

Saracen Mineral Holdings

SAR-ASX

 Rating
Outperform

 Price: Oct-20
A\$1.32

 Target
A\$1.90

 Total Rtn
43%

FQ1/18 Starts the Year Off Strong

Bottom Line: Saracen Mineral Holdings reported Q1/18 production results. Consolidated production of 80.3koz Au beat our estimate of 75koz Au. Thunderbox had a record quarter of production, producing 37.2koz Au.

Key Points

- **Consolidated production beat our estimates.** SAR produced 80.3koz Au of production in the quarter, beating our estimate of 75koz Au. While the quarterly run rate for production would indicate that the company is on track to exceed annual production guidance of 300 koz, the company remains slightly cautious as two new ore sources (Thunderbox C zone and Kailis open pit) will enter the profile in coming quarters, replacing the Thunderbox A zone ore.
- **Thunderbox has record production quarter.** Thunderbox produced 37.2koz Au, beating our estimate of 32.2koz Au. The higher production in the quarter was attributable to higher mining rates and higher grade mined. Mining in the A zone is pretty much completed now, and the Kailis pre-strip has advanced with 12kt of ore at the end of FQ1/18. Milling of Kailis ore begins in FQ2/18E, as does milling of the softer C zone ore, which could be beneficial to throughput.
- **Balance sheet shows growth, too.** Saracen added ~A\$15 million to the balance sheet over FQ1/18, despite spending A\$22 million on growth projects in the quarter. The company's current cash balance now stands at A\$60.5 million, up from A\$45.2 million at the end of FY2017.

BMO  **Capital Markets**

Metals & Mining

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Legal Entity: BMO Nesbitt Burns Inc.



Company Data			in AUD	
Dividend	AUD0.00	Shares O/S (mm)	812.9	
Yield	0.0%	Market Cap (mm)	AUD1,077	
NAV	\$0.67	P/NAV	2.0x	

BMO Estimates					in AUD	
(FY-Jun.)	2016A	2017A	2018E	2019E		
Revenue	277	424	506↑	512		
EPS	0.04	0.04	0.15	0.14		
CFPS	0.14	0.16	0.25↑	0.24		
Gold Prod (koz)	189	273	304↑	322		
AISC (\$/oz)	\$1,138	\$1,513	\$976↑	\$942		

Consensus Estimates				
	2016A	2017A	2018E	2019E
EPS			0.11	0.14

Valuation				
	2016A	2017A	2018E	2019E
P/E		31.5x	8.7x	9.3x
P/CFPS		8.5x	5.4x	5.6x
EV/EBITDA		9.6x	3.7x	3.4x

Semi-Annual EPS		H1	H2
2016A		0.01	0.02
2017A		0.02	0.02
2018E		0.07	0.08
2019E		0.08	0.07

Our Thesis

As SAR grows to a production base of ~300 kozpa and exploration adds to the reserve/resource base, we expect investors to reward the company with a premium valuation, since the company operates two assets in a premium mining jurisdiction.

Key Changes

Estimates	1H/18E	2018E
Revenue	264	506
Previous	251	491
CFPS		0.25
Previous		0.24

Saracen Mineral Holdings - Block Summary Model

Income Statement	2016A	2017A	2018E	2019E
Revenue	277	424	506	512
Operating Costs	191	297	228	251
G&A	8	10	18	18
Depreciation	34	75	75	77
EBITDA	73	108	252	239
Tax	12	5	55	50
Adjusted Net Earnings	30	34	123	114
EPS	0.04	0.04	0.15	0.14
Cash Flow Statement	2016A	2017A	2018E	2019E
CFO	110	126	198	192
CFI	(112)	(118)	(91)	(68)
CFF	(2)	(8)	0	0
Free Cash Flow	(2)	8	98	116
FCF/Share	(0.00)	0.01	0.12	0.14
Balance Sheet	2016A	2017A	2018E	2019E
Cash & Equivalents	34	34	141	264
Long-Term Debt	0	0	0	0
Total Assets	362	404	527	642
Total Liabilities	101	110	112	114
Total Shareholders' Equity	261	294	415	527
Attrib. Production & Cash Costs	2016A	2017A	2018E	2019E
Gold Production - Carosue Dam (koz)	157	156	168	193
Gold Production - Thunderbox (koz)	31	117	136	128
Total Gold Prod'n (koz)	189	273	304	322
Total Gold Eq. Production (koz)	189	273	304	322
Total Cash Costs (\$/oz)	606	761	586	625
AISC (\$/oz)	\$1,138	\$1,513	\$976	\$942
Price Assumptions	2016A	2017A	2018E	2019E
Gold Price (US\$/oz)	1,168	1,258	1,307	1,275
Silver Price (US\$/oz)	15.33	17.86	18.45	19.00
Copper Price (US\$/lb)	2.22	2.44	2.92	2.88
USD:AUD	0.728	0.755	0.787	0.802

Source: BMO Capital Markets, Company Reports

New Scenarios
Valuation

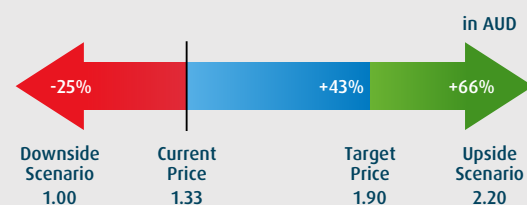
Our A\$1.90 target price is based on a 50% weighting assigned to a 1.5x P/NPV multiple (BMO metal prices, 5% discount rate) and a 50% weighting given to a 10.5x 2018E CFPS multiple. SAR currently trades at 2.0x P/NPV and 5.4x P/2018E CFPS versus the group, which trades at 1.6x P/NPV and 6.0x P/2018E CFPS.

Upside Scenario AUD2.20

The company has had great success in delineating reserves and resources at both Carosue Dam and Thunderbox at relatively shallow depths. The discovery of new mineralized zones, especially if they are higher grade, could move valuations significantly higher.

Downside Scenario AUD1.00

Saracen is currently transitioning from an open-pit-centric producer to an underground-centric producer. Any significant stumbles on this path could have a dramatic effect on the production profile and financial health of the company.


Key Catalysts

A successful completion of the Thunderbox Open-Pit would aid in increasing the long-term production profile for the company.

Company Description

Saracen Mineral Holdings is an ASX listed company that operates the Carosue Dam and Thunderbox mines in Western Australia.


 SAR-ASX
Research

 Industry
Research

 Company
Models

Exhibit 1: SAR Block Model at BMO Metal Price Assumptions

SARACEN MINERAL HOLDINGS		SAR
Recommendation	OP	Analyst BQ
As at	20-Oct-17	BMO Capital Markets
Year End	December	
Share Price	\$1.33 A\$/share	\$1.04 US\$/share
Target Price	\$1.90 A\$/share	\$1.49 US\$/share
Net Present Value	5% \$0.67 A\$/share	\$0.52 US\$/share
	0% \$0.80 A\$/share	\$0.62 US\$/share
Market Cap	1,069.4 A\$M	836.1 US\$M
Ordinary Shares	807.1 M	
Options & Warrants	0.0 M	

PRICE ASSUMPTIONS - BMO PRICES		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Exchange Rate	AUD:USD	0.84	0.73	0.75	0.79	0.80
Gold	US\$/oz	1,225	1,168	1,258	1,307	1,275
Silver	US\$/oz	17.38	15.33	17.86	18.45	19.00
Copper	US\$/lb	2.90	2.22	2.44	2.92	2.88
Zinc	US\$/lb	1.00	0.80	1.15	1.43	1.50
Oil	US\$/bbl	70.05	46.20	49.45	49.63	50.00

FINANCIAL SUMMARY		2015A	2016A	2017A	2018E	2019E
(December Year End)						
NPAT (pre-Abs)	(AUD\$M)	11.7	29.5	33.9	122.9	114.5
ADJUSTED EPS	(AUD\$/share)	0.01	0.04	0.04	0.15	0.14
PER	(x)	na	35.7x	31.5x	8.7x	9.3x
EBITDA	(AUD\$M)	66.7	73.1	108.1	251.5	239.4
EBITDA/share	(AUD\$/share)	0.08	0.09	0.13	0.31	0.30
EV/EBITDA	(x)	0.0x	14.1x	9.6x	3.7x	3.4x
Cash Flow	(AUD\$M)	65.4	109.8	125.6	198.1	191.6
Cash Flow/share	(AUD\$/share)	0.08	0.14	0.16	0.25	0.24
P/Cash Flow	(x)	16.1x	9.6x	8.5x	5.4x	5.6x
Dividend	(AUD\$/share)	0.00	0.00	0.00	0.00	0.00
Ordinary Shares	(M)	792.8	794.3	806.8	807.1	807.1

PROFIT AND LOSS STATEMENT - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Sales Revenue		249.9	276.5	423.1	506.1	511.8
Other Revenue		0.8	0.7	0.5	0.0	0.0
Operating Costs		(173.8)	(191.3)	(296.8)	(228.3)	(250.7)
Depreciation		(49.5)	(33.9)	(74.7)	(75.2)	(77.2)
Interest		(1.0)	(0.9)	(0.8)	0.0	0.0
Exploration		(0.4)	(1.0)	(2.5)	0.0	0.0
Corporate		(9.1)	(8.2)	(10.3)	(17.7)	(17.9)
Other Costs		0.0	0.0	0.0	(6.5)	(1.8)
Operating Profit Before Tax		16.8	42.0	38.5	178.3	164.3
Income Tax		(5.0)	(12.4)	(4.6)	(55.5)	(49.8)
Operating Profit After Tax		11.7	29.5	33.9	122.9	114.5
Minorities		0.0	0.0	0.0	0.0	0.0
Net Profit After Tax		11.7	29.5	33.9	122.9	114.5
Abnormals		(0.6)	(3.6)	(5.6)	(2.0)	(2.0)
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
Reported Profit		11.1	25.9	28.4	120.9	112.5

SARACEN MINERAL HOLDINGS		2015A	2016A	2017A	2018E	2019E
Cash Operating Costs	AUD\$/oz	695	768	958	701	736
Total Cash Costs	AUD\$/oz	763	832	1,009	745	779
All-In-Sustaining-Costs	AUD\$/oz	1,007	1,138	1,513	976	942
All-In-Costs	AUD\$/oz	1,172	1,634	1,696	1,107	1,045
Gold Price Received	AUD\$/oz	1,437	1,621	1,664	1,651	1,591
EBIT to Total Assets		-8.0%	1.9%	-7.2%	14.1%	9.0%
NPAT to Shareholders Equity		4.9%	9.9%	9.7%	29.1%	21.3%

CASH FLOW ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Cash Flows From Operating Activities						
Net Income		0.0	0.0	0.0	120.9	112.5
Non-Cash Items		0.0	0.0	0.0	77.2	79.2
Re-invested in Working Capital		0.0	0.0	0.0	0.0	0.0
Cash Flows From Investing Activities						
Property and Business Activities		0.0	0.0	0.0	9.0	8.3
Acq. of Property, Plant and Equip.		(47.0)	(111.9)	(117.9)	(100.3)	(75.9)
Other		(2.2)	0.0	0.0	0.0	0.0
Cash Flows From Financing Activities						
Proceeds From Borrowings		0.0	0.0	0.0	0.0	0.0
Repayment of Borrowings		(13.6)	(2.0)	(8.4)	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Net Increase In Cash Held		2.5	(4.1)	(0.6)	106.8	124.0
Cash At Beginning of Year		35.9	38.4	34.3	0.0	0.0
Cash At End of Year		38.4	34.3	33.7	140.5	264.5

BALANCE SHEET ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Current Assets						
Cash and Cash Equivalents		38.4	34.3	33.7	140.5	264.5
Other		71.3	36.2	62.6	62.6	62.6
Non-Current Assets						
Investments		0.0	0.0	0.0	0.0	0.0
Fixed Assets		184.3	291.6	308.1	324.2	314.6
Other		116.0	70.5	96.4	203.2	327.1
Current Liabilities						
Borrowings		0.8	1.4	0.0	0.0	0.0
Creditors		17.9	27.3	39.3	39.3	39.3
Other		4.9	5.1	22.7	22.7	22.7
Non-Current Liabilities						
Borrowings		0.6	2.4	0.0	0.0	0.0
Other		70.5	99.0	110.4	112.4	114.4
Shareholders Funds		229.2	260.7	294.0	414.9	527.3
Net Debt to Equity		-16.1%	-11.7%	-11.5%	-33.9%	-50.2%

PROJECT	NPV		GOLD PRODUCTION (koz)				
	0%	5%	2015A	2016A	2017A	2018E	2019E
	AUD\$M	AUD\$M					
CAROSUE DAM	217.9	211.0	167.5	157.2	156.0	167.9	193.4
THUNDERBOX	434.8	315.7	0.0	31.5	116.8	136.5	128.3
			0.0	0.0	0.0	0.0	0.0
Total Production			167.5	188.7	272.8	304.4	321.7
Total Sales			128.0	188.0	266.6	306.6	321.7
Gold Equiv Sales			128.0	188.0	266.6	306.6	321.7
Exploration Credit	31.0	31.0					
Hedge Book	(16.2)	(15.9)					
Corporate	(100.3)	(75.6)					
Net Cash	75.1	75.1					
Investments/Bullion	0.0	0.0					
Options & Warrants	0.0	0.0					
Total NPV	642.4	541.2					
Per Share	\$0.80	\$0.67	IRR = -8.9%		P/NPV 2.0x		

Co-Product Cash Cost (US\$/oz)		2015A	2016A	2017A	2018E	2019E
CAROSUE DAM (AUSTRALIA)		640	615	848	694	721
THUNDERBOX (AUSTRALIA)		0	552	645	456	480
QUARTERLY SUMMARY						
ADJUSTED EPS	(AUD\$/sh)		H1/18E	H2/18E	H1/19E	H2/19E
CFPS	(AUD\$/sh)		0.07	0.08	0.08	0.07
FCPS	(AUD\$/sh)		0.12	0.12	0.12	0.11
FCFPS	(AUD\$/sh)		0.04	0.08	0.07	0.07

Source: BMO Capital Markets

Exhibit 2: SAR Block Model at Spot Metal Prices

SARACEN MINERAL HOLDINGS		SAR
Recommendation	OP	Analyst BQ
As at	20-Oct-17	BMO Capital Markets
Year End	December	
Share Price	\$1.33 A\$/share	\$1.04 US\$/share
Target Price	\$1.90 A\$/share	\$1.49 US\$/share
Net Present Value	5% \$0.89 A\$/share	\$0.70 US\$/share
	0% \$1.12 A\$/share	\$0.88 US\$/share
Market Cap	1,069.4 A\$M	836.1 US\$M
Ordinary Shares	807.1 M	
Options & Warrants	0.0 M	

PRICE ASSUMPTIONS - SPOT PRICES		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Exchange Rate	AUD:USD	0.84	0.73	0.77	0.78	0.78
Gold	US\$/oz	1,225	1,168	1,280	1,281	1,281
Silver	US\$/oz	17.38	15.33	17.74	17.06	17.06
Copper	US\$/lb	2.90	2.22	2.71	3.14	3.14
Zinc	US\$/lb	1.00	0.80	1.26	1.44	1.44
Oil	US\$/bbl	70.05	46.20	49.75	51.30	51.30

FINANCIAL SUMMARY		2015A	2016A	2017A	2018E	2019E
(December Year End)						
NPAT (pre-Abs)	(AUD\$M)	11.7	29.5	33.9	121.3	123.2
ADJUSTED EPS	(AUD\$/share)	0.01	0.04	0.04	0.15	0.15
PER	(x)	na	35.7x	31.5x	8.8x	8.7x
EBITDA	(AUD\$M)	66.7	73.1	108.1	247.6	252.5
EBITDA/share	(AUD\$/share)	0.08	0.09	0.13	0.31	0.31
EV/EBITDA	(x)	0.0x	14.1x	9.6x	3.8x	3.2x
Cash Flow	(AUD\$M)	65.4	109.8	125.6	196.5	200.4
Cash Flow/share	(AUD\$/share)	0.08	0.14	0.16	0.24	0.25
P/Cash Flow	(x)	16.1x	9.6x	8.5x	5.4x	5.3x
Dividend	(AUD\$/share)	0.00	0.00	0.00	0.00	0.00
Ordinary Shares	(M)	792.8	794.3	806.8	807.1	807.1

PROFIT AND LOSS STATEMENT - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Sales Revenue		249.9	276.5	423.1	497.7	527.1
Other Revenue		0.8	0.7	0.5	0.0	0.0
Operating Costs		(173.8)	(191.3)	(296.8)	(228.1)	(251.1)
Depreciation		(49.5)	(33.9)	(74.7)	(75.2)	(77.2)
Interest		(1.0)	(0.9)	(0.8)	0.0	0.0
Exploration		(0.4)	(1.0)	(2.5)	0.0	0.0
Corporate		(9.1)	(8.2)	(10.3)	(17.4)	(18.5)
Other Costs		0.0	0.0	0.0	(2.7)	(3.1)
Operating Profit Before Tax		16.8	42.0	38.5	174.4	177.4
Income Tax		(5.0)	(12.4)	(4.6)	(53.1)	(54.1)
Operating Profit After Tax		11.7	29.5	33.9	121.3	123.2
Minorities		0.0	0.0	0.0	0.0	0.0
Net Profit After Tax		11.7	29.5	33.9	121.3	123.2
Abnormals		(0.6)	(3.6)	(5.6)	(2.0)	(2.0)
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
Reported Profit		11.1	25.9	28.4	119.3	121.2

SARACEN MINERAL HOLDINGS		2015A	2016A	2017A	2018E	2019E
Cash Operating Costs	AUD\$/oz	695	768	958	701	736
Total Cash Costs	AUD\$/oz	763	832	1,009	744	781
All-In-Sustaining-Costs	AUD\$/oz	1,007	1,138	1,513	974	945
All-In-Costs	AUD\$/oz	1,172	1,634	1,696	1,105	1,048
Gold Price Received	AUD\$/oz	1,437	1,621	1,666	1,624	1,639
EBIT to Total Assets		-8.0%	1.9%	-7.2%	13.6%	10.2%
NPAT to Shareholders Equity		4.9%	9.9%	9.7%	28.9%	22.7%

CASH FLOW ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Cash Flows From Operating Activities						
Net Income		0.0	0.0	0.0	119.3	121.2
Non-Cash Items		0.0	0.0	0.0	77.2	79.2
Re-invested in Working Capital		0.0	0.0	0.0	0.0	0.0
Cash Flows From Investing Activities						
Property and Business Activities		0.0	0.0	0.0	9.0	8.3
Acq. of Property, Plant and Equip.		(47.0)	(111.9)	(117.9)	(100.3)	(75.9)
Other		(2.2)	0.0	0.0	0.0	0.0
Cash Flows From Financing Activities						
Proceeds From Borrowings		0.0	0.0	0.0	0.0	0.0
Repayment of Borrowings		(13.6)	(2.0)	(8.4)	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Net Increase in Cash Held		2.5	(4.1)	(0.6)	105.2	132.8
Cash At Beginning of Year		35.9	38.4	34.3	0.0	0.0
Cash At End of Year		38.4	34.3	33.7	138.9	271.7

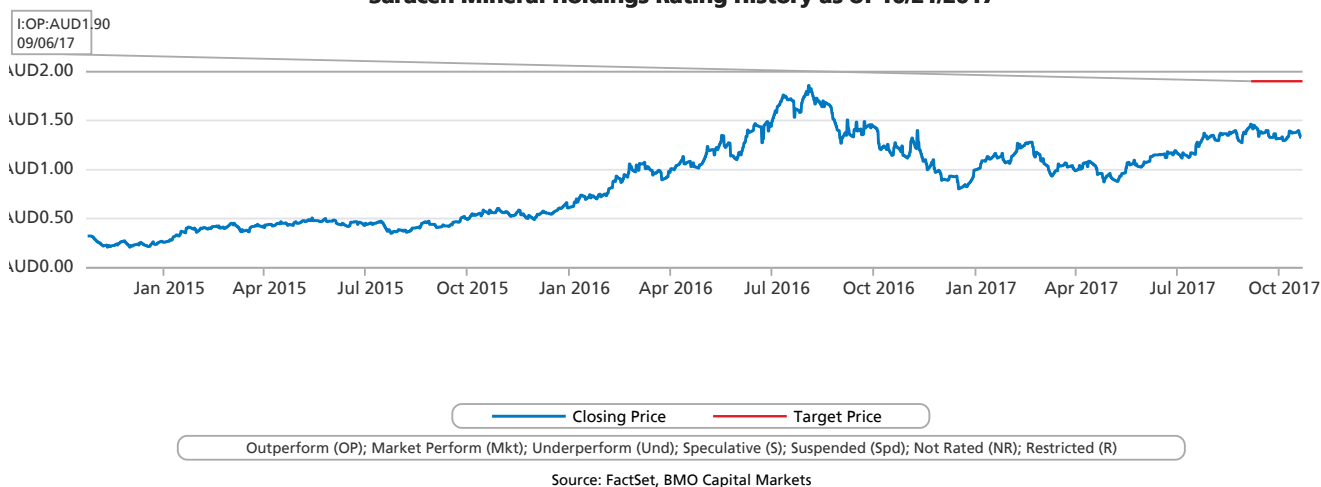
BALANCE SHEET ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Current Assets						
Cash and Cash Equivalents		38.4	34.3	33.7	138.9	271.7
Other		71.3	36.2	62.6	62.6	62.6
Non-Current Assets						
Investments		0.0	0.0	0.0	0.0	0.0
Fixed Assets		184.3	291.6	308.1	324.2	314.6
Other		116.0	70.5	96.4	201.5	334.3
Current Liabilities						
Borrowings		0.8	1.4	0.0	0.0	0.0
Creditors		17.9	27.3	39.3	39.3	39.3
Other		4.9	5.1	22.7	22.7	22.7
Non-Current Liabilities						
Borrowings		0.6	2.4	0.0	0.0	0.0
Other		70.5	99.0	110.4	112.4	114.4
Shareholders Funds		229.2	260.7	294.0	413.3	534.5
Net Debt to Equity		-16.1%	-11.7%	-11.5%	-33.6%	-50.8%

PROJECT	NPV		GOLD PRODUCTION (koz)					
	0%	5%	2015A	2016A	2017A	2018E	2019E	
CAROSUE DAM	AUD\$M	AUD\$M	312.9	287.5	167.5	157.2	156.0	167.9
THUNDERBOX	AUD\$M	AUD\$M	610.8	426.0	0.0	31.5	116.8	136.5
					0.0	0.0	0.0	0.0
					0.0	0.0	0.0	0.0
Total Production			167.5	188.7	272.8	304.4	321.7	
Total Sales			128.0	188.0	266.6	306.6	321.7	
Gold Equiv Sales			128.0	188.0	266.6	306.6	321.7	
Exploration Credit		31.0						
Hedge Book		(15.4)						
Corporate		(109.5)						
Net Cash		74.5						
Investments/Bullion		0.0						
Options & Warrants		0.0						
Total NPV		904.4	722.3					
Per Share		\$1.12	\$0.89	IRR = -3.3%		P/NPV 1.5x		

Co-Product Cash Cost (US\$/oz)		2015A	2016A	2017A	2018E	2019E
CAROSUE DAM (AUSTRALIA)						
		640	615	863	688	705
THUNDERBOX (AUSTRALIA)						
		0	552	656	453	468
QUARTERLY SUMMARY						
ADJUSTED EPS	(AUD\$/sh)		H1/18E	H2/18E	H1/19E	H2/19E
CFPS	(AUD\$/sh)		0.07	0.08	0.08	0.08
FCPS	(AUD\$/sh)		0.12	0.12	0.12	0.12
FCPS	(AUD\$/sh)		0.04	0.08	0.07	0.08

Source: BMO Capital Markets

Saracen Mineral Holdings Rating History as of 10/21/2017



IMPORTANT DISCLOSURES

Analyst's Certification

I, Brian Quast, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Buy	Outperform	45.4%	22.6%	57.1%	47.8%	58.4%	53.9%
Hold	Market Perform	51.0%	14.4%	41.0%	48.8%	40.0%	41.1%
Sell	Underperform	3.6%	9.5%	1.9%	3.4%	1.6%	5.0%

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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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