

Weekly Informer

Wednesday, 31 March 2010

In this edition

Resources

Saracen Mineral Holdings

Code	Price	Rec.		Analyst	Page
SAR	\$0.38	Buy	<i>Site Visit to Carosue Dam</i>	Andrew Clayton	2

Industrials

Brierty Ltd

Diploma Group Ltd

iiNet Ltd

BYL	\$0.35	Buy	<i>Company update</i>	Gavin Allen	5
DGX	\$0.45	Buy	<i>Capital Raising</i>	Gavin Allen	9
IIN	\$2.60	Buy	<i>Acquisition of Netspace</i>	Gavin Allen	16

We have suspended coverage on the following companies: CGA Mining Ltd, Bannerman Resources Ltd, Independence Group Ltd, Integra Mining Ltd and Tox Free Solutions Ltd. Refer to page 20 for the entire coverage list.

In every edition

Weekly Share Price Performance of Companies covered	20
Weekly Price and Liquidity Charts of Companies covered	21
Commodity Price Charts	22

The Weekly Informer is Euroz Securities' weekly research clearing document. It includes research notes on stocks within the coverage universe published during the preceding week. The Weekly Informer is published mid-week.

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Saracen Mineral Holdings Ltd (SAR \$0.38) Buy

- ▶ **Price Target:** \$0.60/sh
- ▶ **Reason For Update:** Site Visit to Carosue Dam
- ▶ **What we know:**

Commissioning has gone very well with production of ~ 13koz since first gold in late Jan'10.

Total capex was \$24m some \$3m below budget.

Operating costs have been some \$1.0-\$1.5m below budget per month and it is estimated that operating costs since start up have been in the ~A\$750/oz range.

The mill has been running at ~ 10% above design capacity of 2.4mtpa, with costs estimated at A\$15-16/t versus feasibility estimates of \$18-20/t.

Grade reconciliation at the Porphyry has been -10% due to excessive dilution encountered in the thinner, upper levels of the open pit. SAR will change to split fire blasting with the aim of reducing this dilution. The pit is down 20m and the orebody width is now ~ 40-50 wide compared to the 2-3m it was mining in the upper levels.

Ore stockpiles were ~ 100kt

The Whirling Dervish pre-strip has commenced and is currently down ~ 10-15m. Significant cost savings have been achieved as the material is all free dig thus far versus the feasibility assumption of drill and blast from surface. There is potential ore from Whirling Dervish will be delivered ahead of the Aug'10 forecast – maybe in June.

SAR are hopeful construction of the grid power line will commence in June'10. It has been delayed due to some minor environmental concerns that should be resolved shortly. Assuming construction starts in June, grid power could be delivered by the end of the 1st Q CY'11.

The Red October PFS is due in the June'Q. Options of going underground to take a bulk sample and drill the deeps versus surface drilling and further feasibility studies are under consideration. This remains an attractive asset with numerous high grade intersections.

The Kaari feasibility is almost complete and this whilst this open pit will be a higher cost producer @ \$700-800/oz it will provide, close to plant, ore with current reserves of 4.8mt @ 1.4 g/t Au. The walls on the current open pit have held up very well after 7 yr and SAR believes there is potential to steepen the batters and reduce costs.

SAR believes it will be cashflow positive in April and will start to report operating cost in the June Q. It is targeting costs of A\$640/oz and as the grade improves from Porphyry we see no reason why this can't be achieved.

Exploration continues with the current focus on extending the mineralisation at the Million Dollar prospect. Results are due shortly.

Current cash is estimated at ~ \$5m with undrawn debt facilities of \$9.5m.

▶ **What we think:**

It is pleasing to see a company deliver on its forecasts and the commissioning has gone very well. The only minor negative of the ore reconciliation is understandable in the context of mill out performance and pressure on the mining to 'feed the mill', combined with mining in the skinniest part of the orebody. With sufficient stockpiles now on hand and orebody widths of 40-50m this issue should be rectified in the June Q.

The fact that SAR has not had to draw down any further debt, which remains at A\$9.5m, is testament to the excellent start up and implies the operations have only been only modestly cashflow negative – we estimate <A\$5m. In our view the operation has been significantly de-risked, whilst there is still some capital to spend on the Whirling Dervish pre-strip and potentially Kaari pre-strip the fact is Carouse Dam should be cashflow positive in the next Q. We have increased our FY'10 production forecast from 35koz to 41koz to reflect the better than expected commissioning. This implies production of 28koz in the June'Q.

Looking forward SAR is poised for a strong FY'11 as Whirling Dervish is bought on line, potentially as early as June'10, giving flexibility to the mining schedule. Our FY'11 forecast remains unchanged at 113koz @ A\$670/oz generating EBITDA of \$60m and NPAT of \$35m. In addition results from the feasibility studies at Kaari and Red October should provide further positive momentum.

There are few companies in recent times that have made the successful transition from gold explorer to producer and whilst SAR are not quite there; June Q production result is probably required –all the indications from our site trip is this will be achieved shortly.

▶ **Investment Case:**

With an Enterprise value of ~\$160m for a 110-120koz pa gold producer with reserves of 875koz (mine life 8-9yrs) SAR is cheap. The risk of a major working capital hole has reduced and the confidence in our forecasts being achieved has grown appreciably post our site trip.

At this stage our valuation remains unchanged at \$0.58sh with the upgrade in the FY'10 production having a negligible impact on our overall valuation. We see the June Q production result as a catalyst for a re-rating as it demonstrates that successful refurbishment of old assets is possible. Our buy is maintained.

SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUNE				
MARKET STATISTICS						
Share Price	\$0.38 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	\$170m	Dir + Mgt		9%		
Enterprise Value	\$164m	Clodene		9%		
Debt	\$9m	Baker Steel		8%		
Cash	\$15m					
Hedging	175koz puts bought @ A\$1250/oz, 103.5 calls sold A\$1,250/oz					
ASSET VALUATION		A\$m	A\$/sh			
Sth Laverton Gold project		223	0.55			
Corporate		(17)	(0.04)			
Expl'n (rem rsc @\$20/oz)		30	0.07			
Unpaid Capital		2	0.00			
Debt		(9)	(0.02)			
Cash		7	0.02			
Total @ 10% real		235	0.58			
Total @ 0% real		372	0.91			
Total @ 5% real		292	0.72			
Total @ 15% real		194	0.47			
F/CAST PRODUCTION (A\$m)	2010f	2011f	2012f	2013f	2014f	
Attrib. Prod'n (koz)						
Carouse Dam	41	113	107	104	105	
Total Attrib (koz)	41	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	1,231	1,258	1,284	1,367	1,394	
Cash Cost (A\$/oz)						
Carouse Dam	706	673	655	674	664	
Avg Cash Cost (A\$/oz)	706	673	655	674	664	
Avg Total Cost (A\$/oz)	768	745	736	761	758	
RATIO ANALYSIS (A\$m)						
CF (A\$m)	2010f	2011f	2012f	2013f	2014f	
CF / Sh (Ac/sh)	3	12	12	13	14	
CF Ratio (x)	14.2	3.2	3.2	2.9	2.7	
Earnings (A\$m)	9	35	38	42	46	
EPS (Ac/sh)	2.1	8.7	9.4	10.3	11.3	
EPS Growth (%)	-174%	311%	9%	9%	10%	
Earnings Ratio (x)	18.0	4.4	4.0	3.7	3.4	
E'prise Val. (A\$m)	150	119	79	34	(23)	
EV : EBITDA (x)	9.6	2.0	1.2	0.5	(0.3)	
EV : EBIT (x)	12.7	2.4	1.5	0.6	(0.4)	
Net Debt / ND+Eq (%)	1%	-51%	-136%	-246%	-439%	
Interest Cover (x)	(21)	2,609	(36)	(16)	(11)	
EBIT Margin (%)	24%	36%	39%	40%	41%	
ROE (%)	16%	40%	31%	26%	22%	
ROA (%)	15%	48%	41%	33%	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	49	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	50	142	140	145	152	
Operating Costs	29	76	70	70	70	
Dep/Amort	3	8	9	9	10	
W/O & Provisions	1	1	1	1	1	
Corp O/H	5	5	5	5	5	
EBITDA	16	60	63	67	72	
EBIT	12	51	54	57	61	
Interest Expense	0	1	1	0	0	
NPBT	12	51	55	60	66	
Tax	4	15	16	18	20	
Minorities	0	0	0	0	0	
NET PROFIT	9	35	38	42	46	
Net Abnormal Gain/(Loss)	0	0	0	0	0	
NET PROFIT After Abn'l	9	35	38	42	46	
CASH FLOW (A\$m)						
2010f	2011f	2012f	2013f	2014f		
Net Profit	9	35	38	42	46	
+ Working Capital Adj.	-5	0	0	0	0	
+ Dep/Amort	3	8	9	9	10	
+ Provisions	1	1	1	1	1	
+ Tax Expense	4	15	16	18	20	
- Tax Paid	0	12	16	17	19	
- Deferred Revenue	0	0	0	0	0	
Operating Cashflow	11	48	49	53	59	
-Capex + Development	25	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	-40	-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)	-13	24	32	45	57	
Cash Balance	15	39	71	116	172	
BALANCE SHEET (A\$m)						
2010f	2011f	2012f	2013f	2014f		
Assets						
Cash	15	39	71	116	172	
Current Receivables	0	0	0	0	0	
Other Current Assets	2	2	2	2	2	
Non-Current Assets	61	65	59	53	46	
Total Assets	78	106	132	172	220	
Liabilities						
Borrowings	15	9	0	0	0	
Current Accounts Payable	2	2	2	2	2	
Other Liabilities	7	7	7	7	7	
Total Liabilities	24	17	9	9	9	
Net Assets	55	89	123	163	212	
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			3,040
Enterprise Value / oz (A\$)			187			54