

30 January 2012

## December Quarterly Report

▶ **Price Target:** \$1.10/sh

▶ **Investment Case:**

Red October development is progressing well and whilst production was mildly disappointing there are few domestic gold producers that have potential to double production over the next 2-3yrs. SAR offers organic growth, high impact exploration (\$60m over 2 yrs) with near term catalysts from successful execution at Red October.

▶ **Key Points:**

- Qtrly production of 27.3koz @ \$862/oz vs 31.8koz @ \$731/oz in pcp, was 9% below guidance due to six days downtime for a mill gearbox change out.
- Mar'Q production guidance similar to Dec'Q with first parcel of high grade Red October ore (30-40kt) to be treated in June'Q.
- Full yr production guidance maintained at 120-130koz but operating cost forecast up \$100/oz at A\$800-850/oz.
- Mining finished at Whirling Dervish and has commenced at Wallbrook Improved mining productivities resulted in a 10% fall in load and haul rates.
- Excellent progress at Red October with first ore intersected, 18,000m underground drill program to commence shortly and road construction underway.
- Exploration ramped up during Q with some good results from Twin Peaks (10m @ 5.8 g/t Au), Whirling Dervish (14m @ 3.75 g/t Au) and Pinnacles (11m @ 3.47 g/t Au).
- SAR's hedge book was extinguished at the end of the Q and is now hedge free.
- Cash balance is \$58m and SAR was included in the ASX 200 in late Dec.

▶ **Analysis:**

The key short term share price driver will be the Red October ('RO') 18,000m underground drill program. This has commenced but we understand initial focus will be on stope definition drilling for a couple of months, then followed by exploration. To offset this, surface drilling will commence and target some of the shallower mineralisation.

Whilst the production result was disappointing, it was previously flagged in an early Jan update. The increase in full yr costs to A\$800-850/oz reflects the lower grade, minor production hiccups, the deferment of the initial Red October ore into the June'Q and the reality that production will be at the lower end of the guidance range.

It should be noted that margins of +\$700/oz were still obtained in the Q. Capex increased by \$3m to \$13.5m for the Q with Red October development the main contributor at \$6.5m (up from \$2.9m in the pcp).

Exploration expenditure increased from \$2.6m to \$5.3m over the Q and delivered some encouraging results at Twin Peaks, Pinnacles and Whirling Dervish.

At Whirling Dervish, with open pit mining completed, an intensive resource definition to target depth extensions is underway. This is a high priority target with potential to become a future underground operation.

We have trimmed our FY'12 production forecasts from 129koz to 123koz and increased our cost assumptions from \$740/oz to \$800/oz. The net effect is our FY'12 NPAT has fallen from \$60m to \$50m.

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In addition the lower cash balance than our forecast (\$58m vs \$65m) has see our valuation fall slightly from \$1.05/sh to \$1.01/sh.

The production growth outlook for SAR is impressive: 150koz in FY'13 increasing to 250koz in FY'15 with either a standalone operation in the northern hub or an expanded Carouse Dam facility.

Exploration results over the next 6-12 months will determine which option is most viable. We estimate a minimum of 5mt of reserves would be required to justify building a 1mtpa stand alone plant. This will come from a number of deposits including Butchers Well, Red October, Tin Dog etc.

We have modeled in a northern plant option with capex of \$70m, operating costs of \$650-670/oz and reserves of 700koz generates a value of ~ \$225m or \$0.40/sh.

However, until further studies are completed we have modeled in a base case production growth to 170koz pa which assumes Red October production of ~ 50koz pa which is treated at Carouse Dam.

Our base case valuation is \$1.01/sh with Red October 70% risked and a potential upside valuation – based on a standalone northern plant option of \$1.35-\$1.40/sh.

**Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Saracen Mineral Holdings Ltd during the last year. Euroz Securities has received a fee for these services.**

SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUN			
<b>MARKET STATISTICS</b>					
<b>Share Price</b>	<b>\$0.88 A\$/sh</b>	<b>Directors</b>			
Issued Capital		G. Staltari	Ex Chair'n		
FP Ord	588.2 m	I. Hoffman	Dir		
Opts (@0.235/sh June'13)	9.6 m	B. Parker	Dir		
Opt (@\$0.50/sh av Var)	18.3 m	C. Thompson	Dir		
<b>Total Dil. FPOrd</b>	<b>617.0 m</b>				
		<b>Shareholders</b>			
Market Capitalisation	\$531 m	JCP	5%		
Enterprise Value	\$473 m	Colonial	5%		
Debt	\$- m				
Cash	\$58 m				
Hedging	nil				
<b>ASSET VALUATION</b>		<b>A\$m</b>	<b>A\$/sh</b>		
Sth Laverton Gold project		359	0.58		
Red October (70% risk adj)		87	0.14		
Hedging		0	0.00		
Corporate		(19)	(0.03)		
Expl'n (rem rsc @ \$40/oz)		110	0.18		
Tax Losses		15	0.02		
Unpaid Capital		12	0.02		
Debt		-	-		
Cash		58	0.09		
<b>Total @ 10% real</b>		<b>623</b>	<b>1.01</b>		
<b>F/CAST PRODUCTION (A\$m)</b>	<b>2011a</b>	<b>Dec H 12</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
<b>Attrib. Prod'n (koz)</b>					
Carouse Dam	111	59	115	118	128
Red October			8	34	46
Total Attrib (koz)	111	59	123	153	173
<b>Prices (A\$/oz)</b>					
Avg Spot Gold Price	1,386	1,643	1,670	1,800	1,770
Avg Gold Price Rec'd	1,313	1,443	1,574	1,800	1,770
<b>Cash Cost (A\$/oz)</b>					
Carouse Dam	739	778	800	761	706
Red October			741	611	611
<b>Avg Cash Cost (A\$/oz)</b>	<b>739</b>	<b>780</b>	<b>797</b>	<b>727</b>	<b>681</b>
<b>Avg Total Cost (A\$/oz)</b>	<b>849</b>	<b>929</b>	<b>959</b>	<b>944</b>	<b>922</b>
<b>RATIO ANALYSIS (A\$m)</b>	<b>2011a</b>	<b>Dec H 12</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
CF (A\$m)	58	30	64	131	148
CF / Sh (Ac/sh)	11	5	10	21	24
CF Ratio (x)	4.9	-	8.4	4.1	3.7
Earnings (A\$m)	38	20	50	89	103
EPS (Ac/sh)	7.4	3.3	8.0	14.4	16.6
EPS Growth (%)	178%	0%	9%	79%	16%
Earnings Ratio (x)	7.5	-	10.9	6.1	5.3
E'prise Val. (A\$m)	257	430	488	417	297
EV : EBITDA (x)	4.3	-	5.4	2.6	1.6
EV : EBIT (x)	6.3	-	7.0	3.4	2.1
Net Debt / ND+Eq (%)	na	0%	na	na	na
Interest Cover (x)	na	-	na	na	na
EBIT Margin (%)	27%	0%	36%	45%	46%
ROE (%)	31%	0%	26%	34%	30%
ROA (%)	26%	0%	31%	43%	37%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%	0%

<b>PROFIT AND LOSS (A\$m)</b>	<b>2011a</b>	<b>Dec H 12</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
Gold Sales	159	98	205	275	307	
Hedging Revenue	-8	-12	-12	0	0	
Deferred Revenue	2	0	0	0	0	
Interest Revenue	2	0	2	2	6	
Other Revenue	0	0	0	0	0	
<b>TOTAL REVENUE</b>	<b>155</b>	<b>87</b>	<b>195</b>	<b>277</b>	<b>313</b>	
Operating Costs	90	46	98	111	118	
Dep/Amort	18	9	20	33	42	
W/O & Provisions	1	1	1	1	1	
Corp O/H	5	3	5	5	5	
EBITDA	58	38	90	159	184	
EBIT	41	29	69	124	141	
Interest Expense	1	0	0	0	0	
NPBT	42	29	71	127	147	
Tax	4	9	21	38	44	
Minorities	0	0	0	0	0	
<b>NET PROFIT</b>	<b>38</b>	<b>20</b>	<b>50</b>	<b>89</b>	<b>103</b>	
Net Abnormal Gain/(Loss)	9	0	0	0	0	
<b>NET PROFIT After Abn'l</b>	<b>48</b>	<b>20</b>	<b>50</b>	<b>89</b>	<b>103</b>	
<b>CASH FLOW (A\$m)</b>	<b>2011a</b>	<b>Dec H 12</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
Net Profit	38	20	50	89	103	
+ Working Capital Adj.	3	-1	-11	0	0	
+ Dep/Amort	12	9	20	33	42	
+ Provisions	1	1	1	1	1	
+ Tax Expense	4	9	21	38	44	
- Tax Paid	0	8	17	30	42	
- Deferred Revenue	2	0	0	0	0	
<b>Operating Cashflow</b>	<b>58</b>	<b>30</b>	<b>64</b>	<b>131</b>	<b>148</b>	
-Capex + Development	52	29	62	30	8	
-Exploration	14	8	26	30	20	
-Assets Purchased	0	0	0	0	0	
+Asset Sales	0	0	0	0	0	
+ Other	0	0	0	0	0	
<b>Investing Cashflow</b>	<b>-66</b>	<b>-37</b>	<b>-87</b>	<b>-60</b>	<b>-28</b>	
+Equity Issues	12	48	48	0	0	
+Loan D'down/Receivable	0	0	0	0	0	
-Loan Repayment	8	0	0	0	0	
-Dividends	0	0	0	0	0	
<b>Financing Cashflow</b>	<b>-2</b>	<b>48</b>	<b>48</b>	<b>0</b>	<b>0</b>	
<b>Period Sur (Def)</b>	<b>-11</b>	<b>41</b>	<b>25</b>	<b>71</b>	<b>120</b>	
<b>Cash Balance</b>	<b>18</b>	<b>58</b>	<b>43</b>	<b>114</b>	<b>234</b>	
<b>BALANCE SHEET (A\$m)</b>	<b>2011a</b>	<b>Dec H 12</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
<b>Assets</b>						
Cash	18	58	43	114	234	
Current Receivables	5	5	5	5	5	
Other Current Assets	14	14	14	14	14	
Non-Current Assets	120	140	161	158	124	
<b>Total Assets</b>	<b>156</b>	<b>217</b>	<b>223</b>	<b>291</b>	<b>377</b>	
<b>Liabilities</b>						
Borrowings	0	0	0	0	0	
Current Accounts Payable	12	12	12	12	12	
Other Liabilities	19	19	19	19	19	
<b>Total Liabilities</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	
<b>Net Assets</b>	<b>126</b>	<b>187</b>	<b>193</b>	<b>261</b>	<b>347</b>	
<b>RESERVES AND RESOURCES</b>						
	<b>Reserves</b>			<b>Resources</b>		
	<b>mt</b>	<b>g/t</b>	<b>koz</b>	<b>mt</b>	<b>g/t</b>	<b>koz</b>
Sth Laverton	16.9	1.5	825	76.2	1.5	3,604
<b>Equity Share Gold</b>			<b>825</b>			<b>3,604</b>
<b>Enterprise Value / oz (A\$)</b>			<b>574</b>			<b>131</b>