



December 6, 2016

Saracen Mineral Holdings Limited

Exploration to drive upside following passive pullback; reiterate Outperform

Our view: We highlight the opportunity in SAR following a pullback in price we believe is largely driven by passive ETF flows rather than deterioration in stock quality or earnings. We believe the organic upside through exploration in FY17 and the current price (3.4x P/CF) should offset further downside risk on gold price and ETF fund flows, while the balance sheet (no debt) mitigates financial risk.

Key points:

SAR has retraced much of the gain in price experienced (along with others in the sector) in the first half of CY2016. While the average decline in its peers since the peak is c.34%, SAR has fared worse (falling c.52%).

ETF holding a key driver (which works both ways)

A look at the register of SAR highlights significant shareholding by Van Eck. While some of this may be 'active' (and therefore discretionary) we believe the majority of this investment is passive and included within the two key global gold ETFs GDX and GDXJ. Recent register assessment shows SAR has a higher of ETF holding (~16%) vs other Australian peers (~9% average). This key observation has likely exacerbated the decline in the stock as some outflows have occurred of late. Of course this feature benefited shareholders as funds were flowing into these passive investment products, however we believe current prices represent a point at which further downside risk is adequately balanced with organic upside potential.

Exploration success and improving cash flow currently unrewarded in the share price

SAR has tripled its FY17 exploration budget to A\$42m after adding 1.0Moz in FY16 from spending A\$14m. The company has also recently entered an agreement with AngloGold Ashanti to farm into its Carosue Dam north tenements, by spending A\$25m over 6 years. These steps should continue to provide exploration upside for the stock, with additional ounces being added into resources/reserves in the near term. In addition to this, margins should see a recovery from lower AISC, as development capex comes off.

Earnings and valuation summary

SAR screens as undervalued relative to its peers on a number of key metrics and under a range of commodity price assumptions. Under RBCe it is trading at 3.4x P/CF (relative to RSG and RRL at 4.2x and 6.4x respectively). Under spot prices, SAR is trading at 4.0x EV/EBITDA (relative to RSG and RRL at 4.3x and 6.4x respectively). This seems low, given we model 6+ years of mine life for the stock. SAR is also trading at 0.9x P/NAV under our base case, which is typically a key value signal for gold stocks.

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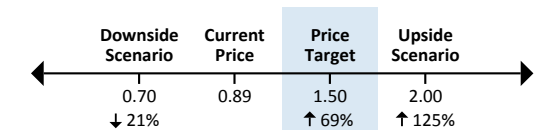
Outperform

ASX: SAR; AUD 0.89

Price Target AUD 1.50

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input 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):	713
Dividend:	0.00	Yield:	0.0%
NAVPS:	1.03	P/NAVPS:	0.86x
ROE:	31.7%	Tr. 12 ROE:	9.90%
Debt to Cap:	0%	Enterprise Val. (MM):	1,352
		Avg. Daily Volume:	9,220,608

Priced at ASX close on 6 December 2016

RBC Estimates

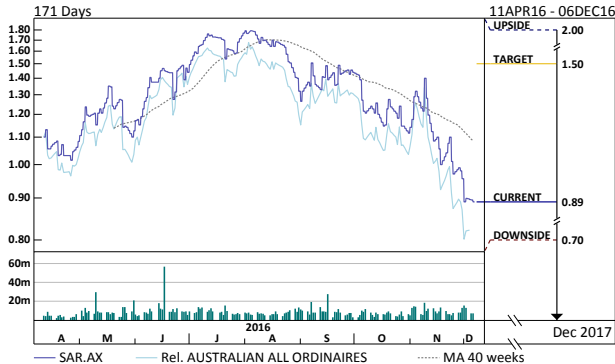
FY Jun	2015A	2016E	2017E	2018E
EPS, Adj Diluted	0.01	0.03	0.15	0.21
P/AEPS	NM	29.7x	5.9x	4.2x
CFPS, Adj Diluted	0.08	0.14	0.26	0.28
P/ACFPS	11.1x	6.4x	3.4x	3.2x
DPS	0.00	0.00	0.00	0.07
Div Yield	0.0%	0.0%	0.0%	7.9%
Production	167.5	189.0	282.0	302.0

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\$1.50/share is derived from a 75:25 blend of debt-adjusted cash flow (7.0x) and sum-of-the-parts NAV (1.1x).

Upside scenario

Since we believe extensions to the known ore bodies at depth are a real potential for the projects, we run the scenario on adding two years of additional mine life to group production. From this, we derive a valuation of A\$2.00.

Downside scenario

Our downside scenario is based on a flat AUD/USD of 0.76 (RBC Capital Markets estimate long-term of 0.70) and gold price of c.US\$1,150/oz (which is below our long-term assumption of US\$1,500/oz). We also remove one year of mine life from our base-case scenario. From this, we derive a valuation of A\$0.70.

Investment summary

- The main drivers that we expect to be underpinning the company's share price are: 1) strong growth, with the implementation of Thunderbox taking group production to c.300koz Au pa from FY17; 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, which has beaten its production guidance over the last four financial years.

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 throughout 2016 (with limited amount of drilling) SAR could provide ongoing high results at depth; therefore, we would be convinced to add further mine life into the deposits.
- Another beat to guidance? With the Thunderbox development tracking ahead of schedule, we believe the company may again beat guidance expectations for FY16 (150–160koz Au). We think c.10–20koz Au may be included into FY16 production due to the early commissioning of the project, which was not previously forecast.



The company hasn't changed, despite the share price movements...

Of the gold companies under our coverage, SAR has suffered the most significant decline in share price of late. The stock is down 52% since its high of A\$1.85 on 3 August 2016 (compared to an average 34% decline for the Australian gold sector under our coverage). We take this opportunity to assess the reasons the stock has underperformed, take another look at the company from a valuation perspective and conduct some sensitivity analysis on SAR.

Reiterate our view on exploration upside, medium-term outlook

SAR has an exploration budget of A\$42m for FY17, up from the A\$14m it spent in FY15 (which resulted in 1.0Moz and added to resources). The exploration spend is likely to yield further success and more additions to resources. The exploration program together with the recent AngloGold JV should continue to develop a compelling stable of assets for SAR.

As the development spend decreases following the Zone C cutback at Thunderbox, SAR's AISC is expected to decline. With guidance AISC forecast to fall by A\$100/oz per year across FY17 – FY20, margins continue to be supported outside of gold price movements. This should occur as production increases to a targeted 300koz Au p.a. in FY18, which in our view could re-rate SAR as a genuine mid-cap gold stock.

Gold price the obvious driver – but not the only thing

Naturally gold price movements have played a large part in the share price performance of SAR. After the gold price excitement post Brexit, the reality of U.S fed rate rises and the largely unexpected electoral victory of Donald Trump, gold has continued to drift lower as 2016 draws to a close. This has coincided with the decline in gold miners' share prices in recent months. After running a quick linear regression, we see that US\$ gold price can explain a significant portion of the fall.

Passive ETF holdings helpful on the up, but a hindrance with fund outflows

As global macro events continue to unfold, flow of funds into and out of GDX/GDXJ ETFs continue to drive the underlying share prices of companies within the indexes. ETF ownership of SAR remains high (~16% of register at 31 November 2016, compared to ~9% for peers) as it sits within a number of the indexes (GDX and GDXJ). As funds are redeemed from the ETFs, holdings of the underlying stocks that comprise the index must be sold to fund the outflows.

We note SAR's conservative accounting

Unlike most other gold companies under our coverage, Saracen expenses additional waste movement (stripping expenditure) up front as and when it is incurred. OP and UG development costs are reported within the company's AISC metric. This compares with other companies that capitalise a portion of their capex and then expense/amortise the cost in later periods. The treatment leads to higher AISC for SAR relative to its peers in the near term, and vice versa in future periods. We believe this has resulted in the market treating SAR as a lower margin business, without fully taking into account the reversal in future periods as investors take SAR's current lower margins and lock them in for future periods.

The stock screens as inexpensive relative to other Aussie mid-cap golds...

On relative valuation terms, SAR is undervalued compared to its peers. Exhibit 2 shows that SAR screens as inexpensive relative to other mid-cap Australian gold miners on a number of key metrics (P/CF, P/NAV, EV/EBITDA). Under various gold price scenarios, SAR appears undervalued, trading at 4.5x P/CF under spot prices, despite having 6+ years of mine life under our estimates. The stock is also trading at <1.0x P/NAV at our base case, typically a key buying signal for gold stocks.



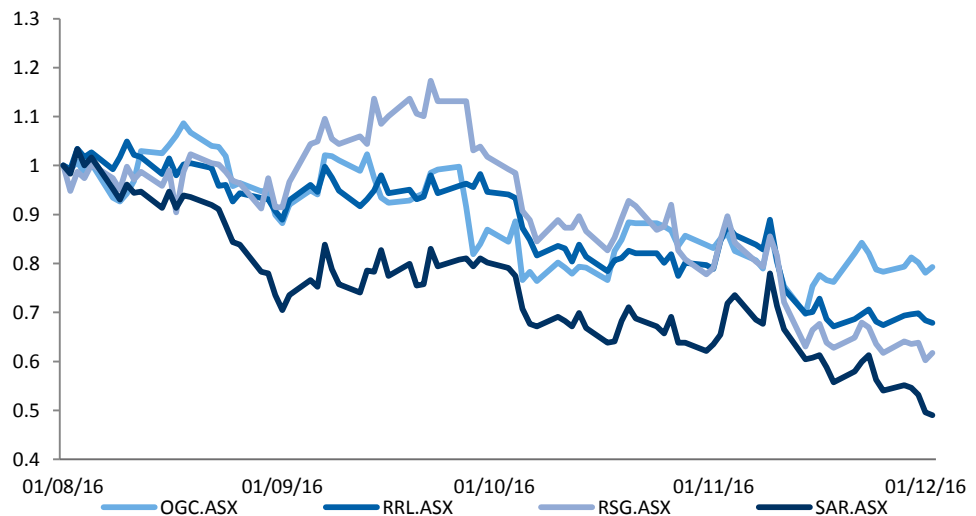
Exhibit 2: Relative share price decline since January, SAR has fallen the most out of its peers

	P/CF (FY17)			P/NAV			EV/EBITDA (FY17)		
	RRL	RSG	SAR	RRL	RSG	SAR	RRL	RSG	SAR
Spot	8.5x	5.8x	4.5x	1.5x	1.3x	1.2x	6.4x	4.3x	4.0x
RBCe	6.4x	4.2x	3.5x	1.2x	0.9x	0.9x	4.8x	3.0x	3.0x
US\$1300/oz	7.5x	5.1x	4.1x	1.3x	1.0x	1.0x	5.7x	3.7x	3.6x

Source: IRESS

Why has SAR taken such a hit?

Exhibit 3: Relative share price decline since January, SAR has fallen the most out of its peers



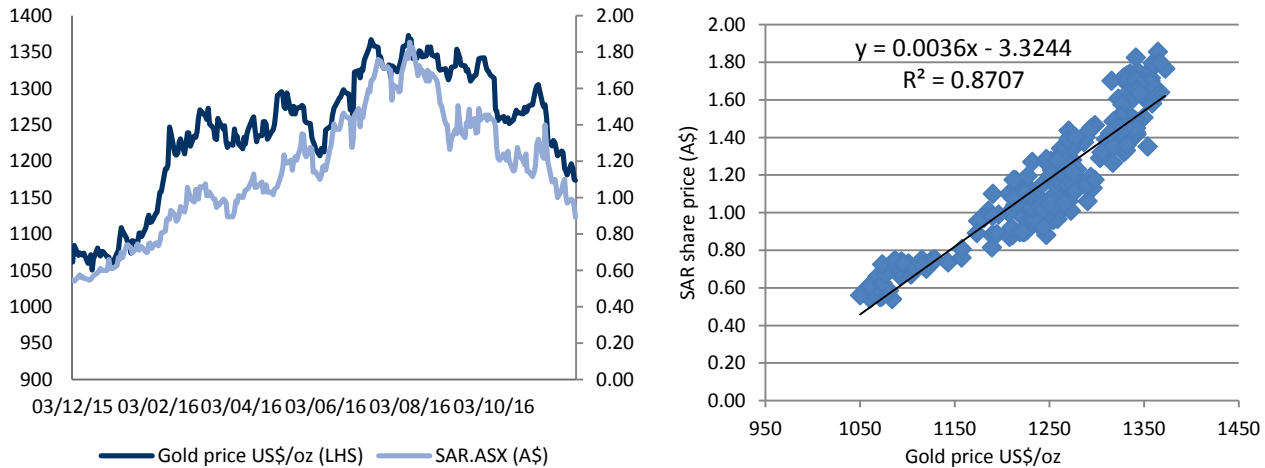
Source: IRESS

Gold price hasn't been kind of late... (but other stocks have also suffered)

The last 12 months has been somewhat of a wild ride for gold. After the protracted threat of rising rates from the US Federal reserve, gold awoke from a slumber in Q1 2016. Continued underwhelming economic data from the US led investors to push out expectations of a rate rise, with some central banks taking the unprecedented step of setting negative interest rates to spur growth within their economies. This move was a boon for gold, with the uncertainty of having a large portion of advanced economies with negative yields driving investors into the safe haven asset. Following the Brexit vote in June, gold took another leg up as the uncertainty continued. As the year progressed and markets recovered from the temporary shock of Brexit, gold continued to wane as investors began looking again at rate rises. Then following an initial spike as Donald Trump won the US presidential election, gold has continued to move lower, in anticipation of fiscal stimulus, inflation and rate rises, as well as a general rotation out of the "lower for longer" investment thematic.

Not surprisingly, SAR's share price tends to closely follow movements in the gold price. After running a simple linear regression, we can see that 87% of SAR's share price movement can be explained by movements in the gold price in the last 12 months. Since the US presidential election on 9 November, gold has fallen 8% while SAR's share price seems to have over reacted, with a 37% decline over the same period and an average 25% decline for its peers.

Exhibit 4: SAR's share price has largely tracked the gyrations of the gold price

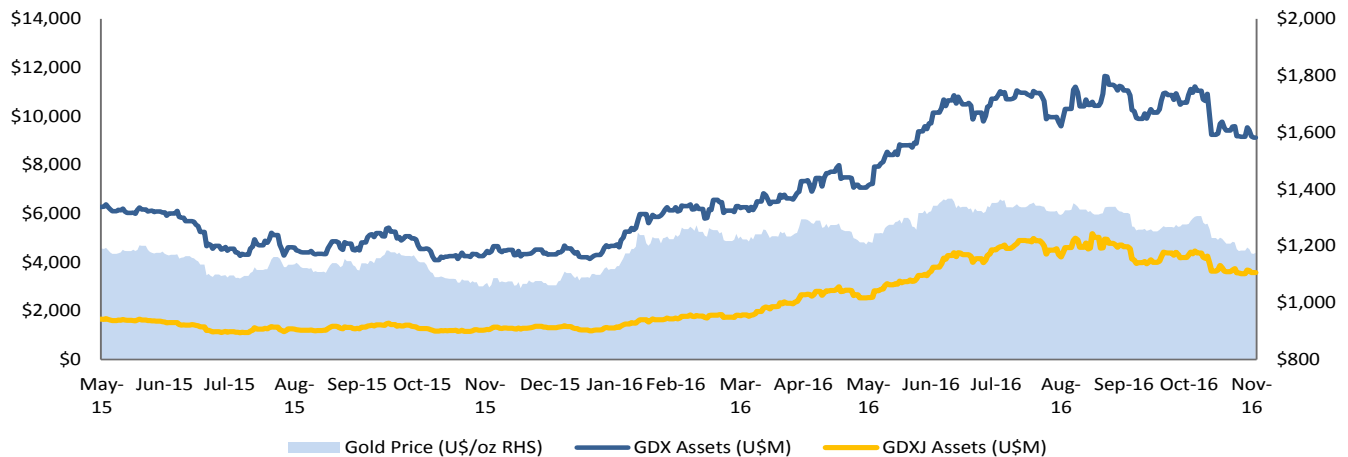


Source: IRESS

Flow of funds out of ETFs part of the story...

ETF inclusion has resulted in high ownership of SAR's share registry, occupying the number one shareholder spot, with c.16% of the register. This compares with the average ownership across our coverage of ~9%. Combined assets under management in GDX and GDXJ have fallen from US\$15.1b in on 8 November to US\$12.7b in early December (Exhibit 4). As funds are redeemed from the ETFs, securities must be sold in the underlying companies that comprise the index. This flow of funds could go part of the way in explaining some of the decline in SAR's share price. ETFs are agnostic of share price when buying/selling the underlying shares within the indexes they track. Given SAR's inclusion in multiple indexes (GDX and GDXJ) and the increased ETF shareholding (c.16% vs. 9% of its peers), the fall in the SAR share price has potentially been magnified by selling redemptions in ETF's.

Exhibit 5: The rise and subsequent fall in assets under management within GDX and GDXJ

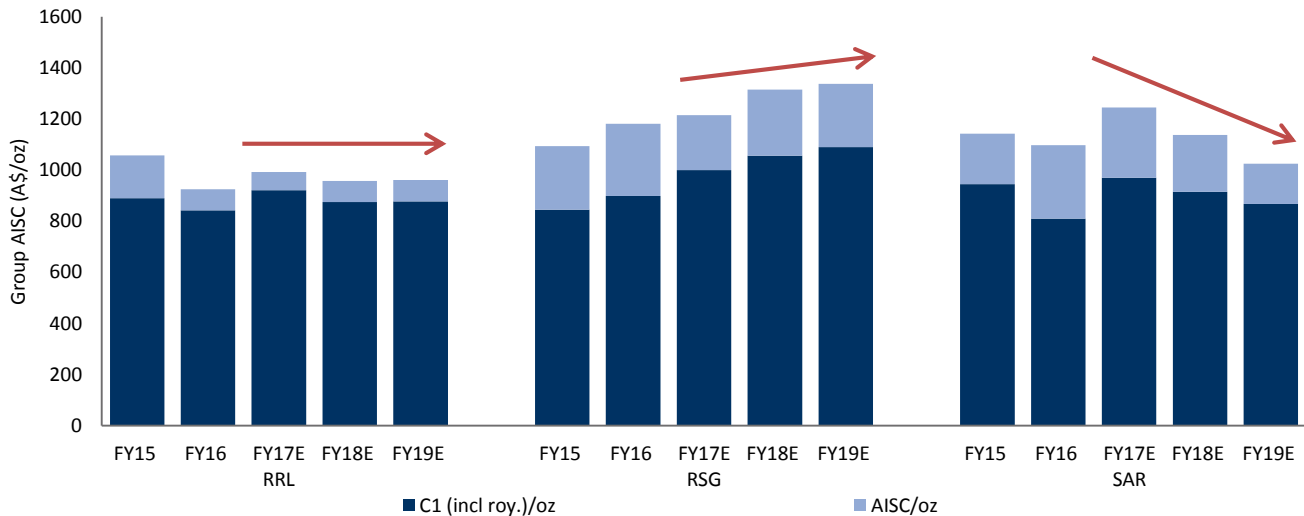


Source: Bloomberg

Market pricing in FY17's margins forever?

An important differentiating factor for SAR is the accounting treatment of development and stripping costs they adopt. Unlike most other gold companies under our coverage, SAR expenses capital expenditure up front (both expansionary and sustaining) as it is incurred. As SAR have developed Thunderbox and two UG mines, the development capex has been expensed and contributed to higher AISC (A\$1,095/oz in FY16 increased to A\$1,250/oz guidance in FY17). The OP and UG development costs get reported within the company's AISC metric. Most other mining companies capitalise a portion of the development expenditure and thus capitalised stripping/development costs are not recorded within their AISC. The treatment leads to a higher AISC for SAR relative to its peers, in the near term, and vice versa in future periods. We wonder if sections of the market are taking today's lower margins and cash flow as a snapshot and applying a multiple on this to derive a valuation. If this is the case then we believe SAR could be rerated again once AISC declines in future periods.

Exhibit 6: SAR's AISC should fall as development capex rolls off and production increases



Source: Company reports, RBC Capital Markets estimates

Exploration budget to grow resources and reserves

In FY16, SAR spent A\$14m on exploration and managed to add 1.0Moz of resources. The exploration budget for FY17 is A\$42m and is targeting predominantly Thunderbox UG and Karari/Whirling Dervish. Recent exploration successes (King of the Hills, Karari UG) have yielded discovery costs of ~A\$10/oz. The initial results look encouraging, with high-grade drill results coming from King of the Hills (14.3m @ 21.2g/t) and Karari (24.0m @ 5.4g/t).

Measured/indicated/inferred resources account for A\$84/oz on an enterprise value/reserves basis. We value exploration within our sum of the parts valuation for SAR at A\$150m and if SAR can manage to add a further 3.0 Moz in FY17 (remembering the exploration budget has tripled) this could add a further A\$250m to exploration, taking our valuation of exploration within the sum of the parts NAV up to ~A\$400m. In October 2016, SAR announced an agreement to partner with AngloGold Ashanti to develop Carosue Dam North. The farm-in agreement requires AngloGold to spend A\$25m over six years exploring the Butchers Well and Lake Carey tenements. This agreement should provide upside for SAR, as well as the added visibility of partnering with a global major on a project of significant size.

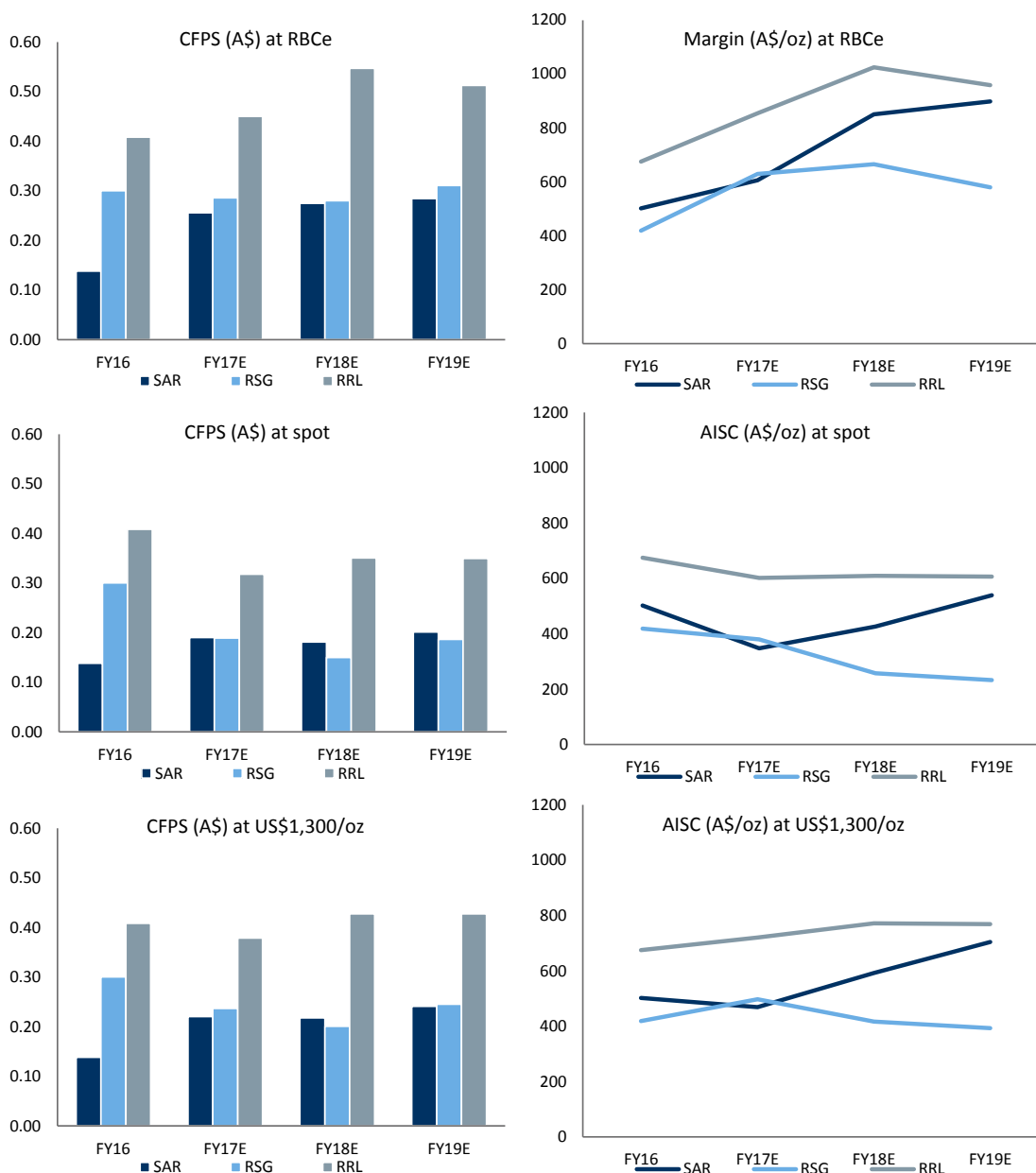


How does the stock screen against its peers?

How it looks under RBCe, spot prices and US\$1,1300/oz...

SAR screens as relatively inexpensive against its peers under a number of gold price scenarios. Under a range of key metrics SAR appears undervalued relative to its peers, while trading at below P/NAV under our base case. We also note that at spot, the stock is trading at 4.5x FY17 cash flow, despite it having 6+ years mine life under our estimates. Exhibit 7 shows SAR's margins improving under both spot and RBCe in future years. Even at spot prices, SAR manages to grow CFPS and margins remain healthy and should improve as AISC declines post development.

Exhibit 7: SAR's cash flow and operating margin relative to peers under RBCe, spot prices and US\$1,300/oz



Source: Company reports, RBC Capital Markets estimates



Production and financial estimates

Exhibit 8: Production and financial estimates

Saracen Mineral Holdings		ASX: SAR	Price Target:	1.50	Rating:	Outperform
RBC Capital Markets	No Shares (m):	794.3			Risk Specifier:	-
Paul Hissey +61 3 8688 6512	Liquidity (m shares/week)	54	Share Price (\$/sh):	\$0.89	Implied Return (%):	68.5%
Connor O'Brien +61 3 8688 6519	Market Cap. (M \$):	\$707	2016E Dividend (\$/sh):	\$0.00	Implied Total Return (%):	68.5%
	Enterprise Value (M \$)	\$675	NAV (\$/sh):	\$1.03	P/NAV (x)	0.86x

All AUD unless noted		Year End June 30			
RATIO ANALYSIS		FY16	FY17E	FY18E	FY19E
Earnings - Adjusted	\$/sh	\$0.03	\$0.15	\$0.21	\$0.21
P/E Multiple	x	27.4x	5.8x	4.3x	4.2x
Cash Flow - Levered	\$/sh	\$0.14	\$0.26	\$0.28	\$0.28
P/CF Multiple	x	6.4x	3.5x	3.2x	3.1x
Free Cash Flow - Levered	\$/sh	(\$0.00)	\$0.17	\$0.22	\$0.23
FCF Yield	%	(0.4%)	19.1%	24.3%	25.7%
Dividends Per Share	\$/sh	\$0.00	\$0.00	\$0.07	\$0.06
Dividend Yield	%	0.0%	0.0%	7.9%	6.7%
LTD/(Total Cap)	%	0.7%	0.0%	0.0%	0.0%
INCOME STATEMENT		FY16	FY17E	FY18E	FY19E
Revenue	M \$	\$277	\$508	\$575	\$565
Operating Costs	M \$	(\$204)	(\$283)	(\$291)	(\$276)
EBITDA	M \$	\$72	\$224	\$285	\$289
D&A	M \$	(\$34)	(\$52)	(\$57)	(\$57)
EBIT	M \$	\$38	\$172	\$228	\$232
Other Income/Expenses	M \$	(\$0)	\$1	\$5	\$9
EBT	M \$	\$38	\$173	\$233	\$241
Taxes	M \$	(\$12)	(\$52)	(\$70)	(\$72)
Net Income - Reported	M \$	\$26	\$121	\$163	\$169
Adjustments	M \$	\$0	\$0	\$0	\$0
Net Income - Adjusted	M \$	\$26	\$121	\$163	\$169
Weighted average diluted shares	M	794	794	794	794
CASH FLOW STATEMENT		FY16	FY17E	FY18E	FY19E
Cash Flows from Operating Activities					
Net Income	M \$	\$26	\$121	\$163	\$169
D&A	M \$	\$34	\$52	\$57	\$57
Taxes Paid	M \$	\$12	\$29	(\$2)	(\$0)
Non Recurring/Other	M \$	\$0	\$0	\$0	\$0
Operating Cash Flow (excl. stripping)	M \$	\$72	\$202	\$218	\$226
Changes in Working Capital	M \$	\$37	\$1	\$0	\$0
Net Operating Cash flow	M \$	\$110	\$203	\$218	\$226
Cash Flows From Investing Activities					
Capital Expenditure	M \$	(\$113)	(\$68)	(\$47)	(\$44)
Other (incl. exploration)	M \$	\$1	(\$39)	(\$20)	(\$4)
Net Investing Cash Flow (incl. stripping)	M \$	(\$112)	(\$107)	(\$67)	(\$48)
Cash Flows From Financing Activities					
Equity Issues (net of costs)	M \$	\$0	\$0	\$0	\$0
Net Borrowings	M \$	(\$1)	(\$4)	\$0	\$0
Dividends Paid & Other	M \$	(\$1)	\$1	(\$32)	(\$48)
Net Financing Cash Flow	M \$	(\$2)	(\$3)	(\$32)	(\$48)
Increase (Decrease) in Cash	M \$	(\$4)	\$93	\$120	\$130
Cash at End of Year	M \$	\$34	\$127	\$247	\$377
Operating Free Cash Flow	M \$	(\$3)	\$135	\$171	\$182
Free Cash Flow	M \$	(\$2)	\$96	\$151	\$178
BALANCE SHEET		FY16	FY17E	FY18E	FY19E
Cash & Equivalents	M \$	\$34	\$127	\$247	\$377
Other Current Assets	M \$	\$36	\$35	\$35	\$35
PP&E & Mining Interests	M \$	\$248	\$264	\$254	\$241
Other Long Term Assets	M \$	\$44	\$82	\$101	\$105
Total Assets	M \$	\$362	\$508	\$638	\$759
Current Liabilities	M \$	\$34	\$32	\$32	\$32
Long Term Debt	M \$	\$2	\$0	\$0	\$0
Other Long Term Liabilities	M \$	\$65	\$94	\$92	\$92
Total Liabilities	M \$	\$101	\$126	\$124	\$124
Shareholder Equity	M \$	\$261	\$382	\$513	\$634
Total Liabilities & Shareholder Equity	M \$	\$362	\$508	\$638	\$759
FINANCIAL RATIOS		FY16	FY17E	FY18E	FY19E
Return on Equity (ROE)	%	9.9%	31.7%	31.8%	26.6%
Return on Capital (ROIC)	%	7.1%	23.9%	25.6%	22.2%

All AUD unless noted		Year End June 30				
PRICES & EXCHANGE RATES		FY16	FY17E	FY18E	FY19E	LT (2021)
Gold Price	US\$/oz	1167	1415	1500	1450	1300
Exchange rate	AUD:USD	0.73	0.76	0.75	0.75	0.75
EQUITY PRODUCTION & COSTS		FY16	FY17E	FY18E	FY19E	
Carosue Dam	koz Au	157	152	172	172	
Thunderbox	koz Au	31	129	130	130	
Total Gold Production	koz Au	189	282	302	302	
C1 Cash Cost	\$/oz	744	914	858	811	
All-in Sustaining Cash Cost	\$/oz	1098	1250	1144	1031	

ATTRIBUTABLE RESERVES & RESOURCES		EV	
		koz Au	\$/oz
Proven/Probable Reserve (P&P)		1.48	\$455
Measured/Indicated (M&I) - Inclusive		5.92	\$114
Measures/Indicated/Inferred		8.02	\$84

CAPEX BREAKDOWN		FY16	FY17E	FY18E	FY19E
Sustaining Capex	M \$	34.4	50.1	35.0	32.0
Expansionary Capex	M \$	78.3	18.0	12.0	12.0
Exploration	M \$	7.3	39.0	20.0	3.6
Total	M \$	120.1	107.1	67.0	47.6

GROUP ALL-IN SUSTAINING COSTS AND PRODUCTION

Fiscal Year	Total Gold Production (koz Au)	All-in Sustaining Cash Cost (A\$/oz Au)
FY16	189	1098
FY17E	282	1250
FY18E	302	1144
FY19E	302	1031

NET ASSET VALUE		DR (Real %)	(\$m)	A\$/Sh	NAV (%)
Operating Value					
Carosue Dam		7.0%	\$376	\$0.47	54%
Thunderbox		7.0%	\$314	\$0.40	46%
Total		7.0%	\$690	\$0.87	100%
All exploration			\$150	\$0.19	
Cash			\$35	\$0.04	
Corporate G&A			(\$54)	(\$0.07)	
Debt			(\$3)	(\$0.00)	
Other			\$0	\$0.00	
Total Net Asset Value			\$818	\$1.03	

Source: Company reports, RBC Capital Markets estimates



Spot production and financial estimates

Exhibit 9: Production and financial estimates at spot commodities and currencies

Saracen Mineral Holdings		ASX: SAR				SPOT SCENARIO					
RBC Capital Markets	No Shares (m):	794.3									
Paul Hissey +61 3 8688 6512	Liquidity (m shares/week)	54				Share Price (\$/sh): \$0.89					
Connor O'Brien +61 3 8688 6519	Market Cap. (M \$):	\$707				2016E Dividend (\$/sh): \$0.00					
	Enterprise Value (M \$)	\$675				NAV (\$/sh): \$0.74					

All AUD unless noted		Year End June 30				All AUD unless noted		Year End June 30				
RATIO ANALYSIS		FY16	FY17E	FY18E	FY19E	PRICES & EXCHANGE RATES		FY16	FY17E	FY18E	FY19E	LT (2021)
Earnings - Adjusted	\$/sh	\$0.03	\$0.10	\$0.12	\$0.13	Gold Price	US\$/oz	1167	1213	1172	1172	1172
P/E Multiple	x	27.4x	8.6x	7.7x	6.8x	Exchange rate	AUD:USD	0.73	0.75	0.75	0.75	0.75
Cash Flow - Levered	\$/sh	\$0.14	\$0.20	\$0.18	\$0.20	EQUITY PRODUCTION & COSTS		FY16	FY17E	FY18E	FY19E	
P/CF Multiple	x	6.4x	4.5x	4.8x	4.4x	Carosue Dam	koz Au	157	152	172	172	
Free Cash Flow - Levered	\$/sh	(\$0.00)	\$0.11	\$0.12	\$0.15	Thunderbox	koz Au	31	129	130	130	
FCF Yield	%	(0.4%)	12.5%	14.0%	16.7%	Total Gold Production	koz Au	189	282	302	302	
Dividends Per Share	\$/sh	\$0.00	\$0.00	\$0.03	\$0.04	C1 Cash Cost	\$/oz	744	914	858	811	
Dividend Yield	%	0.0%	0.0%	3.4%	4.5%	All-in Sustaining Cash Cost	\$/oz	1098	1243	1132	1021	
LTD/(Total Cap)	%	0.7%	0.0%	0.0%	0.0%	ATTRIBUTABLE RESERVES & RESOURCES						
INCOME STATEMENT		FY16	FY17E	FY18E	FY19E							
Revenue	M \$	\$277	\$450	\$472	\$472							
Operating Costs	M \$	(\$204)	(\$281)	(\$287)	(\$273)							
EBITDA	M \$	\$72	\$168	\$185	\$200							
D&A	M \$	(\$34)	(\$52)	(\$57)	(\$57)							
EBIT	M \$	\$38	\$116	\$128	\$143							
Other Income/Expenses	M \$	(\$0)	\$1	\$3	\$5							
EBT	M \$	\$38	\$117	\$131	\$148							
Taxes	M \$	(\$12)	(\$35)	(\$39)	(\$45)							
Net Income - Reported	M \$	\$26	\$82	\$92	\$104							
Adjustments	M \$	\$0	\$0	\$0	\$0							
Net Income - Adjusted	M \$	\$26	\$82	\$92	\$104							
Weighted average diluted shares	M	794	794	794	794							
CASH FLOW STATEMENT		FY16	FY17E	FY18E	FY19E							
Cash Flows from Operating Activities												
Net Income	M \$	\$26	\$82	\$92	\$104							
D&A	M \$	\$34	\$52	\$57	\$57							
Taxes Paid	M \$	\$12	\$21	(\$3)	\$1							
Non Recurring/Other	M \$	\$0	\$0	\$0	\$0							
Operating Cash Flow (excl. stripping)	M \$	\$72	\$155	\$146	\$162							
Changes in Working Capital	M \$	\$37	\$1	\$0	\$0							
Net Operating Cash flow	M \$	\$110	\$156	\$146	\$162							
Cash Flows From Investing Activities												
Capital Expenditure	M \$	(\$113)	(\$68)	(\$47)	(\$44)							
Other (incl exploration)	M \$	\$1	(\$39)	(\$20)	(\$4)							
Net Investing Cash Flow (incl. stripping)	M \$	(\$112)	(\$107)	(\$67)	(\$48)							
Cash Flows From Financing Activities												
Equity Issues (net of costs)	M \$	\$0	\$0	\$0	\$0							
Net Borrowings	M \$	(\$1)	(\$4)	\$0	\$0							
Dividends Paid & Other	M \$	(\$1)	\$1	(\$16)	(\$24)							
Net Financing Cash Flow	M \$	(\$2)	(\$3)	(\$16)	(\$24)							
Increase (Decrease) in Cash	M \$	(\$4)	\$46	\$63	\$91							
Cash at End of Year	M \$	\$34	\$80	\$144	\$234							
Operating Free Cash Flow	M \$	(\$3)	\$88	\$99	\$118							
Free Cash Flow	M \$	(\$2)	\$49	\$79	\$115							
BALANCE SHEET		FY16	FY17E	FY18E	FY19E							
Cash & Equivalents	M \$	\$34	\$80	\$144	\$234							
Other Current Assets	M \$	\$36	\$35	\$35	\$35							
PP&E & Mining Interests	M \$	\$248	\$264	\$254	\$241							
Other Long Term Assets	M \$	\$44	\$82	\$101	\$105							
Total Assets	M \$	\$362	\$461	\$534	\$616							
Current Liabilities	M \$	\$34	\$32	\$32	\$32							
Long Term Debt	M \$	\$2	\$0	\$0	\$0							
Other Long Term Liabilities	M \$	\$65	\$86	\$84	\$85							
Total Liabilities	M \$	\$101	\$119	\$116	\$118							
Shareholder Equity	M \$	\$261	\$342	\$418	\$498							
Total Liabilities & Shareholder Equity	M \$	\$362	\$461	\$534	\$616							
FINANCIAL RATIOS		FY16	FY17E	FY18E	FY19E							
Return on Equity (ROE)	%	9.9%	23.9%	21.9%	20.8%							
Return on Capital (ROIC)	%	7.1%	17.7%	17.1%	16.9%							

GROUP ALL-IN SUSTAINING COSTS AND PRODUCTION	
Proven/Probable Reserve (P&P)	EV koz Au \$/oz
Measured/Indicated (M&I) - Inclusive	1.48 \$455
Measures/Indicated/Inferred	5.92 \$114
	8.02 \$84
CAPEX BREAKDOWN	
Sustaining Capex	M \$ FY16 FY17E FY18E FY19E
Expansionary Capex	M \$ 34.4 50.1 35.0 32.0
Exploration	M \$ 78.3 18.0 12.0 12.0
	M \$ 7.3 39.0 20.0 3.6
Total	M \$ 120.1 107.1 67.0 47.6

Year	Gold Production (koz Au)	All-in Sustaining Cash Cost (A\$/oz Au)
FY16	189	744
FY17E	282	914
FY18E	302	858
FY19E	302	811

NET ASSET VALUE		DR (Real %)	(\$m)	A\$/Sh	NAV (%)
Operating Value					
Carosue Dam	7.0%	\$246	\$0.31	53%	
Thunderbox	7.0%	\$217	\$0.27	47%	
Total	7.0%	\$464	\$0.58	100%	
All exploration		\$150	\$0.19		
Cash		\$35	\$0.04		
Corporate G&A		(\$54)	(\$0.07)		
Debt		(\$3)	(\$0.00)		
Other		\$0	\$0.00		
Total Net Asset Value		\$591	\$0.74		

Source: Company reports, RBC Capital Markets estimates



Valuation

Our 12-month A\$1.50 price target is derived from a 75:25 blend of debt-adjusted cash flow (7x) and our sum-of-the-parts NAV (1.1x). 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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Ratings

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Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Rating

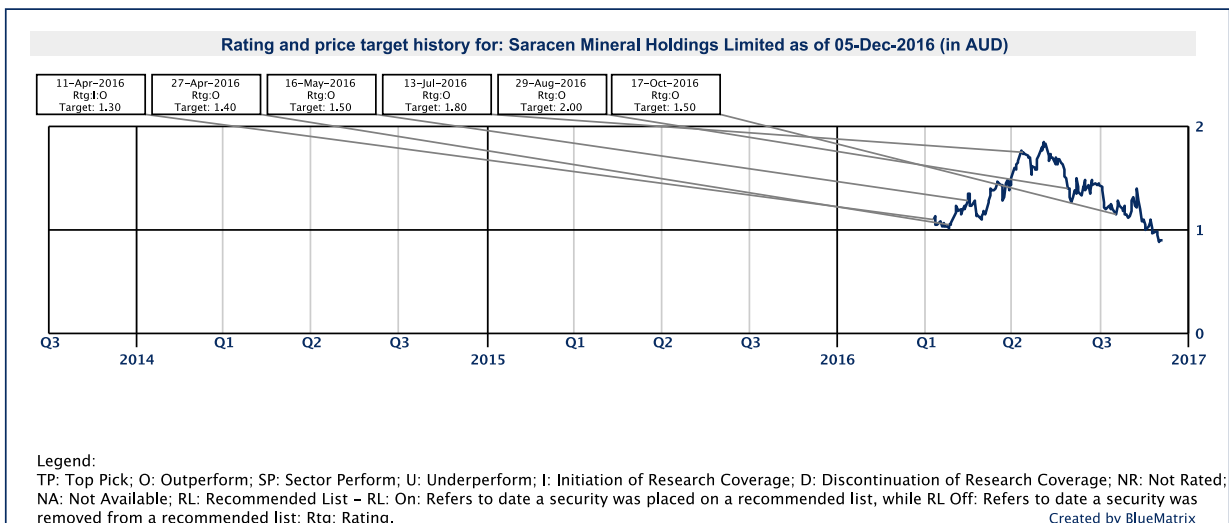
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			Count	Percent
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Saracen Mineral Holdings Limited

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