

Saracen Mineral Holdings Ltd

(SAR \$0.40) Buy

10 May 2010

- ▶ **Price Target:** \$0.57/sh
- ▶ **Reason For Update:** Production update
- ▶ **What we know:**

SAR has produced 9.6koz in April'10, its first full month of production. Throughput was 167kt of ore at a grade of 1.9 g/t Au with ore predominantly sourced from the Porphyry open pit.

Cash costs of A\$535/oz were estimated for the month of April.

Guidance for the June'Q remains at 25-30koz at a cash cost of A\$690/oz.

The Whirling Dervish pre-strip is ahead of schedule with 1st ore delivery now forecast for June/July'10, some 2 months ahead of schedule.

The pit is at a depth of 28m with free dig for the initial 15m (feasibility study assumed drill and blast from surface) resulting in excellent productivity and below budget costs.

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) resource.

- ▶ **What we think:**

This is a very pleasing first full month of production at Carouse Dam with better than forecast production and costs. We feel SAR is being cautious in its June'Q guidance as operating costs would need to average between \$750-800/oz for the next two months to average \$690/oz for the Q.

The grade at Porphyry of 1.9 g/t is above the reserve grade of 1.6 g/t and we understand the new split firing mining technique has significantly reduced the dilution which occurred during the initial mining. In addition the width of the orebody is now ~ 40m compared 4-5m in the upper zones of the pit. We understand grade reconciliation has been ~ +8-10% in the April.

Longer term the potential of Red October to provide some high grade ore should not be underestimated. Under previous mgt some 500kt @ 7 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.

In the recent presentation SAR show the level development and stope it plans to mine at Red October subject to a formal commitment to go ahead. Interestingly there is a high grade 18m @ 16 g/t intercept that lies close to the stope and does not really fit the narrow, high grade shear hosted mineralisation model. Further drilling is required from underground to adequately define/understand this mineralisation.

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. This is not factored into our model currently.

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The proposed RSPT does impact SAR as the sunk capital to re-start Carouse Dam is only ~ \$25m – this lower the RSPT capital allowance plus it only pays a 2.5% gold state royalty. On the positive SAR has \$55m in tax losses that can be utilised. The net effect is our valuation has fallen by \$0.04/sh to \$0.56/sh.

▶ **Investment Case:**

SAR remains a cheap domestic gold producer. An enterprise value of \$160m 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.

Whilst our valuation has fallen to \$0.56/sh to reflect the RSPT impact, it currently trades at a 35% discount to this revised valuation and remains a Buy. 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/or 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.

SARACEN MINERAL 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			
		C.Thompson	Dir			
Total Dil. FPOrd	408.5m					
Market Capitalisation	\$170m	Shareholders				
Enterprise Value	\$169m	Dir + Mgt		9%		
Debt	\$9m	Clodene		9%		
Cash	\$10m	Baker Steel		8%		
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		219	0.53			
RSPT (risk adj)		(22)	(0.05)			
Corporate		(20)	(0.05)			
Expl'n (rem rsc @ \$20/oz)		30	0.07			
Tax Losses		17	0.04			
Unpaid Capital		4	0.01			
Debt		(9)	(0.02)			
Cash		10	0.02			
Total @ 10% real		229	0.56			
<i>If RSPT adopted or abandoned, impact on valuation respectively:</i>						
RSPT (unrisked)		207	0.51			
RSPT (excluded)		250	0.61			
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	1,076	1,241	1,294	1,367	1,394	
Avg Gold Price Rec'd	1,225	1,259	1,284	1,367	1,394	
Cash Cost (A\$/oz)						
Carouse Dam	706	673	655	693	683	
Avg Cash Cost (A\$/oz)	706	673	655	693	683	
Avg Total Cost (A\$/oz)	768	745	736	781	780	
RATIO ANALYSIS (A\$m)						
CF (A\$m)	10	48	49	51	57	
CF / Sh (Ac/sh)	3	12	12	13	14	
CF Ratio (x)	15.7	3.4	3.3	3.2	2.9	
Earnings (A\$m)	8	35	38	41	45	
EPS (Ac/sh)	2.0	8.5	9.4	9.9	10.9	
EPS Growth (%)	-171%	323%	10%	6%	10%	
Earnings Ratio (x)	19.9	4.7	4.3	4.0	3.7	
E'prise Val. (A\$m)	162	132	91	48	(5)	
EV : EBITDA (x)	10.8	2.2	1.4	0.7	(0.1)	
EV : EBIT (x)	14.4	2.6	1.7	0.9	(0.1)	
Net Debt / ND+Eq (%)	2%	-50%	-134%	-241%	-406%	
Interest Cover (x)	(20)	1,081	(37)	(16)	(11)	
EBIT Margin (%)	23%	36%	39%	39%	40%	
ROE (%)	15%	40%	31%	25%	21%	
ROA (%)	15%	47%	41%	32%	27%	
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	140	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	141	140	145	152
Operating Costs	29	76	70	72	72
Dep/Amort	3	8	9	9	10
W/O & Provisions	1	1	1	1	1
Corp O/H	5	5	5	5	5
EBITDA	15	59	63	65	70
EBIT	11	50	54	55	59
Interest Expense	0	1	1	0	0
NPBT	12	50	55	58	64
Tax	4	15	16	17	19
Minorities	0	0	0	0	0
NET PROFIT	8	35	38	41	45
Net Abnormal Gain/(Loss)	0	0	0	0	0
NET PROFIT After Abn'l	8	35	38	41	45
CASH FLOW (A\$m)					
Net Profit	8	35	38	41	45
+ 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	17	19
- Tax Paid	0	12	16	17	18
- Deferred Revenue	0	0	0	0	0
Operating Cashflow	10	48	49	51	57
-Capex + Development	25	12	2	4	4
-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	-4
+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	43	53
Cash Balance	14	38	70	113	166
BALANCE SHEET (A\$m)					
Assets					
Cash	14	38	70	113	166
Current Receivables	0	0	0	0	0
Other Current Assets	2	2	2	2	2
Non-Current Assets	61	65	59	53	47
Total Assets	78	106	131	169	216
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	54	88	122	160	207
RESERVES AND RESOURCES					
	Reserves		Resources		
	mt	g/t	koz	mt	g/t
Sth Laverton	16.7	1.6	875	54.8	1.7
Equity Share Gold			875		3,040
Enterprise Value / oz (A\$)			193		56

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