

**Analyst: Andrew Clayton**

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## Saracen Mineral Holdings Ltd (SAR \$0.34) Buy

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- ▶ **Price Target:** \$0.52/sh
- ▶ **Reason For Update:** Increased reserves at Carouse Dam
- ▶ **What we know:**

Gold reserves at Carouse Dam have increased by 34% to 880koz.

The Karari deposit, adjacent to the Carouse Dam mill, now has defined reserves of 223koz (4.8mt @ 1.4 g/t Au) from a total resource of 544koz giving a resource to reserve conversion of 41%. The overall strip ratio is 6.3:1.

The Karari deposit has previously been mined and will be accessed via a cutback and ore blended with higher grade underground ore from Porphyry.

Karari reserves should add ~ 2 yrs to mine life increasing project life to ~ 8yrs.

Group resources have increased by 18% to 3.04moz.

Carouse Dam is on track to start production in the Mar'Q. The refurbishment is well advanced and it expects to access grid power by the end of CY'10. This should reduce operating costs by ~ \$3/t or around \$50/oz.

SAR in a recent presentation outline an indicative annual production profile. It has production starting at 110koz in 2010 and growing by ~ 10koz per yr to reach 160koz by 2015. Whilst this is only indicative and not based on reserves – ie the Red October district, it does highlight the potential that SAR offers.

- ▶ **What we think:**

Since SAR announced its decision to re-start the Carouse Dam operations in Sept'08 it has more than doubled the reserves from 365koz to 880koz – an excellent outcome.

The refurbishment has gone well and at this stage there appears to be no slippage from the original Mar'Q production target.

SAR is currently drilling +20,000m at Porphyry, Million Dollar and other prospects. No results have been release to date but we see potential for additional mine life to be defined.

SAR are currently undertaking two feasibility studies on Porphyry Underground and Red October U/G. Red October is a tantalising asset with large widths of high grade mineralisation previously intersected. SGW was ready to start mining before it went into administration and our expectations is the feasibility study will see reserves increase further.

The key risk for SAR is the relatively low reserve grade of 1.6 g/t Au. At this grade there can be no margin for error and whilst we are comfortable the resources/reserves have been extensively modeled and stree tested – the ultimate test will be delivering on its operating plan.

The history of redeveloping old gold assets is poor. In recent times a number of companies have struggled including Apex Minerals, St Barbara Mines, Monarch Gold (in administration) Gleneagle (in administration) and as such investors are wary.

Despite this history we have been impressed with the measured way SAR has gone about this re-development. It has sufficient cash (\$32m) through to first gold pour and a \$20m back up debt facility that it hopes not to use.

► **Investment Case:**

Our valuation and price target has increased from \$0.41/sh to \$0.52/sh after incorporating the additional Karari ore reserves into our model.

SAR is cheap on all multiples. It trades on a Enterprise value per reserve and resource oz multiples of \$113/oz and \$33/oz respectively – well below market averages of established producers +300/oz and \$150/oz respectively. We forecast EBITDA of \$50 - \$55m pa and NPAT of \$30m. This equates to a PER of ~ 4x – cheap for a company with an 8 yr mine life.

Project delivery on time and budget will be catalyst for a re-rating combined with exploration and feasibility results. We are confident that SAR can achieve this and as such maintain our Buy.

SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUNE				
<b>MARKET STATISTICS</b>						
<b>Share Price</b>	<b>\$0.34 A\$/sh</b>	<b>Directors</b>				
Issued Capital		G. Staltari	Ex Chair'n			
FP Ord	382.7m	I. Hoffman	Dir			
Opt (@\$0.20/sh 15/11/09)	19.6m	B.Parker	Dir			
		C.Thompson	Dir			
<b>Total Dil. FPOrd</b>	<b>353.4m</b>	<b>Shareholders</b>				
Market Capitalisation	\$133 m	Dir + Mgt		9%		
Enterprise Value	\$99 m	Clodene		9%		
Debt	\$- m					
Cash	\$34 m					
Hedging						
<b>ASSET VALUATION</b>		<b>A\$m</b>	<b>A\$/sh</b>			
Sth Laverton Gold project		165	0.40			
Corporate		(9)	(0.02)			
Expl'n (rem rsc @ \$20/oz)		20	0.05			
Unpaid Capital		2	0.00			
Debt		-	-			
Cash		34	0.08			
<b>Total @ 10% real</b>		<b>212</b>	<b>0.52</b>			
Total @ 0% real		324	0.79			
Total @ 5% real		258	0.63			
Total @ 15% real		178	0.44			
<b>F/CAST PRODUCTION (A\$m)</b>		<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
<b>Attrib. Prod'n (koz)</b>						
Carouse Dam		35	113	107	104	105
<b>Total Attrib (koz)</b>		<b>35</b>	<b>113</b>	<b>107</b>	<b>104</b>	<b>105</b>
<b>Prices (A\$/oz)</b>						
Avg Spot Gold Price		1,175	1,182	1,206	1,230	1,255
Avg Gold Price Rec'd		1,279	1,181	1,205	1,229	1,254
<b>Cash Cost (A\$/oz)</b>						
Carouse Dam		670	673	655	674	664
<b>Avg Cash Cost (A\$/oz)</b>		<b>670</b>	<b>673</b>	<b>655</b>	<b>674</b>	<b>664</b>
<b>Avg Total Cost (A\$/oz)</b>		<b>736</b>	<b>748</b>	<b>739</b>	<b>765</b>	<b>761</b>
<b>RATIO ANALYSIS (A\$m)</b>		<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
CF (A\$m)		13	43	44	44	49
CF / Sh (Ac/sh)		3	10	11	11	12
CF Ratio (x)		10.4	3.3	3.2	3.2	2.8
Earnings (A\$m)		11	31	33	33	37
EPS (Ac/sh)		2.6	7.7	8.1	8.1	9.0
EPS Growth (%)		-191%	198%	5%	0%	11%
Earnings Ratio (x)		13.1	4.4	4.2	4.2	3.8
E'prise Val. (A\$m)		126	101	66	31	(16)
EV : EBITDA (x)		7.0	1.9	1.2	0.6	(0.3)
EV : EBIT (x)		8.6	2.3	1.5	0.7	(0.3)
Net Debt / ND+Eq (%)		-12%	-52%	-122%	-208%	-363%
Interest Cover (x)		(31)	(444)	(33)	(14)	(11)
EBIT Margin (%)		33%	34%	35%	35%	36%
ROE (%)		16%	34%	27%	22%	19%
ROA (%)		17%	40%	35%	28%	24%
Div. (Ac/sh)		-	-	-	-	-
Div. payout ratio		0%	0%	0%	0%	0%
Div. Yield		0%	0%	0%	0%	0%
Div. Franking		0%	0%	0%	0%	0%

<b>PROFIT AND LOSS (A\$m)</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>		
Gold Sales	44	134	129	128	132		
Hedging Revenue	0	0	0	0	0		
Deferred Revenue	0	0	0	0	0		
Interest Revenue	1	1	2	3	5		
Other Revenue	0	0	0	0	0		
<b>TOTAL REVENUE</b>	<b>45</b>	<b>135</b>	<b>131</b>	<b>131</b>	<b>137</b>		
Operating Costs	23	76	70	70	70		
Dep/Amort	2	9	9	9	10		
W/O & Provisions	1	1	1	1	1		
Corp O/H	3	3	3	3	3		
EBITDA	18	55	56	55	59		
EBIT	15	45	46	44	48		
Interest Expense	1	1	1	0	0		
NPBT	15	45	47	47	52		
Tax	5	13	14	14	16		
Minorities	0	0	0	0	0		
<b>NET PROFIT</b>	<b>11</b>	<b>31</b>	<b>33</b>	<b>33</b>	<b>37</b>		
Net Abnormal Gain/(Loss)	0	0	0	0	0		
<b>NET PROFIT After Abn'l</b>	<b>11</b>	<b>31</b>	<b>33</b>	<b>33</b>	<b>37</b>		
<b>CASH FLOW (A\$m)</b>		<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
Net Profit		11	31	33	33	37	
+ Working Capital Adj.		-5	0	0	0	0	
+ Dep/Amort		2	9	9	9	10	
+ Provisions		1	1	1	1	1	
+ Tax Expense		5	13	14	14	16	
- Tax Paid		0	12	13	14	15	
- Deferred Revenue		0	0	0	0	0	
<b>Operating Cashflow</b>		<b>13</b>	<b>43</b>	<b>44</b>	<b>44</b>	<b>49</b>	
-Capex + Development		28	12	2	4	2	
-Exploration		6	6	4	4	0	
-Assets Purchased		0	0	0	0	0	
+Asset Sales		0	0	0	0	0	
+ Other		0	0	0	0	0	
<b>Investing Cashflow</b>		<b>-34</b>	<b>-18</b>	<b>-6</b>	<b>-8</b>	<b>-2</b>	
+Equity Issues		0	0	0	0	0	
+Loan D'down/Receivable		15	0	0	0	0	
-Loan Repayment		0	6	12	0	0	
-Dividends		0	0	0	0	0	
<b>Financing Cashflow</b>		<b>15</b>	<b>-6</b>	<b>-12</b>	<b>0</b>	<b>0</b>	
<b>Period Sur (Def)</b>		<b>-6</b>	<b>19</b>	<b>26</b>	<b>36</b>	<b>47</b>	
<b>Cash Balance</b>		<b>22</b>	<b>41</b>	<b>67</b>	<b>102</b>	<b>150</b>	
<b>BALANCE SHEET (A\$m)</b>		<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
<b>Assets</b>							
Cash		22	41	7	28	22	
Current Receivables		0	0	0	0	0	
Other Current Assets		2	2	0	2	2	
Non-Current Assets		65	68	15	39	65	
<b>Total Assets</b>		<b>89</b>	<b>111</b>	<b>22</b>	<b>69</b>	<b>89</b>	
<b>Liabilities</b>							
Borrowings		15	9	8	0	15	
Current Accounts Payable		2	2	1	2	2	
Other Liabilities		7	7	0	7	7	
<b>Total Liabilities</b>		<b>24</b>	<b>17</b>	<b>9</b>	<b>9</b>	<b>24</b>	
<b>Net Assets</b>		<b>65</b>	<b>94</b>	<b>14</b>	<b>60</b>	<b>65</b>	
<b>RESOURCES AND RESERVES</b>		<b>Reserves</b>			<b>Resources</b>		
		<b>mt</b>	<b>g/t</b>	<b>koz</b>	<b>mt</b>	<b>g/t</b>	<b>koz</b>
Sth Laverton		16.7	1.6	875	54.8	1.7	3,040
<b>Equity Share Gold</b>				<b>875</b>	<b>18</b>	<b>2.8</b>	<b>3,040</b>
<b>Enterprise Value / oz (A\$)</b>				<b>113</b>			<b>33</b>