



STRATEX INTERNATIONAL (STI.L)

BUY*

FLASHNOTE: ÖKSÜT RESOURCE UPGRADE

10p#

Year-end December	2010A	2011E	2012E	2013E
EBITDA (£k)	(2,172)	(1,584)	(1,314)	(1,819)
Pre-tax loss (£k)	(2,145)	(2,876)	(1,427)	(1,990)
Adj. Pre-tax loss (£k)	(1,651)	(2,942)	(1,954)	(1,990)
EPS (p)	(1.1)	(1.1)	(0.5)	(0.6)
Adj. EPS (p)	(0.9)	(1.1)	(0.7)	(0.6)
Net assets (£k)	6,405	4,557	7,252	5,392
Net cash and cash equivalents (£k)	1,728	996	2,138	270

SOURCE: Northland Capital Partners Limited estimates

#Priced at market close, 26/01/2011

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Key Data	
Rating (12 month)	BUY
Price Target	17.3p
Risk	Moderate
Sentiment	NA
Ticker	STI.L
Shares in issue	362.7 m
Market cap	£36m
12-mth price range	9.75 p-6.63p
Net cash	£2m
Next event	Q1 Blackrock

Stratex International ("Stratex") the gold focused exploration and development company operating in Turkey, East Africa and West Africa has announced a substantial resource upgrade at the Öksüt project in Turkey. The JORC compliant resource now stands at over 1Moz Au at a cut-off grade of 0.2g/t (Indicated and Inferred) an increase of almost 0.7Moz Au (230% increase) on the previous statement. Based on these results we have revisited our valuation and have upgraded our price target to 17.3p from 13.3p (30% increase). This is the first of several potential positive catalysts expected from Stratex this year with the next likely to be drilling results for the 95% owned Blackrock project in Ethiopia (Q112).

COMPANY DESCRIPTION

Stratex International is a gold and base metals exploration and development company with key assets in Turkey, East Africa and West Africa. The company has a gross resource of around 2Moz Au (non-JORC) before JV interests/ options (net 1.1Moz Au) and is actively exploring through several JV partnerships with major operators.

- **Large oxide component:** 0.56Moz Au located in an oxide zone which is lower cost to extract and process.
- **Resource remains open:** The resource is open to the north and the east as well as at depth. As a result there is scope, for a further resource upgrade with an aggressive step-out drill program to commence in Q212 funded by Centerra.
- **Project supported by Canadian major:** Centerra earned a 50% interest by spending \$3m and has opted to earn a further 20% interest by spending another \$3m. This JV agreement allowed Stratex to de-risk the company's exposure and move the project forward simultaneously at no cost to Stratex. This strategy has resulted in 0.5Moz Au now attributable to Stratex from a project that did not have a resource prior to the JV.
- **Valuation:** Our sum-of-the-parts valuation arrives at a price target of 17.3p per share of which 5.6p is attributable to the Öksüt project. Our valuation suggests a 73% upside on Stratex's current share price and our forecasts remain unchanged.

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VALUATION METHODOLOGY

We adopt a hybrid approach to our sum-of-the-parts valuation. For the Turkish assets, we take the feasibility study assumptions from the Inlice deposit and extrapolate these across the other deposits. Where this is not possible, we incorporate a risked valuation based on the NPV per ounce established by our model (and at significant discount for the sulphide resources).

Given that the preliminary economics will focus on the oxide resources (and possibly transitional material) we apply an aggressive 75% discount to the NPV when calculating the sulphide resources.

Valuing the exploration assets is more problematic. To value the extensive land acreage is inappropriate, given that it is of little use for anything else. To value the potential of the deposits would be subjective and speculative. Therefore, we value the assets at transaction cost which provides a point in time, verifiable third-party base case - given that these are largely underwritten by significant industry players.

S-O-T-P VALUATION

Our valuation attributes 5.2p per share for the gold development assets (the Inlice and Altintepe deposits), 5.6p for the Öksüt Gold prospect, 1.2p for the Muratdere (copper/gold) prospect and an aggregate 2.1p for the combined value of the gold sulphide in the deposits.

The combined gold exploration acreage adds a modest 2.7p per share, though our heavily-risked upside case suggests 9.8p. Our base case valuation and near-term price target is 17.3p and the upside case (based on a major Megenta or Blackrock discovery) is 22.4p.

CHART 1: OVERVIEW OF VALUATION

Component	NPV per oz (\$)	Net Resource (koz)	Value (\$)	Value (£)	Per share (p)
Inlice	204.7	26.8	5.49	3.49	1.0
Altintepe	145.0	156.1	22.64	14.42	4.1
Öksüt (50%)*	108.8	281.5	30.63	19.51	5.6
Muratdere - copper**	-	-	3.5	2.2	0.6
Muratdere - Gold**	73	46	3.3	2.1	0.6
Sulphides (incl. Karaagac)***	36.3	314.2	11.4	7.3	2.1
Resources	-	-	77.0	49.1	14.1
Exploration (transaction value) †	-	-	14.8	9.4	2.7
Sub Total	-	-	91.8	58.5	16.8
Year end net cash estimate	-	-	3.0	1.9	0.5
Total Valuation	-	-	94.8	60.4	17.3

SOURCE: Northland Capital Partners Limited estimates

* incorporates a 50% discount to the Altintepe deposit and assumes npv/oz at \$1,100/oz

**based on estimated copper per lb copper values of African copper and Canadian copper basket

***incorporates a 75% discount to the Altintepe deposit and assumed npv/oz at \$1,100/oz

†assets not yet exhibiting quantifiable resources are incorporated at transaction value as broken down in exhibit 2



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Stratex International

STI.L

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