



AUSTRALIA

SAR AU Outperform

Price (at 06:10, 10 May 2017 GMT) A\$0.91

Valuation A\$ 1.29

- DCF (WACC 5.0%, beta 0.4, ERP 5.0%, RFR 3.3%)

12-month target A\$ 1.30

12-month TSR % +44.8

Volatility Index High

GICS sector Materials

Market cap A\$m 731

30-day avg turnover A\$m 6.9

Number shares on issue m 807.5

Investment fundamentals

Year end 30 Jun		2016A	2017E	2018E	2019E
Revenue	m	276.5	418.2	463.4	545.0
EBIT	m	38.6	64.2	103.5	188.7
Reported profit	m	25.9	49.2	73.8	135.9
Adjusted profit	m	25.9	49.2	73.8	135.9
Gross cashflow	m	60.8	105.9	127.9	190.0
CFPS	¢	7.5	12.9	15.6	23.1
CFPS growth	%	-2.0	71.4	20.8	48.5
PGCFPS	x	12.0	7.0	5.8	3.9
PGCFPS rel	x	0.94	0.60	0.54	0.41
EPS adj	¢	3.2	6.0	9.0	16.5
EPS adj growth	%	129.0	86.9	50.1	84.1
PER adj	x	28.3	15.1	10.1	5.5
PER rel	x	1.31	0.81	0.64	0.41
Total DPS	¢	0.0	1.0	1.0	2.0
Total div yield	%	0.0	1.1	1.1	2.2
Franking	%	nmf	100	100	100
ROA	%	11.6	15.7	21.1	32.0
ROE	%	10.6	17.2	21.4	30.7
EV/EBITDA	x	9.4	5.8	4.5	2.9
Net debt/equity	%	-11.7	-14.8	-37.6	-57.0
P/BV	x	2.8	2.4	2.0	1.5

SAR AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2017

(all figures in AUD unless noted)

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11 May 2017

Macquarie Securities (Australia) Limited

Saracen Mineral Holdings

Exploration simplifies the outlook

Event

- We review our production forecasts for SAR in light of recent exploration successes and planned capital infrastructure enhancements.

Impact

- Exploration success to translate to material mine life extensions.** SAR is nearing the end of a \$40m exploration push at its Carosue Dam (CDO) underground and Thunderbox open pit operations. Exploration results to date have been very encouraging and in conjunction with recently announced capital enhancement projects should translate to material production upgrades.
- A simplified outlook at CDO.** We expect Karari to become the centre piece of the production profile, providing approximately two-thirds of our forecast. We believe the mine can sustain its recently achieved annualised run-rate of 1.2Mtpa and could potentially exceed this with additional decline development. We expect grade to improve with depth and consequently forecast a growing production profile for the mine. We believe that Whirling Dervish could be in full production as early as FY19.
- Thunderbox transitioning to lower strip ratio with boost from Kailis.** Concurrent with the ramp up of CDO, the open pit at Thunderbox will transition to lower strip ratios over FY18 with an additional boost of high-grade feed from Kailis. Recent drilling has also demonstrated the continuity of wide zones of mineralisation at depth supporting the potential for another bulk tonnage underground.

Earnings and target price revision

- With improved cash flow we also expect earnings to improve and forecast 33%, 20% and 25% uplift in FY18, FY19 and FY20 earnings respectively. As a result of both improved earnings and an increase in our Carosue Dam valuation to \$0.61/sh from \$0.38/sh we lift our 1x NAV 5x CFPS derived target price to \$1.30/sh from \$1.00/sh.

Price catalyst

- 12-month price target: A\$1.30 based on a Blend of 50% 1x NAV and 50% 5x CFPS methodology.
- Catalyst: Delivering improved earnings remains a key catalyst for SAR. To date this has proved elusive however we believe Karari, supplemented by Whirling Dervish will deliver this improvement and are of the view that SAR has passed an inflection point in its earnings history

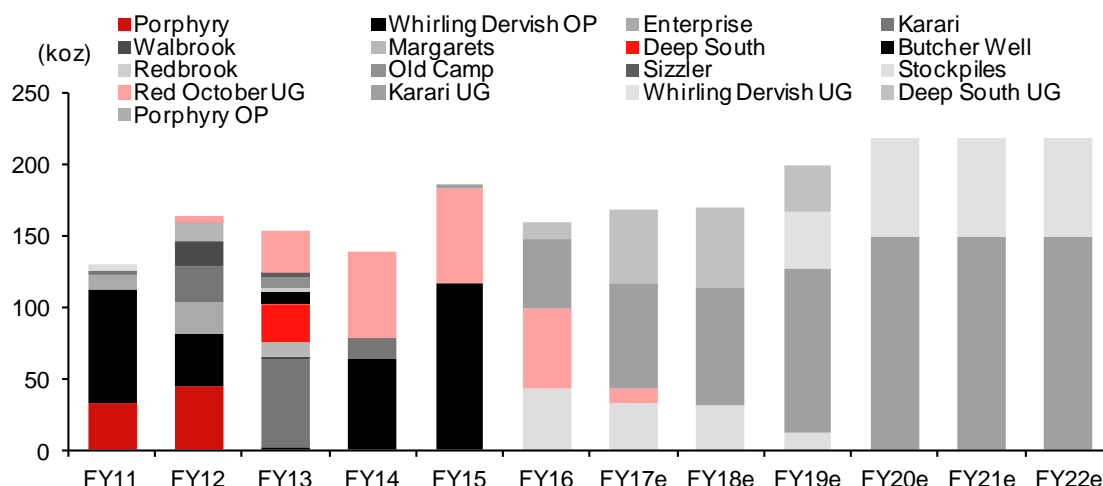
Action and recommendation

- Upgrade to Outperform.** We now expect SAR's group production profile to exceed 300kozpa over the next five years. The transition to 100% bulk underground at CDO will be completed with the addition of another large underground at Whirling Dervish. We believe mid-grade, high tonnage, shallow undergrounds can be highly profitable mines to run. The success at Karari now underpins this mode of operation for SAR.

Exploration success simplifies the outlook

- SAR is nearing the end of a \$40m exploration push at its Carosue Dam (CDO) underground and Thunderbox open pit operations. Exploration results to date have been very encouraging and in conjunction with recently announced capital enhancement projects should translate to material production upgrades.

Fig 1 CDO historical and forecast production sources



Source: SAR, Macquarie Research, May 2017

- The company is close to achieving its group run-rate target of 300kozpa. Based on our evaluation of recent exploration results we think both mine life extensions and a higher production rate are achievable.

A simplified outlook at CDO

- We expect Karari to become the centre piece of the production profile, providing approximately two-thirds of our forecast. We believe the mine can sustain its recent annualised run-rate of 1.2Mtpa and could potentially exceed this with additional decline development. We expect grade to improve with depth and consequently forecast a growing production profile for the mine.
- We believe that Whirling Dervish could be in full production as early as FY19. With lower grade than Karari and only a single decline we expect production to be lower, but still expect feed for the Carosue Dam mill to be sourced solely from underground. This eliminates the need for the stockpiles and satellite open pits envisaged in the current five year plan.

Thunderbox transitioning to lower strip ratio with boost from Kailis

- Concurrently, the open pit at Thunderbox will transition to lower strip ratios over FY18 and also receive an additional boost of high-grade feed from Kailis. Recent drilling has also demonstrated the continuity of wide zones of mineralisation supporting the potential for another bulk tonnage underground.

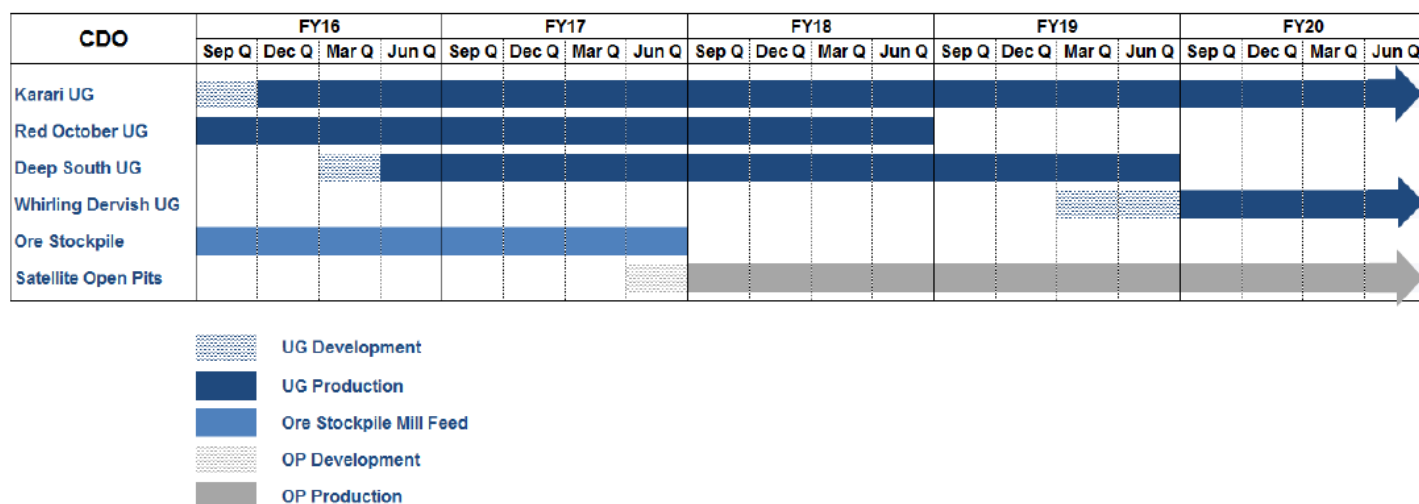
Lifting group production, improving cash flow and earnings

- From here the outlook is vastly simplified which we believe will be supportive of both improved production and stronger earnings.
- We now expect SAR's production profile to exceed 300kozpa over the next five years; previously we expected production to peak at 290koz in FY18 and then decline sequentially. Delivering improved earnings remains a key catalyst for SAR. We believe Karari, supplemented by Whirling Dervish, will deliver this improvement. As a result of both improved earnings and an increase in our Carosue Dam valuation to \$0.61/sh from \$0.38/sh we lift our 1x NAV 5x CFPS derived target price to \$1.30/sh from \$1.00/sh.

CDO Reserves and five-year mine plan

- SAR released a five-year production plan for CDO and Thunderbox in October of 2015. The plan provided an initial road map to achieving and then sustaining a 300kozpa production rate. Delivery of Thunderbox has been the key component of achieving the planned group run rate. But sustaining the five-year plan, particularly the CDO contribution, envisaged numerous open pit and underground ore sources. Since then, whilst the overall goal has remained the same, the detail has changed, largely driven by success.

Fig 2 CDO five-year production outlook (2015)



Source: SAR, Macquarie Research, May 2017

- SAR's current reserves at CDO we estimated at June 30, 2016, and stand at 665koz inclusive of stockpiles from the Whirling dervish open pit. Approximately 67% of these reserves are underground with the largest component at Karari. The highest grade reserves are found at Deep South although to date mined grade has reconciled negatively.

Fig 3 CDO Reserves (June 2016)

Carosue Dam	UG/OP	Mt	Au (g/t)	Au (koz)
Karari	UG	2.1	3.00	201
Whirling Dervish	UG	1.7	2.68	145
Deep South	UG	0.9	3.68	106
Underground total		4.7	3.02	452.0
Million dollar	OP	2.9	1.06	100
Wallbrook	OP	1.6	1.14	59
Enterprise	OP	0.3	2.25	22
Open pit total		4.9	1.16	181.0
Stockpiles		1.1	0.91	32.5
CDO total		10.6	1.95	665.5

Source: SAR, Macquarie Research, May 2017

- Although open pit reserves at Wallbrook and Enterprise have been mined previously we do not currently include them in our modelled mining schedule. FY17 depletion to date is 95.5koz and we estimate total depletion for the FY at 135koz.

Fig 4 Karari underground resource (June 2016)

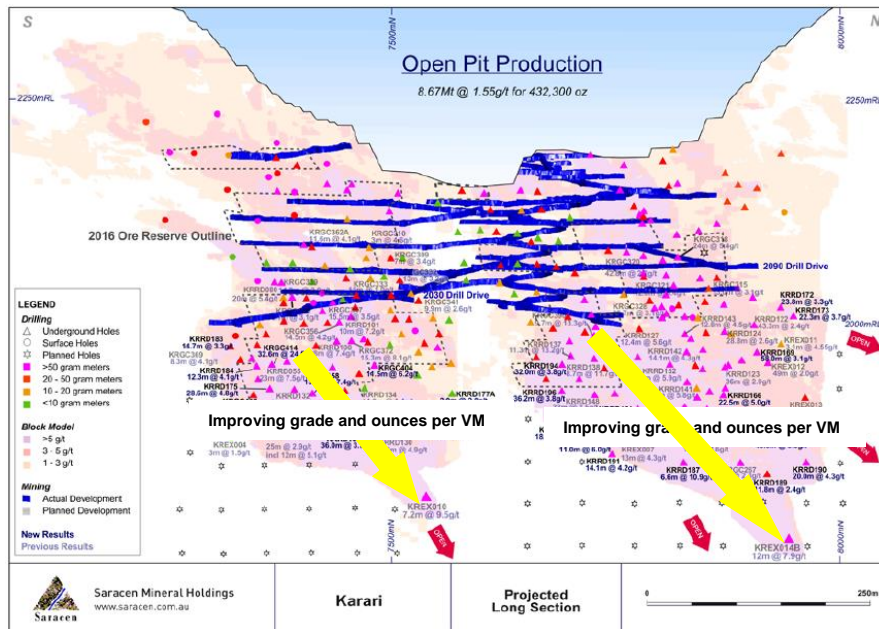
Karari UG	Mt	Grade (g/t)	Ounces
Measured	0.0	1.64	1.0
Indicated	6.8	2.57	563.0
Inferred	2.4	3.49	264.0
Total	9.2	2.80	828.0

Source: SAR, Macquarie Research, May 2017

Impressive exploration results from Karari

- Karari is likely to be the source of the most significant future reserve growth. Karari resources inclusive of reserves stand at 9.2Mt at 2.8g/t for 828koz. Recent exploration drilling, aimed at converting Inferred to higher confidence, has met with considerable success. Results indicate both a broadening of the mineralised envelope and an improvement in grade with depth.

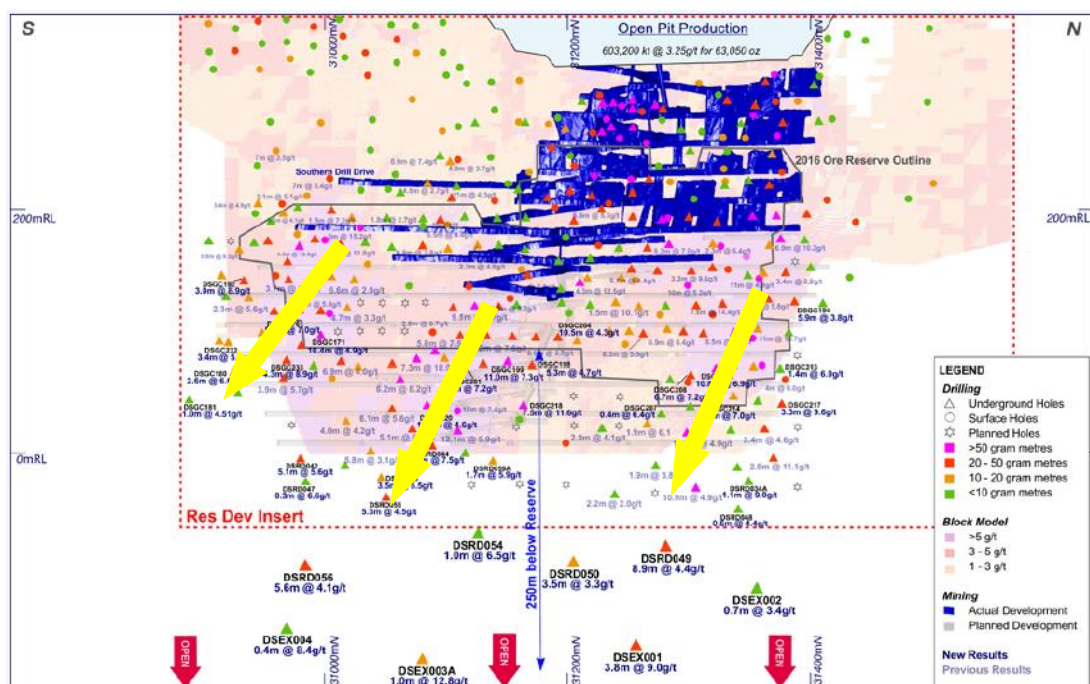
Fig 5 Karari drill results



Source: SAR, Macquarie Research, May 2017

- Drilling is ongoing and mineralisation remains open both at depth and along strike to the north. We concur with SAR's assessment that there is also strong potential further exploration success extending Karari to the northwest.

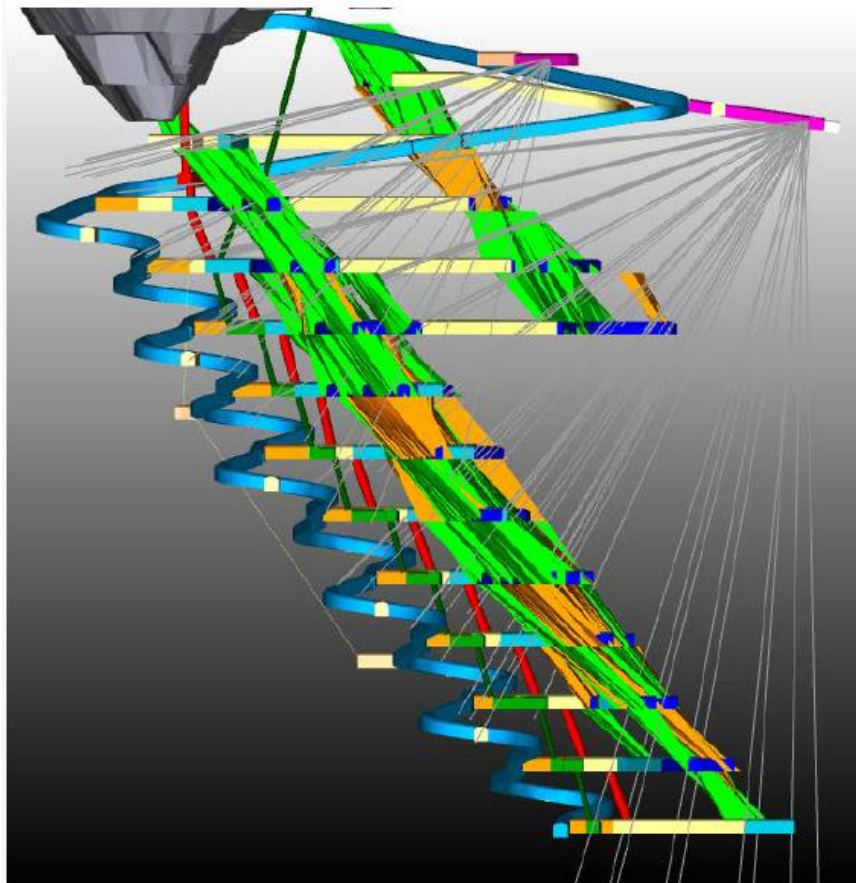
Fig 6 Deep South drill results



Source: SAR, Macquarie Research, May 2017

- Drilling at Deep South has also been successful in extending mineralisation although to a more modest degree than at Karari. Again, persistent high-grade zones are developing although without the thickness seen at Karari.
- So far grade reconciliation has been an issue at Deep South. The reserve is estimated at 3.7g/t and the open pit reconciled a similar grade but delivering underground grade has been problematic. We assume a grade of 3g/t for the mine suggesting that upside exists if the grade issues can be resolved.

Fig 7 Whirling Dervish drill plan



Source: SAR, Macquarie Research, May 2017

- Drilling at Whirling Dervish has been brought forward to accelerate the mines development. A drill drive, which will become part of the production decline, is underway with drilling expected to be completed before the end of the calendar year. The deposit already has a reserve sufficient for ~2 years of production and, as with Karari, we expect sufficient conversion of resources to support a substantially longer mine life.

Fig 8 Whirling Dervish underground resource

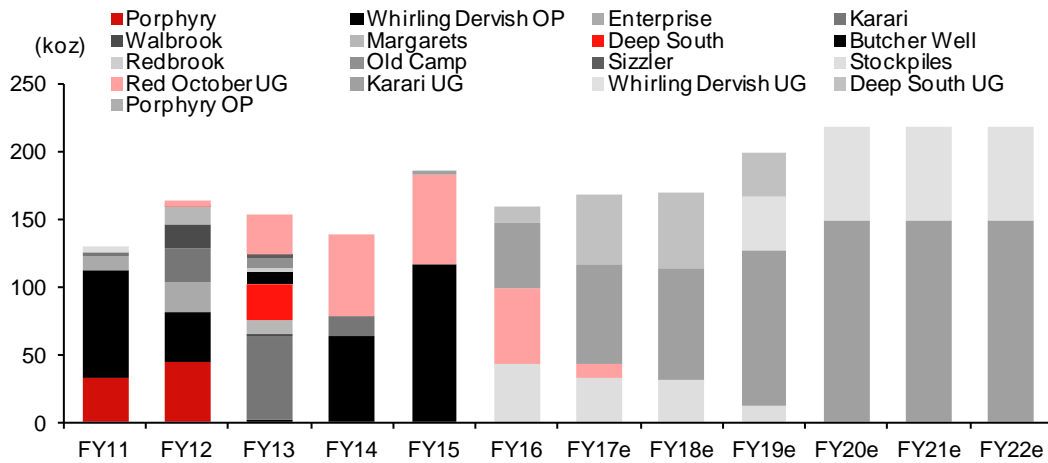
Whirling Dervish UG	Mt	Grade (g/t)	Ounces
Measured	-	-	-
Indicated	4.0	2.34	302.0
Inferred	2.5	2.03	161.0
Total	6.5	2.22	463.0

Source: SAR, Macquarie Research, May 2017

A simplified production outlook

- Recent exploration success, predominantly at Karari, has simplified the production outlook for Carosue Dam. We expect Karari to become the centre piece of the production profile, providing approximately two-thirds of our forecast. We believe the mine can sustain its recent annualised run-rate of 1.2Mtpa and could potentially exceed this with additional decline development. We expect grade to improve with depth and consequently forecast a growing production profile for the mine.

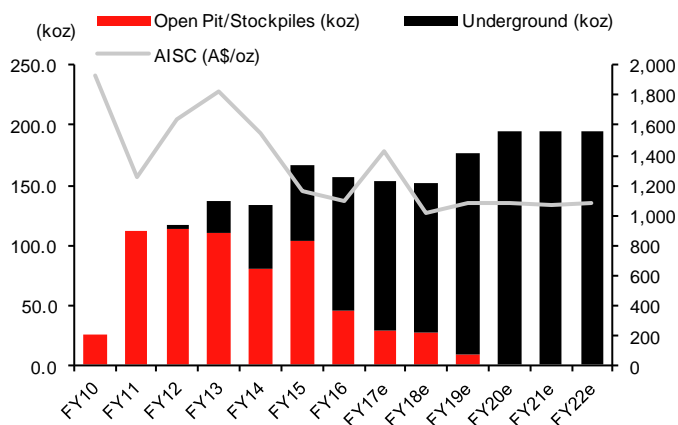
Fig 9 CDO historical and forecast production sources



Source: SAR, Macquarie Research, May 2017

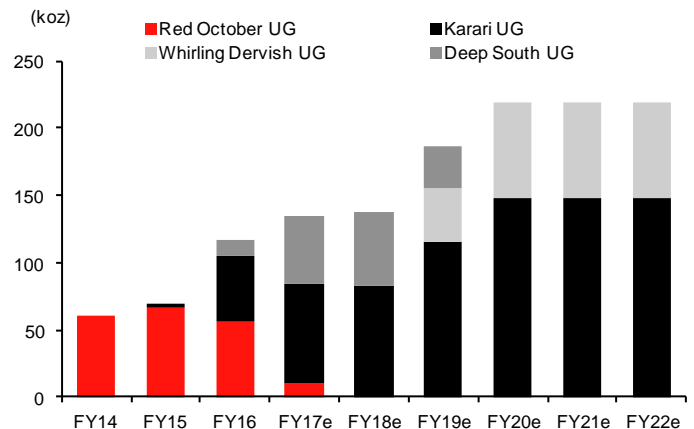
- We believe that Whirling Dervish could be in full production as early as FY19. With lower grade than Karari and only a single decline we expect production to be lower, but still expect feed for the Carosue Dam mill to be sourced solely from underground. This eliminates the need for the stockpiles and satellite open pits envisaged in the current five-year plan.

Fig 10 CDO transitioning to 100% underground



Source: SAR, Macquarie Research, May 2017

Fig 11 With Karari and Dervish the key contributors



Source: SAR, Macquarie Research, May 2017

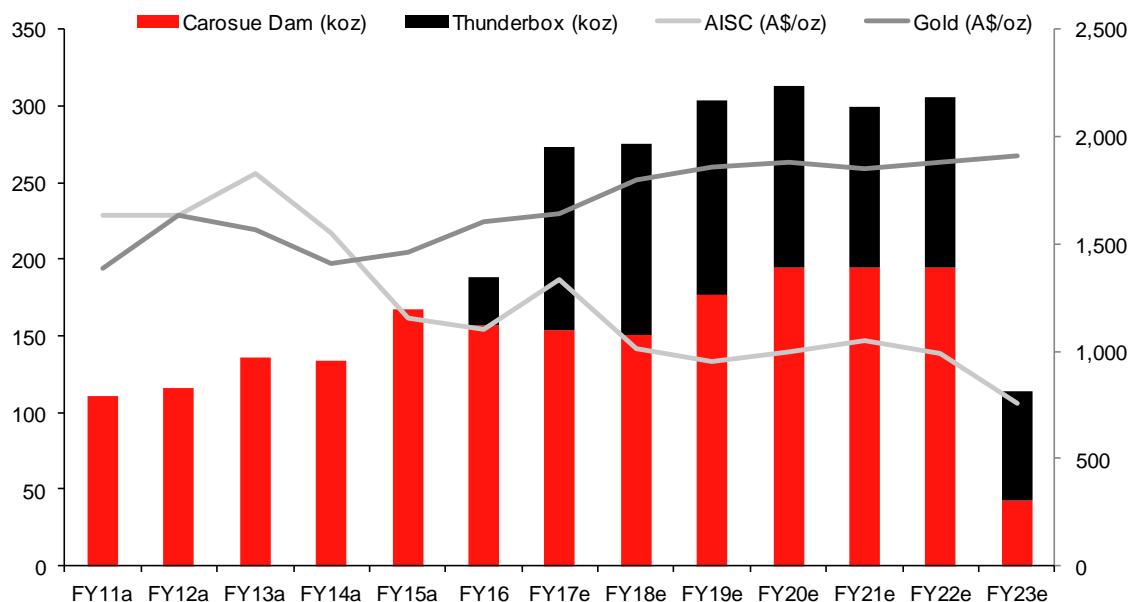
Thunderbox transitioning to lower strip ratio with boost from Kailis

- Concurrently, the open pit at Thunderbox will transition to lower strip ratios over FY18 with an additional boost of high-grade feed from Kailis. From here the outlook is vastly simplified which we believe will be supportive of both improved production and stronger earnings.

Lifting group production, improving cash flow and earnings

- We now expect SAR's production profile to exceed 300kozpa over the next five years; previously we expected production to peak at 290koz in FY18 and then decline sequentially. The outlook beyond 2022 remains uncertain but we note that SAR still has a substantial reserve and resource base and many long-term development options.

Fig 12 We now expect group production to exceed 300kozpa



Source: SAR, Macquarie Research, May 2017

- Delivering improved earnings remains a key catalyst for SAR. To date the promise of improved earnings has been elusive; however, we remain of the view that SAR has passed an inflection point in its earnings history. We believe Karari, supplemented by Whirling Dervish, will deliver this improvement.

Fig 13 SAR Operating CFPS changes

Y/E June	FY16	FY17e	FY18e	FY19e	FY20e
CFPS - old	12.7	11.7	12.5	19.5	21.2
CFPS - new	12.7	12.2	15.2	21.4	24.8
Change	0%	4%	22%	10%	17%

Source: SAR, Macquarie Research, May 2017

- With improved cash flow we also expect earnings to improve and forecast 33%, 20% and 25% uplift in FY18, FY19 and FY20 earnings respectively. As a result of both improved earnings and an increase in of Carosue Dam valuation to \$0.61/sh from \$0.38/sh we lift our 1x NAV 5x CFPS derived target price to \$1.30/sh from \$1.00/sh.

Fig 14 SAR Earnings changes

Y/E June	FY16	FY17e	FY18e	FY19e	FY20e	Price target
Net profit (A\$m) - old	25.9	46.3	55.3	113.5	126.0	1.00
Net profit (A\$m) - new	25.9	49.2	73.8	135.9	157.0	1.30
Change	(0%)	6%	33%	20%	25%	30%

Source: Company data, Macquarie Research, May 2017

Fig 15 Carosue Dam quarterly gold production

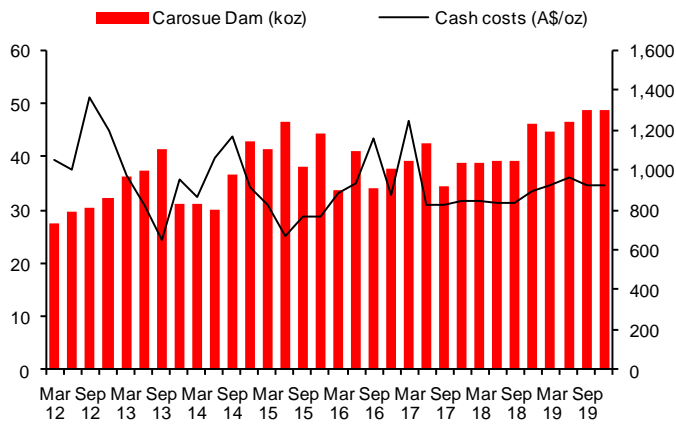
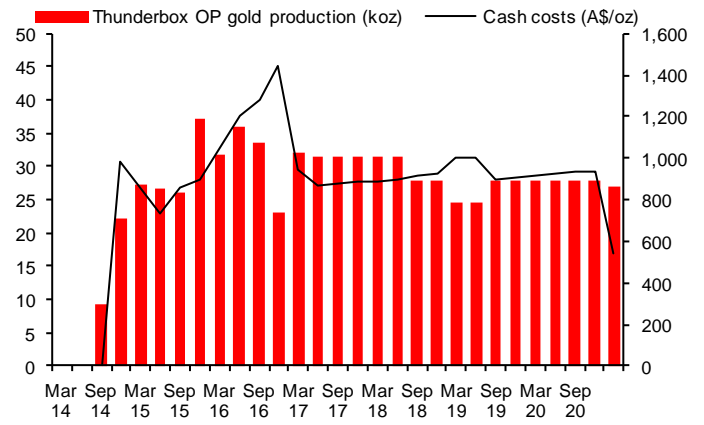


Fig 16 Thunderbox quarterly gold production



Source: SAR, Macquarie Research, May 2017

Source: SAR, Macquarie Research, May 2017

Fig 17 Carosue Dam production by mine

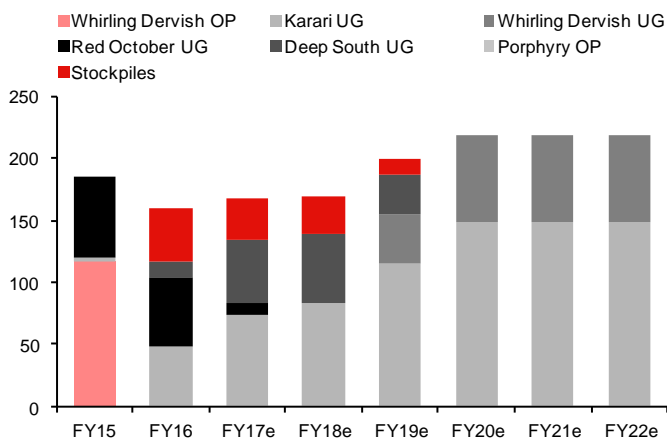
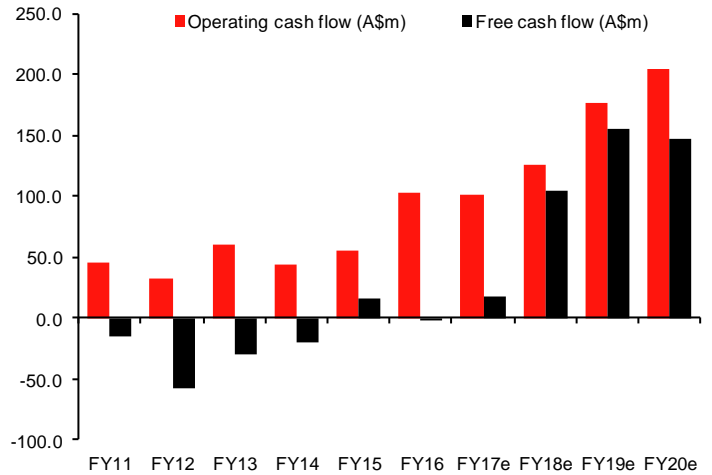


Fig 18 SAR cash flow outlook



Source: SAR, Macquarie Research, May 2017

Source: SAR, Macquarie Research, May 2017

Fig 19 SAR net cash vs market capitalisation

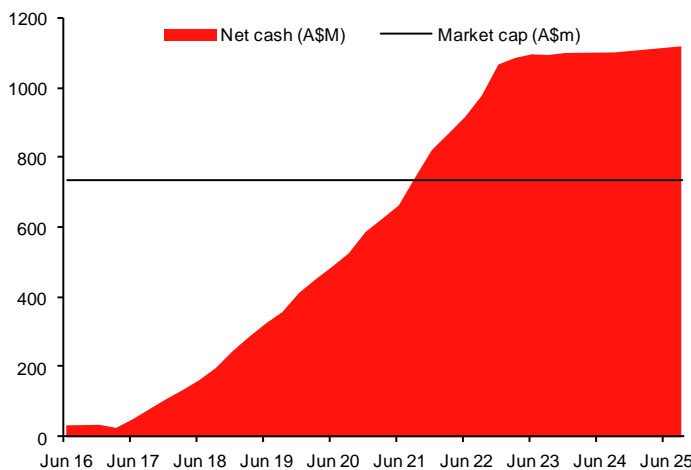
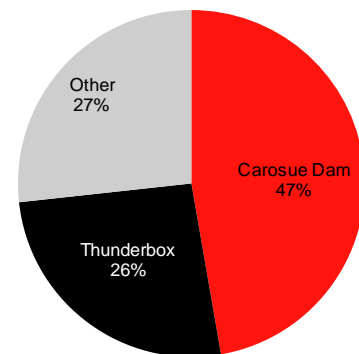


Fig 20 SAR NPV by project (2016)



Source: SAR, Macquarie Research, May 2017

Source: SAR, Macquarie Research, May 2017

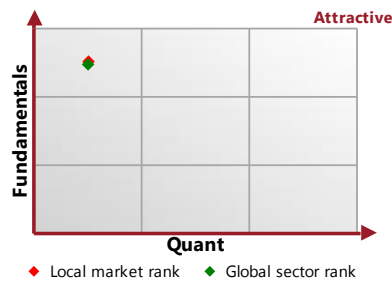
Macquarie Quant View

The quant model currently holds a reasonably negative view on Saracen Mineral Holdings. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Earnings Momentum, indicating this stock has received earnings downgrades and is not well liked by sell side analysts.

1300/1558

Global rank in Materials

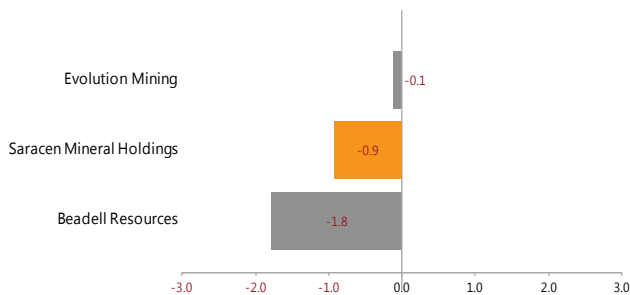
% of BUY recommendations 62% (5/8)
Number of Price Target downgrades 6
Number of Price Target upgrades 2



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (Australia & NZ) and Global sector (Materials)

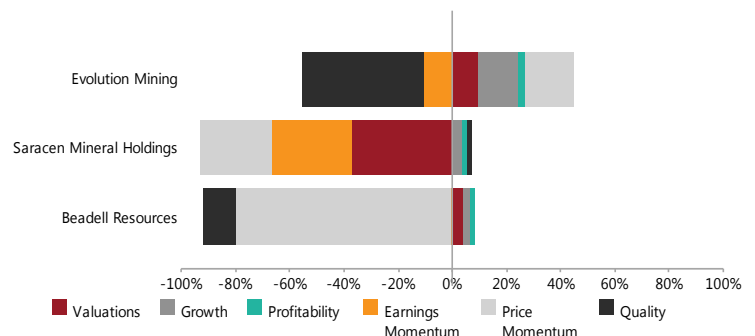
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



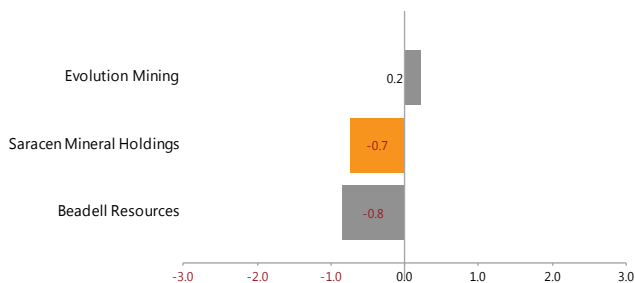
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



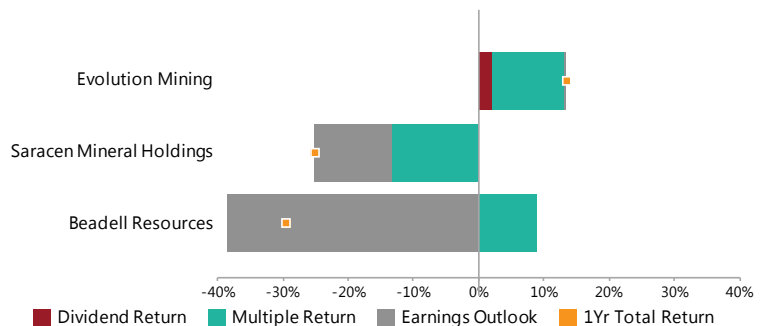
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



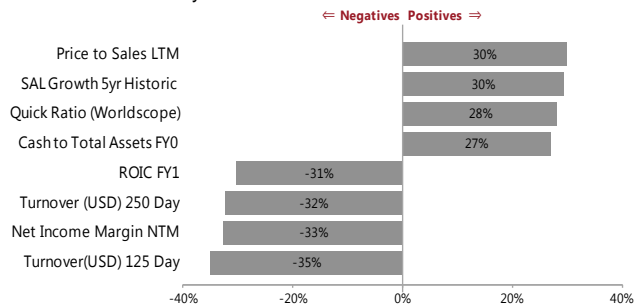
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



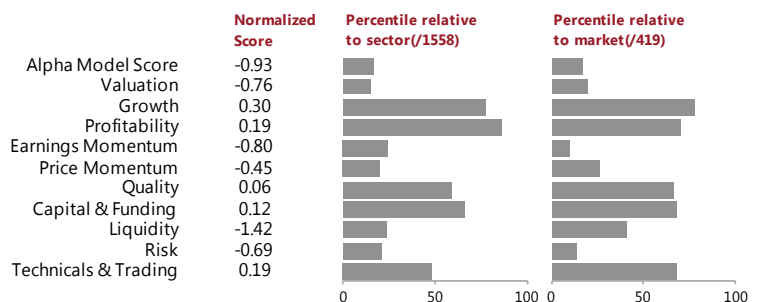
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return

Neutral – return within 3% of benchmark return

Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%

Neutral – expected return from -10% to +10%

Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%

Neutral – expected return from -10% to +10%

Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return

Neutral – return within 5% of benchmark return

Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell

3000 index return

Neutral (Hold) – return within 5% of Russell 3000 index

return

Underperform (Sell)– return >5% below Russell 3000

index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.**Medium** – stock should be expected to move up or down at least 30–40% in a year.**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.**Low** – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa***ROA** = adjusted ebit / average total assets**ROA Banks/Insurance** = adjusted net profit / average total assets**ROE** = adjusted net profit / average shareholders funds**Gross cashflow** = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for global coverage by Macquarie, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for global coverage by Macquarie, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for global coverage by Macquarie, 8.00% of stocks followed are investment banking clients)

SAR AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2017

12-month target price methodology

SAR AU: A\$1.30 based on a Blend of 50% 1x NAV and 50% 5x CFPS methodology

Company-specific disclosures:

SAR AU: Macquarie and its affiliates collectively and beneficially own or control 1% or more of any class of Saracen Mineral Holdings Ltd's equity securities.Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BVG code)	Recommendation	Target Price
19-Apr-2017	SAR AU	Neutral	A\$1.00
11-Jan-2017	SAR AU	Neutral	A\$1.10
20-Dec-2016	SAR AU	Outperform	A\$1.00
07-Dec-2016	SAR AU	Outperform	A\$1.30
25-Oct-2016	SAR AU	Neutral	A\$1.30
26-Aug-2016	SAR AU	Underperform	A\$1.40
19-Jul-2016	SAR AU	Underperform	A\$1.30
07-Jul-2016	SAR AU	Underperform	A\$1.40
01-Jul-2016	SAR AU	Underperform	A\$1.20
11-May-2016	SAR AU	Underperform	A\$1.00
19-Apr-2016	SAR AU	Underperform	A\$.90
06-Apr-2016	SAR AU	Underperform	A\$1.00
15-Mar-2016	SAR AU	Underperform	A\$.90
24-Feb-2016	SAR AU	Neutral	A\$.80
29-Jan-2016	SAR AU	Neutral	A\$.77
11-Jan-2016	SAR AU	Neutral	A\$.76
21-Oct-2015	SAR AU	Outperform	A\$.70
24-Sep-2015	SAR AU	Outperform	A\$.65
27-Aug-2015	SAR AU	Outperform	A\$.54

24-Jul-2015	SAR AU	Outperform	A\$.43
09-Apr-2015	SAR AU	Outperform	A\$.55
23-Mar-2015	SAR AU	Outperform	A\$.56
21-Mar-2015	SAR AU	Outperform	A\$.60
02-Mar-2015	SAR AU	Outperform	A\$.55
21-Jan-2015	SAR AU	Outperform	A\$.50
15-Jan-2015	SAR AU	Outperform	A\$.42
08-Dec-2014	SAR AU	Outperform	A\$.40
23-Jul-2014	SAR AU	Outperform	A\$.50
21-May-2014	SAR AU	Outperform	A\$.42

Target price risk disclosures:

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Analyst certification:

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