



Saracen Minerals BUY

Current Price: **\$0.43**
Valuation: **\$0.56**

Ticker: **SAR**
Sector: **Materials**

Shares on Issue (m): **491.0**
Market Cap (\$m): **211.1**
Net Cash (\$m): **32.2**
Enterprise Value (\$m): **178.9**

52 wk High/Low: **\$0.53** **\$0.18**
12m Av Daily Vol (m): **1.27**

Key Metrics

	10F	11F	12F
P/E (x)	35.4	4.3	5.7
EV/EBITDA (x)	32.5	2.5	3.3

Financials:

	10F	11F	11F
Revenue (\$m)	47.6	166.5	157.8
EBITDA (\$m)	5.5	70.8	53.7
NPAT (\$m)	4.8	48.7	36.7
Net Assets (\$m)	113.8	149.6	174.2
Op CF (\$m)	5.4	57.2	45.2

Per Share Data:

	10F	11F	11F
EPS (cps)	1.2	9.9	7.5
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	1.4	15.9	12.4

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

24 June 2010

The hunt for Red October

Argonaut recently visited Saracen Minerals (SAR) Carosue Dam Operations, located ~120km NE of Kalgoorlie within the South Laverton gold field.

Carosue Dam was originally commissioned by Pacmin (later acquired by Sons of Gwalia) in 2000. SAR purchased the 2.4Mtpa plant and the bulk of the land package from St Barbara (SBM) in 2005 for ~\$17m when the operation was under care and maintenance. Today, SAR has 875koz in Reserves, more than 3Moz in Resources and a substantial tenement position encompassing the Laverton and Keith-Kilkenny Tectonic Zones.

To date, the management team has done a commendable job through the commissioning phase, consistently coming in on time and below budget (led by Executive Chairman Guido Staltari, who previously ran Burmine). Re-commissioning of the plant began in November 2009, with first gold pour achieved in January 2010. The total capital outlay for the commissioning phase was \$20.9m, (\$3.5m below budget). The operation produced ~15koz in the March Q and has produced over 19koz in April and May.

The goal is to become a >150koz pa producer by 2015.

SAR has devised a staged development plan, with production over the first 3-5 years coming predominantly from the previously mined Porphyry and virgin Whirling Dervish open pits. Stage 2 envisages a further 3-5 years of production sourced from cutbacks of existing open pits as well as potential underground opportunities such as Red October.

Pre-strip of the Whirling Dervish pit has been completed and will underpin the bulk of the mill feed for at least the next two quarters. Given its proximity to the plant (~1km) and anticipated above average grades at the top of the footwall lodes, production in the Sep and Dec Q's could surprise.

Risks to monitor include the challenging production schedule, sustaining the grade profile (Reserves - 1.6 g/t), sensitivity to fuel prices and keeping up with a 'hungry' plant (which has operated at ~2.6Mt on an instantaneous basis).

Exploration looms as the key to de-risking the production profile moving forward. The tenement package remains substantially under-explored at depth with potential for identifying mineralised structures within a setting that has defined ~25Moz of gold in the last 15 years.

SAR has recently completed a two-tranche \$35m placement, leaving the Company debt-free and with adequate working capital to progress development opportunities. The bulk of the proceeds will be spent on de-risking the potential >8g/t Red October underground project (at the northern extent of the tenement package), which could be the 'game-changer' for SAR, sitting 15km south of AngloGold's ~15Moz, ~400koz pa Sunrise Dam operation.

Argonaut's valuation of \$0.56 assumes a ~A\$1,300/oz gold price over the next three years with production grades reverting to the current 1.6g/t average reserve over a 6-year mine life. The stock is cheap across a range of metrics and provides strong leverage to gold prices (spot gold and fx valuation is \$0.62). The key to re-rating will be demonstrating upside to current grade expectations.

BUY

Sarcen Minerals
 Post Placement

Equities Research
 Analyst: Tim Serjeant

Recommendation **BUY**
Current Price **\$0.43**
Valuation **\$0.56**
All Ords (XAO) **4,509**
Sector **Materials**
Issued Capital (m) **491.0**
Market Cap (m) **\$211.1**
Updated **24-June-2010**

Profit & Loss (A\$m) 30 June	2010E	2011E	2012E
Sales Revenue	47.6	166.5	157.8
Other Income	0.0	0.0	0.0
Operating Costs (inc royalty)	42.1	87.2	95.6
Exploration	0.0	4.5	4.5
Corporate/Admin	0.0	4.0	4.0
EBITDA	5.5	70.8	53.7
Depn & Amort	0.5	1.3	1.2
EBIT	5.1	69.5	52.5
Gain/(Loss) on Sale of Assets	0.0	0.0	0.0
Change in value of gold contracts	0.0	0.0	0.0
Other	0.0	0.0	0.0
Net Interest Paid	-0.2	0.0	0.0
Operating Profit	4.8	69.5	52.5
Tax expense/(benefit)	0.0	20.9	15.7
NPAT	4.8	48.7	36.7
Normalised NPAT	4.8	48.7	36.7

Cash Flow (A\$m)	2010E	2011E	2012E
Operating Cashflow	5.4	57.2	45.2
- Capex (+asset sales)	-22.8	-19.5	-11.0
- Exploration Expenditure	-6.4	-10.0	-10.0
- Other	-0.8	0.0	0.0
Free Cashflow	-24.6	27.7	24.2
- Dividends	0.0	0.0	0.0
+ Equity raised	29.1	12.2	0.0
+ Debt drawdown (- repaid)	8.0	-8.0	0.0
Net Change in Cash	12.4	31.9	24.2
Cash at End Period	32.4	64.3	88.5

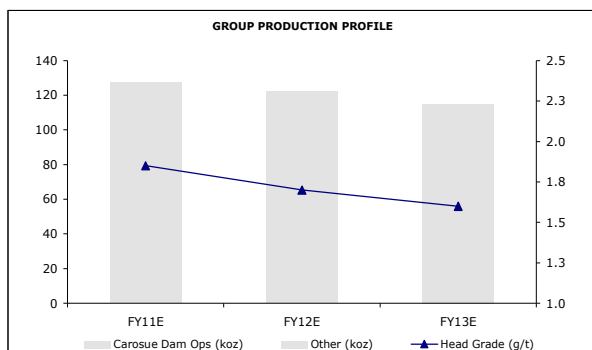
Balance Sheet (A\$m)	2010E	2011E	2012E
Total Assets	151.3	179.9	205.1
Total Debt	8.0	0.0	0.0
Total Liabilities	37.5	30.2	31.0
Shareholders Funds	113.8	149.6	174.2

Production data	2010E	2011E	2012E
Carosue Dam Ops (koz)	45.1	127.1	122.0
Other (koz)	0.0	0.0	0.0
Total Production	45.1	127.1	122.0
Realised Price (A\$/oz)	1,254	1,310	1,293
Cash Cost (inc royalty) (A\$/oz)		686	783
Gross Cash Operating Margin (A\$/oz)		624	510

Reserves & Resources

Reserves	Mt	g/t	koz
Carosue Dam	16.8	1.6	875
TOTAL	16.8	1.6	875

Resources	Mt	g/t	koz
Measured	6.4	1.5	311
Indicated	35.7	1.7	1,996
Inferred	12.8	1.8	735
TOTAL	54.8	1.7	3,040



Financial Summary	2010E	2011E	2012E
Reported Earnings			
Net Profit (\$m)	4.8	48.7	36.7
EPS (\$)	0.01	0.10	0.07
PER (x)	35.4	4.3	5.7
Normalised Earnings			
Net Profit (\$m)	4.8	48.7	36.7
EPS (\$)	0.01	0.10	0.07
EPS Growth (%)	n/a	717.0	-24.5
PER (x)	35.4	4.3	5.7
Cashflow			
Operating Cashflow (\$m)	5.4	57.2	45.2
GCFPS (\$)	0.01	0.16	0.12
PCF (x)	n/a	2.7	3.5
Dividend			
Dividend (\$)	0.00	0.00	0.00
Yield (%)	0%	0%	0%
Franking (%)	0%	0%	0%

Financial Ratios	2010E	2011E	2012E
Balance Sheet Ratios			
Total Debt / Equity (%)	7%	0%	0%
Interest Coverage (x)	-	-	-
Profitability Ratios			
Net Profit Margin (%)	10%	29%	23%
Return on Assets (%)	3%	39%	26%
Return on Equity (%)	4%	33%	21%

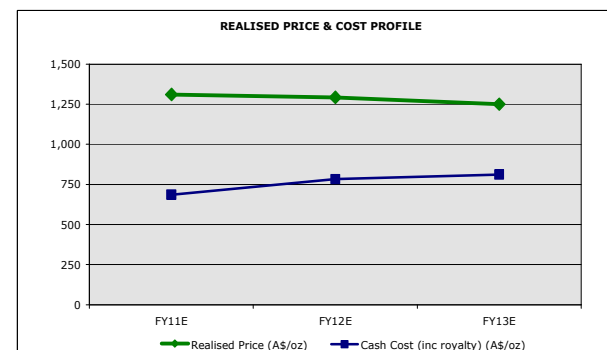
Valuation Summary	A\$m	A\$/sh
Carosue Dam	163	0.33
Hedging	-6	-0.01
Exploration	87	0.18
Tax Losses	17	0.03
Corporate	-20	-0.04
Unpaid Capital	2	0.00
Cash & Bullion	32	0.07
Debt	0	0.00
Total @ 7.7% Discount Rate	275	0.56

Directors

Name	Position
Guido Staltari	Executive Chairman
Ivan Hoffman	Non-Executive Director
Carl Thompson	Non-Executive Director
Barrie Parker	Non-Executive Director

Substantial Shareholders (pre-placement)

Shareholder	%
Baker Steel	8.2%
Clodene	7.7%
Renaissance Capital	7.1%
Sprott Asset Management	7.0%



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