Saracen Mineral Holdings Ltd
(SAR $0.42) Buy

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

Comments

Price Target: $0.60/sh

SAR offers exposure to an emerging low capital intensity gold producer with a resource base of +3moz and a significant land holding in a proven gold belt. All material contracts have been let and first production is slated for Mar'10 with annual gold production estimated at 110koz at an operating cost of A$650/oz. The company remains unhedged.

Initial capex is estimated at $27m to refurbish the mill and pre-strip the open pit at Whirling Dervish and Porphyry. With cash of $34m and debt facilities of $20m there should be no need for additional capital.

SAR has announced a 34% increase in gold reserves at Carouse Dam 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 outlined 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.

Investment Case

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 Porphry, Million Dollar and other prospects. No results have been release to date but we see potential for additional mine life to be defined.

SAR is 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 that 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 modelled and stress tested – the ultimate test will be delivering on its operating plan.

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 an 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.

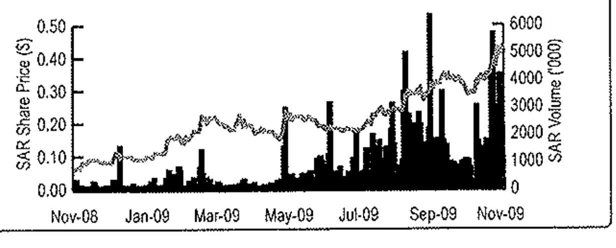
Top 20 Shareholders — as at 12 November 2009

	Shareholders	Shares (m)	(%)
1	National Nominees Limited	41.55	10.86
2	ANZ Nominees Limited	40.82	10.67
3	HSBC Custody Nominees (Australia) Ltd	24.86	6.50
4	Renaissance Capital Pty Ltd	23.56	6.16
5	Straits Mineral Investments Ltd	16.67	4.35
6	Fortis Clearing Nominees P/L	15.42	4.03
7	Escor Investments Pty Ltd	10.56	2.76
8	Clodene Pty Ltd	10.37	2.71
9	J P Morgan Nominees Australia Limited	7.85	2.05
10	Nefco Nominees Pty Ltd	7.57	1.98
11	BT Portfolio Services Limited	6.50	1.70
12	Hestian Pty Ltd	5.76	1.50
13	Flavia Investments Pty Ltd	5.11	1.34
14	Citicorp Nominees Pty Limited	4.59	1.20
15	Guardian Funds Management Ltd	4.58	1.20
16	Resource Consulting Services Pty Ltd	4.50	1.18
17	Clodene Pty Ltd	4.47	1.17
18	Wroxby Pty Ltd	3.70	0.97
19	Laguna Bay Capital Pty Ltd	3.50	0.91
20	Clodene Pty Ltd	3.45	0.90
	TOTAL	**245.39**	**64.14**

Market Statistics

Share Price	**$0.42 A$/sh**	**Directors**	
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
Total Dil. FPOrd	**408.5m**		
		Shareholders	
Market Capitalisation	$166m	Dir + Mgt	9%
Enterprise Value	$132m	Clodene	9%
Debt	$-m		
Cash	$34m		
Hedging			

Share Price Performance



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SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUNE
ASSET VALUATION	**A$M**	**A$/sh**
Sth Laverton Gold project	201	0.49
Corporate	(9)	(0.02)
Expl'n (rem rsc @ $20/oz)	20	0.05
Unpaid Capital	2	0.00
Debt	-	-
Cash	34	0.08
Total @ 10% real	**249**	**0.61**
Total @ 0% real	385	0.94
Total @ 5% real	305	0.75
Total @ 15% real	208	0.51

FORECAST PRODUCTION	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Attrib. Prod'n (koz)					
Carouse Dam	35	113	107	104	105
Total Attrib (koz)	**35**	**113**	**107**	**104**	**105**
Prices (A$/oz)					
Avg Spot Gold Price	1,175	1,246	1,290	1,353	1,381
Avg Gold Price Rec'd	1,279	1,245	1,289	1,352	1,379
Cash Cost (A$/oz)					
Carouse Dam	670	673	655	674	664
Avg Cash Cost (A$/oz)	**670**	**673**	**655**	**674**	**664**
Avg Total Cost (A$/oz)	**736**	**748**	**739**	**765**	**761**

RATIO ANALYSIS	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
CF (A$m)	13	48	52	53	59
CF / Sh (Ac/sh)	3	12	13	13	15
CF Ratio (x)	12.9	3.5	3.3	3.2	2.9
Earnings (A$m)	11	37	39	42	47
EPS (Ac/sh)	2.6	9.0	9.7	10.4	11.4
EPS Growth (%)	-191%	246%	8%	8%	10%
Earnings Ratio (x)	16.2	4.7	4.3	4.0	3.7
E'prise Val. (A$m)	159	128	85	40	(18)
EV : EBITDA (x)	8.8	2.1	1.3	0.6	(0.2)
EV : EBIT (x)	10.8	2.5	1.5	0.7	(0.3)
Net Debt / ND+Eq (%)	-12%	-61%	-148%	-256%	-446%
Interest Cover (x)	(31)	(237)	(31)	(14)	(11)
EBIT Margin (%)	33%	37%	40%	41%	42%
ROE (%)	16%	37%	29%	24%	21%
ROA (%)	17%	45%	38%	31%	26%
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%

PROFIT AND LOSS	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Gold Sales	44	141	138	141	145
Hedging Revenue	0	0	0	0	0
Deferred Revenue	0	0	0	0	0
Interest Revenue	1	1	2	4	6
Other Revenue	0	0	0	0	0
TOTAL REVENUE	**45**	**142**	**140**	**144**	**151**
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	62	65	68	72
EBIT	15	52	55	57	61
Interest Expense	1	1	1	0	0
NPBT	15	52	56	61	67
Tax	5	16	17	18	20
Minorities	0	0	0	0	0
NET PROFIT	**11**	**37**	**39**	**42**	**47**
Net Abnormal Gain/(Loss)	0	0	0	0	0
NET PROFIT After Abn'l	**11**	**37**	**39**	**42**	**47**

CASH FLOW	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Net Profit	11	37	39	42	47
+ Working Capital Adj.	-5	0	0	0	0
+ Dep/Amort	2	9	9	9	10
+ Provisions	1	1	1	1	1
+ Tax Expense	5	16	17	18	20
- Tax Paid	0	14	15	18	19
- Deferred Revenue	0	0	0	0	0
Operating Cashflow	**13**	**48**	**52**	**53**	**59**
-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
Investing Cashflow	**-34**	**-18**	**-6**	**-8**	**-2**
+Equity Issues	0	0	0	0	0
+Loan D'down/Receivable	15	0	0	0	0
-Loan Repayment	0	6	11	0	0
-Dividends	0	0	0	0	0
Financing Cashflow	**15**	**-6**	**-11**	**0**	**0**
Period Sur (Def)	**-6**	**25**	**35**	**45**	**57**
Cash Balance	**22**	**47**	**81**	**126**	**184**

BALANCE SHEET	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Assets					
Cash	22	47	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
Total Assets	**89**	**117**	**22**	**69**	**89**
Liabilities					
Borrowings	15	9	8	0	15
Current Accounts Payable	2	2	1	2	2
Other Liabilities	7	7	0	7	7
Total Liabilities	**24**	**18**	**9**	**9**	**24**
Net Assets	**65**	**99**	**14**	**60**	**65**

RESERVES AND RESOURCES	**Reserves**			**Resources**		
	mt	**g/t**	**koz**	**mt**	**g/t**	**koz**
Sth Laverton	16.7	1.6	875	54.8	1.7	3,040
Equity Share Gold			**875**	**18**	**2.8**	**3,040**
Enterprise Value / oz (A$)			**151**			**43**

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