

# TASEKO MINES LTD. (TKO-TVX: C\$1.40)

## Opportunistic Restart of Gibraltar Mine

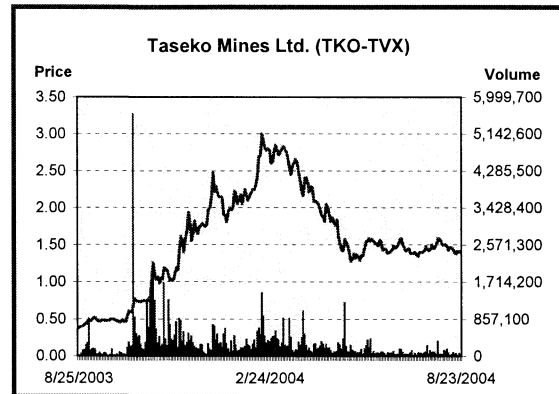
**Recommendation: Speculative BUY**

**12-Month Target Price: C\$2.10**

**Projected Return: 50.0%**

Market Data				
52-Week Trading Range (C\$)	\$3.01 - \$0.38			
Shares Outstanding (mm)	83.4			
Market Capitalization - Basic (C\$mm)	\$102.2			
Enterprise Value (C\$mm)	\$74.7			
Financial Data				
Q1-04A				
Cash (C\$mm)	\$28.4			
Working Capital (C\$mm)	\$29.8			
Total Debt (C\$mm)	\$0.0			
Forecasts				
FYE December	2003	2004E	2005E	2006E
Copper Price (US\$/lb.)	0.81	1.26	1.26	1.15
Gold Price (US\$/oz)	364	417	450	450
Silver Price (US\$/oz)	4.86	6.72	7.25	7.00
Molybdenum Price (US\$/lb.)	5.29	10.02	8.00	5.00
Copper Production (tonnes)	0	4,230	29,234	31,208
Moly Production (tonnes)	0	110	440	440
Copper Cash Cost (C1) (US\$/lb.)	0.00	1.34	0.91	0.91
Total Production Cost (US/lb)	0.00	1.86	1.03	1.02
EPS Basic (C\$)	(0.06)	(0.15)	0.25	0.14
EPS Fully Diluted (C\$)	(0.05)	(0.17)	0.29	0.16
CEPS (C\$)	(0.05)	(0.03)	0.38	0.27
ROE (%)	-11%	-25%	30%	14%
EBIT ROIC (%)	-6%	-14%	27%	13%
Debt/Capital (%)	106%	66%	47%	40%
Current Ratio (x)	3	21	40	53
Interest Coverage (x)	(169)	(374)	nm	nm
Capex / Dep'n (x)	0	1	0	0
Valuation				
	2003	2004E	2005E	2006E
Average Price/Current (C\$)	0.61	1.40	1.40	1.40
P/E (x)	nm	nm	5	9
P/CE (x)	nm	nm	4	5
EV/EBITDA (x)	nm	nm	1.5	1.4
EV/EBIT (x)	nm	nm	2.4	2.7
EV/OpFCF (x)	nm	nm	1.7	1.6
Book Value (C\$/share)	0.45	0.59	0.84	0.98
P/Book (x)	1.37	2.36	1.66	1.42
NAV per Share (C\$)		2.35		
P/NAV (x)		0.59		

Historical price ratios calculated using average share price in period.  
Source: Company Reports, StarQuote, First Associates Investments Inc.



Source: Bloomberg

in our universe.

### EXECUTIVE SUMMARY

We rate the shares of Taseko Mines (TKO-TSX) Speculative BUY, with a 12-month target price of C\$2.10. The restart of its Gibraltar mine in the fall of 2004, firmer commodity prices and the possibility of future cost savings by the application of novel refining technology underpins the positive investment case in our view. Higher commodity prices notwithstanding the next near-term positive catalyst for the shares in our view would be the successful commissioning of the Gibraltar mine. Once in production, the Gibraltar mine should average approximately 30,000 tonnes of copper per year at a cash cost of US\$0.90/lb. Taseko is a leveraged play on higher copper prices. The shares trade at a P/NAV multiple of 0.59 times versus the peer group at 0.66 times.

### COMPANY DESCRIPTION AND POSITIONING

Taseko Mines in our view is an up and coming small and relatively high cost copper producer. Its principal asset is the Gibraltar mine located in British Columbia, Canada. The company is in the midst of commissioning the mine with production expected in October 2004. As a high cost operation, Gibraltar is a typical swing

producer that comes into and out of production depending on the copper price outlook. Once on stream the mine is expected to produce approximately 30,000 tonnes of copper per year at an average cash cost of US\$0.90/lb. In our view Taseko is a levered play on the copper price. The company is studying the possibility of building a refinery. There would be a capital cost of C\$110 million (US\$70 million), but according to a feasibility study (-5%, +15% accuracy on capital cost estimates), the refinery could reduce cash costs by US\$0.20/lb. More work needs to be done in this area, however. Given the present high copper price and favourable concentrate treatment charges for the next 3.5 years the company elected to restart Gibraltar and potentially fund the refinery using cash-flow from the mine. The prior plan was to adopt the aforementioned refining technology from the start. Our base case scenario does not consider the refinery. If we assume the refinery is built in 2006/2007 and operating in 2008, the NAV increases by US\$0.12 (C\$0.16) per share. Further upside in our NAV exists if we consider the positive impact on the reserve base and life of mine. We estimate that each year the mine-life is extended beyond 2017 adds approximately US\$0.09 (C\$0.12) per share to the net asset value (assuming US\$1.00 per pound of copper, 8% discount rate). **What makes Taseko unique is that it clearly is operating on high side of the cost curve and would look at pioneering a refining process that lowers processing costs and potentially set the stage for other companies to follow its lead.**

## VALUATION

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Taseko shares trade at a P/NAV multiple of 0.59 times versus its peer group at 0.66 times. In our view the slight discount to the peer group reflects the risks involved in restarting the mine. Our base case does not consider the on-site refining option. We estimate that the refining option has a better than 50% chance of being implemented; however, we chose not to include it until we have a chance to better understand the various technology options. We believe that given the operating history of the mine (27 years) and the favourable markets for concentrates that the "wait and see" discount implied in the current share price will be eroded over the course of the next 12 months. In addition the, possibility of applying novel refining technology on-site would further support a longer-term investment case.

## RECOMMENDATION AND TARGET PRICE

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We rate the shares Speculative Buy with a 12-month target price of C\$2.10. The target price is based on 0.90 times multiple applied to our C\$2.35 estimate of the net asset value of the company. We believe a 0.90 times P/NAV multiple is justified for high growth high leverage production in a well-known orebody. A C\$2.10 target price implies a 3.2 times EV/EBITDA multiple on 2005 estimates, or 3.8 times 2006E. The established producers in Taseko's peer group are presently trading at approximately 2.5 times 2005E EV/EBITDA. The implied premium on 2005E EBITDA is in-line with First Quantum and Northern Orion and represents the possibility that novel refining technology is applied on-site, thereby lowering production costs.

## Catalysts

- The successful start-up of the Gibraltar mine in the fall of 2004 could result in the removal of the "wait and see" discount
- Further strength in the copper price

- Positive outcome from a feasibility study on a hydrometallurgical option to treat copper concentrates on site

### **Risks**

- A delay in starting the operation or failure to achieve cost objectives would have a negative impact on the shares in our view.
- Copper prices below 90 cents/lb for an extended period of time would result in effectively little or no free cash from the mine and likely weigh heavily on the shares
- Inability to adopt novel refining option on-site and exposing the company to rising TC/RCs beyond the contract date

### **STATEMENT OF RISKS**

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In addition to the specific risks mentioned above, mining companies are subject to a range of risks, including but not limited to, environmental risk, political risk operational risk, financial risk, hedging risks, commodity price fluctuations, and currency risks. Any difference between our metal price forecasts and realized metal prices will likely

## Taseko Mines Limited – Summary Model

Income (C\$ mm)	2003	2004E	2005E	2006E	2007E
Revenue	0.7	16.7	112.3	105.3	91.1
Operating Costs	0.0	(17.5)	(80.4)	(82.8)	(76.9)
SG&A	(0.5)	(2.6)	(0.7)	(0.7)	(0.7)
Exploration	(2.1)	0.0	0.0	0.0	0.0
Other	(1.3)	(5.1)	0.0	0.0	0.0
EBITDA	(1.9)	(3.4)	31.2	21.7	13.5
DD&A	(0.2)	(4.7)	(11.0)	(10.5)	(10.5)
EBIT	(2.1)	(8.0)	20.3	11.2	3.0
Net Interest (expense)	0.1	0.7	0.6	0.9	1.1
Tax	0.0	0.0	0.0	(0.2)	(0.6)
Other	0.0	0.0	0.0	0.0	0.0
Net Income	(3.3)	(12.4)	20.8	11.9	3.5
Wtd. Avg. Shares O/S	57.5	83.4	83.4	83.4	83.4
EPS (C\$/share)	-0.06	-0.15	0.25	0.14	0.04
Cashflow (C\$ mm)	2003	2004E	2005E	2006E	2007E
Operating	(2.7)	(2.6)	31.8	22.4	14.0
Investing	(0.0)	(2.8)	(5.0)	(5.0)	(5.0)
Financing	(0.3)	24.0	0.0	0.0	0.0
Net Change in Cash	(3.1)	18.6	26.8	17.4	9.0
Balance Sheet (C\$mm)	2003	2004E	2005E	2006E	2007E
Cash	8.9	27.5	54.3	71.7	80.7
Other	3.5	2.8	2.8	2.8	2.8
Current Assets	12.4	30.3	57.0	74.4	83.4
PP&E	38.2	33.5	27.6	22.0	16.5
Other	16.9	19.8	19.8	19.8	19.8
Total Long-term Assets	55.1	53.3	47.4	41.8	36.3
Total Assets	67.5	83.6	104.4	116.3	119.8
Short term debt	0.0	0.0	0.0	0.0	0.0
Other current Liabilities	3.8	1.4	1.4	1.4	1.4
Current Liabilities	3.8	1.4	1.4	1.4	1.4
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other	32.7	32.7	32.7	32.7	32.7
Total Long-term Liabilities	32.7	32.7	32.7	32.7	32.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	31.0	49.5	70.3	82.2	85.7
Total Liabilities + Equity	67.5	83.6	104.4	116.3	119.8

Source: StartQuote, Company Reports, First Associates Estimates

	2003	2004E	2005E	2006E	2007E
Average share price C\$	0.61	1.40	1.40	1.40	1.40
Average/Current price US\$	0.44	1.07	1.07	1.07	1.07
Valuation (C\$ mm)					
Market Cap	42	102	102	102	102
Plus: Net Debt	-9	-27	-54	-72	-81
Less: Peripheral Assets	0	0	0	0	0
Plus: Buy out of Minorities	0	0	0	0	0
Enterprise Value	34	75	48	31	22
EBITDA (C\$ mm)					
EBITDA Corporate	-2	-3	31	22	14
EBITDA Other	0	0	0	0	0
EBITDA Other	0	0	0	0	0
EBITDA Other	0	0	0	0	0
Total EBITDA	-2	-3	31	22	14
EBIT (C\$ mm)					
EBIT Corporate	-2	-8	20	11	3
EBIT Other	0	0	0	0	0
EBIT Other	0	0	0	0	0
EBIT Other	0	0	0	0	0
Total EBIT	-2	-8	20	11	3
Free cash flow to equity (C\$ mm)					
EBITDA	-2	-3	31	22	14
Cash Taxes	0	0	0	0	0
Change in net working capital	0	0	0	0	0
Capital expenditures	-0	-2	-5	-5	-5
FCF to the firm	-2	-6	26	17	9
Net Interest (Expense)	0	1	1	1	1
Net Borrowing	-0	15	0	0	0
FCF to equity	-2	10	27	18	10
FCF Yield*	-5%	10%	26%	17%	9%
Operating Free Cash Flow (C\$ mm)					
EBITDA	-2	-3	31	22	14
Maintenance Capex	(0.0)	(0.9)	(2.2)	(2.1)	(2.1)
Net Working Capital Inflation	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Total OpFCF	-2	-4	29	20	11

Source: StartQuote, Company Reports, First Associates Estimates

\* FCF to Equity/Market Capitalization

## Sensitivity to Change in Copper Price

	NAV	EBITDA	EBITDA	CE	CE	EPS	EPS
	2005E	2006E	2005E	2006E	2005E	2006E	
% Change	34%	36%	48%	36%	47%	54%	89%
10%	3.15	42.4	32.3	0.52	0.39	0.39	0.27
Base Case	2.35	31.2	21.7	0.38	0.27	0.25	0.14
-10%	1.56	20.0	11.2	0.25	0.14	0.11	0.02
% Change	-34%	-36%	-48%	-36%	-47%	-54%	-89%

Source: First Associates Investments Inc.

## Discount Rate &amp; Long-term Copper Price Sensitivity

NAV (C\$/Share)	0.90	1.00	1.10
5%	C\$1.81	C\$2.48	C\$3.15
8%	C\$1.80	C\$2.35	C\$2.91
12%	C\$1.77	C\$2.22	C\$2.66
P/NAV @ C\$1.40/share			
	0.90	1.00	1.10
5%	0.77	0.56	0.44
8%	0.78	0.59	0.48
12%	0.79	0.63	0.53

Source: First Associates Investments Inc.

<b>Taseko Mines Limited</b>				
	<b>Ownership</b>	<b>US\$ (mm)</b>	<b>US\$/share</b>	<b>Valuation Basis</b>
<b>Operating Mines</b>				
Gibraltar	100.00%	78.3	0.94	NPV @ 8% Real FY End 2004
<b>Projects</b>				
Prosperity	100.00%	42.3	0.51	by resource US\$0.02/lb 40% recovery
Harmony	100.00%	6.3	0.07	by resource US\$5.00/oz. 40% recovery
Other	0.00%	-	0.00	
<b>Other Assets</b>				
Cash and Marketable Securities		21.0	0.25	Balance sheet as at Q1-04A
Working Cap net of Cash & ST Debt		1.0	0.01	Balance sheet as at Q1-04A
Hedge Book		-	0.00	
<b>Debt and Obligations</b>				
Short Term Debt		-	0.00	Balance sheet as at Q1-04A
Long-term Debt		-	0.00	Balance sheet as at Q1-04A
Corporate SG&A		(4.0)	-0.05	DCF @ 8% Real FY-04E
Deferred Taxes		-	0.00	Balance sheet as at Q1-04A
Provision for Contingencies		-	0.00	
<b>NET ASSET VALUE</b>		<b>144.8</b>	<b>\$1.74</b>	<b>C\$2.35</b>
Fully Diluted Shares Outstanding 106,000,000				
Basic Shares Outstanding 83,442,662,000				
Copper Price Forecast '04E=US\$1.26/lb, '05E=US\$1.26/lb, '06E=US\$1.15/lb, Long-term=US\$1.00/lb				

Source: First Associates estimates, Company reports

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Corriente Resources Inc	CTQ-TSX	-
First Quantum Minerals Ltd	FM-TSX	-
Inmet Mining Corporation	IMN-TSX	-
Ivanhoe Mines Ltd	IVN-TSX	-
Northern Orion Resources	NNO-TSX	3
Quadra Mining Ltd	QUA-TSX	-
Taseko Mines Ltd	TKO-TVX	-

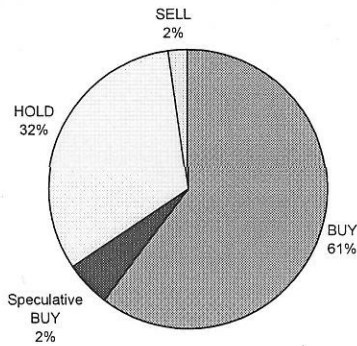
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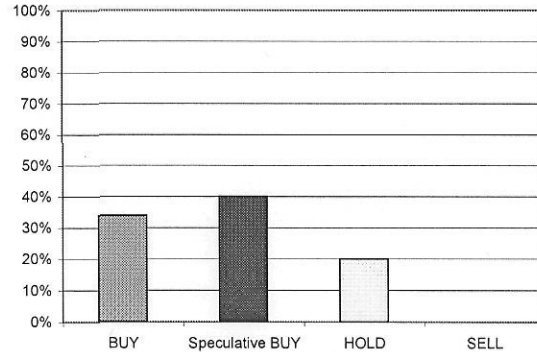
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- BUY:** The stock's total return is expected to exceed a minimum of 15% over the next 12 months.
- Speculative BUY:** The stock's total return is expected to exceed 30% to 40% over the next 12 months. However, there exists a very high and unquantifiable risk in either the corporate or industry fundamentals associated with the investment that could result in a significant loss.
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