

Australian Equity Research

18 July 2017

Patrick Chang, CFA | Analyst | Canaccord Genuity (Australia) Ltd. | patrick.chang@canaccord.com.au | +61.8.6216.2004

Reg Spencer | Analyst | Canaccord Genuity (Australia) Ltd. | reg.spencer@canaccord.com.au | +61.2.9263.2701

BUY

unchanged

PRICE TARGET A\$1.35↑

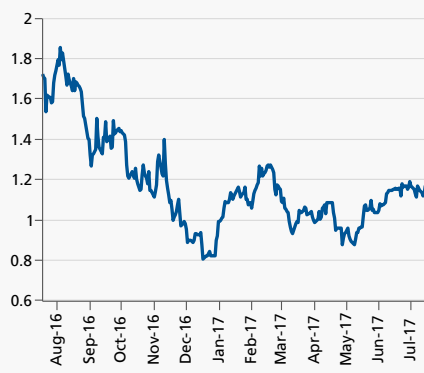
from A\$1.20

Price (18-Jul) A\$1.22

Ticker SAR-ASX

52-Week Range (A\$):	0.79 - 1.86
Avg Daily Vol (M) :	7.5
Market Cap (A\$M):	989
Shares Out. (M) :	810.5
Enterprise Value (A\$M):	955
NAV /Shr (5%) (A\$):	1.34
Net Cash (A\$M):	44.7
P/NAV (x) :	0.91
Major Shareholders:	Van Eck Wroxby Pty Ltd

FYE Jun	2016A	2017E	2018E	2019E
Gold Production (000oz)	189	273	309	332
All in Sustaining Cost (Gold) (US \$ /oz)	888	1,026	942	886
EBITDA (A\$M)	73.0	126.2↑	158.9↓	228.9↑
Previous	-	117.5	159.6	221.8
Net Income (A\$M)	17.6	32.0↓	51.6↓	97.7↑
Previous	-	33.7	53.1	93.8
EV/EBITDA (x)	13.1	7.6	5.5	3.4
P/E (x)	55.1	30.9	19.2	10.1



Source: FactSet

Priced as of close of business 18 July 2017

Saracen Mineral Holdings (SAR:ASX) is a gold mining company that operates its 100%-owned Carosue Dam and Thunderbox projects, both in Western Australia.

Raising Target Price

Shifting the center of gravity

Saracen's (SAR) June Q production of 80koz @ ASIC 1,127/oz (vs CGe 74koz @ AISC A\$1,294/oz, adjusted for growth capex) and cash and bullion position of A\$45.2m (MarQ'17 A\$30.6m) exceeded our expectations, reaffirming our view that the inflection point was reached during JunQ. Recent results from Karari and Thunderbox (TB) point to meaningful inventory growth at both operations. We remain bullish on SAR's FY18 exploration program, particularly at Karari, which has the potential to shift the center of gravity at the Carosue Dam operation (CDO) firmly back to the processing plant, delivering superior margins and simplifying the operation simultaneously. Armed with improved FCF generation and an ambitious exploration program, SAR is well positioned for FY18. We reiterate our positive view following recent site visits to CDO and TB and maintain a BUY recommendation.

JunQ'17 results. After adjusting for finance lease repayments and final acquisition cost of Kailis, normalised FCF is ~A\$21.6m, or A\$270/oz. Production and costs outperformed our expectations due to higher mined tonnages from both Karari and Deep South, higher than modelled grades from TB and lower-than-expected operating costs achieved. Karari reached ~100kozpa (after metallurgical recoveries) run rate this Q and grades at Deep South increased by 0.2g/t to 3.1g/t. Both mill throughput (+2%) and recoveries at TB improved Q-on-Q with recoveries back to 92.7% (MarQ'17 87.9%). Despite higher underground tonnes mined (~37%), Mining and Development costs at CDO declined by A\$6.2m to A\$31.5m.

Testing Karari's potential. Recent results point to a likely upgrade of the Karari inventory (expected August), in our view. We believe the current drilling has demonstrated 4-5 years of mine life (@~100kozpa run rate), and the ambitious FY18 program could significantly extend this if successful. Karari is the highest margin mine at CDO and the benefits of having a larger inventory are:

- Enhanced mine life
- Increased output and margin through displacing lower grade, lower margin ounces from other mines (e.g., Deep South and Million Dollar)
- Simplified operation logistics by focusing on a reduced number of assets

An optimum scenario would be a simplified operation comprising two underground mines (Karari and Whirling Dervish) which are both located adjacent to the mill, eliminating the need for a northern operational center and further open pits at CDO.

Thunderbox underground. The wide intersections beneath the Thunderbox open pits point to the potential of bulk tonnage, low grade underground operations. The consistency and the width of the mineralisation, as well as demonstrated metallurgy partially offset the modest grades. Conceptually, TB underground could be amenable to bulk tonnage mining methods, including sub-level cave and "core and shell".

Valuation

After factoring higher inventory at Karari (~2 years), our target price (Apr'17 forward curve derived NPV5%) increases to A\$1.35/share from A\$1.20/share.

FINANCIAL SUMMARY

Saracen Mineral Holdings Limited

ASX: SAR

Analyst: Patrick Chang
Date: 18/07/2017
Year End: June

Rating:
Target Price:

BUY
\$1.35

Market Information

Share Price	A\$	1.22
Market Capitalisation	A\$m	988.9
12 Month Hi	A\$	1.86
12 Month Lo	A\$	0.79
Issued Capital	m	810.55
ITM Options	m	0.00
Fully Diluted	m	810.55

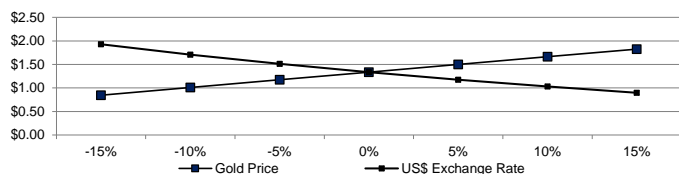
Valuation

	A\$m	A\$/share
Carosue Dam NPV @ 5%	464.7	0.57
Thunderbox NPV @ 5%	422.3	0.52
Exploration & Projects	192.0	0.24
Corporate	(35.0)	(0.04)
Forwards (inc spot deferred)	(5.9)	(0.01)
Cash & Bullion	44.7	0.06
Debt	-	-
TOTAL NAV	1,082.9	1.34
Price:NAV		0.90x
NAV at Spot US\$1,238/oz, AUDUSD \$0.79		0.99
Target Price		1.35

Assumptions

	2016a	2017e	2018e	2019e
Gold Price (US\$/oz)	1,180	1,265	1,259	1,284
AUD:USD	0.73	0.76	0.76	0.75
Gold Price (A\$/oz)	1,616	1,671	1,663	1,702

Valuation Sensitivity



Production Metrics

	2016a	2017e	2018e	2019e
Carosue Dam				
Gold production (koz)	157	156	175	200
AISC (A\$/oz)	1,057	1,425	1,296	1,336
Thunderbox				
Gold production (koz)	31	117	133	132
AISC (A\$/oz)	1,522	1,253	1,142	839
Group				
Gold production (koz)	189	273	309	332
AISC (A\$/oz)	1,216	1,355	1,244	1,174

Reserves & Resources

	Mt	Grade	Moz
Carosue Dam	10.6	1.9	0.7
Thunderbox	15.8	1.7	0.9
Reserves	TOTAL	26.4	1.8
Carosue Dam	81.0	1.8	4.6
Thunderbox	65.3	1.8	3.8
Resources	TOTAL	146.2	8.4

Directors & Management

Name	Position
Geoffrey Clifford	NE Chairman
Raleigh Finlayson	Managing Director
Mark Connelly	NE Director
Martin Reed	NE Director
Samantha Tough	NE Director
Roric Smith	NE Director

Substantial Shareholders

	Shares (m)	%
Van Eck	144.64	17.8%
Wroxby Pty Ltd	56.42	7.0%

Source: SAR & Canaccord Genuity estimates

Company Description

Saracen Mineral Holdings (SAR:ASX) is an Australian based gold mining company that operates its 100%-owned 170kozpa Carosue Dam Operation, and the +130kozpa Thunderbox operation, both located in Western Australia.

Profit & Loss (A\$m)

	2016a	2017e	2018e	2019e
Revenue	273.5	422.3	493.2	554.6
Operating Costs	-191.3	-278.3	-323.6	-314.9
Corporate & O'heads	-8.1	-10.1	-8.0	-8.0
Exploration (Expensed)	-1.1	-7.7	-2.6	-2.8
EBITDA	73.0	126.2	158.9	228.9
Dep'n	-36.5	-82.2	-86.9	-93.9
EBIT	36.6	44.0	72.0	135.0
Net Interest	-2.3	0.7	1.7	4.6
Tax	-12.2	-10.6	-22.1	-41.9
NPAT	22.1	34.1	51.6	97.7
Abnormals	-4.5	-2.1	0.0	0.0
NPAT (reported)	17.6	32.0	51.6	97.7

Cash Flow (A\$m)

	2016a	2017e	2018e	2019e
Cash Receipts	273.5	422.3	493.2	554.6
Cash paid to suppliers & employ	-164.0	-291.3	-331.6	-322.9
Tax Paid	0.0	0.0	0.0	-41.9
Net Interest	0.4	0.4	1.7	4.6
Operating Cash Flow	109.9	131.3	163.2	194.4
Exploration and Evaluation	-7.3	-24.8	-26.0	-28.0
Capex	-104.6	-104.8	-63.0	-38.4
Other	0.0	0.0	0.0	0.0
Investing Cash Flow	-112.0	-129.6	-89.0	-66.4
Debt Drawdown (repayment)	-2.0	0.0	0.0	0.0
Share capital	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	-14.6
Financing Expenses	0.0	-2.2	0.0	0.0
Financing Cash Flow	-2.0	-2.2	0.0	-14.6
Opening Cash	38.4	34.3	33.8	108.0
Increase / (Decrease) in cash	-4.1	-0.5	74.2	113.4
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	34.3	33.8	108.0	221.4

Balance Sheet (A\$m)

	2016a	2017e	2018e	2019e
Cash + S/Term Deposits	34.3	33.8	108.0	221.4
Other current assets	36.2	105.6	123.3	138.6
Current Assets	70.5	139.4	231.3	360.0
Property, Plant & Equip.	84.8	107.4	83.5	28.0
Mining, Expl'n & Develop.	163.2	177.9	201.3	226.5
Other Non-current Assets	43.6	0.1	0.1	0.1
Payables	27.3	33.8	39.5	44.4
Short Term debt	1.4	0.0	0.0	0.0
Long Term Debt	2.4	0.0	0.0	0.0
Other Liabilities	70.3	104.9	139.1	149.5
Net Assets	260.7	286.1	337.6	420.8
Shareholders Funds	253.0	253.0	253.0	253.0
Reserves	7.7	7.7	7.7	7.7
Retained Earnings	-6.6	25.3	76.9	160.0
Total Equity	254.1	286.1	337.6	420.8

Ratios & Multiples

	2016a	2017e	2018e	2019e
EBITDA Margin	27%	30%	32%	41%
EV/EBITDA	12.9x	7.6x	5.5x	3.4x
Op. Cashflow/Share	\$0.14	\$0.16	\$0.20	\$0.24
P/CF	8.9x	7.5x	6.1x	5.1x
EPS	\$0.02	\$0.04	\$0.06	\$0.12
EPS Growth	36%	78%	61%	90%
PER	55.1x	30.9x	19.2x	10.1x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.02
Dividend Yield	0%	0%	0%	1%
ROE	7%	11%	15%	23%
ROIC	10%	13%	20%	31%
Debt/Equity	1%	0%	0%	0%
Net Interest Cover	nm	nm	nm	nm
Book Value/share	\$0.33	\$0.35	\$0.42	\$0.52
Price/Book Value	3.7x	3.5x	2.9x	2.4x
EV/FCF	-451.9x	551.2x	11.9x	6.0x

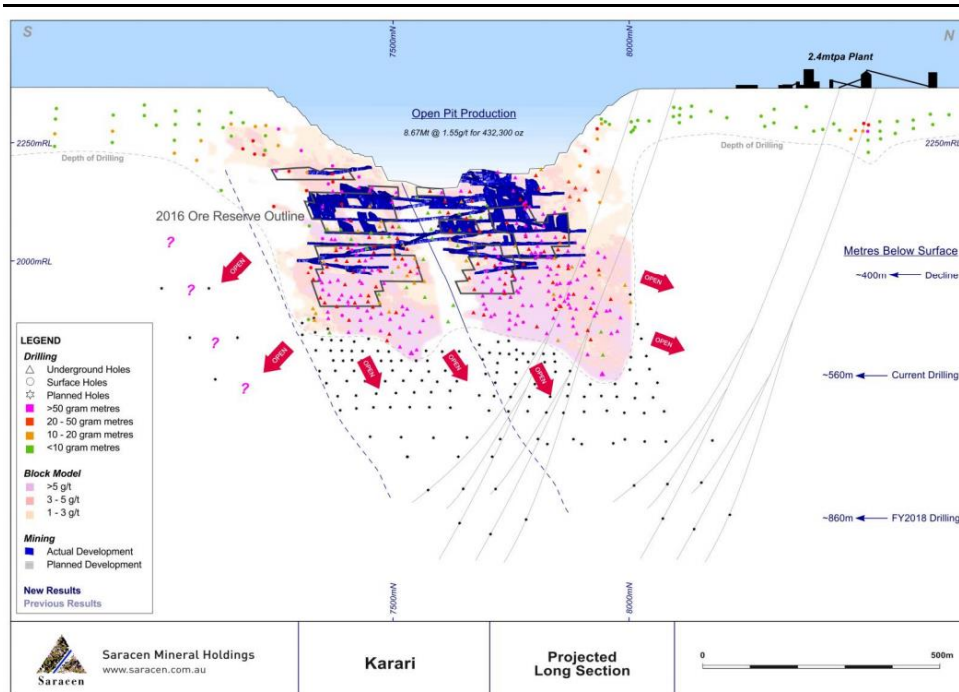
Drilling underpins inventory expansion

SAR's FY17 exploration program has proven successful, with drilling demonstrating the potential for significant inventory upgrades at both CDO and TB.

Karari

Karari is a young underground mine, with the current Reserve estimated to ~250m below the pit floor. Drilling has significant extended mineralisation to well below the Reserve depth (see Figure 1 below). The drill density and tenor of the mineralisation is expected to underpin a significant Reserve upgrade, which could double the current inventory, in our view.

Figure 1: Karari long section



Source: Company Reports

Importantly, the ambitious Karari drilling program in FY18 could transform the mine into a ten-year asset (at ~100koz pa run rate) and / or enhance the scale of the operation. With the mineralisation limited by drilling and remaining open in multiple directions at depth, we believe this upcoming program is likely to demonstrate upside, noting that we currently model a ~seven-year mine life.

Karari is the highest margin mine at CDO and the benefits of having a larger inventory are:

- Enhanced mine life
- Increased output and margin through displacing lower grade, lower margin ounces from other mines (e.g., Deep South and Million Dollar). Karari advances at ~60m vertical per year and this can be lifted to accommodate additional throughput if required
- Simplified operational logistics by focusing on a reduced number of assets

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Investment Recommendation

Date and time of first dissemination: July 18, 2017, 01:14 ET

Date and time of production: July 18, 2017, 01:14 ET

Target Price / Valuation Methodology:

Saracen Mineral Holdings Limited - SAR

Our target is based on a Net Asset Valuation comprising NPV_{5%} of operating assets net of corporate and other adjustments.

Risks to achieving Target Price / Valuation:

Saracen Mineral Holdings Limited - SAR

The key investment risks for SAR include: Geological risk – The actual characteristics of an ore deposit may differ significantly from initial interpretations and expectations. This may result in materially different gold production from original expectations. Capital expenditure & operating risk – The risk that capital and or operating costs exceed budget and/or exhaust available funding before project completion, and reduce the profitability and free cash generation of the project. Gold production at the company's operating assets could be impacted by any disruption to mining or technical issues with the processing plant. Commodity price and exchange rate risk: As with all mining and mineral exploration companies, commodity price and exchange rate risk should also be considered.

Distribution of Ratings:

Global Stock Ratings (as of 07/18/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	578	60.46%	40.14%
Hold	276	28.87%	21.74%
Sell	25	2.62%	12.00%
Speculative Buy	77	8.05%	71.43%
	956*	100.0%	

*Total includes stocks that are Under Review

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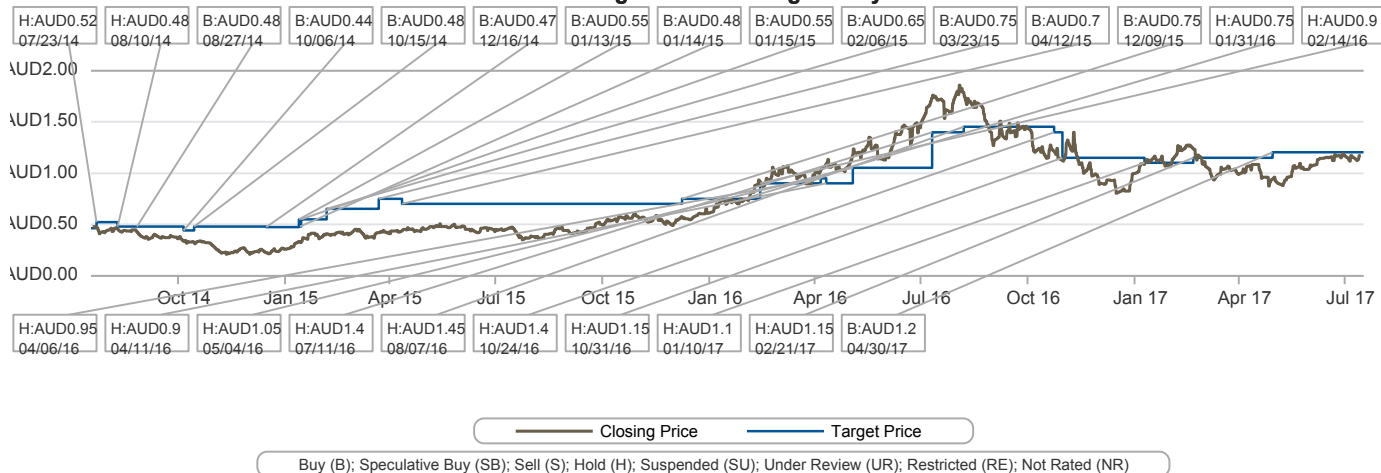
12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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An analyst has visited the material operations of Saracen Mineral Holdings Limited. No payment was received for the related travel costs.

Saracen Mineral Holdings Limited Rating History as of 07/16/2017**Online Disclosures**

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