

LinQ Resources Fund (LRF)

Opinion Data

Recommendation	Speculative Buy
Risk Rating	High
Current share price	\$0.40
Market capitalisation	\$67m

Company Background

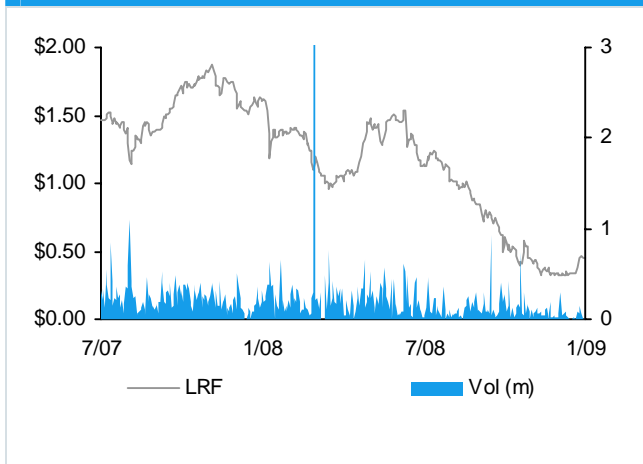
LinQ Resources Fund (LRF) is a listed investment trust established to build and manage a concentrated portfolio of investments in the junior – mid tier resource sector in Australia and internationally. In addition to traditional debt and equity instruments, the fund uses convertible notes to generate income and to modify the risk profile of investment in early stage companies. LRF aims to provide both capital appreciation and an income distribution.

LinQ Resources Fund was originally known as the Golden Arrow Fund II, and was established in March 2002 as a wholesale fund within the Rothschild Australia Group by the current LRF MD, Clive Donner. In January 2005, the fund listed on the ASX as the LinQ Resources Fund (LRF).

The LRF portfolio is focussed on Australia (~75% NTA), yet provides exposure to projects in Africa, Asia, North and South America, and Europe. Reflecting current market conditions, ~90% of the portfolio is currently invested in producers, with only ~1% invested in early stage explorers.

LRF offers bi-annual off-market redemption (up to 5% of holding) windows if the stock trades at greater than a 9.9% discount to NTA, subject to certain trigger conditions.

LRF Share Price / Volume



Highlights

The first of the bi-annual off-market buybacks was triggered in November, with LRF buying back 3.3m units at a price of \$0.60 per unit on the 19th of December, representing an 81% premium to the unit price that day. Separately, the on-market buyback program was once again extended for another year.

During the quarter LRF exercised 6.9m AGO options at \$0.30/share. Having partially sold down its AGO holding prior to the exercise of options, the fund retains a ~5% stake in AGO, and holds a further 1.8m options exercisable at \$0.80/share.

The quarter saw CUO fall victim to the credit crunch. Despite hedging designed to cover operating costs, CUO incurred a provisional pricing debt to its offtake partner, Glencore. CUO was subsequently unable to finance short term working capital needs, and entered into administration. About 60% of the outstanding hedge position has since been closed out profitably, with proceeds (\$43m) used to repay most of the outstanding senior debt. With strong interest in the CUO assets, we expect LRF to receive full repayment of its \$5m secured loan to CUO.

Outlook / Investment View

LRF's NTA fell sharply in 1H'09 (down from \$2.06/unit to \$0.70/unit) largely in-line with the fall in the Small Resources Index. This suggests the fund will report a substantial loss for 1H'09. However, the majority of this will be in the form of unrealised mark-to-market losses. The fund made several profitable divestments early in the financial year, suggesting that a meaningful distribution remains likely in FY'09, despite the dire market conditions for junior miners.

We understand LRF currently has ~\$25m in cash, no debt, and an undrawn credit facility of \$12m in place.

Extreme funding pressure continues in the resource sector (e.g. CUO, OZL, PNA, RSG, MOL). This provides significant value creation opportunities for the fund, and we expect news on a new debt finance deal shortly.

Despite the recent off market buyback, the discount to NTA is excessive (~50%). The combination of extreme weakness in the underlying market, the large discount to NTA, and the prospect of a meaningful yield, make LRF a compelling means to invest in the junior to mid tier resources space. Maintain Speculative Buy.

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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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