

## BOH ALPHA PRIVATE INVESTORS (BOH-API)

Asset Allocation \* Fundamentals \* Technicals \* Strategy  
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### INITIATING COVERAGE: ABRA MINING AND INDUSTRIAL CORP. (AR)

#### ABRA-Kadabra Moment?

19 September 2011

AR (P0.0054/share)

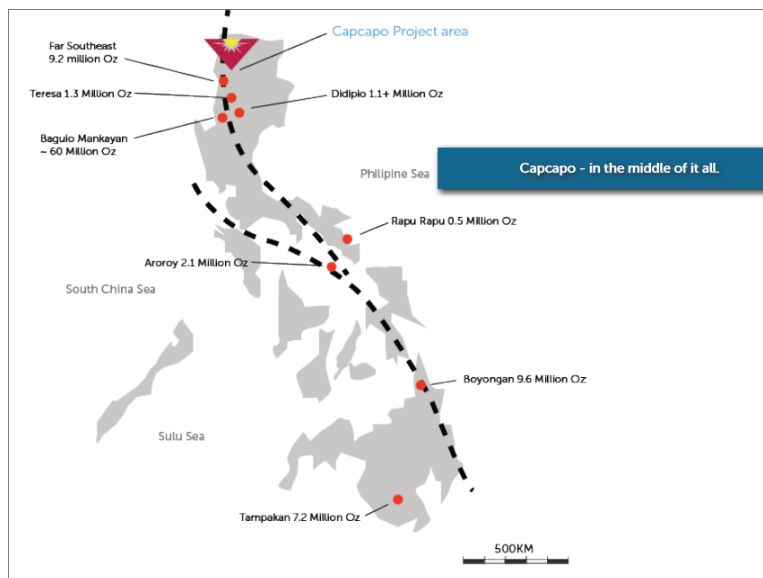
SPECULATIVE BUY

Price target: P0.02/share

We are initiating coverage on Abra Mining and Industrial Corp. (PSE: AR).

Abra Mining and Industrial Corporation (AR) engages in the exploration, development, exploitation, processing, manufacture, extraction, milling, and sale of construction materials and minerals in the Philippines. It offers cement and metal concentrate, marbles, building materials, and other minerals, such as copper, gold, silver, iron, and lead. The company also involves in the processing and manufacture of non-metals for industrial and commercial purposes. Abra Mining and Industrial Corporation is based in Quezon City, the Philippines.

On November 23, 2006, Olympus Pacific Minerals Inc. (TSX: OYM) entered into an Option Agreement with AR and Jabel Corporation (Jabel), subject to completion of due diligence, whereby OYM and associated Philippine interests can earn a 60% interest in the 43 square kilometer Capcapo Project (OYM press release dated November 23, 2006). Also part of agreement terms is a Right of First Refusal covering approximately 320 square kilometers of other AR / Jabel tenements within this highly prospective area.



The Capcapo property is located just to the north of the prolific Baguio-Mankayan Gold District, which has a combined production, current reserves and resources in excess of 60 million ounces of gold. The project area exhibits many analogous features to those productive deposits to the south.

On June 25, 2007, OYM announced results from on-going drilling completed on the Capcapo Project, located in Abra Province, Northern Luzon, Philippines.

On September 10, 2011, AR approved and adopted the authority of Mr. Jeremias B. Beloy, President and Chairman of the Board to execute and sign the Joint Venture Agreement with OYM involving the mining tenement covered by MPSA No. 144-99-CAR located at Capcapo, Licuan-Baay, Abra. AR also approved the application of the cash advances by affiliate Jabel Corporation in the amount of P77,900,000.00 as of June 30, 2011 as additional payment on its unpaid subscription and allocation of P100 million from the authorized capital of AR for stock option plan and other incentives to deserving employees, officers and directors.

OYM together with its subsidiaries, is an international company involved in mineral exploration, development, and mining of properties in Southeast Asia with a focus in Vietnam. The company is building its base with the aim of being a leading gold producer and explorer in Southeast Asia and has commissioned the first two foreign- owned gold mines to be operated in Vietnam since the 1940s. The management team is committed to OYM's vision of making major discoveries in the region and increasing shareholder value.

We now present our case for the fundamental valuation of AR.

We assume that OYM will proceed with developing the Capcapo property with a 60% interest in future earnings and with the remaining 40% accruing to AR.

A mine of this size is usually associated with 1 to 2 million gold equivalent ounces during its entire mine life. For AR, we assume 1.5 million gold equivalent ounces which may be extracted over a period of 30 years. We also assume a 5 year build time, gold at \$1700/oz, USD/PHP at 43, gross margin at 50%, discount rate at 10% (25Y FXTN = 7.5%, 25 ROP = 5.0%). Given AR's 40% interest, we have computed the fair value at 2.34 centavos per share using a discounted cash flow (DCF) model. Assuming mineralization increases to 5 million gold equivalent ounces, fair value increases to 7.80 centavos per share, all other factors constant.

From a technical standpoint, AR is currently testing 0.60 centavos and is doing so for the first time in two years. The stock was range-bound between 0.36 and 0.46 centavos in 2010 which carried over to the first half of 2011 until it broke out last July on good volume. In September, AR broke out again rallying from 0.46 to 0.60 centavos in just three days with average volume exceeding P15 million, its largest value turnover since 2008.



We think AR will now consolidate above 0.50 centavos before its next push with an initial target of 0.85 centavos on the break of resistance at 0.65 centavos. Our twelve-month technical target is 1.5 centavos

but conceptually, we expect the 15-year gap between 2.3 and 2.5 centavos to act as a magnet for an eventual gap closure.

In conclusion, we rate AR as a SPECULATIVE BUY with a price target of 2 centavos/share given the following:

- We believe OYM will push through with the JV with AR in developing the Capcapo property.
- Fair value at 2.34 centavos per share was made with reasonable assumptions.
- Technical target of 1.5 to 2.5 centavos per share.
- The recent allocation of P100 million from the authorized capital of AR for stock option plan and other incentives to deserving employees, officers and directors implies insider buying which is typical as corporate turning points.
- As of the September 19, 2011 price of 0.54 centavos/share, upside to 2 centavos/share is 270%.
- We think the near term catalyst will be a sudden surge in volume.

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### **Disclaimer Appendix**

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