

Analyst: Andrew Clayton

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Saracen Mineral Holdings Ltd (SAR \$0.43) Buy

- ▶ **Price Target:** \$0.60/sh
- ▶ **Reason For Update:** Gold hedging program
- ▶ **What we know:**

SAR has purchased ~ 175koz of put options at a strike price of A\$1,250/oz with maturity dates from April'10 until Dec'11.

The puts were financed through a combination of \$7.5m in cash and the sale of 103koz of call options sold at a strike price of A\$1,250/oz. The call options mature during the same period as the put options

The amount of gold covered by the call options represents a modest 12% of total reserves.

SAR has commenced the staged commissioning of its Carouse Dam plant with first gold production slated for Feb'10.

This hedging program means SAR will receive a minimum of A\$1,250/oz for some 175,000 of production.

- ▶ **What we think:**

The hedging program has been well flagged by management so this announcement came as no surprise.

We understand the put options cost in the order of +A\$200/oz to get that level of cover over the first 18 months and to fund out of cash would be been very expensive (ie + \$35m), so to sell a modest amount of call options in our view is a prudent and sensible move.

The committed ounces are very modest in total and still at a historically very high A\$ gold price of \$1,250/oz.

- ▶ **Investment Case:**

Our valuation remains unchanged at \$0.61/sh as the hedge price of A\$1,250/oz is very close to our FY'11 assumed gold price of \$1,246/oz.

The hedge program is a good outcome with only modest exposure locked in at good prices. It will protect revenue and if SAR can deliver on our forecast FY'11 production of 113koz at an operating cost of \$673/oz this should generate EBITDA of \$63m and NPAT of \$37m. This is cheap for a company with an EV of \$150m with defined reserves of +8yrs.

At the end of the Sept'Q SAR had net cash of \$26.6m (cash \$28.5m and debt of \$2m) plus undrawn debt facilities of \$18m. It estimated a total outlay of \$13.5m for the Dec'Q which combined with the \$7.5m cost of the put options would see net cash down to ~ \$5-6m but with still some \$18m in undrawn facilities.

We expect SAR to draw down some of the debt in the Mar'Q before first gold production in late Jan or early Feb'10. We remain confident that SAR will have sufficient working capital until positive cashflow is achieved in say Mar/April'09.

SAR is ahead of schedule and at this stage has done a good job in the refurbishment of the Carouse Dam. It still needs the ultimate test of delivering at forecast operating costs and production rates and if this achieved we expect SAR would track towards our price target of \$0.60/sh.

SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUNE				
MARKET STATISTICS						
Share Price	\$0.43 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					
Market Capitalisation	\$170m	Shareholders				
Enterprise Value	\$149 m	Dir + Mgt		9%		
Debt	\$- m	Clodene		9%		
Cash	\$21 m					
Hedging	nil					
ASSET VALUATION		A\$m	A\$/sh			
Sth Laverton Gold project		215	0.53			
Corporate		(9)	(0.02)			
Expl'n (rem rsc @ \$20/oz)		20	0.05			
Unpaid Capital		2	0.00			
Debt		-	-			
Cash		21	0.05			
Total @ 10% real		249	0.61			
Total @ 0% real		387	0.95			
Total @ 5% real		307	0.75			
Total @ 15% real		208	0.51			
F/CAST PRODUCTION (A\$m)		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		1,265	1,250	1,291	1,353	1,381
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 (A\$m)		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)		13.2	3.6	3.4	3.3	3.0
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)		16.6	4.8	4.5	4.1	3.8
E'prise Val. (A\$m)		163	132	89	44	(14)
EV : EBITDA (x)		9.0	2.1	1.4	0.6	(0.2)
EV : EBIT (x)		11.1	2.5	1.6	0.8	(0.2)
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 (A\$m)	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 (A\$m)		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 (A\$m)		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\$)				170			49