

ENCOUNTER RESOURCES LIMITED

Equity Analysis (21 June 2023)



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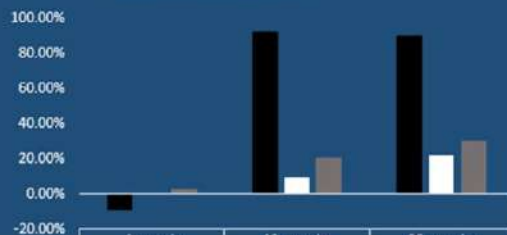
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Introduction

Encounter Resources Limited, an Australian-based mineral exploration and development company, focuses on identifying cobalt, gold, copper, and zinc deposits. The company is interested in the Lamil and Yeneena projects in the Paterson Province of Western Australia. Furthermore, it has stakes in the Elliott copper mine in the Northern Territory and the Aileron project in West Arunta, Western Australia. Established in 2004, the company operates from Subiaco, Australia.

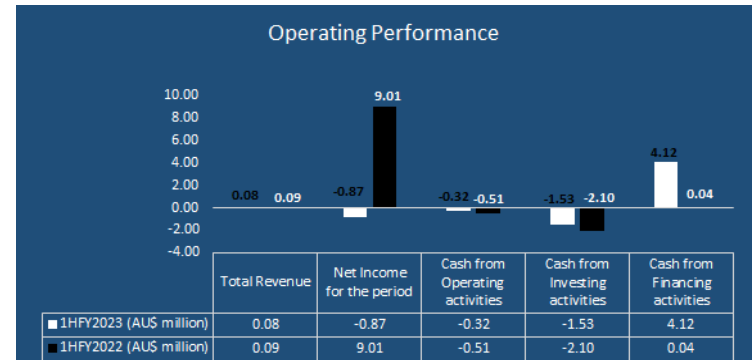
Recommendation	Speculative Buy	
Risk Profile	High	
Current Market Price (AU\$)	0.265	
52 Week Low-High (AU\$)	0.112-0.350	
Market Capitalisation (AU\$)	92.94 million	
Outstanding Shares	395.53 million	
PE (TTM)	-	
EPS (AU\$) (TTM)	-0.017	
Dividend Yield/Frinking	-	
Ex-Date/Pay-Date	-	
Enterprise Value (EV)/Sales (LTM)/(FY-1)	-	287.0x
EV/EBITDA (LTM)/(FY-1)	-	-
Price/Book Value (LTM)/(FY-1)	4.2x	2.3x

Performance Chart



	1 month	12 months	36 months
ENR (% Change)	-9.09%	92.31%	90.58%
Asx Ordinaries Index (% Change)	0.94%	9.40%	22.43%
S&P/ASX 200 Materials	2.52%	20.84%	30.03%

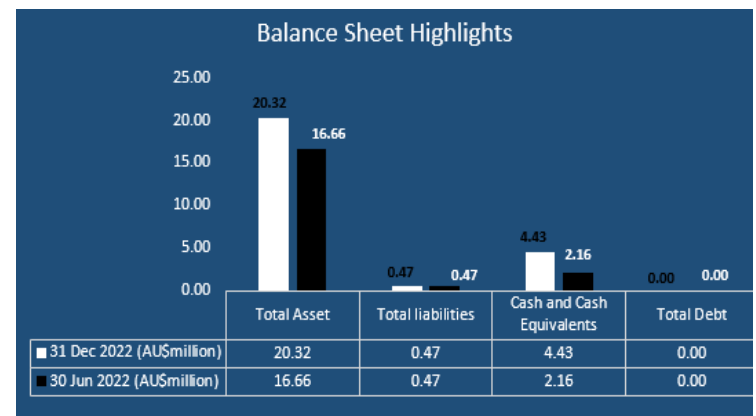
Operating Performance



Source: Company Reports, Chart Prepared by Kapitales Research

- In 1HFY23, total revenue was AU\$0.08 million against AU\$0.09 million in 1HFY22.
- In 1HFY23, the company's net loss was AU\$0.87 million against the net income of AU\$9.01 million in 1HFY22.
- Cash used in operating activities was AU\$0.32 million in 1HFY23 compared to cash used AU\$0.51 million in 1HFY22.
- Cash used in investing activities was AU\$1.53 million in 1HFY23 compared to cash used AU\$2.10 million in 1HFY22.
- Cash from financing activities was AU\$4.12 million in 1HFY23 compared to cash from AU\$0.04 million in 1HFY22.

Balance Sheet Highlights



Source: Company Reports, Chart Prepared by Kapitales Research

Compared to 30 June 2022, on 31 December 2022:

- Total asset increased by ~21.97% to AU\$20.32 million.
- Total liabilities increased to AU\$0.47 million.
- Cash and Cash Equivalents increased by ~105.09% to AU\$4.43 million.
- Total debt is ~0.00% to AU\$0.00 million.

Ratio Analysis

Fiscal Quarters	1Q FY2022	2Q FY2022	3Q FY2022	4Q FY2022	1Q FY2023	2Q FY2023
Return on Assets %	-4.23%	-4.33%	-29.68%	-33.78%	-6.00%	-5.46%
Return On Equity %	85.49%	87.20%	-49.78%	-56.68%	-9.73%	-8.83%
Return on Total Capital %	-4.33%	-4.42%	-30.30%	-34.51%	-6.12%	-5.57%
EBITDA Margin %	-	-	-	-	-	-
Gross Profit Margin %	100.00%	100.00%	-	-	-	-
Net Income Margin %	90332.64%	90332.64%	-	-	-	-
Asset Turnover	-	-	-	-	-	-
Days Outstanding Inventory (Avg)	-	-	-	-	-	-
Current Ratio	6.90	6.90	5.80	5.80	10.00	10.00
Days Sales Outstanding (Average Receivables)	-	-	-	-	-	-
Days Payable Outstanding (Avg)	-	-	-	-	-	-
Cash Conversion Cycle (Average Days)	-	-	-	-	-	-

Source: Koyfin, Chart Prepared by Kapitales Research

Recent Update

- On 14 June 2023, Encounter Resources Ltd announced that completing the final project-wide Falcon airborne gravity survey has resulted in significant improvements and enhancements to the large-scale targets at the Aileron copper-gold-critical minerals project (100% ENR) in Western Australia's West Arunta region. The recently received data from the Falcon airborne gravity survey has provided valuable enhancements and clarifications to the identified targets within the extensive Aileron project, spanning over 100 kilometers.
- On 19 May 2023, the company has secured a placement commitment, raising AU\$10 million (before costs) at AU\$0.25 per share. The funds will primarily be used for an accelerated exploration program at the Aileron Project, copper/REE/lithium exploration, general working capital, and offer-related expenses.

Outlook

Company's future outlook remains positive as Investment in pre-competitive Government data has transformed the exploration potential of the Northern Territory, unveiling previously unexplored areas with a shallow cover that holds significant promise for sedimentary-hosted copper resources. These datasets provide valuable early indications of these highly prospective regions between the prominent copper-and-gold-producing regions of Tennant Creek and Mount Isa. The new information has altered the perception of these underexplored areas and highlights their potential for future mining opportunities.

Risks

The company has exposure to the following risks-

- Supply chain risk
- Raw material risk
- Third Party vendors risk
- Human resources risk

Technical Analysis



Source: TradingView, Analysis by Kapitales Research

Company Name	Ticker	Sector	CMP (AU\$)	Advisory Date	Rating	Target 1 (AU\$)	Target 2 (AU\$)	Stop Loss (AU\$)
Encounter Resources Limited	ENR	Materials	0.265	21 June 2023	Speculative Buy	0.320	0.345	0.235

The stock of Material company ENR settled at AU\$0.265 on 21 June 2023 after a surge of nearly 12.7% from the previous day's closing. It is currently trading between its 52-week levels. The stock price is trading above the significant exponential moving averages (EMA) of 20, 50, and 200 days on a daily time frame, holding a bullish momentum for the near term. It is trading near the pivot resistance R1 (AU\$0.250), holding a bullish momentum on a daily time frame chart. RSI (14 days) is at 52, holding a bullish momentum in the index.

Based on these facts, buying can be initiated at the current market price (CMP) level for the potential targets of AU\$0.320 (pivot resistance R2) and AU\$0.345 (30% upside) in the coming days. Investors can book either full or partial profits at target one and wait for the stock to achieve target two (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$0.235 (previous swing support) to protect their investments in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary

Current ratio for 2QY23 stood at 10.00x, implying that the company possess better capabilities to meet its short-term obligations. By the end of 31 December 2022, the company witnessed a significant increase of 21.97% in its total assets. This notable growth can be attributed to substantial cash inflows and the company's property and plant assets expansion within the specified period. The company has no financial liabilities or outstanding debts to fulfil. Comparatively to ASX Ordinaries and S&P/ASX 200 Materials, the company's stock has produced a significant return during last one year and three-year timeframes.

Considering all the above factors and the current trading level, we recommend a "Speculative Buy" rating on the stock at the current market price of AU\$0.265 as of 21 June 2023 (after-market hours).

Encounter Resources Limited (ASX: ENR)

Equity Analysis

(21 June 2023)



Mission to Empower Investors

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Disclosure: The information mentioned above has been sourced from the company reports and a third party database, i.e. Koyfin. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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