

Saracen Mineral Holdings

SAR-ASX

Rating
Market PerformPrice: Jul-16
A\$2.06Target
A\$2.50Total Rtn
21%

June/18 Production Beat Driven by Higher Throughput

Bottom Line: Positive. SAR reported production of 78.9 koz Au during the June quarter, beating our estimate of 74.5 koz, while also increasing its closing ore stockpiles 29% to 73.5 koz Au. FY18 production of 316.5 koz Au beat SAR's guidance of 310-315 koz Au, with AISC of A\$1,139/oz in line with guidance of A\$1,100-1,150/oz. FY19 guidance was set 325-345 koz Au at an AISC of A\$1,050-1,100/oz, beating our previous estimate of 312 koz Au.

Key Points

SAR's FY18 production of 316.5 koz Au beat guidance of 310-315 koz Au, with AISC of A\$1,139/oz in line with guidance of A\$1,100-1,150/oz. Production during the June 2018 quarter of 78.9 koz Au beat our estimates of 74.5 koz Au. The production beat was driven by increased throughput at both Carosue Dam and Thunderbox.

Closing ore stockpiles increased 29% during the quarter to 73.5 koz Au, up from 57 koz. The higher-grade oxide ore that is being stockpiled at Thunderbox has allowed SAR to maintain its oxide blend which, in turn, has resulted in higher throughput and increased cash flows.

FY19 guidance increased to 325-345 koz Au (vs. BMO 312 koz) at an AISC of A\$1,050-1,100/oz (vs. BMO A\$1,089/oz). The increased guidance is the result of SAR's confidence in its ability to consistently achieve higher throughputs at Thunderbox as well as the ongoing ramp-up of underground operations at Carosue Dam. SAR is expecting Carosue Dam to achieve an annual production rate of ~200 koz Au during FY19, and possibly surpass that amount depending on upcoming drill results.

A\$113M budgeted for growth capex and exploration in FY19. SAR continues its focus on achieving organic growth with A\$50M budgeted for exploration (vs. A\$42M budgeted in FY18), and drill results expected to be announced in the coming months. SAR also expects revisions to its FY2020 to FY2024 guidance over the coming quarters after incorporating the results of ongoing studies. SAR is still projecting a 350 koz Au long-term annual production level, but is aspiring to achieve annual production of 400 koz Au.

SAR ended the June 2018 quarter with A\$118M of cash and equivalents, an increase of A\$16M over the March 2018 quarter.

Key Changes				
Estimates	1H/18E	2018E	2019E	
Revenue	265	511	597	
Previous	258	504	557	
EPS		0.10	0.20	
Previous		0.11	0.18	
CFPS	0.10	0.22	0.30	
Previous	0.11	0.23	0.27	

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Company Data			in AUD
Dividend	AUD0.00	Shares O/S (mm)	818.0
Yield	0.0%	Market Cap (mm)	A\$1,685
NAV	\$0.86	P/NAV	2.4x

BMO Estimates				in AUD
(FY-Jun.)	2017A	2018E	2019E	
Revenue	424	511↑	597↑	
EPS	0.04	0.10↓	0.20↑	
CFPS	0.16	0.22↓	0.30↑	
Gold Prod (koz)	273	316↑	337↑	
AISC (\$/oz)	\$1,513	\$1,207↑	\$1,088↑	

Consensus Estimates			
	2017A	2018E	2019E
EPS		0.10	0.14

Valuation			
	2017A	2018E	2019E
P/E	43.7x	20.4x	10.5x
P/CFPS	11.8x	9.3x	7.0x
EV/EBITDA	13.5x	7.1x	4.8x

Semi-Annual EPS		H1	H2
2017A		0.02	0.02
2018E		0.05a	0.06
2019E		0.10	0.10

Our Thesis

As SAR grows to a production base of ~300 kozpa and exploration adds to the reserve/resource base, we expect investors to reward the company with a premium valuation, since the company operates two assets in a premium mining jurisdiction.

Saracen Mineral Holdings - Block Summary Model

Income Statement	2017A	2018E	2019E
Revenue	424	511	597
Operating Costs	297	284	262
G&A	10	14	21
Depreciation	75	86	81
EBITDA	108	217	309
Tax	5	40	70
Adjusted Net Earnings	34	82	160
EPS	0.04	0.10	0.20
Cash Flow Statement	2017A	2018E	2019E
CFO	126	180	241
CFI	(118)	(127)	(147)
CFF	(8)	1	0
Free Cash Flow	8	49	85
FCF/Share	0.01	0.06	0.10
Balance Sheet	2017A	2018E	2019E
Cash & Equivalents	34	118	182
Long-Term Debt	0	0	0
Total Assets	404	536	665
Total Liabilities	110	146	118
Total Shareholders' Equity	294	389	547
Attrib. Production & Cash Costs	2017A	2018E	2019E
Gold Production - Carosue Dam (koz)	156	171	200
Gold Production - Thunderbox (koz)	117	145	137
Total Gold Prodn (koz)	273	316	337
Total Gold Eq. Production (koz)	273	316	337
Total Cash Costs (\$/oz)	761	687	577
AISC (\$/oz)	\$1,513	\$1,207	\$1,088
Price Assumptions	2017A	2018E	2019E
Gold Price (US\$/oz)	1,258	1,299	1,317
Silver Price (US\$/oz)	17.86	16.73	17.65
Copper Price (US\$/lb)	2.44	3.07	3.07
USD:AUD	0.755	0.776	0.744

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

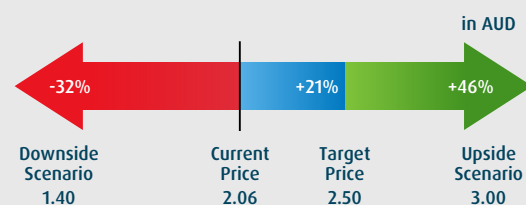
Our A\$2.50 target price is based on a 50% weighting assigned to a 2.0x P/NPV multiple (BMO metal prices, 5% discount rate) and a 50% weighting given to a 14.5x 2018E CFPS multiple. SAR currently trades at 2.4x P/NPV and 9.3x P/2018E CFPS versus the group, which trades at 1.4x P/NPV and 8.0x P/2018E CFPS.

Upside Scenario AUD3.00

The company has had great success in delineating reserves and resources at both Carosue Dam and Thunderbox at relatively shallow depths. The discovery of new mineralized zones, especially if they are higher grade, could move valuations significantly higher.

Downside Scenario AUD1.40

Saracen is currently transitioning from an open-pit-centric producer to an underground-centric producer. Any significant stumbles on this path could have a dramatic effect on the production profile and financial health of the company.



Key Catalysts

A successful completion of the Thunderbox Open-Pit would aid in increasing the long-term production profile for the company.

Company Description

Saracen Mineral Holdings is an ASX-listed company that operates the Carosue Dam and Thunderbox mines in Western Australia.


 SAR-ASX
Research


Glossary


 Company
Models

Exhibit 1: SAR Block Model at BMO Metal Price Assumptions

SARACEN MINERAL HOLDINGS		SAR
Recommendation	Mkt	Analyst BQ
As at	16-Jul-18	BMO Capital Markets
Year End	December	
Share Price	\$2.06 A\$/share	\$1.53 US\$/share
Target Price	\$2.50 A\$/share	\$1.85 US\$/share
Net Present Value	5% \$0.86 A\$/share	\$0.64 US\$/share
	0% \$1.03 A\$/share	\$0.77 US\$/share
Market Cap	1,674.5 A\$M	1,242.1 US\$M
Ordinary Shares	812.8 M	
Options & Warrants	0.0 M	

PRICE ASSUMPTIONS - BMO PRICES		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Exchange Rate	AUD:USD	0.84	0.73	0.75	0.78	0.74
Gold	US\$/oz	1,225	1,168	1,258	1,299	1,317
Silver	US\$/oz	17.38	15.33	17.86	16.73	17.65
Copper	US\$/lb	2.90	2.22	2.44	3.07	3.07
Zinc	US\$/lb	1.00	0.80	1.15	1.44	1.38
Oil	US\$/bbl	70.05	46.20	49.45	58.50	67.27

FINANCIAL SUMMARY		2015A	2016A	2017A	2018E	2019E
(December Year End)						
NPAT (pre-Abs)	(AUD\$M)	11.7	29.5	33.9	82.1	159.7
ADJUSTED EPS	(AUD\$/share)	0.01	0.04	0.04	0.10	0.20
PER	(x)	na	na	49.0x	20.4x	10.5x
EBITDA	(AUD\$M)	66.7	73.1	108.1	216.7	309.0
EBITDA/share	(AUD\$/share)	0.08	0.09	0.13	0.27	0.38
EV/EBITDA	(x)	0.0x	22.1x	15.1x	7.1x	4.8x
Cash Flow	(AUD\$M)	65.4	109.8	125.6	180.1	240.9
Cash Flow/share	(AUD\$/share)	0.08	0.14	0.16	0.22	0.30
P/Cash Flow	(x)	25.0x	14.9x	13.2x	9.3x	7.0x
Dividend	(AUD\$/share)	0.00	0.00	0.00	0.00	0.00
Ordinary Shares	(M)	792.8	794.3	806.8	812.0	812.8

PROFIT AND LOSS STATEMENT - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Sales Revenue		249.9	276.5	423.1	510.5	597.3
Other Revenue		0.8	0.7	0.5	0.5	0.0
Operating Costs		(173.8)	(191.3)	(296.8)	(283.9)	(261.6)
Depreciation		(49.5)	(33.9)	(74.7)	(86.5)	(81.2)
Interest		(1.0)	(0.9)	(0.8)	(0.2)	0.0
Exploration		(0.4)	(1.0)	(2.5)	(0.9)	0.0
Corporate		(9.1)	(8.2)	(10.3)	(14.1)	(20.9)
Other Costs		0.0	0.0	0.0	(3.1)	(3.8)
Operating Profit Before Tax		16.8	42.0	38.5	122.3	229.8
Income Tax		(5.0)	(12.4)	(4.6)	(40.2)	(70.1)
Operating Profit After Tax		11.7	29.5	33.9	82.1	159.7
Minorities		0.0	0.0	0.0	0.0	0.0
Net Profit After Tax		11.7	29.5	33.9	82.1	159.7
Abnormals		(0.6)	(3.6)	(5.6)	7.7	(2.0)
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
Reported Profit		11.1	25.9	28.4	89.8	157.7

SARACEN MINERAL HOLDINGS		2015A	2016A	2017A	2018E	2019E
Cash Operating Costs	AUD\$/oz	695	768	958	830	728
Total Cash Costs	AUD\$/oz	763	832	1,009	886	776
All-In-Sustaining-Costs	AUD\$/oz	1,007	1,138	1,513	1,207	1,088
All-In-Costs	AUD\$/oz	1,172	1,634	1,696	1,378	1,275
Gold Price Received	AUD\$/oz	1,437	1,621	1,664	1,605	1,771
EBIT to Total Assets		-8.0%	1.9%	-7.2%	5.1%	16.5%
NPAT to Shareholders Equity		4.9%	9.9%	9.7%	23.1%	28.8%

CASH FLOW ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Cash Flows From Operating Activities						
Net Income		0.0	0.0	0.0	138.9	157.7
Non-Cash Items		0.0	0.0	0.0	41.3	83.2
Re-invested in Working Capital		0.0	0.0	0.0	0.0	0.0
Cash Flows From Investing Activities						
Property and Business Activities		0.0	0.0	0.0	7.0	8.3
Acq. of Property, Plant and Equip.		(47.0)	(111.9)	(117.9)	(72.3)	(155.7)
Other		(2.2)	0.0	0.0	(61.2)	0.0
Cash Flows From Financing Activities						
Proceeds From Borrowings		0.0	0.0	0.0	1.6	0.0
Repayment of Borrowings		(13.6)	(2.0)	(8.4)	(0.5)	0.0
Other		0.0	0.0	0.0	0.0	0.0
Net Increase In Cash Held		2.5	(4.1)	(0.6)	54.7	93.5
Cash At Beginning of Year		35.9	38.4	34.3	0.0	0.0
Cash At End of Year		38.4	34.3	33.7	88.4	181.8

BALANCE SHEET ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Current Assets						
Cash and Cash Equivalents		38.4	34.3	33.7	118.3	181.8
Other		71.3	36.2	62.6	53.7	53.7
Non-Current Assets						
Investments		0.0	0.0	0.0	7.6	7.6
Fixed Assets		184.3	291.6	308.1	355.9	422.1
Other		116.0	70.5	96.4	172.0	235.6
Current Liabilities						
Borrowings		0.8	1.4	0.0	0.0	0.0
Creditors		17.9	27.3	39.3	36.4	36.4
Other		4.9	5.1	22.7	7.9	7.9
Non-Current Liabilities						
Borrowings		0.6	2.4	0.0	0.0	0.0
Other		70.5	99.0	110.4	146.1	118.1
Shareholders Funds						
Net Debt to Equity		-16.1%	-11.7%	-11.5%	-30.4%	-33.2%

PROJECT	NPV		GOLD PRODUCTION (koz)				
	0%	5%	2015A	2016A	2017A	2018E	2019E
	AUD\$M	AUD\$M					
CAROSUE DAM	299.6	263.7	167.5	157.2	156.0	171.3	199.9
THUNDERBOX	499.1	371.4	0.0	31.5	116.8	145.2	137.4
			0.0	0.0	0.0	0.0	0.0
Total Production			167.5	188.7	272.8	316.5	337.3
Total Sales			128.0	188.0	266.6	320.4	337.3
Gold Equiv Sales			128.0	188.0	266.6	320.4	337.3
Exploration Credit	31.0	31.0					
Hedge Book	(8.8)	(9.4)					
Corporate	(106.1)	(81.3)					
Net Cash	118.3	118.3					
Investments/Bullion	7.6	7.6					
Options & Warrants	0.0	0.0					
Total NPV	840.7	701.2					
Per Share	\$1.03	\$0.86	IRR = -11.2%		P/NPV 2.4x		

Co-Product Cash Cost (US\$/oz)		2015A	2016A	2017A	2018E	2019E
CAROSUE DAM (AUSTRALIA)		640	615	848	732	658
THUNDERBOX (AUSTRALIA)		0	552	645	636	459
QUARTERLY SUMMARY						
ADJUSTED EPS	(AUD\$/sh)		H1/18A	H2/18E	H1/19E	H2/19E
CFPS	(AUD\$/sh)		0.05	0.06	0.10	0.10
FCPS	(AUD\$/sh)		0.12	0.10	0.15	0.14
FCPS	(AUD\$/sh)		0.03	0.03	0.05	0.05

Source: BMO Capital Markets

Exhibit 2: SAR Block Model at Spot Metal Prices

SARACEN MINERAL HOLDINGS			SAR
Recommendation	Mkt	Analyst	BQ
As at	16-Jul-18	BMO Capital Markets	
Year End	December		
Share Price	\$2.06 A\$/share	\$1.53	US\$/share
Target Price	\$2.50 A\$/share	\$1.85	US\$/share
Net Present Value	5% \$1.05 A\$/share	\$0.78	US\$/share
	0% \$1.32 A\$/share	\$0.98	US\$/share
Market Cap	1,674.5 A\$M	1,242.1	US\$M
Ordinary Shares	812.8 M		
Options & Warrants	0.0 M		

PRICE ASSUMPTIONS - SPOT PRICES						
(December Year End)						
		2015A	2016A	2017A	2018E	2019E
Exchange Rate	AUD:USD	0.84	0.73	0.75	0.76	0.74
Gold	US\$/oz	1,225	1,168	1,258	1,259	1,241
Silver	US\$/oz	17.38	15.33	17.86	16.29	15.79
Copper	US\$/lb	2.90	2.22	2.44	2.89	2.80
Zinc	US\$/lb	1.00	0.80	1.15	1.29	1.18
Oil	US\$/bbl	70.05	46.20	49.45	61.46	71.02

FINANCIAL SUMMARY						
(December Year End)						
		2015A	2016A	2017A	2018E	2019E
NPAT (pre-Abs)	(AUD\$M)	11.7	29.5	33.9	84.9	145.6
ADJUSTED EPS	(AUD\$/share)	0.01	0.04	0.04	0.10	0.18
PER	(x)	na	na	49.0x	19.7x	11.5x
EBITDA	(AUD\$M)	66.7	73.1	108.1	219.5	285.6
EBITDA/share	(AUD\$/share)	0.08	0.09	0.13	0.27	0.35
EV/EBITDA	(x)	0.0x	22.1x	15.1x	7.0x	5.2x
Cash Flow	(AUD\$M)	65.4	109.8	125.6	182.9	226.8
Cash Flow/share	(AUD\$/share)	0.08	0.14	0.16	0.23	0.28
P/Cash Flow	(x)	25.0x	14.9x	13.2x	9.1x	7.4x
Dividend	(AUD\$/share)	0.00	0.00	0.00	0.00	0.00
Ordinary Shares	(M)	792.8	794.3	806.8	812.0	812.8

PROFIT AND LOSS STATEMENT - AUD\$M						
(December Year End)						
		2015A	2016A	2017A	2018E	2019E
Sales Revenue		249.9	276.5	423.1	510.5	564.4
Other Revenue		0.8	0.7	0.5	0.5	0.0
Operating Costs		(173.8)	(191.3)	(296.8)	(283.9)	(260.7)
Depreciation		(49.5)	(33.9)	(74.7)	(86.5)	(81.2)
Interest		(1.0)	(0.9)	(0.8)	(0.2)	0.0
Exploration		(0.4)	(1.0)	(2.5)	(0.9)	0.0
Corporate		(9.1)	(8.2)	(10.3)	(14.1)	(19.8)
Other Costs		0.0	0.0	0.0	(0.4)	3.6
Operating Profit Before Tax		16.8	42.0	38.5	125.1	206.4
Income Tax		(5.0)	(12.4)	(4.6)	(40.2)	(60.8)
Operating Profit After Tax		11.7	29.5	33.9	84.9	145.6
Minorities		0.0	0.0	0.0	0.0	0.0
Net Profit After Tax		11.7	29.5	33.9	84.9	145.6
Abnormals		(0.6)	(3.6)	(5.6)	7.7	(2.0)
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
Reported Profit		11.1	25.9	28.4	92.6	143.6

SARACEN MINERAL HOLDINGS						
		2015A	2016A	2017A	2018E	2019E
Cash Operating Costs	AUD\$/oz	695	768	958	830	728
Total Cash Costs	AUD\$/oz	763	832	1,009	886	773
All-In-Sustaining-Costs	AUD\$/oz	1,007	1,138	1,513	1,207	1,082
All-In-Costs	AUD\$/oz	1,172	1,634	1,696	1,378	1,269
Gold Price Received	AUD\$/oz	1,437	1,621	1,664	1,604	1,673
EBIT to Total Assets		-8.0%	1.9%	-7.2%	5.5%	14.3%
NPAT to Shareholders Equity		4.9%	9.9%	9.7%	23.6%	26.8%

CASH FLOW ANALYSIS - AUD\$M					
(December Year End)					
	2015A	2016A	2017A	2018E	2019E
Cash Flows From Operating Activities					
Net Income	0.0	0.0	0.0	141.6	143.6
Non-Cash Items	0.0	0.0	0.0	41.3	83.2
Re-invested in Working Capital	0.0	0.0	0.0	0.0	0.0
Cash Flows From Investing Activities					
Property and Business Activities	0.0	0.0	0.0	7.0	8.3
Acq. of Property, Plant and Equip.	(47.0)	(111.9)	(117.9)	(72.3)	(155.7)
Other	(2.2)	0.0	0.0	(61.2)	0.0
Cash Flows From Financing Activities					
Proceeds From Borrowings	0.0	0.0	0.0	1.6	0.0
Repayment of Borrowings	(13.6)	(2.0)	(8.4)	(0.5)	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net Increase in Cash Held	2.5	(4.1)	(0.6)	57.5	79.3
Cash At Beginning of Year	35.9	38.4	34.3	0.0	0.0
Cash At End of Year	38.4	34.3	33.7	91.2	170.5

BALANCE SHEET ANALYSIS - AUD\$M					
(December Year End)					
	2015A	2016A	2017A	2018E	2019E
Current Assets					
Cash and Cash Equivalents	38.4	34.3	33.7	118.3	170.5
Other	71.3	36.2	62.6	53.7	53.7
Non-Current Assets					
Investments	0.0	0.0	0.0	7.6	7.6
Fixed Assets	184.3	291.6	308.1	355.9	422.1
Other	116.0	70.5	96.4	172.0	224.3
Current Liabilities					
Borrowings	0.8	1.4	0.0	0.0	0.0
Creditors	17.9	27.3	39.3	36.4	36.4
Other	4.9	5.1	22.7	7.9	7.9
Non-Current Liabilities					
Borrowings	0.6	2.4	0.0	0.0	0.0
Other	70.5	99.0	110.4	143.3	118.1
Shareholders Funds	229.2	260.7	294.0	392.3	535.8
Net Debt to Equity	-16.1%	-11.7%	-11.5%	-30.2%	-31.8%

PROJECT	NPV		GOLD PRODUCTION (koz)				
	0%	5%	2015A	2016A	2017A	2018E	2019E
	AUD\$M	AUD\$M					
CAROSUE DAM	357.9	307.5	167.5	157.2	156.0	171.3	199.9
THUNDERBOX	661.0	468.1	0.0	31.5	116.8	145.2	137.4
			0.0	0.0	0.0	0.0	0.0
			0.0	0.0	0.0	0.0	0.0
Total Production			167.5	188.7	272.8	316.5	337.3
Total Sales			128.0	188.0	266.6	320.4	337.3
Gold Equiv Sales			128.0	188.0	266.6	320.4	337.3
Exploration Credit	31.0	31.0					
Hedge Book	11.4	10.3					
Corporate	(113.9)	(86.3)					
Net Cash	118.3	118.3					
Investments/Bullion	7.6	7.6					
Options & Warrants	0.0	0.0					
Total NPV	1,073.3	856.6					
Per Share	\$1.32	\$1.05	IRR = -7.1%			P/NPV 2.0x	

Co-Product Cash Cost (US\$/oz)					
	2015A	2016A	2017A	2018E	2019E
CAROSUE DAM (AUSTRALIA)	640	615	848	717	653
THUNDERBOX (AUSTRALIA)	0	552	645	623	457
QUARTERLY SUMMARY		H1/18A	H2/18E	H1/19E	H2/19E
ADJUSTED EPS (AUD\$/sh)		0.05	0.06	0.09	0.09
CFPS (AUD\$/sh)		0.12	0.11	0.14	0.14
FCPS (AUD\$/sh)		0.03	0.03	0.04	0.05

Source: BMO Capital Markets

Saracen Mineral Holdings Rating History as of 07/16/2018



IMPORTANT DISCLOSURES

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Methodology and Risks to Target Price/Valuation for Saracen Mineral Holdings (SAR-ASX)

Methodology: Target prices for mid-tier gold producers covered by BMO Research are based on a 50% weighting given to the P/NPV (5% discount rate, BMO metal price assumptions) and a 50% weighting given to a CFPS multiple.

Risks: Risks to the BMO Research target price include: commodity/currency, technical/operating, and litigation/political risks inherent to mining operations, as well as feasibility, permitting, and financing risks related to development of growth projects.

Distribution of Ratings (July 16, 2018)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	49.0%	21.9%	55.5%	50.9%	57.6%	55.3%
Hold	Market Perform	48.5%	16.7%	41.8%	46.8%	41.2%	39.7%
Sell	Underperform	2.5%	21.4%	2.7%	2.3%	1.1%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)

http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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