

# Saracen Mineral Holdings Ltd

## (SAR \$0.40) Buy

29 July 2010

- ▶ **Price Target:** \$0.63/sh
- ▶ **Reason For Update:** June qtrly production result
- ▶ **What we know:**

SAR has produced a very solid maiden qtrly production result of 25koz at an operating cost of A\$654/oz (\$706/oz incl royalties). This was within guidance of 25-30koz and below operating cost guidance of \$690/oz. Total FY'10 production was 40.2 koz.

Plant throughput was 520kt @ 1.6 g/t Au at a recovery of 93%. Porphyry accounted for ~78% of mill feed with low grade stockpiles (20%) and a minor amount (2%) from Whirling Dervish accounting for the balance.

June production was 5.7koz due to some unscheduled maintenance on the primary crusher and some weather related issues impacting the availability of haul road from Porphyry. Despite the lower production, operating costs were within guidance.

Gold revenue was \$31.4m with average price rec'd of A\$1,360/oz (pre hedge) generating a mine operating profit of \$14.4m for the Q.

The outlook for the Sept'Q and the remainder of FY'11 is strong. Guidance for Sept'Q is 30koz @ A\$640/oz with initial Whirling Dervish ore contributing to this increase in production. The Whirling Dervish pre-strip was completed ahead of schedule and below budget, allowing for SAR to be in the fortunate position of having access to two ore sources.

At Whirling Dervish a 5-6 m thick supergene zone has the potential to deliver more ounces than forecast due to some zones of high grade material.

SAR has completed a \$35m placement (92m shares @ \$0.38/sh). The funds will be used as follows

- \$20m for Red October and other mine development
- \$5m for regional exploration including Red October
- \$8m to retire RMB project debt
- \$2m for working capital

The Red October development program has commenced with a modest camp and logistical support being put in place. Dewatering is expected to commence in Oct'10 with drilling at some nearby targets to start later in the year.

The Karari open pit cutback has been approved and is scheduled to commence in Jan'11, following completion of the Whirling Dervish pre-strip.

SAR plan to spend ~ \$12.3m on exploration in FY'11 both on near mine targets and more advanced exploration properties. RC drilling continued at Porphyry/Maingays, Wallbrook, Safari Bore, Deep South and Million Dollar for resource delineation.

Better results include 17m @ 3.53 g/t Au from 114m and 8m @ 3 g/t Au from 85m at Million Dollar and there is scope for a significantly increase in the current 25koz reserve. Confirmatory drilling at Deep South was successful (6m @ 7.3 g/t Au) in confirming that the main high grade zone remains open at depth.

Hedging at the end of the Q consisted of bought put options of 154koz @ A\$1,250/oz and sold call option over 90.8koz @ A\$1,250/oz and expiring in monthly amounts through to Dec'11.

At the Q end cash was \$28m with debt of \$8m. The 2nd tranche ~\$12m of the placement should be settled by the end of July and will be used to repay debt, leaving a cash balance of \$32m.

**Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Saracen Mineral Holding Ltd during the last year.**

**Euroz Securities has received a fee for these services.**

## Contact Details

Analyst

Andrew Clayton

Telephone: +61 8 9488 1427  
Facsimile: +61 8 9488 1479  
Email: aclayton@euroz.com.au

### International Toll Free

(If calling to Euroz from the following countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

► **What we think:**

SAR has been considerably de risked with Carouse Dam generating strong free cash (EZL f'cst FY'11 EBITDA of \$70m), no project debt and cash of \$32m. Despite this excellent operating performance against a backdrop of softer gold prices and mid cap resource sector malaise SAR is trading some 25% below its year high. This represents an excellent entry point.

Whilst the June'Q production result was at the lower end of the guidance range and slightly below our 27koz forecast due to some unscheduled maintenance issues that are now behind it, the fact is SAR has met guidance and is poised for a strong FY'11 and beyond. The reality is there are few companies that successfully make the transition from explorer to producer, and the results to date are impressive.

The Red October asset has the potential to be a game changer for SAR. This is a high grade asset which has had no exploration/development work for 5-6 yrs. Previous open pit mining produced some 130koz from 500kt @ 7 g/t Au to a vertical depth of 90m. Drilling defined three underground resources totalling 0.76mt @ 8.4 g/t for 205koz and a feasibility study had been completed before the previous owner, Sons of Gwalia, went into administration.

SAR's has committed to a ~ \$15m-20m trial underground mining phase. This will involve;

- Dewatering;
- Trial Mining – bulk samples;
- Underground drilling.

Red October dewatering will take 12-15 months and in the interim SAR will drill some of the geophysical targets generated to the north. Interestingly Sunrise Dam, located some 20km to the north of Red October recently discovered a multi million ounce resource below the Dolly Fault. This fault structure is present on SAR's tenement and will be a target for further work.

If Red October proves viable it is possible to envisage production increasing to 160koz pa as ~ 200-250kt of high grade Red October ore is blended with Karari ore to produce a head grade of +2 g/t Au. Whilst Red October is ~ 120km from Carouse Dam, the cost involved in trucking this ore would equate to ~ 0.3 g/t Au – immaterial in the context of 7-8 g/t orebody.

We have modelled a 'what if' scenario and conclude that Red October based on the above production scenario has potential to add a further \$60-70m to our valuation or ~ \$0.15/sh. At this stage we prefer to wait for some more drilling and a firm commitment to development before including it in our valuation – but it does highlight the upside potential SAR offers.

► **Investment Case:**

SAR has delivered a very solid maiden production result and is on track for a stronger Sept'Q and beyond. At a current Enterprise Value of \$160m SAR is absurdly cheap, trading on a FY'11 EV/EBITDA of ~ 2x with a minimum mine life of 7-8yrs, excellent exploration potential and a strong balance sheet.

The removal of the RSPT has positively impacted our SAR valuation which has increased from \$0.55/sh to \$0.63/sh. This excludes any Red October value – potentially a further \$0.15-0.20/sh upside. SAR is a cashed up mid cap gold producer, generating strong free cashflow with numerous organic growth options through its aggressive \$12m exploration budget underway.

SARACEN MINERAL HOLDINGS LTD (SAR)		YEAR END 30 JUNE				
<b>MARKET STATISTICS</b>						
<b>Share Price</b>	<b>\$0.40 A\$/sh</b>	<b>Directors</b>				
Issued Capital		G. Staltari	Ex Chair'n			
FP Ord	491.2m*	I. Hoffman	Dir			
Opt (@\$0.20/sh 15/11/09)	7.1m	B.Parker	Dir			
<b>Total Dil. FPOrd</b>	<b>501.7m</b>	C.Thompson	Dir			
Market Capitalisation	\$198m	<b>Shareholders</b>				
Enterprise Value	\$166m	Dir + Mgt		9%		
Debt	\$-m	Clodene		9%		
Cash	\$32m	Baker Steel		8%		
Hedging	161 kozputs bought @ A\$1250/oz, 95 calls sold A\$1,250/oz					
<b>ASSET VALUATION</b>		<b>A\$m</b>	<b>A\$/sh</b>			
Sth Laverton Gold project		251	0.50			
Corporate		(19)	(0.04)			
Expl'n (rem rsc @ \$20/oz)		30	0.06			
Tax Losses		17	0.03			
Unpaid Capital		3	0.01			
Debt (post placement)		-	-			
Cash (post placement)		33	0.07			
<b>Total @ 10% real</b>		<b>315</b>	<b>0.63</b>			
<b>F/CAST PRODUCTION (A\$m)</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
<b>Attrib. Prod'n (koz)</b>						
Carouse Dam	40	119	118	114	105	
<b>Total Attrib (koz)</b>	<b>40</b>	<b>119</b>	<b>118</b>	<b>114</b>	<b>105</b>	
<b>Prices (A\$/oz)</b>						
Avg Spot Gold Price	1,123	1,342	1,369	1,446	1,475	
Avg Gold Price Rec'd	1,272	1,296	1,340	1,446	1,475	
<b>Cash Cost (A\$/oz)</b>						
Carouse Dam	695	673	655	693	683	
<b>Avg Cash Cost (A\$/oz)</b>	<b>695</b>	<b>673</b>	<b>655</b>	<b>693</b>	<b>683</b>	
<b>Avg Total Cost (A\$/oz)</b>	<b>757</b>	<b>758</b>	<b>775</b>	<b>842</b>	<b>845</b>	
<b>RATIO ANALYSIS (A\$m)</b>						
<b>CF (A\$m)</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
CF (A\$m)	14	56	61	65	64	
CF / Sh (Ac/sh)	3	11	12	13	13	
CF Ratio (x)	11.7	3.6	3.3	3.1	3.1	
Earnings (A\$m)	11	41	44	47	46	
EPS (Ac/sh)	2.7	8.3	8.8	9.3	9.2	
EPS Growth (%)	-194%	211%	6%	6%	-1%	
Earnings Ratio (x)	15.2	4.8	4.6	4.3	4.4	
E'prise Val. (A\$m)	133	139	113	73	22	
EV : EBITDA (x)	7.0	2.0	1.5	0.9	0.3	
EV : EBIT (x)	8.8	2.4	1.9	1.2	0.4	
Net Debt / ND+Eq (%)	-54%	-83%	-108%	-167%	-284%	
Interest Cover (x)	(42)	(35)	(23)	(17)	(12)	
EBIT Margin (%)	29%	38%	38%	38%	39%	
ROE (%)	13%	32%	27%	23%	19%	
ROA (%)	15%	42%	35%	30%	24%	
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%	

<b>PROFIT AND LOSS (A\$m)</b>	<b>2010f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	
Gold Sales	52	159	161	165	155	
Hedging Revenue	0	-5	-3	0	0	
Deferred Revenue	0	0	0	0	0	
Interest Revenue	1	2	3	4	5	
Other Revenue	0	0	0	0	0	
<b>TOTAL REVENUE</b>	<b>53</b>	<b>156</b>	<b>160</b>	<b>169</b>	<b>161</b>	
Operating Costs	28	80	77	79	72	
Dep/Amort	3	10	14	17	17	
W/O & Provisions	1	1	1	1	1	
Corp O/H	5	5	5	5	5	
EBITDA	19	69	76	81	78	
EBIT	15	58	60	63	60	
Interest Expense	1	0	0	0	0	
NPBT	16	59	63	67	66	
Tax	5	18	19	20	20	
Minorities	0	0	0	0	0	
<b>NET PROFIT</b>	<b>11</b>	<b>41</b>	<b>44</b>	<b>47</b>	<b>46</b>	
Net Abnormal Gain/(Loss)	0	0	0	0	0	
<b>NET PROFIT After Abn'l</b>	<b>11</b>	<b>41</b>	<b>44</b>	<b>47</b>	<b>46</b>	
<b>CASH FLOW (A\$m)</b>						
<b>Net Profit</b>	<b>11</b>	<b>41</b>	<b>44</b>	<b>47</b>	<b>46</b>	
+ Working Capital Adj.	-5	0	0	0	0	
+ Dep/Amort	3	10	14	17	17	
+ Provisions	1	1	1	1	1	
+ Tax Expense	5	18	19	20	20	
- Tax Paid	0	14	18	20	19	
- Deferred Revenue	0	0	0	0	0	
<b>Operating Cashflow</b>	<b>14</b>	<b>56</b>	<b>61</b>	<b>65</b>	<b>64</b>	
-Capex + Development	25	26	22	13	4	
-Exploration	7	12	12	12	10	
-Assets Purchased	8	0	0	0	0	
+Asset Sales	0	0	0	0	0	
+ Other	0	0	0	0	0	
<b>Investing Cashflow</b>	<b>-40</b>	<b>-38</b>	<b>-34</b>	<b>-25</b>	<b>-14</b>	
+Equity Issues	27	12	0	0	0	
+Loan D'down/Receivable	10	0	0	0	0	
-Loan Repayment	0	10	0	0	0	
-Dividends	0	0	0	0	0	
<b>Financing Cashflow</b>	<b>37</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Period Sur (Def)</b>	<b>11</b>	<b>20</b>	<b>27</b>	<b>40</b>	<b>50</b>	
<b>Cash Balance</b>	<b>39</b>	<b>59</b>	<b>85</b>	<b>125</b>	<b>176</b>	
<b>BALANCE SHEET (A\$m)</b>						
<b>Assets</b>						
Cash	39	59	85	125	176	
Current Receivables	0	0	0	0	0	
Other Current Assets	2	2	2	2	2	
Non-Current Assets	61	77	85	81	68	
<b>Total Assets</b>	<b>102</b>	<b>138</b>	<b>173</b>	<b>209</b>	<b>246</b>	
<b>Liabilities</b>						
Borrowings	9	0	0	0	0	
Current Accounts Payable	2	2	2	2	2	
Other Liabilities	7	7	7	7	7	
<b>Total Liabilities</b>	<b>18</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	
<b>Net Assets</b>	<b>85</b>	<b>130</b>	<b>164</b>	<b>200</b>	<b>237</b>	
<b>RESERVES AND RESOURCES</b>						
	<b>Reserves</b>			<b>Resources</b>		
	<b>mt</b>	<b>g/t</b>	<b>koz</b>	<b>mt</b>	<b>g/t</b>	<b>koz</b>
Sth Laverton	16.7	1.6	875	54.8	1.7	3,040
<b>Equity Share Gold</b>			<b>875</b>			<b>3,040</b>
<b>Enterprise Value / oz (A\$)</b>			<b>190</b>			<b>55</b>

## Disclaimer

### Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

### Disclaimer & Disclosure

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.