EUROZ
SECURITIES LIMITED
AUSTRALIAN RESEARCH

Analyst: Andrew Clayton *Published 8 February 2010*

Saracen Mineral Holdings Ltd (SAR $0.40) Buy

- **Price Target:** $0.60/sh
- **Reason For Update:** First gold pour at Carouse Dam
- **What we know:**

  SAR has poured its first gold bar (400oz) at Carouse Dam, some six –eight weeks ahead of schedule.

  Ramp up to the targeted production rate of 110-120koz will occur over the next 2-3 months.

  Open pit mining has commenced at Porphyry and preparation for the Whirling Dervish pre-strip are well advanced.

  During the Q, SAR announced a 34% increase in reserves to 0.88moz – or around 8 yrs based on planed production rates. Resources were up 18% to 3.04moz.

  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

  At the end of Dec'09 SAR had cash of $14.8m and had drawn some $9.5m in debt from available facilties of $18.5m.

- **What we think:**

  SAR has done an excellent job in bringing on Carosue Dam under budget and ahead of schedule. We understand the project refurbishment has come in ~ $4m under the $27m capital estimate – a good result.

  Mining is slowy ramping up at Porpyry and we expect commitment to Whirling Devish pre-strip shortly. We understand there is ~ +100kt of ore currently stockpiled.

  With the ramp up to full production scheduled over the next 2-3 months we estimate peak drawn down will be mid-late March. On our forecasts there should be ~ $10m in available cash/ debt facilties at this time – implying $23m will be consumed over the next 3 months. We estimate operations should be cashflow positive by April/May.

  We have left our FY'10 production forecast unchanged at 35koz but increased our costs to $800/oz for this period. In reality this is a reflection of the ramp up to full production and the split of capital/operating costs the company allocates. Some companies will capitalise start up costs whereas others will expenses this and report higher operating costs during this period.

  The June 'Q is likely to be the first Q where operating costs will be disclosed.

  SAR is cognisant of the poor track record of explorers making the transition to producers and is keenly aware that delivering on its operating plan is the ultimate test – not first gold pour.

- **Investment Case:**

  SAR has made an impressive start in its quest to become a profitable mid cap gold producer delivering the project ahead of schedule and below budget.

  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 $165m with defined reserves of +8yrs.

  Whilst the project has been de-risked considerably with first gold pour the ramp up over the next few months will be critical as SAR strives to be cashflow positive by April'10. The longer term picture looks robust with two ore sources coming on in FY'11 and we are confident our forecast of 113koz @ <$700/oz will be achieved. Exploration will pick up over the next six months with results from both the Poryhry and Red October feasibiliy studies due in the next 6-12 months. Buy is maintained.

SARACEN MINERL HOLDINGS LTD (SAR) — **YEAR END 30 JUNE**

MARKET STATISTICS

Share Price	**$0.40 A$/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
Total Dil. FPOrd	408.5m	C.Thompson	Dir
Market Capitalisation	$170m	**Shareholders**	
Enterprise Value	$164m	Dir + Mgt	9%
Debt	$9m	Clodene	9%
Cash	$15m		

ASSET VALUATION	**A$m**	**A$/sh**
Sth Laverton Gold project	214	0.52
Corporate	(17)	(0.04)
Expl'n (rem rsc @ $20/oz)	30	0.07
Unpaid Capital	2	0.00
Debt	(9)	(0.02)
Cash	15	0.04
Total @ 10% real	**235**	**0.58**
Total @ 0% real	370	0.90
Total @ 5% real	291	0.71
Total @ 15% real	194	0.48

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	1,082	1,248	1,294	1,367	1,394
Avg Gold Price Rec'd	1,235	1,258	1,284	1,367	1,394
Cash Cost (A$/oz)					
Carouse Dam	801	673	655	674	664
Avg Cash Cost (A$/oz)	**801**	**673**	**655**	**674**	**664**
Avg Total Cost (A$/oz)	**866**	**748**	**739**	**765**	**761**

RATIO ANALYSIS (A$m)	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
CF (A$m)	4	50	49	53	58
CF / Sh (Ac/sh)	1	12	12	13	14
CF Ratio (x)	36.5	3.3	3.3	3.1	2.8
Earnings (A$m)	4	35	38	42	46
EPS (Ac/sh)	1.0	8.5	9.3	10.2	11.2
EPS Growth (%)	-137%	715%	9%	9%	10%
Earnings Ratio (x)	38.2	4.7	4.3	3.9	3.6
E'prise Val. (A$m)	168	135	95	50	(7)
EV : EBITDA (x)	18.5	2.3	1.5	0.7	(0.1)
EV : EBIT (x)	29.9	2.7	1.8	0.9	(0.1)
Net Debt / ND+Eq (%)	17%	-36%	-115%	-219%	-399%
Interest Cover (x)	(9)	136	(46)	(18)	(12)
EBIT Margin (%)	13%	36%	38%	40%	41%
ROE (%)	9%	41%	32%	26%	22%
ROA (%)	8%	49%	42%	34%	28%
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	42	141	138	142	147
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
TOTAL REVENUE	**43**	**142**	**140**	**145**	**152**
Operating Costs	28	76	70	70	70
Dep/Amort	2	9	9	9	10
W/O & Provisions	1	1	1	1	1
Corp O/H	5	5	5	5	5
EBITDA	9	60	63	67	72
EBIT	6	50	53	56	61
Interest Expense	0	1	1	0	0
NPBT	6	50	54	59	65
Tax	2	15	16	18	20
Minorities	0	0	0	0	0
NET PROFIT	**4**	**35**	**38**	**42**	**46**
Net Abnormal Gain/(Loss)	0	0	0	0	0
NET PROFIT After Abn'l	**4**	**35**	**38**	**42**	**46**

CASH FLOW (A$m)	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Net Profit	4	35	38	42	46
+ Working Capital Adj.	-5	0	0	0	0
+ Dep/Amort	2	9	9	9	10
+ Provisions	1	1	1	1	1
+ Tax Expense	2	15	16	18	20
- Tax Paid	0	10	15	17	18
- Deferred Revenue	0	0	0	0	0
Operating Cashflow	**4**	**50**	**49**	**53**	**58**
-Capex + Development	28	12	2	4	2
-Exploration	7	6	4	4	0
-Assets Purchased	8	0	0	0	0
+Asset Sales	0	0	0	0	0
+ Other	0	0	0	0	0
Investing Cashflow	**-43**	**-18**	**-6**	**-8**	**-2**
+Equity Issues	6	0	0	0	0
+Loan D'down/Receivable	10	0	0	0	0
-Loan Repayment	0	5	11	0	0
-Dividends	0	0	0	0	0
Financing Cashflow	**16**	**-5**	**-11**	**0**	**0**
Period Sur (Def)	**-22**	**26**	**32**	**45**	**56**
Cash Balance	**5**	**31**	**63**	**108**	**164**

BALANCE SHEET (A$m)	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Assets					
Cash	5	31	7	28	5
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	**72**	**102**	**22**	**69**	**72**
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**	**17**	**9**	**9**	**24**
Net Assets	**48**	**84**	**14**	**60**	**48**

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$)			**187**			**54**