

Saracen Mineral Holdings Ltd

(SAR \$1.34) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	23 rd october 2017	\$1.50/sh

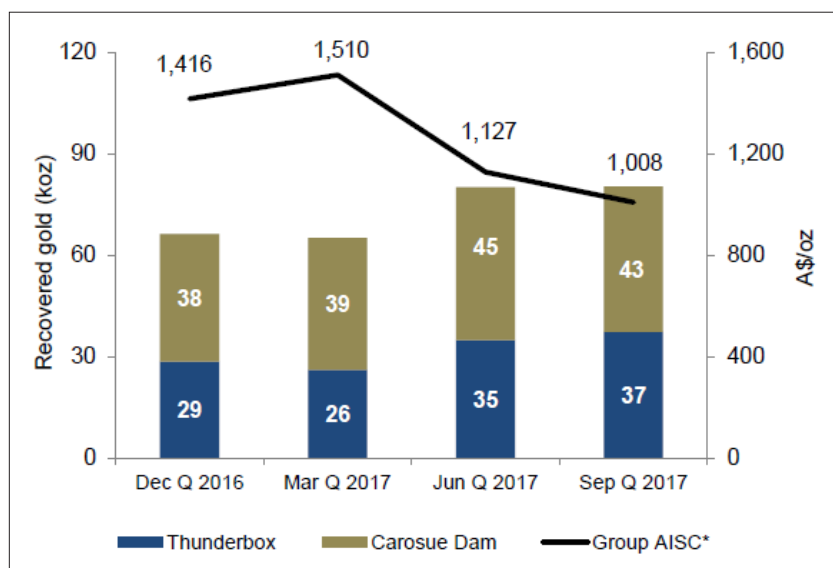
Sept Qtrly Report

Investment case

A second consecutive Q of free cash generation is pleasing as SAR continues the transition from cash consuming to cash generation. The cost profile was better than forecast. A backfill study at Karari U/G could provide genuine upside and potential production of >150koz pa from this asset. Our valuation has increased to \$1.11/sh and our Price Target to \$1.50/sh. We maintain our Buy recommendation.

Key points

- Record Qtrly production of 80.2koz @ AISC of \$1,008/oz (June Q 80koz @ AISC of \$1,127/oz).
 - Carosue Dam 43koz @ AISC of 1,082/oz
 - Thunderbox 37.1koz @ AISC of \$923/oz
- Average price rec'd of \$1,583/oz generating operating margin of \$575/oz (June Q \$494/oz).



Source: Saracen Mineral Holdings Ltd

- Mine operating cashflow of \$42.3m with CD @ \$20.1m and TB @ \$22.1m.
- Net mine cashflow of \$27.1m after \$15m spent on growth capital (Kailis development \$10.1m, WD development and drill drive \$1.6m etc).
- Cash and equivalent increase by \$15.2m to \$60.5m - a pleasing effort.

Saracen Mineral Holdings Ltd	Year End 30 June	
Share Price	1.34	A\$/sh
Price Target	1.50	A\$/sh
Valuation	1.11	A\$/sh
	(npv 10%)	

Shares on issue	807	m, diluted *
Market Capitalisation	1085	A\$m
Enterprise Value	1055	A\$m
Debt	0	A\$m
Cash	60	A\$m
Largest Shareholder		Van Eck 11

Production F/Cast	2017a	2018f	2019f
Attrib. Prod'n (koz)	273	311	344
Cash Cost (A\$/oz)	1043	887	938
Total Cost (A\$/oz)	1341	1099	1163

Assumptions	2017a	2018f	2019f
Spot Gold Price US\$/oz	1277	1238	1258
AUDUSD	0.75	0.75	0.75

Key Financials	2017a	2018f	2019f
Revenue (A\$m)	424	505	585
EBITDA (A\$m)	116	194	221
NPAT (A\$m)	28	82	118
Cashflow (A\$m)	125	157	171

CFPS (Ac)	16	19	21
P/CFPS (x)	7.5	6.9	6.3

EPS (Ac)	4	10	15
EPS growth (%)	9%	189%	43%
PER (x)	32.9	13.2	9.2

EV:EBITDA (x)	9.1	5.4	4.8
EV:EBIT (x)	31.4	9.1	6.5

DPS (Ac)	0.0	0.0	4.0
Dividend Yield (%)	0%	0%	3%

ND:Net Debt+Equity (%)	na	na	na
Interest Cover (x)	179.3	na	na

Share Price Chart

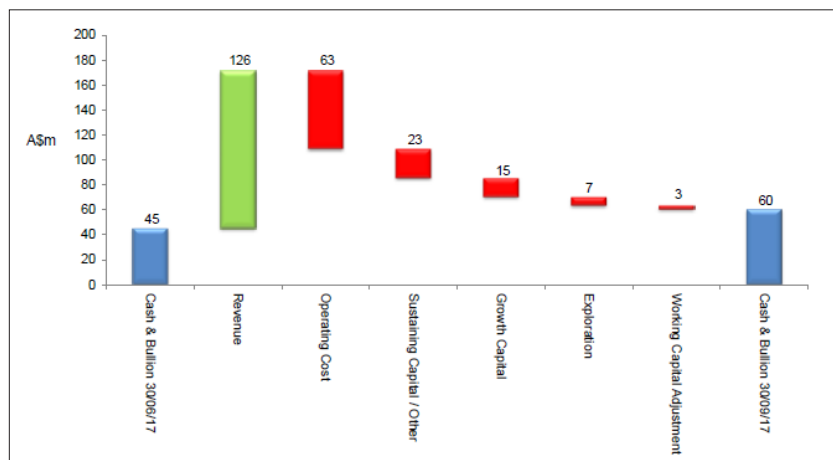


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Source: Saracen Mineral Holdings Ltd

- Karari extensional drilling continues to deliver - 40.2m @ 4.2 g/t Au, 26m @ 4.1 g/t and 11.1m @ 9.0 g/t all outside current reserves.
- Transition to single underground mining contractor (Bryne-cut) occurred late in Q. High grade stockpile at CD 10koz @ 2.1 g/t Au built to minimise impact of change over.
- A backfill (paste fill) study has commenced at Karari - potential to increase reserves, extend mine life and enhance cashflow.
- At TB, Kailis pre strip commenced along with ore production from C Zone. Mining of A zone is slated to finish in the Dec'Q.
- 43.2koz of gold hedging delivered during Q (18% of total book) A further 48koz was added @ \$1,704/oz increasing the total position to 240koz @ \$1,603/oz.
- FY'18 guidance is maintained at ~300koz @ AISC of \$1,150/oz. The 5 yr plan will be updated in the Dec'Q.

Analysis

This is a pleasing result from SAR and the second consecutive Q of adding cash to the balance sheet whilst continuing to invest in the business.

We maintain our FY'18 production forecast of 311koz but have reduced our AISC from \$1,186/oz to \$1,099/oz in light of the strong 1st Q result.

The backfill study at Karari could add some real value with ~ 40% of ounces left behind in pillars. For a modest capital cost this backfill could potentially result in production increasing to >150koz pa.

Our valuation has increasing modestly from \$1.07/sh to \$1.11/sh and our Price target remains unchanged at \$1.50/sh. We retain our Buy recommendation.

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Market Statistics

		Year End 30 June		
Share Price	\$1.34 A\$/sh			
Issued Capital		Directors		
FP Ord	807.1 m	G Clifford	Chair'n	
Opts (@0.235/sh June'13) -	m	R Finlayson	Mgr Dir	
		M Reed	Dir	
		S Tough	Dir	
Total Dil. FPOrd	807.1 m	M Connelly	Dir	
		R Smith	Dir	
Market Capitalisation	\$1,085 m	Shareholders		
Enterprise Value	\$1,055 m	Van Eck	12%	
Debt (est)	\$-	Wroxby	7%	
Cash (est)	\$30 m			
<i>Hedging 240koz @ \$1,603/oz</i>				

Asset Valuation	A\$m	A\$/sh
Carosue Dam	450	0.40
Thunderbox	299	0.37
Hedging	(12)	(0.01)
Corporate	(27)	(0.03)
Expl'n	125	0.15
Unpaid Capital	-	-
Debt	-	-
Cash	60	0.07
Total	896	1.11

F/Cast Production (A\$m) 2017aDec'H 18 2018f 2019f 2020f

Attrib. Prod'n (koz)	2017aDec'H 18	2018f	2019f	2020f
Carosue Dam	161	90	178	217
Thundebox	117	66	133	127
Total Attrib (koz)	273	156	311	344

Prices (A\$/oz)	2017aDec'H 18	2018f	2019f	2020f
Avg Spot Gold Price	1,672	1,615	1,641	1,715
Avg Gold Price Rec'd	1,629	1,582	1,614	1,682

Cash Cost (A\$/oz)	2017aDec'H 18	2018f	2019f	2020f
Carosue Dam	1,043	854	669	592
Thunderbox	1,122	883	941	944
Avg Cash Cost (A\$/oz)	1,043	854	887	938
All in Costs (A\$/oz)	1,341	1,055	1,099	1,163

Ratio Analysis (A\$m) 2017aDec'H 18 2018f 2019f 2020f

CF (A\$m)	125	89	157	171	227
CF / Sh (Ac/sh)	16	11	19	21	28
CF Ratio (x)	7.5	-	6.9	6.3	4.8

Earnings (A\$m)	28	43	82	118	162
EPS (Ac/sh)	3.5	5.3	10.2	14.5	20.0
EPS Growth (%)	9%	0%	189%	43%	38%
Earnings Ratio (x)	32.9	-	13.2	9.2	6.7

E'prise Val. (A\$m)	903	1,000	960	857	703
EV : EBITDA (x)	9.1	5.4	5.4	4.8	3.8
EV : EBIT (x)	31.4	9.1	9.1	6.5	3.8

Net Debt / ND+Eq (%)	na	0%	na	na	na
Interest Cover (x)	179	-	na	na	na

EBIT Margin (%)	8%	0%	23%	28%	36%
ROE (%)	10%	0%	23%	27%	29%
ROA (%)	8%	0%	25%	29%	33%

Div. (Ac/sh)	-	-	-	4	4
Div. payout ratio	0%	0%	0%	3%	2%
Div. Yield	0%	0%	0%	3%	3%
Div. Franking	0%	0%	0%	100%	100%

Profit and Loss (A\$m) 2017aDec'H 18 2018f 2019f 2020f

Gold Sales	435	252	511	590	608
Hedging Revenue	-11	-5	-8	-11	0
Deferred Revenue	0	0	0	0	0
Interest Revenue	0	1	2	6	11
Other Revenue	0	0	0	0	0
TOTAL REVENUE	424	248	505	585	619
Operating Costs	296	142	297	348	321
Dep/Amort	75	38	77	57	55
W/O & Provisions	8	1	1	1	1
Corp O/H	12	6	12	10	10
EBITDA	116	99	194	221	277
EBIT	34	61	115	162	221
Interest Expense	1	0	0	0	0
NPBT	33	61	118	168	232
Tax	5	18	35	50	70
Minorities	0	0	0	0	0
NET PROFIT	28	43	82	118	162
Net Abnormal Gain/(Loss)	0	0	0	0	0
NET PROFIT After Abn'l	28	43	82	118	162

Cash Flow (A\$m) 2017aDec'H 18 2018f 2019f 2020f

Net Profit	28	43	82	118	162
+ Working Capital Adj.	10	0	0	0	0
+ Dep/Amort	75	28	57	43	55
+ Provisions	8	1	1	1	1
+ Tax Expense	5	18	35	50	70
- Tax Paid	0	1	19	42	61
- Deferred Revenue	0	0	0	0	0
Operating Cashflow	125	89	157	171	227

-Capex + Development	84	22	36	32	28
-Exploration	33	13	25	20	12
-Assets Purchased	0	0	0	0	0
+Asset Sales	0	0	0	0	0
+ Other	0	0	0	0	0
Investing Cashflow	-117	-35	-61	-52	-40

+Equity Issues	0	0	0	0	0
+Loan D'down/Receivable	0	0	0	0	0
-Loan Repayment	6	2	4	0	0
-Dividends	0	0	0	16	32
Financing Cashflow	-6	-2	-4	-16	-32

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Cash Balance	34	86	125	228	383
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Balance Sheet (A\$m) 2017aDec'H 18 2018f 2019f 2020f

Assets	2017aDec'H 18	2018f	2019f	2020f
Cash	34	86	125	228
Current Receivables	6	6	6	6
Other Current Assets	56	56	56	56
Non-Current Assets	309	291	273	221
Total Assets	405	440	461	553

Liabilities	2017aDec'H 18	2018f	2019f	2020f
Borrowings	0	0	0	0
Current Accounts Payable	39	39	39	39
Other Liabilities	70	70	70	70
Total Liabilities	110	110	110	110

Net Assets	295	330	352	443	556
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Reserves and Resources

	Reserves		Resources			
	mt	g/t	koz	mt	g/t	koz
Carosue Dam	12.4	2.3	903	83.9	1.9	5,026
Thunderbox	21.10	1.80	1,211	69.20	1.80	4,029
Equity Share Gold			2,114			9,055
Enterprise Value / oz (A\$)			499			117

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