

# Stock Focus

## Saracen Mineral Holdings (SAR)



EVANS & PARTNERS

### HITTING THE GROUND RUNNING ON MAIDEN QUARTER

#### RECOMMENDATION : POSITIVE

Trading Data	
Last Price	\$0.46
12 month range	\$0.15 - \$0.52
Market cap.	\$186m
Free Float	\$0m (0%)
Avg. daily volume	1.2m
Avg. daily value	\$0.4m
12m return (historical)	144.7%

**An excellent maiden quarter with all key measures tracking ahead of budget. Valuation only includes current reserves, which we expect to be significantly upgraded when current feasibility studies are finalised.**

**Solid result, with 15,166 ounces of gold produced during the commissioning stage.** The ore was predominantly sourced from Remnant stockpile material during the commissioning phase, which was blended with run of mine ore from the upper levels of the Porphyry open pit mine, at an average grade of 1.2g/t. Higher grade Porphyry ore has recently been introduced to the processing plant, with June quarter production forecasts to be around 25 to 30k ounces (our forecast unchanged at 27k ounces).

#### Earnings Forecasts

Yr to June	09A	10E	11E	12E
NPAT (\$m)	(10)	7	43	42
EBITDA (\$m)	(10)	9	53	50
EPS (¢)	(2.9)	1.7	10.8	10.5
EPS Gth (%)	N/A	N/A	516.1	(2.0)
<b>PER (x)</b>	-	<b>26.0</b>	<b>4.2</b>	<b>4.3</b>
Prod (k oz)	0	43	131	130
Cost (\$/ oz)	0	747	719	694
DPS (¢)	0.0	0.0	0.0	0.0
<b>Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Franking (%)	0%	0%	0%	0%
NetDebt/EBITD	2.7	(1.1)	(1.1)	0.0

**Valuation (DCF - cps) 0.68**

#### Share Price History



**Costs not quoted for the quarter due to the plant being in commissioning phase, but early signs are positive.** Plant operating unit costs, Porphyry open pit unit mining costs and Whirling Dervish pre-strip unit costs are all currently at or below budget forecast. Total capital expenditure through the commissioning phase was \$20.9m, \$3.5m below budget.

#### Feasibility studies on track for completion within the next few months.

Studies into the feasibility of mining at Karari (open pit near the plant) and Red October (high grade underground) are nearing completion, with development options being assessed. The next phase of work at Red October is expected to comprise trial underground mining, bulk ore testing and an extensive underground diamond drilling campaign aimed at resource delineation and expansion of the resource at depth and along strike. It is expected the high grade mined ore from Red October will be blended with open pit ore from Karari.

**Exploration continuing to deliver.** Resource delineation and sterilization RC drilling programs are in progress. Saracen recently reported likely Wallbrook open pit expansions based on encouraging drill results. RC drilling continued at Porphyry, Wallbrook, Enterprise and Million Dollar to varying degrees for resource delineation and sterilisation purposes. Drill program planning has commenced for drilling in the Red October district. Saracen intends to accelerate regional exploration in the Red October district.

**Ample available credit.** With the capital expenditure substantially below budget, Saracen currently has undrawn debt facilities of \$9m, with net cash holdings of A\$7.8m (most committed to environmental bonds).

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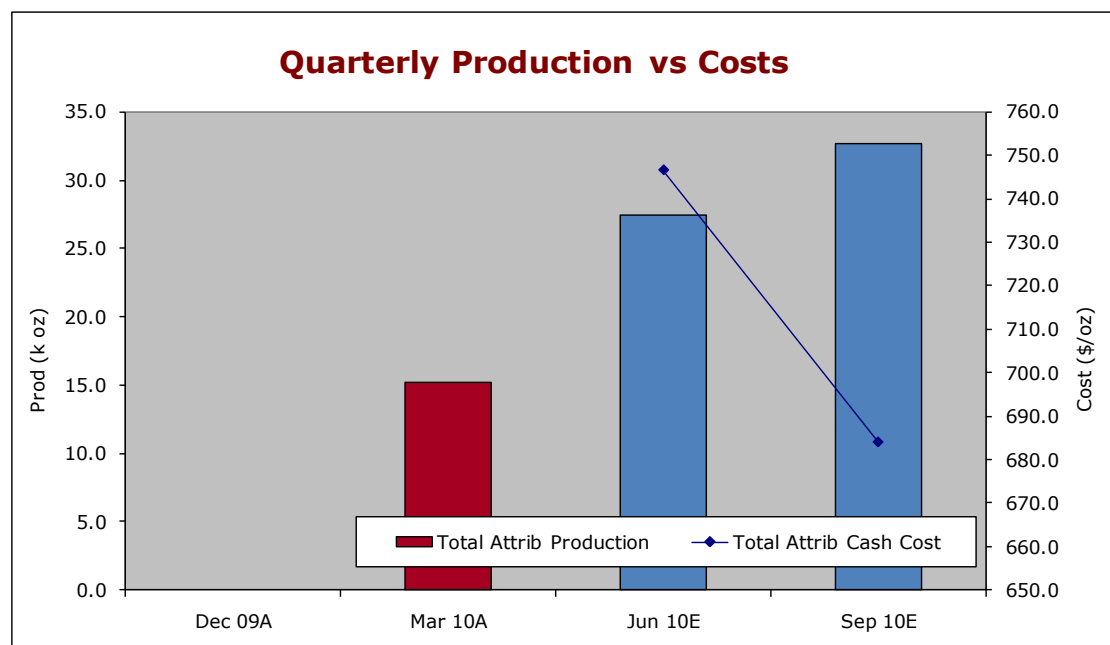


## DETAILS

### Quarterly Production Stats

Quarter ended:		Dec 09A	Mar 10A	Jun 10E	% ch	Sep 10E
<b>Carosue Dam</b>						
Ore Milled	(k t)	0.0	470.0	612.5	<b>30%</b>	612.5
Head Grade - Au	(g/t)	0.0	1.2	1.5	<b>26%</b>	1.8
Recovery - Au	(%)	0.0%	83.6%	92.3%	<b>10%</b>	92.3%
Production - Au	(k oz)	0.0	15.2	27.5	<b>81%</b>	32.7
Cash Cost	(A\$/oz)	0.0	0.0	746.6	<b>Na</b>	683.9

### Quarterly Production vs Costs



Source: Evans and Partners Forecasts



Saracen Minerals SAR Recommendation: Positive DCF Valuation \$0.68  
As at: 28/04/2010

Year end	Jun	2009A	2010E	2011E	2012E	2013E
<b>INCOME STATEMENT</b>						
<b>Total Revenue</b>	\$m	0.0	36.0	171.7	179.7	174.7
Operating Costs	\$m	0.0	-20.5	-94.2	-90.5	-82.2
Royalty	\$m	0.0	-1.8	-8.8	-9.2	-9.0
Exploration W/off	\$m	-7.6	-2.6	-5.0	-8.0	-8.0
<b>Total Op. Costs</b>	\$m	<b>-7.6</b>	<b>-24.9</b>	<b>-107.9</b>	<b>-107.7</b>	<b>-99.2</b>
D&A	\$m	0.0	-2.2	-10.5	-10.4	-9.5
Interest Exp.	\$m	0.0	-0.4	-0.9	-0.5	0.0
Corporate	\$m	0.0	-1.0	-1.0	-1.0	-1.0
Other	\$m	0.0	0.0	0.0	0.0	0.0
<b>Total Costs</b>	\$m	<b>-7.6</b>	<b>-28.4</b>	<b>-120.4</b>	<b>-119.6</b>	<b>-109.7</b>
<b>Pre+Tax Profit</b>	\$m	<b>-7.6</b>	<b>7.6</b>	<b>51.3</b>	<b>60.1</b>	<b>65.0</b>
Tax Provision	\$m	2.7	0.6	8.3	18.0	12.6
<b>Net Profit</b>	\$m	<b>-10.2</b>	<b>7.0</b>	<b>43.0</b>	<b>42.1</b>	<b>52.4</b>
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
<b>Attrib Net Profit</b>	\$m	<b>-10.2</b>	<b>7.0</b>	<b>43.0</b>	<b>42.1</b>	<b>52.4</b>
Abnormal	\$m	0.0	0.0	0.0	0.0	0.0
<b>Reported profit</b>	\$m	<b>-10.2</b>	<b>7.0</b>	<b>43.0</b>	<b>42.1</b>	<b>52.4</b>

Year end	Jun	2009A	2010E	2011E	2012E	2013E
<b>CASH FLOW</b>						
<b>Operating Cashflow</b>	\$m	<b>-0.3</b>	<b>8.3</b>	<b>66.8</b>	<b>70.2</b>	<b>64.4</b>
-Capex	\$m	-1.5	-26.7	-13.0	-1.0	-1.0
-Exploration	\$m	-7.6	-4.6	-5.0	-8.0	-8.0
<b>Free Cashflow</b>	\$m	<b>-9.4</b>	<b>-23.0</b>	<b>48.8</b>	<b>61.2</b>	<b>55.4</b>
-Dividends	\$m	0.0	0.0	0.0	0.0	0.0
+Equity Raised	\$m	32.1	5.3	0.0	0.0	0.0
+Debt Drawdown	\$m	0.0	9.0	-5.0	-4.3	0.0
-Other	\$m	0.5	0.0	0.0	0.0	0.0
<b>Net Change in Cash</b>	\$m	<b>23.2</b>	<b>-8.7</b>	<b>43.8</b>	<b>56.9</b>	<b>55.4</b>
Cash at End Period	\$m	28.0	19.3	63.0	120.0	175.4

Year end	Jun	2009A	2010E	2011E	2012E	2013E
<b>BALANCE SHEET</b>						
Cash	\$m	28.0	19.3	63.0	120.0	175.4
<b>Total Assets</b>	\$m	<b>69.8</b>	<b>87.6</b>	<b>133.9</b>	<b>181.4</b>	<b>228.4</b>
Total Debt	\$m	0.3	9.3	4.3	0.0	0.0
<b>Total Liabilities</b>	\$m	<b>7.5</b>	<b>16.5</b>	<b>11.5</b>	<b>7.1</b>	<b>7.1</b>
<b>Shareholders Equity</b>	\$m	<b>62.4</b>	<b>71.2</b>	<b>122.5</b>	<b>174.3</b>	<b>221.2</b>

Year end	Jun	2009A	2010E	2011E	2012E	2013E
<b>Production</b>						
<b>Carosue Dam</b>						
Ore Milled (k t)		0	1,083	2,450	2,450	2,450
Head Grade - Au (g/t)		0.0	1.3	1.8	1.8	1.7
Recovery - Au (%)		0.0%	91.9%	92.3%	91.0%	91.0%
Production - Au (k oz)		0	43	131	130	118
<b>Profit and Loss Cash Cost</b>						
Cash Cost (\$/t)		0.0	17.3	34.8	33.2	29.9
Cash Cost (A\$/oz)		0	747	719	694	695
Total Cost (A\$/oz)		0	827	799	774	775
<b>GROUP ATTRIBUTABLE</b>						
<b>Gold Production (k oz)</b>		<b>0.0</b>	<b>42.6</b>	<b>130.9</b>	<b>130.3</b>	<b>118.3</b>
<b>Cash Cost (A\$/oz)</b>		<b>0</b>	<b>747</b>	<b>719</b>	<b>694</b>	<b>695</b>
<b>Total Cost (A\$/oz)</b>		<b>0</b>	<b>827</b>	<b>799</b>	<b>774</b>	<b>775</b>

Reserves (100%)	Mt	g/t Au	Gold (k oz)
Whirling Dervish	4.3	1.6	217
Porphyry	2.8	1.6	142
Porphyry U/G	0.643	3.4	70
Wallbrook	1.6	1.5	76
Enterprise	0.5	1.9	29
Deep South	0.3	3.1	31
Karari	4.8	1.4	223
Million Dollar	0.7	1.2	25
Safari Bore	0.6	2.1	40
Surface Stockpiles	0.6	1.2	25
<b>Total</b>	<b>16.8</b>	<b>1.6</b>	<b>875</b>

Year end	Jun	2009A	2010E	2011E	2012E	2013E
<b>VALUATION METRICS</b>						
PER	x	Na	22.6	3.7	3.7	3.0
Dividend Yield	%	Na	Na	Na	Na	Na
P/FCF	x	16376.9	12.8	2.4	2.2	2.4
ROA	%	-15%	8%	32%	23%	23%
ROE	%	-16%	10%	35%	24%	24%
Net Debt to Equity	%	-44%	-14%	-48%	-69%	-79%
Debt to Assets	%	-40%	-11%	-44%	-66%	-77%

<b>Directors</b>		
Executive Chairman		Guido Staltari
Non-Executive Director		Carl Thompson
Non-Executive Director		Ivan Hoffman
Executive Director		Barrie Parker

Substantial Shareholders*	Shares (m)	%
Baker Steel	32.9	8.0%
Clodene Pty Ltd	30.6	8.0%
Renaissance Capital	28.4	7.4%
Sprott Asset management	28.0	7.0%

Valuation Summary	BASE CASE	
	\$AM	A\$/share
<b>Valuation per share</b>		
Carosue Dam	253	0.63
Exploration	50	0.13
<b>Sub Total Operations</b>	<b>303</b>	<b>0.76</b>
<b>Financial</b>		
Forward sales	-24	-0.06
Cash	8	0.02
Total Borrowings	9	0.02
Corporate/Other	-4	-0.01
Sub Total Financial	-30	-0.07
<b>Total Valuation</b>	<b>273</b>	<b>0.68</b>

Resources (100%)	Mt	g/t Au	Gold (k oz)
Whirling Dervish	11.7	1.4	518
Porphyry	8.4	1.9	509
Wallbrook	5.1	1.4	228
Deep South	2.1	3.4	231
Mexico	0.3	2.2	22
Enterprise	1.4	1.9	82
Elliot's Lode	0.7	2.0	45
Karari	11.3	1.5	544
Million Dollar	6.0	1.1	211
Montys Dam	0.2	2.8	19
Margaret	1.0	1.4	45
Yundmintera	0.7	2.3	54
Safari Bore	2.8	2.2	202
Twin Peaks	0.5	4.2	73
Red October	0.9	7.4	209
Butcher Well	0.3	3.1	31
Surface Stockpiles	0.6	1.2	26
<b>Total</b>	<b>54.2</b>	<b>1.7</b>	<b>3,048</b>

Assumptions		09A	10E	11E	12E	13E
Gold Price (US\$/oz)		814	1,040	1,168	1,182	1,212
Exch Rate (US\$/A\$)		0.74	0.80	0.87	0.84	0.80
Gold Price (A\$/oz)		1,115	1,280	1,343	1,413	1,519



## RESEARCH RECOMMENDATION DEFINITIONS

Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
Suspended	Stock is temporarily suspended due to compliance with applicable regulatory and/or Evans & Partners policies in circumstances where Evans & Partners is acting in an advisory capacity.
Not Rated	Stock is not included in our investment research universe.

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Recommendations are primarily determined with reference to how a stock ranks relative to the S&P/ASX 200 on the following criteria:

Valuation	Rolling 12 month prospective multiples (composite of Price-to-Earnings Ratio, Dividend Yield and EV/EBITDA), or long-term NPV for resource stocks.
Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
Cyclical Risk	Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.
Industry Quality	Qualitative assessment of an industry's growth/returns potential and company specific management capability.
Financial Transparency	If we don't understand it, we won't recommend it.

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