Analyst: Andrew Clayton *Published 28 April 2010*

Saracen Mineral Holdings Ltd (SAR $0.45) Buy

- **Price Target:** $0.60/sh
- **Reason For Update:** Mar Qt'ly
- **What we know:**

Full scale gold production has commenced after a two month commissioning which produced 15.1koz of gold.

Throughput was 470kt at an average grade of 1.2 g/t Au and consisted of low grade legacy stockpiles and ore from the upper levels at the Porphyry open pit.

Gold was sold at an average price of A$1,227/oz generating $16.8m in revenue.

Total capex through the commissioning phase was $20.9m, some $3.5m below budget. For accounting purposes the gold sales were applied against the capex during this commissioning period.

Operating costs were not disclosed during the commissioning period however SAR state that plant operating costs, Porphyry mining costs and Whirling Dervish pre-strip costs are all currently at or below budget.

Whirling Dervish pre-strip is ahead of schedule with first ore to be delivered in June/ July'10 (originally August'10).

June 'Q production forecast is 25-30koz.

RC drilling continued at Porphyry, Wallbrook, Enterprise and Million Dollar. Latest drilling at Wallbrook intersected 5m @ 17.1 g/t from 27m, 14m @ 4.1 g/t Au from 114m and 24m @ 2.0 g/t Au from 2m indicating the mineralised system may be larger than originally thought.

The Karari feasibility study is almost complete. A reserve of 4.8mt @ 1.4 g/t Au for 223koz has been defined (from a resource of 544koz).

There was no update on the grid power option in the Q. Western Power has indicated power is available to Carouse Dam with detailed planning in its final stages.

At Red October SAR now envisage the next phase of work will involve

- Trial underground mining to confirm geological interpretation
- Bulk sample for metallurgical response
- Extensive underground drill program aimed at both infill and expansion of current +200koz (0.76mt @ 8.4 g/t Au).

Cash at the end of the Q was $9.9m with debt of $9.5m.

- **What we think:**

Carouse Dam has been significantly de-risked after a successful commissioning/ramp up to full production. This is an excellent result and the fact SAR has not drawn down any further debt, which remains at $9.5m, is testament to the strong start up.

Cash fell by $5m to $10m with some $3.4m spent on exploration and corporate. In addition the Whirling Dervish pre-strip was funded out of cashflow which implies at an operational level it was probably break-even – a terrific outcome.

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We forecast June Q production of 25koz at an operating cost of A$670/oz, generating an operating margin of +$550/oz. Delivery into its $1,250/oz hedge book (mixture of 176koz of puts @ $1,250/oz and 103koz of calls @ $1,250/oz) has started. The call options represent some 12% of total reserves.

Looking forward SAR is poised for a strong FY'11 as Whirling Dervish is bought on line, now slated for June/July giving greater flexibility to the mining schedule. Our FY'11 forecast remains unchanged at 113koz @ $670/oz generating EBITDA of $60m and NPAT of $35m.

Longer term the potential of Red October to provide some high grade ore should not be underestimated. Under previous mgt some 450kt @ 9 g/t was mined from an open pit at Red October and drilling defined two high grade shoots with total resource of 756kt @ 8.4 g/t Au.

It appears the option of going underground to take a bulk sample and drill from underground is preferred over the surface drilling option. We believe this is a sensible option as any high grade ore extracted could go a long way to recouping the capital cost involved in taking this bulk sample.

If Red October proves up it is possible to envisage production increasing to ~ 150koz pa as this high grade ore is blended with Karari to produce a mill grade of +2 g/t Au.

- **Investment Case:**

There are few companies in recent time that have made the successful transition from gold explorer to producer, especially on recycled assets. Whilst SAR has not quite there, June Q production result is probably required- all the indications from this qtrly report and our site trip in late Mar'10, is this will be achieved shortly.

SAR remains a cheap domestic gold producer. An enterprise value of $170m for a 110-120koz gold producer generating margins of +$500/oz for at least 7-8yrs the metrics are compelling. We estimate undiscounted cashflow of $440m from their current reserve of 875koz.

SAR trades on a EV/reserve oz and EV/resource oz of $193/oz and $56/oz respectively. This is a ~50% discount to its peer group and we see no logical reason for this discrepancy. It is more reflective of the cynicism regarding old gold assets than actual performance to date and expect, as production targets are achieved, this gap will reduce.

Our valuation of $0.60/sh is based on the current reserve position. We do not model in any production from Red October and at this stage have a relatively flat 100-120koz pa production profile – clearly there is good upside if Red October eventuates and/ore the deep drilling at Wallbrook comes in. We see the June'Q as a catalyst for a re-rating as full production is achieved and results from the Red October PFS and Karari BFS are released. Buy.

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

MARKET STATISTICS

Share Price	**$0.45 A$/sh**	
Issued Capital		
FP Ord	382.7m	
Opt (@$0.20/sh 15/11/09)	19.6m	
Total Dil. FPOrd	**408.5m**	
Market Capitalisation	$170m	
Enterprise Value	$169m	
Debt	$9m	
Cash	$10m	
Hedging	175koz puts bought @A$1250/oz, 103.5 calls sold A$1,250/oz	

Directors	
G. Staltari	Ex Chair'n
I. Hoffman	Dir
B.Parker	Dir
C.Thompson	Dir

Shareholders	
Dir + Mgt	9%
Clodene	9%
Baker Steel	8%

ASSET VALUATION	**A$m**	**A$/sh**
Sth Laverton Gold project	229	0.56
Corporate	(20)	(0.05)
Expl'n (rem rsc @ $20/oz)	30	0.07
Unpaid Capital	4	0.01
Debt	(9)	(0.02)
Cash	10	0.02
Total @ 10% real	**244**	**0.60**
Total @ 0% real	394	0.96
Total @ 5% real	305	0.75
Total @ 15% real	200	0.49

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$m)	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
CF (A$m)	11	48	49	53	59
CF / Sh (Ac/sh)	3	12	12	13	14
CF Ratio (x)	16.8	3.8	3.7	3.5	3.2
Earnings (A$m)	9	35	38	42	46
EPS (Ac/sh)	2.1	8.6	9.4	10.2	11.3
EPS Growth (%)	-174%	311%	9%	9%	10%
Earnings Ratio (x)	21.4	5.2	4.8	4.4	4.0
E'prise Val. (A$m)	182	152	111	66	9
EV : EBITDA (x)	11.7	2.5	1.7	1.0	0.1
EV : EBIT (x)	15.5	3.0	2.1	1.2	0.2
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$)			**193**			**56**