

Talking Point

Friday, 3 July 2009

Saracen Minerals (SAR) - An imminent 110koz pa producer, BUY

SAR is a W.A. based gold company with 580koz of reserves @ 1.7g/t Au and 2Moz of resources @ 1.8g/t Au, the majority of which is mineable by open cut means. SAR is currently in the process of refurbishing a 2.4mtpa processing plant with a view to have it operational and producing ~110kozpa of gold by early 2010.

SAR currently has \$34m in cash, an undrawn debt facility of \$20m and only requires \$27m in capital expenditure to get into production in Mar Q 2010. Connecting to the mains power is estimated to cost another \$10 - \$15m in late 2010, but is expected to reduce production costs by more than \$50/oz.

Cash costs are anticipated to be ~A\$650/oz, generating \$38.5m in cash at A\$1,000/oz Au or \$66m in cash at A\$1,250/oz Au. While no hedging is currently in place, the company is contemplating a flat forward 100koz and another 80koz via put options.

The mine is fully permitted, mill refurbishment has commenced and major contracts are currently being negotiated.

We have performed a simple valuation of the project, a summary of which is shown in the table below. On top of our cost assumptions shown below, we have also allowed for another \$10m over the next two years for exploration and corporate costs.

DCF based valuation summary

Gold price	US\$/oz	940
Exchange rate	AUD/USD	0.80
Annual production	koz	110
Mine life	years	6
Start up capital	A\$m	30.0
Sustaining capital	A\$m pa	2.0
Cash cost	A\$/oz	650
EBITDA	A\$m	46.6
NPAT	A\$m	27.7
Fully diluted shares	m	372
NPV/share @ 10%	A\$m	0.35

Source: FSB research

We believe this junior is undervalued and have set a price target of \$0.35/share, reflecting our DCF based valuation. While we have not discounted our valuation to reflect commissioning risk, we think this is balanced by our conservative mine life of six years, reflecting current reserves only, despite the 2Moz resource base and exploration upside potential.

Recommendation. BUY SAR (Price: \$0.19, PT: \$0.35)

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