicated that Stratex has started to prove the existence of a new mineral district. If the potential of this region is realised, then the company, with its large land package and numerous targets, could see a lot of value added to this side of the business.

Blackrock

Blackrock, like Megenta 260km to the south, hosts a number of substantial low-sulphidation vein systems which show evidence of boiling related textures. This is a feature commonly associated with 'bonanza' grade gold and already, early-stage channel and surface chip samples have suggested its presence, with grades of over to 30g/t in places.

The project currently contains 14km of prominent veining which varies in width from 1m to over 28m. Figure 1 was taken while standing on the Theodore vein, a 1,600m long outcrop in Blackrock's Black Water Zone. To the right of the prominent Theodore ridge is the Oasis vein, another of the five substantial vein systems at Black Water. Figure 2 shows the Theodore vein outcropping at surface.

More work is clearly required to get a better understanding of the mineralisation and likely gold grades, but even at such an early stage, the project is highly prospective. Due to the quality of the exposure in the region, the company hopes that it will be able to fast-track Blackrock to drill-ready status by the end of 2011.

Figure 1: View of the Theodore vein at Blackrock



Figure 2: The Theodore vein outcropping on the Rift Valley floor



SOURCE FOR THESE IMAGES: Westhouse Securities.

Valuation

We have reviewed and updated our valuation for Stratex on a sum-of-the-parts basis, using DCF valuations for Inlice and Altintepe, and the dollar values committed by JV partners for the other projects, plus cash and investments. Based on our sum-of-the-parts estimates, we currently value Stratex at 13p per share.

Westhouse sum-of-the-parts valuation of Stratex

Component	Project	Value (£m)	Value per share (p)
Turkey			
NTF JV	Inlice (NPV 10%)	6.37	2.14
	Altintepe (NPV 10%)	23.20	7.77
Centerra JV	Öksüt	2.80	0.94
	Altunhisar	0.31	0.10
Teck JV	Hasançelebi	1.19	0.40
Aydeniz JV	Muratdere	0.52	0.17
Antofagasta	Special Agreement	0.62	0.21
East Africa			
Sheba	Shares and warrants	0.17	0.06
Stratex East Africa	Afar	1.86	0.62
	Tigray	0.59	0.20
Cash		1.00	0.34
Total		38.63	12.95

SOURCE: Westhouse Securities estimates.

Opportunities for a rerating

- The bulk of the valuation is supported by the Turkish assets and partnerships, with Inlice due to enter production in 2012 and Altintepe possibly following in 2013, should NTF decide to proceed down this route.
- At an ascribed value of 0.86p per share for the East African assets, we feel there is significant upside, some of which could be achieved in the short term through positive early returns from the recently-started drill programme at Megenta. Promising results here would also act as sound read-across to the company's other assets within the Rift Valley mineral district.
- Further drill results should add to the defined resources in Turkey and add credence to the exploration activities in East Africa; both could provide opportunities for a positive rerating in Stratex's stock.
- In spite of the recent positive newsflow from the company, its share price has essentially drifted lower since its high at around 10p/share at the start of the year. We believe this provides a buying opportunity.

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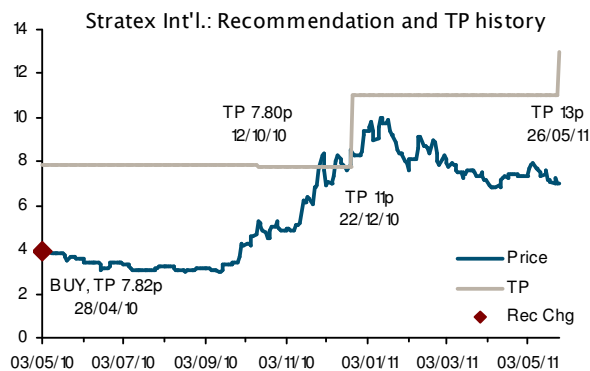
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Recommendation and target price history



SOURCE: Bloomberg, Westhouse Securities estimates.

Valuation basis

Our TP for Stratex is derived on a sum-of-the-parts basis, using DCF valuations for Inlice and Altintepe; the dollar values committed by JV partners for the other projects; and cash and investments.

Risks to that valuation

Exploration is speculative and the announcement of a resource does not indicate that the resource is economic. Other risks include currency risk and fluctuations in the gold price.

This recommendation was first published on 7 May 2009.

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Equities recommendation breakdown: 31 March 2011	BUY	ACC.	HOLD	RED.	SELL
Overall equities coverage	71.0%	8.1%	17.7%	0.0%	3.2%
Companies to which Westhouse has supplied investment banking services	94.7%	0.0%	5.3%	0.0%	0.0%