



## RBC Capital Markets

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# Saracen Mineral Holdings Limited

## SAR 1H18 result: despite D&A earnings continues to grow, upside remains

**Our view:** SAR remains one of very few names in our universe with absolute upside to its target price. We expect resumption of the downward trend of AISC in 3Q could be the driver of renewed market interest.

### Key points:

- Revenue: A\$245.6m (RBCe A\$245.0m)
- EBITDA: A\$101.7m (RBCe A\$103.8m)
- NPAT: A\$46.0m (RBCe A\$54.6m)

### A good result, slightly lower on D&A

While the result was marred by higher D&A than we forecast, we place a material emphasis on cashflow given the smaller (and more volatile) earnings we typically encounter with small-mid cap miners. We did not identify any material evidence of cost inflation, despite broader market commentary so far this reporting season on the contrary.

### Absolute valuation upside a rare opportunity

As we cast our eye across the Australian gold landscape, our estimates show relatively modest (if any) potential upside between our valuation/target price and where the stocks are trading - despite being broadly constructive on the state of the sector as a whole. SAR is the exception, driven in part (we believe) as a result of AISC costs in 2Q which bucked the prior downward trend. We retain our assumption that costs will trend lower over time as stripping in the open pit at Thunderbox draws lower, while we expect that in the interim capital (which the company largely expenses through its cost reporting) will also reduce. On the back of these two elements, we believe SAR can deliver lower headline costs, which in our view have a disproportionate impact on share price.

### Residual exploration potential also a driver

The portfolio has yielded solid exploration results over the last 18 months - in particular around Carosue Dam, which appears as though it may be able to provide a greater ounce contribution to the business than we had forecast. With cash flow, SAR is better equipped to target and (hopefully) delineate additional resources below and along strike from current inventory. The fact that the business has been starved of capital under previous incarnations suggests to us further discovery upside with an ongoing willingness to explore nearby.

### Earnings and valuation impact

Incorporating the result, we drive earnings lower (relatively) as we include higher D&A through our forecast period. We also revise our production profile to reflect some of the ambition to reach 350koz, and allow for a greater contribution from Carosue Dam. As our 12 month target price is based on P/NAV and P/CF, we make no revision to A\$2.00 target price.

## Outperform

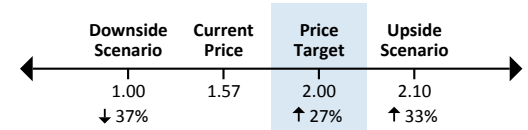
ASX: SAR; AUD 1.58

**Price Target AUD 2.00**

### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

### Scenario Analysis\*



\*Implied Total Returns

### Key Statistics

Shares O/S (MM):	812.8	Market Cap (MM):	1,280
Dividend:	0.00	Yield:	0.0%
NAVPS:	1.74	P/NAVPS:	0.91x
ROE:	24.1%	Tr. 12 ROE:	9.70%
Debt to Cap:	0%	Enterprise Val. (MM):	1,217
		Avg. Daily Volume:	6,823,426

Priced at ASX close on 20 February 2018

### RBC Estimates

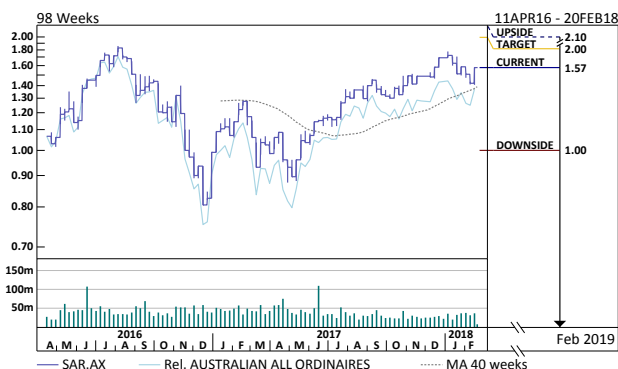
FY Jun	2017A	2018E	2019E	2020E
<b>EPS, Adj Diluted</b>	0.04	0.11	0.15	0.17
Prev.		0.14		
<b>P/AEPS</b>	39.4x	14.3x	10.5x	9.3x
<b>CFPS, Adj Diluted</b>	0.16	0.25	0.31	0.27
Prev.		0.27		0.26
<b>P/ACFPS</b>	9.8x	6.3x	5.1x	5.8x
<b>DPS</b>	0.00	0.00	0.02	0.04
<b>Div Yield</b>	0.0%	0.0%	1.3%	2.5%
<b>Production</b>	263.0	306.0	311.0	326.0
Prev.			302.0	310.0

All values in AUD unless otherwise noted.



## Target/Upside/Downside Scenarios

Exhibit 1: Saracen Mineral Holdings Limited



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our 12-month price target of A\$2.00/share is derived from a 75:25 blend of debt-adjusted cash flow (8.0x) and sum-of-the-parts NAV (1.0x).

### Upside scenario

We believe extensions to the known ore bodies at depth are probable and, as such, we run our upside scenario by adding two years of additional mine life to group production. From this, we derive a valuation of A\$2.10.

### Downside scenario

Our downside scenario is based on a flat AUD/USD exchange rate and gold price of c.US\$1,150/oz. We also remove one year of mine life from our base-case scenario. From this, we derive a valuation of A\$1.00.

## Investment summary

- The main drivers that should underpin the company's share price are: 1) strong growth, with the implementation of Thunderbox taking group production to c.300koz Au pa from FY18; 2) significant exploration upside at all current operations providing increased confidence that mine life can be significantly extended beyond current reserves and general market estimates; and 3) a consistent track record from the management team

## Potential catalysts

- Mine life extensions – the high-grade mineralisation, which remains open at all current operations, indicates a high probability for continued extensions at depth. We believe that SAR could provide ongoing high results at depth; therefore, we would be convinced to add further mine life into the deposits.
- A beat to guidance? With the Thunderbox development tracking ahead of schedule, we believe the company may again beat guidance expectations as costs come down.



## SAR 1H FY18: earnings and cash flow materialise, taking a longer term view

SAR's 1H FY18 result was in line at the EBITDA level (A\$101.7m vs. RBCe A\$103.8m), with revenue and costs coming in as expected, however higher D&A led to a lower NPAT result. The company also provided a 7 year outlook, with production lifting to 350koz out to FY24. SAR maintained FY18 guidance of 300koz production at an AISC of A\$1,150/oz.

### First half profitability lifts, but higher D&A than we forecast

SAR's half year result was in line at revenue and EBITDA, however higher D&A than we forecast (A\$46.3m vs. RBCe A\$36.2m) flowed through to impact underlying NPAT. The company does not provide D&A information within its quarterlies, which resulted in the miss in our forecasting. The company also reported a profit on disposal of King of the Hills (A\$10.6m pre-tax) and impairment (A\$0.9m) which we stripped from out underlying numbers. The 1H18 result was a 1635 lift to Adj. NPAT (A\$39.2m vs. A\$16.3m 2H17).

### 7 year outlook provides colour on the longer term shape of SAR

Along with the financial result today, SAR provided a 7 year outlook, which gave a group and asset level breakdown of production out to FY24. Group production lifts ~17% from FY18-22 then remains flat at 350koz out to FY24. While our estimates fall slightly short of the 350koz in FY22 and beyond, exhibit 3 and 4 set out our forecast relative to previous estimates and SAR's 7 year outlook. The increase is predicated on completion of Karari paste fill, Whirling Dervish UG, Thunderbox UG, the capex for which we have included in our base case.

### Cash flow building, earnings momentum to continue

Today's result sets out a meaningful increase in statutory profit and cash flow to previous periods. SAR has cemented its position as a profitable, cash flow generating mid-tier miner, and shown further growth remains on the horizon. At the conclusion of FY18E, we forecast SAR to have a cash balance of A\$111.6m, up from A\$33.7m in Jun'Q17. Unlike many of SAR's peers, the company continues to grow earnings and cash flow as a result of the increasing production profile (see exhibit 5 and 6).

### Earnings and valuation impact

We have incorporated today's result, which was a miss on NPAT due to higher D&A. We have adjusted future production, capex and exploration to reflect the 7 year outlook provided by the company, which has resulted in a lift in NAV. We have updated FY18 earnings to reflect somewhat higher D&A in the second half, and lifted FY19E exploration expenditure. Our NAV and cash flow derived 12-month Price Target remains unchanged at A\$2.00/share, and our rating remains Outperform.

#### Exhibit 2: Our changes

		FY17 Actual	FY18E			FY19E			FY20E		
		Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	
Underlying Net Profit	A\$m	31.2	88.2	109.6	-20%	120.8	122.4	-1%	140.9	138.5	2%
Underlying EPS	¢	3.9	10.8	13.8	-21%	14.9	15.4	-4%	17.3	17.4	-1%
CFPS	¢	15.5	24.9	26.9	-7%	30.9	31.0	0%	27.4	26.5	4%
Dividend	¢	0.0	0.0	0.0	<i>n.a</i>	2.0	2.0	0%	4.0	4.0	0%
Gold Production	koz Au	263	306	306	0%	311	302	3%	326	310	5%
AISC	A\$/oz Au	1348	1100	1080	2%	999	999	0%	933	946	-1%
<b>NAV</b>	<b>A\$/share</b>		1.74	1.65	6%						
<b>12 Month TP:</b>	<b>A\$/share</b>		<b>2.00</b>	<b>2.00</b>	<b>0%</b>						

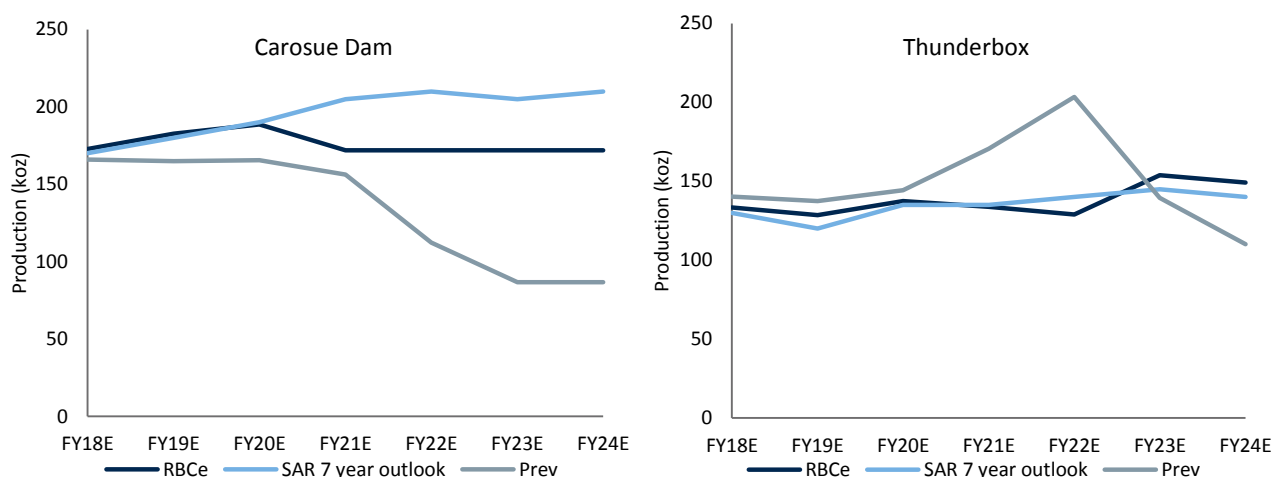
Source: Company reports, RBC Capital Markets estimates



**7 year outlook provides perspective, lifts longer dated NAV**

SAR provided group and asset level production targets out to FY24, with the company set to lift group production by ~17% (from 300koz to 350koz) across the 5 years of FY18-FY22. Management stated that the first 5 of the 7 years, drew 97% of material from existing reserves, with the remaining material beyond this to come from resource conversion. The primary changes to our previous estimates relate to the lowering of Thunderbox output and an increase in Carouse Dam, to more closely reflect the breakdown provided by SAR.

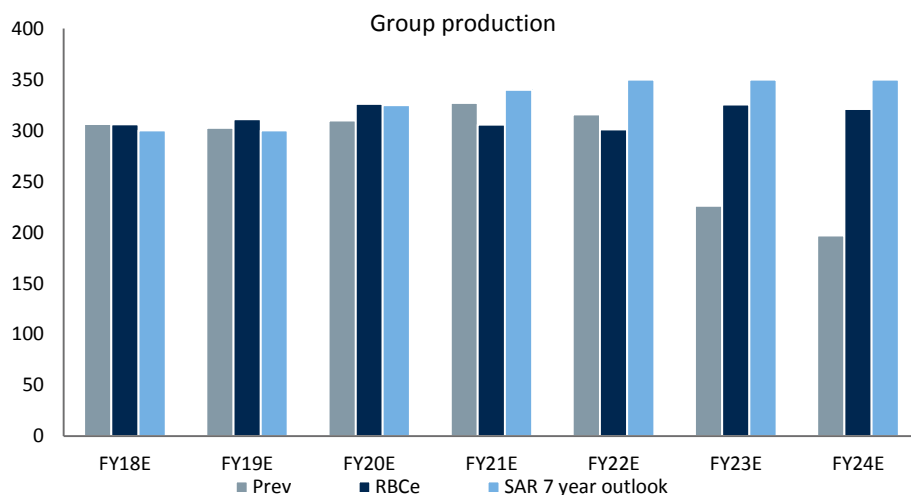
Exhibit 3: The 7 year outlook provides a flatter production profile, with longer dated increases at CD and flatter at Thunderbox



Source: Company reports, RBC Capital Markets estimates

From a group perspective, the production increase in the later years is driven by grade, with SAR stating that the 7 years outlook is based on the current milling capacity of 4.9Mtpa. The prospectively of recent exploration updates leads itself to higher head grades in future. Recent drilling at Karari produced high grade results approx. 60m below the current reserve.

Exhibit 4: Group production is decreased in the medium term and increased in the long term



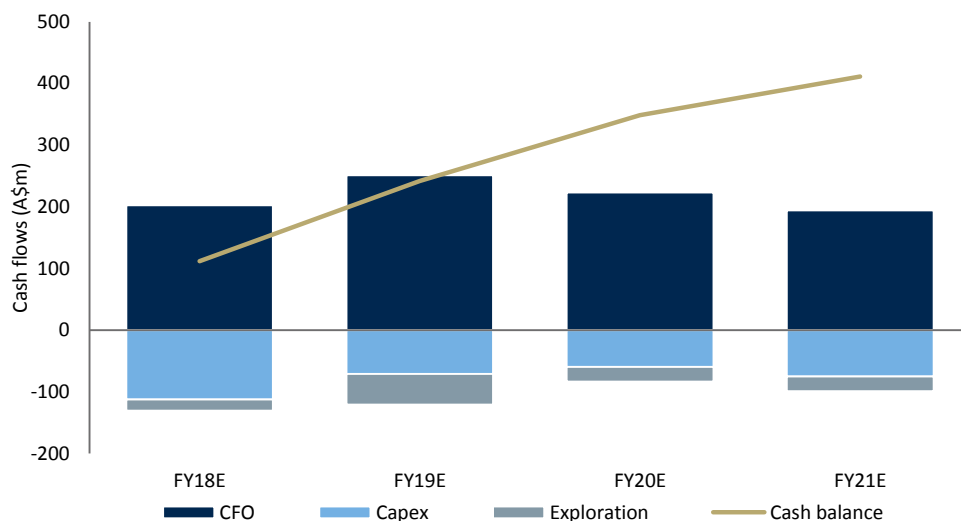
Source: Company reports, RBC Capital Markets estimates



**Cash flow building as group production breaches the 300kozpa mark**

We forecast SAR to reach a cash balance of A\$111.6m by the end of Jun'Q18, followed by A\$241.6m by the end of FY19E, as the company generates higher cash flow from operations as a result of higher production (306koz and 311koz in FY18E and FY19E respectively).

Exhibit 5: Free cash flow continues to build in future periods

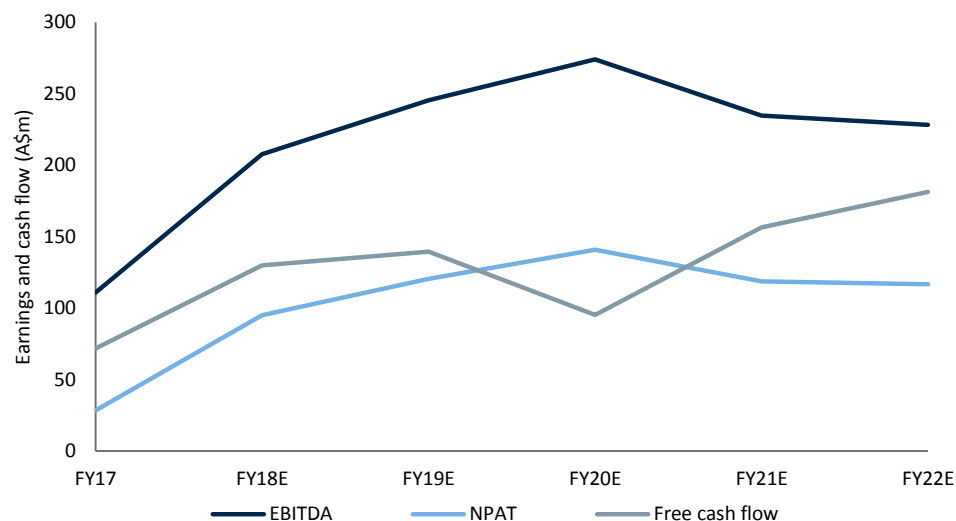


Source: Company reports, RBC Capital Markets estimates

**Earnings momentum on the horizon**

Unlike many of its peers, SAR still has earnings momentum in the next few years, with higher production and cash flow set to materialise as its two key assets mature into their full potential. We see the upward trend out to FY20E as a key differentiator for SAR, as the company yields returns from the development and exploration work to date setting up both Carosue Dam and Thunderbox.

Exhibit 6: unlike many peers, SAR still has positive earnings momentum

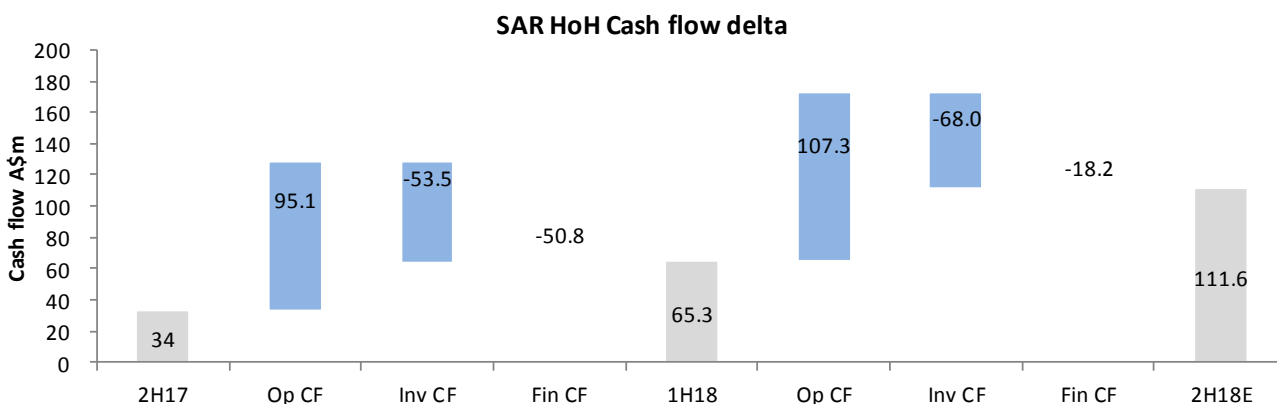
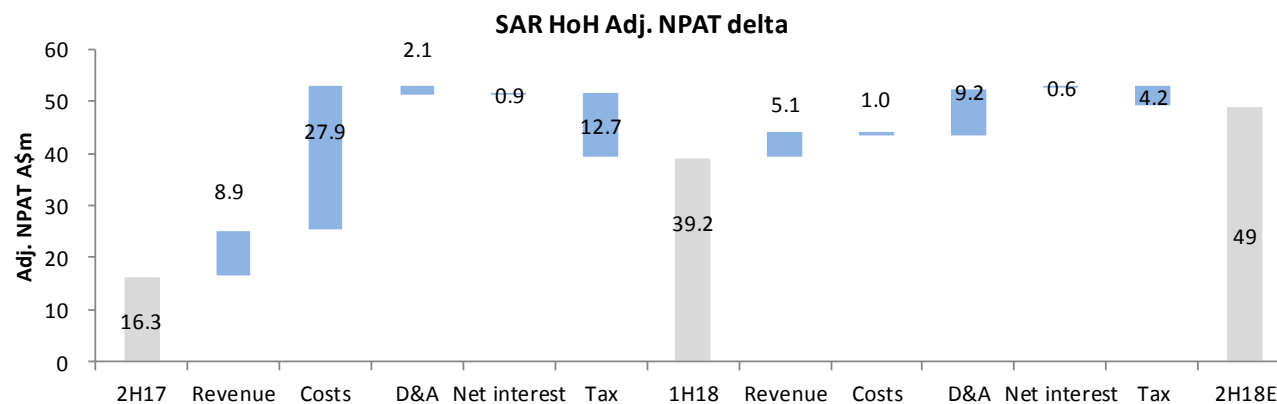


Source: Company reports, RBC Capital Markets estimates



Exhibit 7: A summary of key earnings and cash flow items, relative to our estimates for the half and previous periods

Saracen - 1H FY18 result		1H17	2H17	1H18	2H18E	HoH %	PCP %	1H18E	Act. v Est. %
Sales revenue	A\$m	200	237	245	251	4%	22%	245	0%
Total revenue	A\$m	187	237	246	251	4%	32%	245	0%
Operating costs	A\$m	-141	-172	-144	-145	16%	-2%	-141	-2%
EBITDA	A\$m	46	65	102	106	57%	121%	104	-2%
Depreciation	A\$m	-31	-44	-46	-37	-5%	-52%	-36	-28%
EBIT	A\$m	15	21	55	69	167%	258%	68	-18%
Net interest	A\$m	-0	-0	1	1	240%	880%	1	-18%
PBT	A\$m	15	20	56	70	175%	263%	68	-18%
Tax	A\$m	-1	-4	-17	-21	-311%	-3186%	-14	-23%
Underlying NPAT	A\$m	15	16	39	49	141%	163%	55	-28%
Abnormals	A\$m	0	3	-7	0	-341%	n.a.	0	n.a.
Reported Profit	A\$m	15	13	46	49	241%	209%	55	-16%
EPS Underlying	¢	2	2	5	6	138%	160%	7	-29%
DPS	¢	0	0	0	0	n.a.	n.a.	0	n.a.
Net Op Cash flow	A\$m	52	74	95	107	29%	83%	100	-5%
Inv Cash flow	A\$m	-50	-68	-65	-61	4%	-29%	-66	1%
Fin Cash flow	A\$m	-2	-6	1	0	118%	150%	-3	140%
Cash	A\$m	34	34	65	112	94%	94%	65	0%
Total assets	A\$m	397	404	461	531	14%	16%	470	-2%
Total liabilities	A\$m	118	110	115	136	4%	-3%	121	-5%
Net assets	A\$m	278	294	346	395	18%	24%	349	-1%
Gearing	%	-11%	-13%	-23%	-39%	-80%	-111%	-0	-1%



Source: Company reports, RBC Capital Markets estimates



## Production and financial summary

### Exhibit 8: RBCe price, fx, volume, earnings and valuation estimates

Saracen Mineral Holdings		ASX: SAR	Price Target:		2.00	Rating:		Outperform	
RBC Capital Markets	No Shares (m):	812.8	Share Price (\$/sh):		\$1.58	Risk Specifier:		-	
Paul Hissey +61 3 8688 6512	Liquidity (m shares/month)	110,773	2016E Dividend (\$/sh):		\$0.00	Implied Return (%):		27.0%	
Connor O'Brien +61 3 8688 6519	Market Cap. (M \$):	\$1,280	NAV (\$/sh):		\$1.74	Implied Total Return (%):		27.0%	
Alexander Hislop +612 8688 6551	Enterprise Value (M \$)	\$1,217				P/NAV (x)		0.90x	

All AUD unless noted		Year End June 30				
RATIO ANALYSIS		FY17	FY18E	FY19E	FY20E	LT (2021)
Earnings - Adjusted	\$/sh	\$0.04	\$0.11	\$0.15	\$0.17	
P/E Multiple	x	40.1x	14.5x	10.6x	9.1x	
CFPS (CFO)	\$/sh	\$0.15	\$0.25	\$0.31	\$0.27	
FCFPS (CFO-capex-expl.)	\$/sh	(\$0.01)	\$0.09	\$0.16	\$0.17	
P/CF Multiple	x	10.2x	6.3x	5.1x	5.7x	
FCF Yield	%	(0.6%)	5.6%	10.2%	10.9%	
Dividends Per Share	\$/sh	\$0.00	\$0.00	\$0.02	\$0.04	
Dividend Yield	%	0.0%	0.0%	1.3%	2.5%	
LT/Total Cap)	%	0.0%	0.0%	0.0%	0.0%	

INCOME STATEMENT		FY17	FY18E	FY19E	FY20E
Revenue	M \$	\$423	\$496	\$536	\$559
Operating Costs	M \$	(\$312)	(\$289)	(\$291)	(\$285)
<b>EBITDA</b>	<b>M \$</b>	<b>\$111</b>	<b>\$208</b>	<b>\$245</b>	<b>\$274</b>
D&A	M \$	(\$75)	(\$83)	(\$78)	(\$82)
<b>EBIT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$124</b>	<b>\$168</b>	<b>\$193</b>
Other Income/Expenses	M \$	(\$0)	\$2	\$5	\$9
<b>EBT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$126</b>	<b>\$172</b>	<b>\$201</b>
Taxes	M \$	(\$5)	(\$38)	(\$52)	(\$60)
<b>Net Income - Reported</b>	<b>M \$</b>	<b>\$31</b>	<b>\$88</b>	<b>\$121</b>	<b>\$141</b>
Adjustments	M \$	(\$3)	\$7	\$0	\$0
<b>Net Income - Adjusted</b>	<b>M \$</b>	<b>\$28</b>	<b>\$95</b>	<b>\$121</b>	<b>\$141</b>
Weighted average diluted shares	M	794	813	813	813

CASH FLOW STATEMENT		FY17	FY18E	FY19E	FY20E
<b>Cash Flows from Operating Activities</b>					
Net Income	M \$	\$31	\$88	\$121	\$141
D&A	M \$	\$75	\$83	\$78	\$82
Taxes Paid	M \$	\$5	\$38	\$52	\$0
Non Recurring/Other	M \$	\$0	\$0	\$0	\$0
<b>Operating Cash Flow (excl. stripping)</b>	<b>M \$</b>	<b>\$110</b>	<b>\$209</b>	<b>\$250</b>	<b>\$223</b>
Changes in Working Capital	M \$	\$15	(\$7)	\$1	\$0
<b>Net Operating Cash flow</b>	<b>M \$</b>	<b>\$126</b>	<b>\$202</b>	<b>\$251</b>	<b>\$223</b>
<b>Cash Flows From Investing Activities</b>					
Capital Expenditure	M \$	(\$105)	(\$112)	(\$71)	(\$60)
Other (incl exploration)	M \$	(\$13)	(\$13)	(\$50)	(\$24)
<b>Net Investing Cash Flow (incl. stripping)</b>	<b>M \$</b>	<b>(\$118)</b>	<b>(\$126)</b>	<b>(\$121)</b>	<b>(\$84)</b>
<b>Cash Flows From Financing Activities</b>					
Equity Issues (net of costs)	M \$	\$0	\$0	\$0	\$0
Net Borrowings	M \$	\$0	\$0	\$0	\$0
Dividends Paid & Other	M \$	(\$8)	\$1	\$0	(\$33)
<b>Net Financing Cash Flow</b>	<b>M \$</b>	<b>(\$8)</b>	<b>\$1</b>	<b>\$0</b>	<b>(\$33)</b>
Increase (Decrease) in Cash	M \$	(\$1)	\$78	\$130	\$107
<b>Cash at End of Year</b>	<b>M \$</b>	<b>\$34</b>	<b>\$112</b>	<b>\$242</b>	<b>\$349</b>
Operating Free Cash Flow	M \$	\$21	\$90	\$180	\$163
Free Cash Flow	M \$	\$8	\$77	\$130	\$139

BALANCE SHEET		FY17	FY18E	FY19E	FY20E
Cash & Equivalents	M \$	\$34	\$112	\$242	\$349
Other Current Assets	M \$	\$63	\$54	\$54	\$54
PP&E & Mining Interests	M \$	\$261	\$295	\$288	\$266
Other Long Term Assets	M \$	\$47	\$71	\$120	\$143
<b>Total Assets</b>	<b>M \$</b>	<b>\$404</b>	<b>\$531</b>	<b>\$703</b>	<b>\$812</b>
Current Liabilities	M \$	\$62	\$45	\$45	\$45
Long Term Debt	M \$	\$0	\$0	\$0	\$0
Other Long Term Liabilities	M \$	\$48	\$91	\$142	\$143
<b>Total Liabilities</b>	<b>M \$</b>	<b>\$110</b>	<b>\$136</b>	<b>\$188</b>	<b>\$188</b>
Shareholder Equity	M \$	\$294	\$395	\$515	\$624
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>M \$</b>	<b>\$404</b>	<b>\$531</b>	<b>\$703</b>	<b>\$812</b>

FINANCIAL RATIOS		FY17	FY18E	FY19E	FY20E
Return on Equity (ROE)	%	9.7%	24.1%	23.4%	22.6%
Return on Capital (ROIC)	%	7.0%	17.9%	17.2%	17.4%

PRICES & EXCHANGE RATES		FY17	FY18E	FY19E	FY20E	LT (2021)
Gold Price	US\$/oz	1259	1288	1300	1300	1300
Exchange rate	AUD:USD	0.75	0.77	0.74	0.76	0.77

EQUITY PRODUCTION & COSTS		FY17	FY18E	FY19E	FY20E	FY21E
Carosue Dam	koz Au	156	173	183	189	172
Thunderbox	koz Au	117	133	128	137	134
<b>Total Gold Production</b>	<b>koz Au</b>	<b>263</b>	<b>306</b>	<b>311</b>	<b>326</b>	<b>306</b>
C1 Cash Cost	\$/oz	956	840	796	740	776
All-in Sustaining Cash Cost	\$/oz	1348	1100	999	933	1043

ATTRIBUTABLE RESERVES & RESOURCES		koz Au	EV \$/oz
Proven/Probable Reserve (P&P)		2.11	\$576
Measured/Indicated (M&I) - Inclusive		6.71	\$181
Measures/Indicated/Inferred		9.06	\$134

CAPEX BREAKDOWN		FY17	FY18E	FY19E	FY20E
Sustaining Capex	M \$	55.4	82.0	33.0	32.0
Expansionary Capex	M \$	49.6	30.4	38.0	28.0
Exploration	M \$	27.8	18.3	50.0	23.6
<b>Total</b>	<b>M \$</b>	<b>132.8</b>	<b>130.6</b>	<b>121.0</b>	<b>83.6</b>

GROUP ALL-IN SUSTAINING COSTS AND PRODUCTION					
<b>NET ASSET VALUE</b>	<b>DR (Real %)</b>	<b>(\$m)</b>	<b>AS/Sh</b>	<b>NAV (%)</b>	
<b>Operating Value</b>					
Carosue Dam	7.0%	\$511	\$0.63	57%	
Thunderbox	7.0%	\$380	\$0.47	43%	
<b>Total</b>	<b>7.0%</b>	<b>\$891</b>	<b>\$1.10</b>	<b>100%</b>	
All exploration		\$525	\$0.65		
Cash		\$63	\$0.08		
Corporate G&A		(\$62)	(\$0.08)		
Debt		\$0	\$0.00		
Other		\$0	\$0.00		
<b>Total Net Asset Value</b>		<b>\$1,417</b>	<b>\$1.74</b>		

Source: Company reports, RBC Capital Markets estimates, IRESS



## Production and financial sensitivity to price and FX

### Exhibit 9: Sensitivity to earnings and valuation under spot price and commodity assumptions

Saracen Mineral Holdings					SPOT SCENARIO				
ASX: SAR									
RBC Capital Markets	No Shares (m):	812.8							
Paul Hissey +61 3 8688 6512	Liquidity (m shares/month)	110,773			Share Price (\$/sh):	\$1.58			
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Alexander Hislop +612 8688 6551	Enterprise Value (M \$)	\$1,217			NAV (\$/sh):	\$1.72			

All AUD unless noted					Year End June 30						
RATIO ANALYSIS					PRICES & EXCHANGE RATES						
		FY17	FY18E	FY19E	FY20E		FY17	FY18E	FY19E	FY20E	LT (2021)
Earnings - Adjusted	\$/sh	\$0.04	\$0.11	\$0.13	\$0.17	Gold Price	US\$/oz	1259	1310	1343	1343
P/E Multiple	x	40.1x	14.9x	11.7x	9.4x	Exchange rate	AUD:USD	0.75	0.79	0.79	0.79
CFPS (CFO)	\$/sh	\$0.15	\$0.24	\$0.29	\$0.27	<b>EQUITY PRODUCTION &amp; COSTS</b>					
FCFPS (CFO-capex-expl.)	\$/sh	(\$0.01)	\$0.08	\$0.14	\$0.17	Carosue Dam	koz Au	156	173	183	189
P/CF Multiple	x	10.2x	6.4x	5.4x	5.8x	Thunderbox	koz Au	117	133	128	137
FCF Yield	%	(0.6%)	5.3%	8.9%	10.6%	<b>Total Gold Production</b>	<b>koz Au</b>	<b>263</b>	<b>306</b>	<b>311</b>	<b>326</b>
Dividends Per Share	\$/sh	\$0.00	\$0.00	\$0.02	\$0.04	C1 Cash Cost	\$/oz	956	840	796	740
Dividend Yield	%	0.0%	0.0%	1.3%	2.5%	All-in Sustaining Cash Cost	\$/oz	1348	1100	997	932
LT/Total Cap)	%	0.0%	0.0%	0.0%	0.0%						
<b>INCOME STATEMENT</b>					<b>ATTRIBUTABLE RESERVES &amp; RESOURCES</b>						
Revenue	M \$	\$423	\$493	\$520	\$553						
Operating Costs	M \$	(\$312)	(\$289)	(\$290)	(\$285)						
<b>EBITDA</b>	<b>M \$</b>	<b>\$111</b>	<b>\$204</b>	<b>\$230</b>	<b>\$268</b>						
D&A	M \$	(\$75)	(\$83)	(\$78)	(\$82)						
<b>EBIT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$121</b>	<b>\$152</b>	<b>\$187</b>						
Other Income/Expenses	M \$	(\$0)	\$2	\$4	\$8						
<b>EBT</b>	<b>M \$</b>	<b>\$36</b>	<b>\$123</b>	<b>\$157</b>	<b>\$195</b>						
Taxes	M \$	(\$5)	(\$37)	(\$47)	(\$58)						
<b>Net Income - Reported</b>	<b>M \$</b>	<b>\$31</b>	<b>\$86</b>	<b>\$110</b>	<b>\$136</b>						
Adjustments	M \$	(\$3)	\$7	\$0	\$0						
<b>Net Income - Adjusted</b>	<b>M \$</b>	<b>\$28</b>	<b>\$93</b>	<b>\$110</b>	<b>\$136</b>						
Weighted average diluted shares	M	794	813	813	813						
<b>CASH FLOW STATEMENT</b>					<b>CAPEX BREAKDOWN</b>						
<b>Cash Flows from Operating Activities</b>											
Net Income	M \$	\$31	\$86	\$110	\$136						
D&A	M \$	\$75	\$83	\$78	\$82						
Taxes Paid	M \$	\$5	\$37	\$47	\$1						
Non Recurring/Other	M \$	\$0	\$0	\$0	\$0						
<b>Operating Cash Flow (excl. stripping)</b>	<b>M \$</b>	<b>\$110</b>	<b>\$206</b>	<b>\$234</b>	<b>\$219</b>						
Changes in Working Capital	M \$	\$15	(\$7)	\$1	\$0						
<b>Net Operating Cash flow</b>	<b>M \$</b>	<b>\$126</b>	<b>\$199</b>	<b>\$235</b>	<b>\$219</b>						
<b>Cash Flows From Investing Activities</b>											
Capital Expenditure	M \$	(\$105)	(\$112)	(\$71)	(\$60)						
Other (incl exploration)	M \$	(\$13)	(\$13)	(\$50)	(\$24)						
<b>Net Investing Cash Flow (incl. stripping)</b>	<b>M \$</b>	<b>(\$118)</b>	<b>(\$126)</b>	<b>(\$121)</b>	<b>(\$84)</b>						
<b>Cash Flows From Financing Activities</b>											
Equity Issues (net of costs)	M \$	\$0	\$0	\$0	\$0						
Net Borrowings	M \$	\$0	\$0	\$0	\$0						
Dividends Paid & Other	M \$	(\$8)	\$1	\$0	(\$33)						
<b>Net Financing Cash Flow</b>	<b>M \$</b>	<b>(\$8)</b>	<b>\$1</b>	<b>\$0</b>	<b>(\$33)</b>						
Increase (Decrease) in Cash	M \$	(\$1)	\$75	\$114	\$103						
<b>Cash at End of Year</b>	<b>M \$</b>	<b>\$34</b>	<b>\$108</b>	<b>\$223</b>	<b>\$326</b>						
Operating Free Cash Flow	M \$	\$21	\$87	\$164	\$159						
Free Cash Flow	M \$	\$8	\$73	\$114	\$136						
<b>BALANCE SHEET</b>					<b>GROUP ALL-IN SUSTAINING COSTS AND PRODUCTION</b>						
Cash & Equivalents	M \$	\$34	\$108	\$223	\$326						
Other Current Assets	M \$	\$63	\$54	\$54	\$54						
PP&E & Mining Interests	M \$	\$261	\$295	\$288	\$266						
Other Long Term Assets	M \$	\$47	\$71	\$120	\$143						
<b>Total Assets</b>	<b>M \$</b>	<b>\$404</b>	<b>\$527</b>	<b>\$684</b>	<b>\$789</b>						
Current Liabilities	M \$	\$62	\$45	\$45	\$45						
Long Term Debt	M \$	\$0	\$0	\$0	\$0						
Other Long Term Liabilities	M \$	\$48	\$90	\$137	\$138						
<b>Total Liabilities</b>	<b>M \$</b>	<b>\$110</b>	<b>\$135</b>	<b>\$182</b>	<b>\$183</b>						
Shareholder Equity	M \$	\$294	\$392	\$502	\$606						
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>M \$</b>	<b>\$404</b>	<b>\$527</b>	<b>\$684</b>	<b>\$789</b>						
<b>FINANCIAL RATIOS</b>											
Return on Equity (ROE)	%	9.7%	23.6%	21.8%	22.5%						
Return on Capital (ROIC)	%	7.0%	17.6%	16.0%	17.3%						

NET ASSET VALUE		DR (Real %)	(\$m)	A\$/Sh	NAV (%)
<b>Operating Value</b>					
Carosue Dam		7.0%	\$501	\$0.62	58%
Thunderbox		7.0%	\$369	\$0.45	42%
<b>Total</b>		<b>7.0%</b>	<b>\$870</b>	<b>\$1.07</b>	<b>100%</b>
All exploration			\$525	\$0.65	
Cash			\$63	\$0.08	
Corporate G&A			(\$62)	(\$0.08)	
Debt			\$0	\$0.00	
Other			\$0	\$0.00	
<b>Total Net Asset Value</b>			<b>\$1,397</b>	<b>\$1.72</b>	

Year	Gold Production (koz Au)	All-in Sustaining Cash Cost (A\$/oz Au)
FY17	263	1348
FY18E	306	1100
FY19E	311	997
FY20E	326	932

Source: Company reports, RBC Capital Markets estimates, IRESS





## Valuation

Our 12-month A\$2.00 price target is derived from a 75:25 blend of debt-adjusted cash flow (8x) and our sum-of-the-parts NAV (1.0x). Due to the significant growth phase that the company is in, the strong track record of management, and significant exploration upside potential, we incorporate a slight premium in NAV against the remaining peer group in our Australian gold coverage.

We view this exploration upside and, therefore, potential for mine life extension, to be the main driver in delivering additional valuation upside into the price, which we believe is not fully recognised by the general market. This supports our Outperform rating.

## Risks to rating and price target

1) Changes to both the gold price and currency (AUD/USD) as the largest underlying factor to move the share price; 2) exploration risk – since the extensions to mineralisation and, therefore, mine life remain largely unclassified (not in reserves), there is no guarantee that mineralisation will continue at depth to provide this additional valuation; and 3) operational risk – as again there is no guarantee that production and costs guidance will be achieved due to several unforeseen factors, such as weather events, grade-reconciliation issues, or mining and plant disruptions.

## Company description

Saracen Mineral Holdings (SAR) is an emerging Western Australia gold producer, with production set to climb to c.300koz Au pa with the inclusion of the ongoing commissioning of the Thunderbox project complementing the existing Carosue Dam processing facility.



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**Underperform (U):** Returns expected to be materially below sector average over 12 months.

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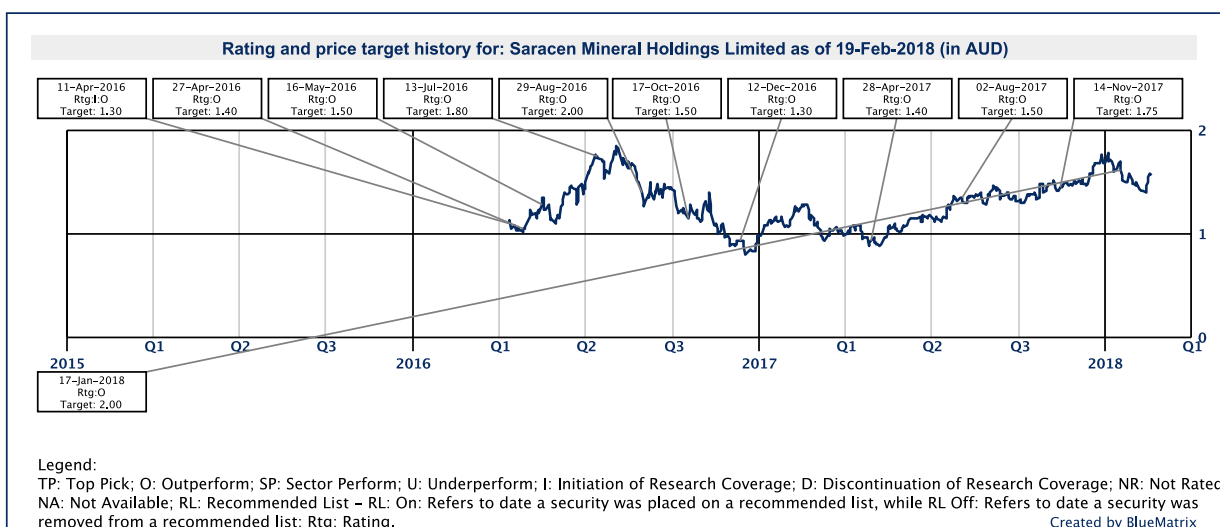
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Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Dec-2017				
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			Serv./Past 12 Mos.	
			Count	Percent
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<b>HOLD [Sector Perform]</b>	<b>683</b>	<b>41.24</b>	<b>155</b>	<b>22.69</b>
<b>SELL [Underperform]</b>	<b>105</b>	<b>6.34</b>	<b>8</b>	<b>7.62</b>



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### Saracen Mineral Holdings Limited

#### Valuation

February 20, 2018



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