



November 14, 2017

## Saracen Mineral Holdings Limited

### Maintaining Outperform; more catalysts ahead

**Our view:** We maintain our positive investment view of SAR, despite its recent strong share price run, on the back of upcoming positive catalysts. We see further potential upside from ongoing exploration results, the 5 year plan and the Thunderbox UG Feasibility Study - expected within the next 12 months.

#### Key points:

#### An impressive run so far in FY18, but there is more to come

SAR has had a strong share price run so far in FY18, up 23%. This has been driven by two successive lower cost quarters, producing at a rate of 320kozpa, as well as the company's resources and reserves update given in August, increasing group reserves by 40%. These stock specific catalysts have helped to drive the share price above moves in the A\$ gold price. We think there is further upside from here, and outline a set of upcoming catalysts (we estimate will arrive in the next ~12 months) in Exhibit 8 of our note.

#### SAR graduates from a being a "junior" into a genuine "intermediate" name, with cash to build from here

Since the start of FY18, SAR has traded ahead of junior peers and more in line with the "intermediate" group of comparable companies (see Exhibit 5 from our note). The company has gone from trading at 5-6x P/CF to be more in line with intermediate companies at 7-8x P/CF. This change represents the market's willingness to pay for the growth it sees within Saracen's business. It also reflects investors' increased confidence in management and SAR's assets to produce at 300+kozpa rates for sub A \$1,100/oz AISC. We think SAR will continue to consistently produce, and estimate the company to have a cash balance of A\$120.7m by Jun'Q18.

#### Upcoming catalysts and what could drive SAR higher from here

Firstly, we expect ongoing exploration results, following on from the resources and reserves update in August. Some of the drilling results from the end of the FY17 would have missed the cut-off point for inclusion in the resources and reserves update, while other targets which were only discovered in FY17 are likely to yield further additions with follow-up drilling in FY18. We expect SAR will release an exploration update in Dec'Q17. Secondly, we expect management will provide an updated 5-year plan in Mar'Q18, and highlight the potential for upgrades to guidance, given the strong start to the year (AISC Sept'Q A\$1,008 vs. A\$1,150 guidance). Lastly, we expect the Thunderbox UG drill drive to commence in Jun'Q18 with the Feasibility Study to follow in 1H FY19.

#### Valuation and earnings impact

We incorporate a minor lift in production to reflect recent production rates, lifting earnings, cash flow and NAV. Our price target increases to A \$1.75 and our rating remains Outperform.

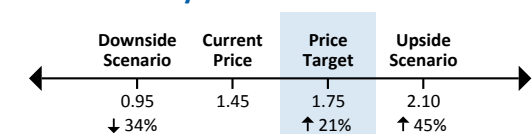
### Outperform

ASX: SAR; AUD 1.45

Price Target AUD 1.75 ↑ 1.50

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

#### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	800.8	Market Cap (MM):	1,161
Dividend:	0.00	Yield:	0.0%
NAVPS:	1.75	P/NAVPS:	0.83x
ROE:	28.1%	Tr. 12 ROE:	9.70%
Debt to Cap:	0%	Enterprise Val. (MM):	782
		Avg. Daily Volume:	5,655,187

Priced as at ASX market close 14 November 2017

#### RBC Estimates

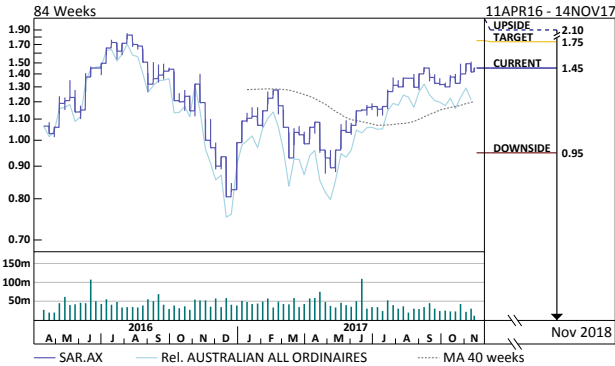
FY Jun	2017A	2018E	2019E	2020E
<b>EPS, Adj Diluted</b>	0.04	0.16	0.16	0.19
Prev.		0.15	0.15	
<b>P/AEPS</b>	36.3x	9.1x	9.1x	7.6x
<b>CFPS, Adj Diluted</b>	0.16	0.25	0.25	0.28
Prev.		0.24	0.24	
<b>P/ACFPS</b>	9.1x	5.8x	5.8x	5.2x
<b>DPS</b>	0.00	0.00	0.02	0.04
<b>Div Yield</b>	0.0%	0.0%	1.4%	2.8%
<b>Production</b>	263.0	302.0	302.0	310.0
Prev.		295.0	295.0	

All values in AUD unless otherwise noted.



## Target/Upside/Downside Scenarios

Exhibit 1: Saracen Mineral Holdings Limited



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our 12-month price target of A\$1.75/share is derived from a 75:25 blend of debt-adjusted cash flow (8.0x) and sum-of-the-parts NAV (1.0x).

### Upside scenario

We believe extensions to the known ore bodies at depth are probable and, as such, we run our upside scenario by adding two years of additional mine life to group production. From this, we derive a valuation of A\$2.10.

### Downside scenario

Our downside scenario is based on a flat AUD/USD exchange rate and gold price of c.US\$1,150/oz. We also remove one year of mine life from our base-case scenario. From this, we derive a valuation of A\$0.95.

## Investment summary

- The main drivers that should underpin the company's share price are: 1) strong growth, with the implementation of Thunderbox taking group production to c.300koz Au pa from FY18; 2) significant exploration upside at all current operations providing increased confidence that mine life can be significantly extended beyond current reserves and general market estimates; and 3) a consistent track record from the management team

## Potential catalysts

- Mine life extensions – the high-grade mineralisation, which remains open at all current operations, indicates a high probability for continued extensions at depth. We believe that SAR could provide ongoing high results at depth; therefore, we would be convinced to add further mine life into the deposits.
- A beat to guidance? With the Thunderbox development tracking ahead of schedule, we believe the company may again beat guidance expectations as costs come down.



## SAR: maintaining our Outperform rating with further upside from catalysts

We see further upside in the Saracen share price from here and take the opportunity to reiterate our Outperform call on the stock. The company has been one of the strongest performers within the Australian precious metals space for far in FY18 (see Exhibit 3). Saracen has delivered multiple key catalysts, which has driven the stock beyond movements in the gold price. We maintain our positive investment recommendation for SAR, based on upcoming catalysts in the form of 1) the company's upcoming 5-year plan, 2) the Thunderbox UG feasibility study, and 3) ongoing exploration news flow, with further results due.

### Graduating from a “junior” name into a stable “intermediate” producer

As SAR has managed to deliver on key catalysts, it has experienced share price outperformance and a general re-rate in the eyes of the market. Investors now view SAR alongside its larger mid-cap gold peers. The delivery of two consecutive quarters with declining costs (our notes [here](#) and [here](#)), whilst maintaining production rates of 320kozpa for six months has given management and SAR's assets increased credibility with investors. The declining headline AISC appears to have improved sentiment towards the stock (this number's relevance in the face of adjustments aside). The resource and reserve update in August has also served to upgrade expectations around longer mine life. We wrote extensively about this [here](#).

### Thunderbox UG study – adds 5 years, 474koz reserve at A\$1,156/oz AISC

SAR released a PFS for the Thunderbox UG study along with the resources and reserves update in August. We have incorporated the initial numbers for the underground expansion and have modelled what we think the asset might contribute to SAR as a whole (see Exhibit 6 and 7). We await the FS for the project, which we expect in 1H FY19.

### Upcoming catalysts

With a number of key events for SAR already behind us (and now reflected in the share price) we see further stock-specific news flow that could drive the share price from here. We believe the company's 5-year plan (which we estimate will be released in Mar'Q18), the Thunderbox UG Feasibility Study (RBCe 1H FY19) and ongoing exploration news flow are likely to drive the stock beyond its current levels towards our A\$1.75 price target.

### Earnings and valuation impact

We have incorporated minor changes to production (7kozpa) in FY18E and FY19E in order to reflect recent production rates at Thunderbox. The overall impact is a lift in earnings, cash flow and NAV. Our price target increases to A\$1.75 (from A\$1.50) and our rating remains Outperform. Our price target supports our Outperform rating.

Exhibit 2: Our changes

		FY17 Actual	FY18E			FY19E			FY20E		
		Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	
Underlying Net Profit	A\$m	31.2	127.3	120.5	6%	126.2	118.4	7%	149.4	149.0	0%
Underlying EPS	¢	3.9	16.0	15.2	6%	15.9	14.9	7%	18.8	18.8	0%
CFPS	¢	15.8	25.3	24.1	5%	25.0	23.8	5%	27.9	28.0	0%
Dividend	¢	0.0	0.0	0.0	<i>n.a</i>	2.0	2.0	0%	4.0	4.0	0%
Gold Production	koz Au	263	302	295	2%	302	295	2%	310	310	0%
AISC	A\$/oz Au	1335	1064	1084	-2%	999	1023	-2%	947	947	0%
<b>NAV</b>	<b>A\$/share</b>		1.75	1.73	1%						
<b>12 Month TP:</b>	<b>A\$/share</b>		<b>1.75</b>	<b>1.50</b>	<b>17%</b>						

Source: Company reports, RBC Capital Markets estimates

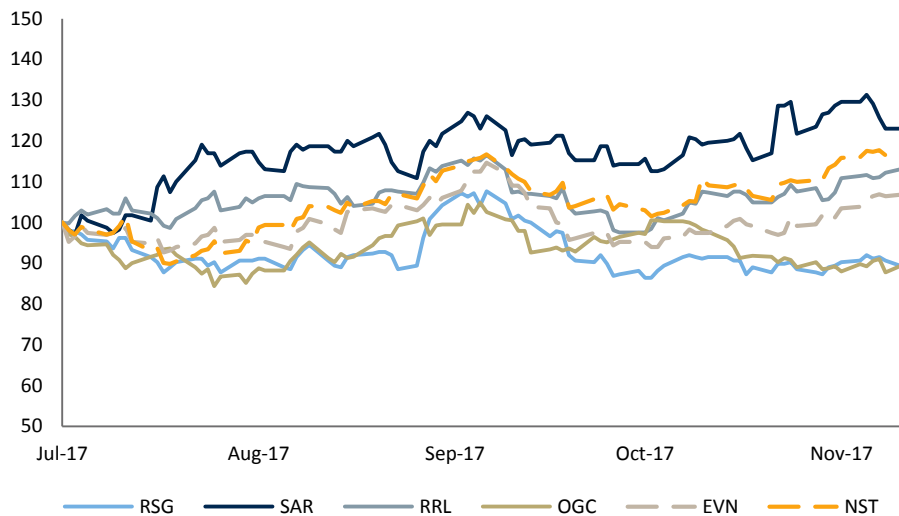
## SAR graduates to a genuine intermediate producer

### Stock-specific catalysts have paid off well in 1H FY18

The Saracen share price has enjoyed a 23% increase so far in FY18. This has been driven by a number of stock-specific catalysts, outside of movements in the A\$ gold price (which has appreciated 4.6% in FY18). Firstly, SAR released their resources and reserves update in August 2017, increasing reserves by 40% to 2.1Moz. This release also underpinned a PFS for an underground operation at Thunderbox, setting out a potential 7-year mine life. The resources and reserves update quantified in a tangible standalone figure, the previous 12-18 months of drilling from SAR. Throughout FY16-17, the company pursued a strategy of development at Thunderbox whilst maintaining a generous exploration budget (A\$31.7m in FY17).

SAR's two most recent quarterly reports have shown the company producing at a rate of ~320kozpa whilst also showing group AISC declining 25% and 11% in both the Jun'Q17 and Sept'Q17, respectively. Both of these reports received a positive share price reaction, with investors rewarding the headline results. While the impact of ore inventory adjustments helped to lower the headline AISC, the market seems to have looked past this, with the share price up ~10% the day following the September quarterly. Taking all of this into context, **we hypothesise that the market now views SAR as a genuine intermediate producer, with a declining headline cost profile that delivers upon stated targets.**

### Exhibit 3: SAR has outperformed other Australian gold stocks under our coverage in FY18



Source: Company reports, RBC Capital Markets estimates, Factset

### After two good quarters credibility builds – look for more of the same with a decent cash build

From here we think SAR will look to harvest cash and maintain similar output. The company has shown the ability for its assets to produce at a 300+koz rate, at sub A\$1,100/oz AISC. After incurring a further A\$81.5m in capex remaining in FY18, **we forecast SAR to have A\$120.7m in cash on the balance sheet by June 2018.** This would precede any decision on Thunderbox UG (A\$71m capex from PFS) and not include a dividend (we don't forecast a dividend until 1H FY20).



**SAR should rightly be compared to its intermediate peers**

With the ramp up at Thunderbox behind it and development costs beginning to decline, SAR finds itself positioned within the “intermediate” group of Australian gold companies. The below table (Exhibit 4) shows how SAR sits relative to its closest gold peers. Within RBC’s precious metals weekly valuation tables, we include RRL, OGC, NST and EVN within the “intermediate” group. Looking at SAR in isolation, the company would be placed at the lower end of the intermediate group, but at the very top of “junior” or tier III names. As stock-specific catalysts around cost profile, mine life have been delivered, the stock has rerated to Intermediate (Tier II) levels (see Exhibit 5).

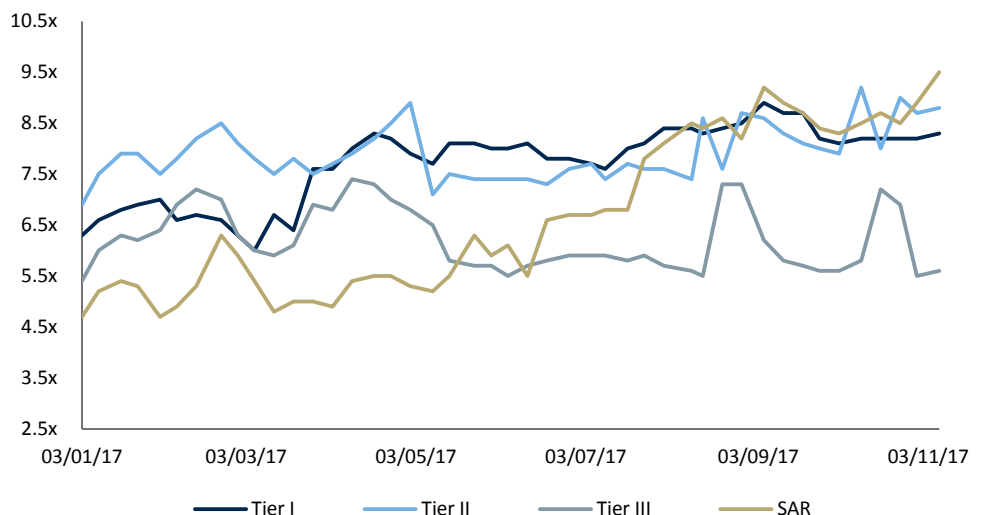
Exhibit 4: SAR stacks up towards the lower end of the intermediate names, and above its junior peers on most metrics

Comparable small-mid cap gold names							
	SLR	RSG	SAR	RRL	OGC	NST	EVN
FY18E Prod (koz)	139	305	302	349	529	543	786
FY18E AISC (A\$/oz)	1404	1294	1064	937	576	1004	821
FY18E OCFPS (A\$/share)	0.14	0.11	0.25	0.43	0.51	0.62	0.38
FY18E Net debt (A\$m)	-79	-129	-120	-178	-112	-544	90
Market cap (A\$m)	181	779	1165	1984	2181	3088	4005
Enterprise value (A\$m)	120	577	1115	1840	2437	2707	4348
Reserves (Moz Au) - P&P	0.5	5.3	2.1	2.2	5.0	3.5	6.6
Resources (Moz Au) - M,I&I	3.3	12.0	9.1	8.1	13.0	10.2	13.3

Source: Company reports, RBC Capital Markets estimates

When we compare and contrast SAR and RRL, we see some strong similarities at the headline level. Both are producing 320-350koz, SAR isn’t far off the <A\$1,000/oz AISC level, SAR arguably has a longer mine life and comparable group level reserves and resources. Despite this, **SAR trades at a significant discount to RRL – with almost half of the market cap**. The primary differences between the two stocks would be 1) RRL’s significant dividend policy along with A\$131.3m cash and bullion, and 2) a longer history of beating guidance and delivering lower headline costs.

Exhibit 5: SAR has traded at the average P/CF multiple of intermediate companies in FY18



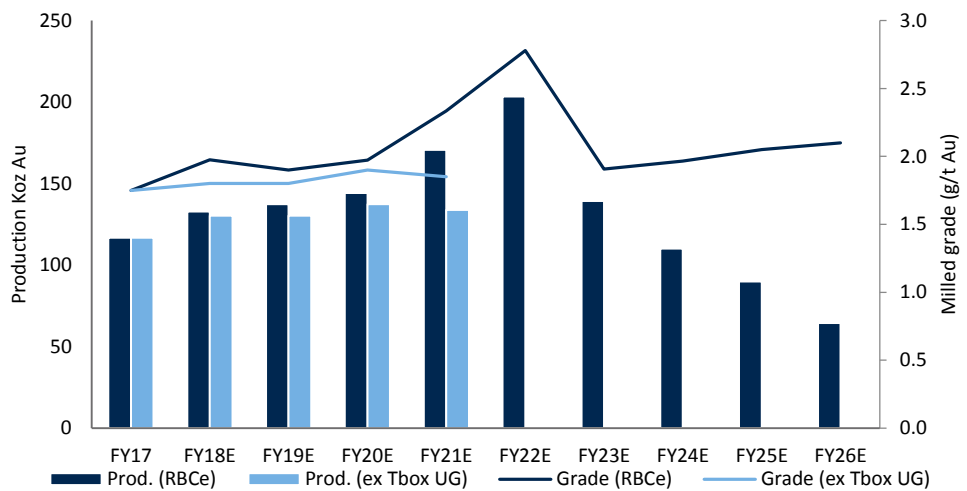
Source: Company reports, RBC Capital Markets

## Thunderbox UG – the next leg of growth and what it adds to SAR

### Thunderbox UG feasibility study provides a meaningful contribution beyond FY22E

Following the extended drill out program of FY16-17, SAR revealed the Thunderbox UG PFS along with the resources and reserves update in August 2017. The PFS set out a 7-year, A\$1,156/z AISC, 474koz project, for a pre-production capex outlay of A\$71m (with A\$65m sustaining capex over the life of mine). We have included the project within our estimates in-line with the assumptions from the PFS. We estimate first capex for the project will be spent in 1Q FY20E, with first development ore in 3Q FY20E. Exhibit 6 sets out our key assumptions.

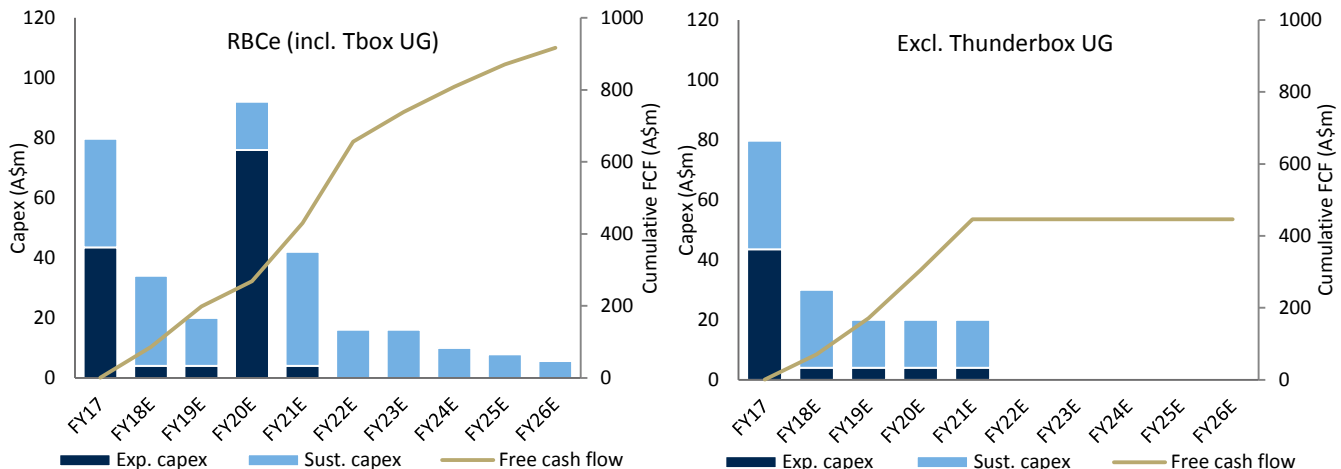
Exhibit 6: The production and grade profile of Thunderbox, including the UG



Source: Company reports, RBC Capital Markets estimates

Exhibit 7 sets out the incremental impact of the underground project, relative to our estimates prior to the resources and reserves update. Both graphs show the cumulative cash flow from committing to the project, and highlight the longer term impact of the underground (LHS) compared with shutting down the asset in FY21E (RHS).

Exhibit 7: Thunderbox UG provides an incremental lift to cumulative free cash flow beyond FY21E



Source: Company reports, RBC Capital Markets estimates



## The 5-year plan and what drives the stock from here

### Plenty of catalysts left in the tank – news flow due in the next 6-9 months

Acknowledging the strong share price performance so far in FY18, we believe the company has multiple near-term catalysts that could drive the share price from here. As we mentioned as part of the resources and reserves update, we expect ongoing news flow from SAR in the form of further exploration updates. As we stated in August, we expect some of the results from towards the end of the FY17 campaign would have missed the cut-off, while other targets which were only discovered in FY17 were likely to yield further additions with follow-up drilling in FY18 and beyond. We expect SAR will release these results in the Dec'Q17.

As a follow on from the PFS released in August, we expect SAR will release the Feasibility Study for Thunderbox UG in 1H FY19. Along with follow up drilling and ongoing studies, the FS is likely to translate to a different outcome to our current estimates. The FS should provide greater detail on mining schedule and likely grade profile, which will more clearly define the distribution of cash flows for the project.

### Exhibit 8: Stock specific catalysts we expect within the next 12 months

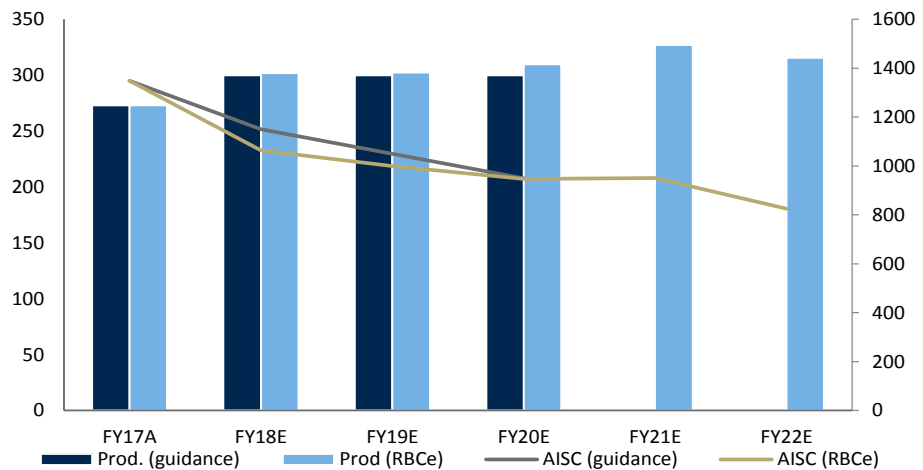
Upcoming catalysts	RBCe date
Exploration update - follow on drilling from R+R update	Dec'Q17
Updated 5 year plan - cost and prod guidance	Mar'Q18
Dedicated drill platform - Thunderbox UG	Jun'Q18
Thunderbox UG Feasibility Study	1H FY19

Source: Company reports, RBC Capital Markets estimates

### Our expectations ahead of the 5-year plan – producing at 300koz with falling costs

The company has stated that it will release an updated 5-year plan, similar to what has been provided before with headline production and cost guidance. We think there is a likelihood management will provide updated cost guidance for FY18, given the strong start to the year (1Q AISC A\$1,008/oz vs. full year guidance of A\$1,150/oz). Exhibit 9 displays our estimates relative to the current guidance provided to date.

### Exhibit 9: Our estimates (beyond FY20E) relative to the current group guidance



Source: Company reports, RBC Capital Markets estimates





# Production and financial summary

Exhibit 10: RBCe price, fx, volume, earnings and valuation estimates

<b>Saracen Mineral Holdings</b>	ASX: SAR	<b>Price Target:</b>	1.75	<b>Rating:</b>	<b>Outperform</b>	
RBC Capital Markets	No Shares (m):	794.3		Risk Specifier:	-	
Paul Hissey +61 3 8688 6512	Liquidity (m shares/month)	96,864	Share Price (\$/sh):	\$1.45	Implied Return (%):	20.7%
Connor O'Brien +61 3 8688 6519	Market Cap. (M \$):	\$1,179	2016E Dividend (\$/sh):	\$0.00	Implied Total Return (%):	20.7%
Alexander Hislop +612 8688 6551	Enterprise Value (M \$)	\$1,129	NAV (\$/sh):	\$1.75	P/NAV (x)	0.83x

All AUD unless noted						Year End June 30						
RATIO ANALYSIS						All AUD unless noted						
		FY17	FY18E	FY19E	FY20E	PRICES & EXCHANGE RATES						
Earnings - Adjusted	\$/sh	\$0.04	\$0.16	\$0.16	\$0.19	Gold Price	US\$/oz	1259	1294	1300	1300	1300
P/E Multiple	x	36.9x	9.0x	9.1x	7.7x	Exchange rate	AUD:USD	0.75	0.74	0.73	0.73	0.74
CFPS (CFO)	\$/sh	\$0.16	\$0.25	\$0.25	\$0.28	<b>EQUITY PRODUCTION &amp; COSTS</b>						
FCFPS (CFO-capex-expl.)	\$/sh	(\$0.01)	\$0.11	\$0.19	\$0.13		<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	
P/CF Multiple	x	9.2x	5.7x	5.8x	5.2x	Carosue Dam	koz Au	156	167	165	166	156
FCF Yield	%	(0.6%)	7.8%	13.0%	8.9%	Thunderbox	koz Au	117	135	137	144	171
Dividends Per Share	\$/sh	\$0.00	\$0.00	\$0.02	\$0.04	<b>Total Gold Production</b>	<b>koz Au</b>	<b>263</b>	<b>302</b>	<b>302</b>	<b>310</b>	<b>327</b>
Dividend Yield	%	0.0%	0.0%	1.4%	2.8%	C1 Cash Cost	\$/oz	956	806	793	747	700
LT/Total Cap)	%	0.0%	0.0%	0.0%	0.0%	All-in Sustaining Cash Cost	\$/oz	1335	1064	999	947	951
<b>INCOME STATEMENT</b>						<b>ATTRIBUTABLE RESERVES &amp; RESOURCES</b>						
Revenue	M \$	\$423	\$515	\$527	\$548			<b>EV</b>				
Operating Costs	M \$	(\$312)	(\$276)	(\$281)	(\$274)			<b>koz Au</b>	<b>\$/oz</b>			
<b>EBITDA</b>	<b>M \$</b>	<b>\$111</b>	<b>\$239</b>	<b>\$246</b>	<b>\$275</b>	Proven/Probable Reserve (P&P)		2.11	\$534			
D&A	M \$	(\$75)	(\$71)	(\$71)	(\$70)	Measured/Indicated (M&I) - Inclusive		6.71	\$168			
<b>EBIT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$168</b>	<b>\$175</b>	<b>\$204</b>	Measures/Indicated/Inferred		9.06	\$125			
Other Income/Expenses	M \$	(\$0)	\$2	\$5	\$9	<b>CAPEX BREAKDOWN</b>						
<b>EBT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$170</b>	<b>\$180</b>	<b>\$213</b>		<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>		
Taxes	M \$	(\$5)	(\$43)	(\$54)	(\$64)	Sustaining Capex	M \$	55.4	57.9	33.0	32.0	
<b>Net Income - Reported</b>	<b>M \$</b>	<b>\$31</b>	<b>\$127</b>	<b>\$126</b>	<b>\$149</b>	Expansionary Capex	M \$	49.6	24.0	12.0	84.0	
Adjustments	M \$	(\$3)	\$0	\$0	\$0	Exploration	M \$	27.8	29.4	3.6	3.6	
<b>Net Income - Adjusted</b>	<b>M \$</b>	<b>\$28</b>	<b>\$127</b>	<b>\$126</b>	<b>\$149</b>	Total	M \$	132.8	111.3	48.6	119.6	
Weighted average diluted shares	M	794	794	794	794	<b>GROUP ALL-IN SUSTAINING COSTS AND PRODUCTION</b>						
<b>CASH FLOW STATEMENT</b>						<b>FY17</b>						
<b>Cash Flows from Operating Activities</b>						<b>FY18E</b>						
Net Income	M \$	\$31	\$127	\$126	\$149	<b>FY19E</b>						
D&A	M \$	\$75	\$71	\$71	\$70	<b>FY20E</b>						
Taxes Paid	M \$	\$5	\$11	\$1	\$2	<b>Gold Production (koz Au)</b>						
Non Recurring/Other	M \$	\$0	(\$3)	\$0	\$0	<b>All-in Sustaining Cash Cost (\$/oz Au)</b>						
<b>Operating Cash Flow (excl. stripping)</b>	<b>M \$</b>	<b>\$110</b>	<b>\$206</b>	<b>\$198</b>	<b>\$222</b>							
Changes in Working Capital	M \$	\$15	(\$5)	\$0	\$0							
<b>Net Operating Cash flow</b>	<b>M \$</b>	<b>\$126</b>	<b>\$201</b>	<b>\$198</b>	<b>\$222</b>							
<b>Cash Flows From Investing Activities</b>												
Capital Expenditure	M \$	(\$105)	(\$82)	(\$45)	(\$116)							
Other (incl exploration)	M \$	(\$13)	(\$29)	(\$4)	(\$4)							
<b>Net Investing Cash Flow (incl. stripping)</b>	<b>M \$</b>	<b>(\$118)</b>	<b>(\$111)</b>	<b>(\$49)</b>	<b>(\$120)</b>							
<b>Cash Flows From Financing Activities</b>												
Equity Issues (net of costs)	M \$	\$0	\$0	\$0	\$0							
Net Borrowings	M \$	\$0	\$0	\$0	\$0							
Dividends Paid & Other	M \$	(\$8)	(\$3)	\$0	(\$32)							
<b>Net Financing Cash Flow</b>	<b>M \$</b>	<b>(\$8)</b>	<b>(\$3)</b>	<b>\$0</b>	<b>(\$32)</b>							
Increase (Decrease) in Cash	M \$	(\$1)	\$87	\$150	\$70							
<b>Cash at End of Year</b>	<b>M \$</b>	<b>\$34</b>	<b>\$121</b>	<b>\$270</b>	<b>\$341</b>							
Operating Free Cash Flow	M \$	\$21	\$119	\$153	\$106							
Free Cash Flow	M \$	\$8	\$90	\$150	\$102							
<b>BALANCE SHEET</b>												
Cash & Equivalents	M \$	\$34	\$121	\$270	\$341							
Other Current Assets	M \$	\$63	\$74	\$74	\$74							
PP&E & Mining Interests	M \$	\$261	\$273	\$247	\$292							
Other Long Term Assets	M \$	\$47	\$76	\$79	\$83							
<b>Total Assets</b>	<b>M \$</b>	<b>\$404</b>	<b>\$542</b>	<b>\$670</b>	<b>\$789</b>							
Current Liabilities	M \$	\$62	\$62	\$62	\$62							
Long Term Debt	M \$	\$0	\$0	\$0	\$0							
Other Long Term Liabilities	M \$	\$48	\$59	\$60	\$62							
<b>Total Liabilities</b>	<b>M \$</b>	<b>\$110</b>	<b>\$121</b>	<b>\$122</b>	<b>\$124</b>							
Shareholder Equity	M \$	\$294	\$421	\$548	\$665							
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>M \$</b>	<b>\$404</b>	<b>\$542</b>	<b>\$670</b>	<b>\$789</b>							
<b>FINANCIAL RATIOS</b>												
Return on Equity (ROE)	%	9.7%	30.2%	23.1%	22.5%							
Return on Capital (ROIC)	%	7.0%	23.5%	18.8%	18.9%							
<b>NET ASSET VALUE</b>												
<b>Operating Value</b>												
Carosue Dam		7.0%		\$384	\$0.48	44%						
Thunderbox		7.0%		\$481	\$0.61	56%						
<b>Total</b>		<b>7.0%</b>		<b>\$864</b>	<b>\$1.09</b>	<b>100%</b>						
All exploration				\$525	\$0.66							
Cash				\$50	\$0.06							
Corporate G&A				(\$48)	(\$0.06)							
Debt				\$0	\$0.00							
Other				\$0	\$0.00							
<b>Total Net Asset Value</b>				<b>\$1,391</b>	<b>\$1.75</b>							

Source: Company reports, RBC Capital Markets estimates, Factset





# Production and financial sensitivity to price and FX

Exhibit 11: Sensitivity to earnings and valuation under spot price and commodity assumptions

Saracen Mineral Holdings				ASX: SAR		SPOT SCENARIO				
RBC Capital Markets	No Shares (m):	794.3		Share Price (\$/sh):	\$1.45	Implied Return (%):	(100.0%)			
Paul Hissey +61 3 8688 6512	Liquidity (m shares/month)	96,864		2016E Dividend (\$/sh):	\$0.00	Implied Total Return (%):	(100.0%)			
Connor O'Brien +61 3 8688 6519	Market Cap. (M \$):	\$1,179		NAV (\$/sh):	\$1.64	P/NAV (x)	0.89x			
Alexander Hislop +612 8688 6551	Enterprise Value (M \$)	\$1,129								

All AUD unless noted						All AUD unless noted					
RATIO ANALYSIS						PRICES & EXCHANGE RATES					
		FY17	FY18E	FY19E	FY20E		FY17	FY18E	FY19E	FY20E	LT (2021)
Earnings - Adjusted	\$/sh	\$0.04	\$0.14	\$0.13	\$0.16	Gold Price	US\$/oz	1259	1277	1277	1277
P/E Multiple	x	36.9x	10.4x	10.8x	9.0x	Exchange rate	AUD:USD	0.75	0.77	0.76	0.76
CFPS (CFO)	\$/sh	\$0.16	\$0.23	\$0.23	\$0.25	<b>EQUITY PRODUCTION &amp; COSTS</b>					
FCFPS (CFO-capex-expl.)	\$/sh	(\$0.01)	\$0.09	\$0.16	\$0.10	Carosue Dam	koz Au	156	167	165	166
P/CF Multiple	x	9.2x	6.3x	6.4x	5.7x	Thunderbox	koz Au	117	135	137	144
FCF Yield	%	(0.6%)	6.1%	11.3%	7.1%	<b>Total Gold Production</b>	<b>koz Au</b>	<b>263</b>	<b>302</b>	<b>302</b>	<b>310</b>
Dividends Per Share	\$/sh	\$0.00	\$0.00	\$0.02	\$0.04	C1 Cash Cost	\$/oz	956	806	793	747
Dividend Yield	%	0.0%	0.0%	1.4%	2.8%	All-in Sustaining Cash Cost	\$/oz	1335	1062	996	944
LT/Total Cap)	%	0.0%	0.0%	0.0%	0.0%	<b>ATTRIBUTABLE RESERVES &amp; RESOURCES</b>					
<b>INCOME STATEMENT</b>						<b>CAPEX BREAKDOWN</b>					
		FY17	FY18E	FY19E	FY20E		FY17	FY18E	FY19E	FY20E	
Revenue	M \$	\$423	\$491	\$500	\$518	Sustaining Capex	M \$	55.4	57.9	33.0	32.0
Operating Costs	M \$	(\$312)	(\$275)	(\$280)	(\$273)	Expansionary Capex	M \$	49.6	24.0	12.0	84.0
<b>EBITDA</b>	<b>M \$</b>	<b>\$111</b>	<b>\$216</b>	<b>\$219</b>	<b>\$246</b>	Exploration	M \$	27.8	29.4	3.6	3.6
D&A	M \$	(\$75)	(\$71)	(\$71)	(\$70)	Total	M \$	132.8	111.3	48.6	119.6
<b>EBIT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$145</b>	<b>\$148</b>	<b>\$176</b>	<b>GROUP ALL-IN SUSTAINING COSTS AND PRODUCTION</b>					
Other Income/Expenses	M \$	(\$0)	\$2	\$4	\$8						
<b>EBT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$147</b>	<b>\$153</b>	<b>\$183</b>						
Taxes	M \$	(\$5)	(\$37)	(\$46)	(\$55)						
<b>Net Income - Reported</b>	<b>M \$</b>	<b>\$31</b>	<b>\$110</b>	<b>\$107</b>	<b>\$128</b>						
Adjustments	M \$	(\$3)	\$0	\$0	\$0						
<b>Net Income - Adjusted</b>	<b>M \$</b>	<b>\$28</b>	<b>\$110</b>	<b>\$107</b>	<b>\$128</b>						
Weighted average diluted shares	M	794	794	794	794						
<b>CASH FLOW STATEMENT</b>											
		FY17	FY18E	FY19E	FY20E						
<b>Cash Flows from Operating Activities</b>											
Net Income	M \$	\$31	\$110	\$107	\$128						
D&A	M \$	\$75	\$71	\$71	\$70						
Taxes Paid	M \$	\$5	\$8	\$1	\$2						
Non Recurring/Other	M \$	\$0	(\$3)	\$0	\$0						
<b>Operating Cash Flow (excl. stripping)</b>	<b>M \$</b>	<b>\$110</b>	<b>\$186</b>	<b>\$179</b>	<b>\$201</b>						
Changes in Working Capital	M \$	\$15	(\$5)	\$0	\$0						
<b>Net Operating Cash flow</b>	<b>M \$</b>	<b>\$126</b>	<b>\$182</b>	<b>\$179</b>	<b>\$201</b>						
<b>Cash Flows from Investing Activities</b>											
Capital Expenditure	M \$	(\$105)	(\$82)	(\$45)	(\$116)						
Other (incl exploration)	M \$	(\$13)	(\$29)	(\$4)	(\$4)						
<b>Net Investing Cash Flow (incl. stripping)</b>	<b>M \$</b>	<b>(\$118)</b>	<b>(\$111)</b>	<b>(\$49)</b>	<b>(\$120)</b>						
<b>Cash Flows from Financing Activities</b>											
Equity Issues (net of costs)	M \$	\$0	\$0	\$0	\$0						
Net Borrowings	M \$	\$0	\$0	\$0	\$0						
Dividends Paid & Other	M \$	(\$8)	(\$3)	\$0	(\$32)						
<b>Net Financing Cash Flow</b>	<b>M \$</b>	<b>(\$8)</b>	<b>(\$3)</b>	<b>\$0</b>	<b>(\$32)</b>						
Increase (Decrease) in Cash	M \$	(\$1)	\$68	\$131	\$49						
<b>Cash at End of Year</b>	<b>M \$</b>	<b>\$34</b>	<b>\$101</b>	<b>\$232</b>	<b>\$281</b>						
Operating Free Cash Flow	M \$	\$21	\$100	\$134	\$85						
Free Cash Flow	M \$	\$8	\$70	\$131	\$81						
<b>BALANCE SHEET</b>											
		FY17	FY18E	FY19E	FY20E						
Cash & Equivalents	M \$	\$34	\$101	\$232	\$281						
Other Current Assets	M \$	\$63	\$74	\$74	\$74						
PP&E & Mining Interests	M \$	\$261	\$273	\$247	\$292						
Other Long Term Assets	M \$	\$47	\$76	\$79	\$83						
<b>Total Assets</b>	<b>M \$</b>	<b>\$404</b>	<b>\$523</b>	<b>\$631</b>	<b>\$730</b>						
Current Liabilities	M \$	\$62	\$62	\$62	\$62						
Long Term Debt	M \$	\$0	\$0	\$0	\$0						
Other Long Term Liabilities	M \$	\$48	\$57	\$58	\$60						
<b>Total Liabilities</b>	<b>M \$</b>	<b>\$110</b>	<b>\$119</b>	<b>\$120</b>	<b>\$122</b>						
Shareholder Equity	M \$	\$294	\$404	\$511	\$608						
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>M \$</b>	<b>\$404</b>	<b>\$523</b>	<b>\$631</b>	<b>\$730</b>						
<b>FINANCIAL RATIOS</b>											
		FY17	FY18E	FY19E	FY20E						
Return on Equity (ROE)	%	9.7%	27.3%	20.9%	21.1%						
Return on Capital (ROIC)	%	7.0%	21.1%	17.0%	17.6%						

NET ASSET VALUE		DR (Real %)	(\$m)	A\$/Sh	NAV (%)
<b>Operating Value</b>					
Carosue Dam		7.0%	\$340	\$0.43	44%
Thunderbox		7.0%	\$433	\$0.54	56%
<b>Total</b>		<b>7.0%</b>	<b>\$772</b>	<b>\$0.97</b>	<b>100%</b>
All exploration			\$525	\$0.66	
Cash			\$50	\$0.06	
Corporate G&A			(\$48)	(\$0.06)	
Debt			\$0	\$0.00	
Other			\$0	\$0.00	
<b>Total Net Asset Value</b>			<b>\$1,299</b>	<b>\$1.64</b>	

Source: Company reports, RBC Capital Markets estimates, Factset



## Valuation

Our 12-month A\$1.75 price target is derived from a 75:25 blend of debt-adjusted cash flow (8x) and our sum-of-the-parts NAV (1.0x). Due to the significant growth phase that the company is in, strong track record of management, and significant exploration upside, we incorporate a slight premium in NAV against the remaining peer group in our Australian gold coverage.

We view this exploration upside and, therefore, potential for mine life extension, to be the main driver in delivering additional valuation upside into the price, which we believe is not fully recognised by the general market. This supports our Outperform rating.

## Risks to rating and price target

1) Changes to both the gold price and currency (AUD/USD) as the largest underlying factor to move the share price; 2) exploration risk – since the extensions to mineralisation and, therefore, mine life remain largely unclassified (not in reserves), there is no guarantee that mineralisation will continue at depth to provide this additional valuation; and 3) operational risk – as again there is no guarantee that production and costs guidance will be achieved due to several unforeseen factors, such as weather events, grade-reconciliation issues, or mining and plant disruptions.

## Company description

Saracen Mineral Holdings (SAR) is an emerging Western Australia gold producer, with production set to climb to c.300koz Au pa with the inclusion of the ongoing commissioning of the Thunderbox project complementing the existing Carosue Dam processing facility.



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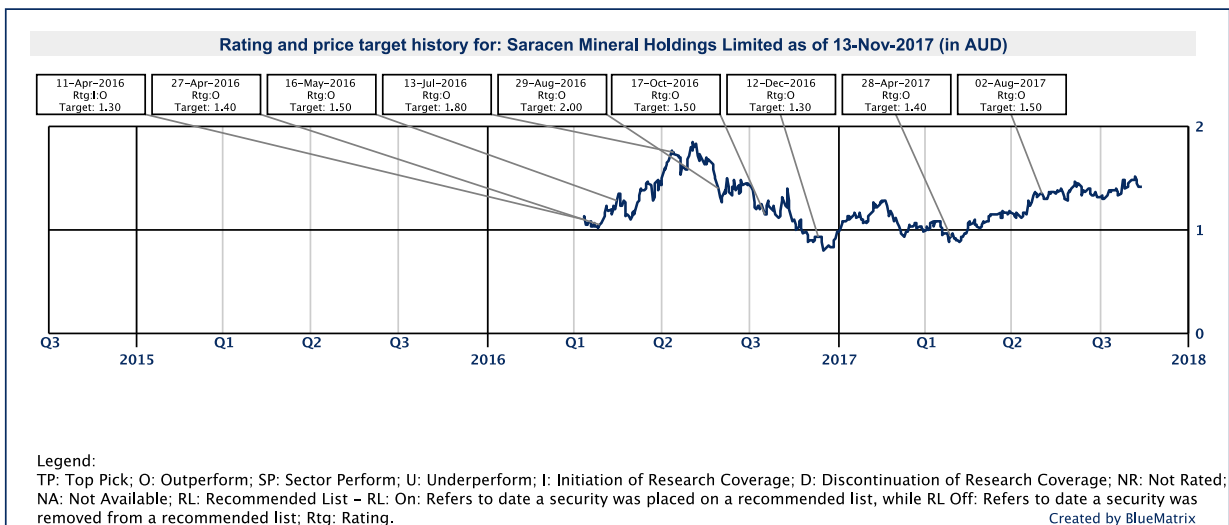
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### Saracen Mineral Holdings Limited

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