

Saracen Mineral Holdings Ltd (SAR.AX)

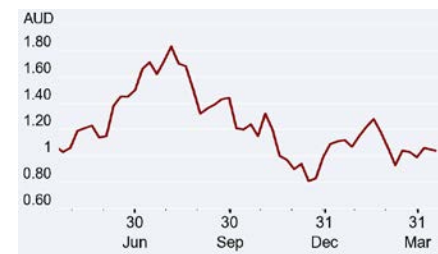
A wet MarQ, positives for JunQ

- Maintain Buy** — Heavy MarQ rain lowered Thunderbox tonnes mined and overall gold production. The outlook for JunQ is positive – mining should lift, with higher grades, meaning lower AISC. We maintain Buy with TP lowered to A\$1.20/sh.
- MarQ result** — MarQ production was 65.1koz, down 2% QoQ (CitiE 75.3koz). Carosue Dam (CDO) produced 39.0koz (CitiE 39.9koz), rain on the Deep South haul route was offset by higher milled grades 2.3g/t (2.0g/t, DecQ). Lower tonnes mined at Thunderbox (TBO) dropped gold production 9% QoQ to 26.1koz (CitiE 35.3koz). Group AISC of A\$1,510/oz were 7% higher than DecQ (A\$1,413/oz). Cash and bullion was A\$30.6m, and is expected to increase from this point.
- Development** — The Zone C pre-strip and second Karari decline should both be completed JunQ, reducing AISC. Development of Kailis has begun, with first ore expected SepQ. Zone D (not in reserves) has begun producing ore. The Whirling Dervish exploration drill drive is underway. Exploration for Thunderbox underground has strengthened the case for a long-life bulk tonne mine, The FS is due SepQ. A group exploration update is due early May and new resource statement in July.
- Positives for JunQ** — The heavy rain will pass but the higher grades mined at both CDO (3.2g/t vs 2.8g/t DecQ) and TBO (1.6g/t vs DecQ 1.4g/t) should remain. We expect TBO ore tonnes mined to lift 27% JunQ, and mill throughput and recovery to increase with a softer ore blend including Zone D and Kailis. Guidance for JunQ of 80koz has been maintained. We forecast 76koz JunQ and 87.5koz SepQ as the softer, higher grade ore from Kailis commences. We expect lower AISC of A\$1224/1052/oz in JunQ/SepQ.
- Change to estimates** — CY17 TBO processing throughput has been lowered and costs lifted. CY17 Karari gold grades have lifted. CY17/18 gold and AUD forecasts have both increased. First ore at Kailis has been pushed back to JunQ. Overall, TP is reduced 5c to A\$1.20.

- Estimate Change
- Target Price Change

| | |
|------------------------------|--------------|
| Buy | 1 |
| Price (19 Apr 17 16:10) | A\$1.01 |
| Target price | A\$1.20 |
| | from A\$1.25 |
| Expected share price return | 18.8% |
| Expected dividend yield | 0.0% |
| Expected total return | 18.8% |
| Market Cap | A\$816M |
| | US\$617M |

Price Performance (RIC: SAR.AX, BB: SAR AU)



| SAR.AU revisions (Y/E Jun) | 2015A | 2016A | 2017E | 2018E | 2019E |
|----------------------------|-------|-------|--------|-------|-------|
| Sales (A\$m) | 250.0 | 276.6 | 413.0 | 532.8 | 614.5 |
| % revision | 0.0% | 0.0% | -4.3% | 0.2% | 0.2% |
| EBIT (A\$m) | 16.5 | 38.6 | 40.4 | 113.2 | 184.6 |
| % revision | 0.0% | 0.0% | -38.5% | -2.0% | -0.6% |
| Core Net Profit (A\$m) | 11.1 | 25.9 | 32.7 | 79.9 | 132.2 |
| % revision | 0.0% | 0.0% | -35.3% | -3.0% | -1.2% |
| Core EPS (Ac) | 1.4 | 3.2 | 4.0 | 9.7 | 16.1 |
| % revision | 0.0% | 0.0% | -35.3% | -3.0% | -1.2% |
| EPS Growth (%) | na | 128.9 | 24.3 | 144.7 | 65.3 |
| PE Ratio (x) | 72.3 | 31.6 | 25.4 | 10.4 | 6.3 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company Reports and dataCentral, Citi Research.

Trent Allen AC
+61-2-8225-4862
trent.allen@citi.com

Clarke Wilkins
clarke.wilkins@citi.com

Alexander Barkley
alexander.barkley@citi.com

Harsh Bardia, CFA
harsh.bardia@citi.com

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| SAR.AX: Fiscal year end 30-Jun | | | | | | Price:\$1.01; TP:\$1.20; # Shares: 808m; Market Cap: A\$816m; Recomm: Buy | | | | | |
|--------------------------------|-------------|--------------|--------------|--------------|--------------|---|-----------------|-----------------|--------------|----------------|--------------|
| Profit & Loss (A\$m) | | | | | | comdty & FX Forecasts | | | | | |
| | 2016 | 2017E | 2018E | 2019E | 2020E | | 2016 | 2017E | 2018E | 2019E | 2020E |
| Sales revenue | 277 | 413 | 533 | 614 | 583 | Gold price (US\$/oz) | 1,170 | 1,255 | 1,208 | 1,313 | 1,360 |
| Cost of sales | -191 | -294 | -331 | -340 | -294 | AUDUSD (analyst) (x) | 0.73 | 0.76 | 0.76 | 0.73 | 0.75 |
| EBITDA | 72 | 99 | 182 | 257 | 272 | Long Term Forecasts | | | | | |
| Depreciation/Amortization | -34 | -59 | -69 | -73 | -68 | Gold Price (US\$/oz) | | | | | 1,050 |
| EBIT | 39 | 40 | 113 | 185 | 203 | AUDUSD average | | | | | 0.72 |
| Net interest | 0 | 0 | 1 | 4 | 11 | | | | | | |
| Earnings before tax | 38 | 41 | 114 | 189 | 214 | Production | 2016 | 2017E | 2018E | 2019E | 2020E |
| Tax Recurring | -12 | -8 | -34 | -57 | -64 | Carosue Dam Operations (koz) | 157 | 155 | 182 | 219 | 199 |
| Exceptional/Other | 0 | 0 | 0 | 0 | 0 | Thunderbox Operations (koz) | 31 | 114 | 155 | 130 | 122 |
| Reported net profit | 26 | 33 | 80 | 132 | 150 | Gold production (koz) | 189 | 269 | 337 | 349 | 321 |
| Core NPAT | 26 | 33 | 80 | 132 | 150 | | | | | | |
| Balance Sheet (A\$m) | 2016 | 2017E | 2018E | 2019E | 2020E | Group Production Costs | 2016 | 2017E | 2018E | 2019E | 2020E |
| Cash & cash equiv. | 34 | 18 | 91 | 241 | 410 | C1 Cash Costs (A\$/oz) | 801 | 1,012 | 932 | 913 | 854 |
| Net fixed & other tangibles | 292 | 328 | 315 | 284 | 251 | AISC (A\$/oz) | 1,094 | 1,385 | 1,076 | 1,060 | 1,013 |
| Total assets | 362 | 391 | 449 | 567 | 704 | Operation Production Costs | 2016 | 2017E | 2018E | 2019E | 2020E |
| Short-term debt | 1 | 3 | 3 | 3 | 3 | CDO C1 Cash Costs (A\$/oz) | 793 | 1,096 | 1,027 | 1,094 | 1,093 |
| Long-term debt | 2 | 3 | 3 | 3 | 3 | CDO AISC (A\$/oz) | 1,072 | 1,460 | 1,177 | 1,230 | 1,239 |
| Total liabilities | 101 | 118 | 118 | 118 | 118 | TBO C1 Cash Costs (A\$/oz) | 895 | 898 | 822 | 608 | 466 |
| Shareholders' equity | 261 | 273 | 331 | 449 | 585 | TBO AISC (A\$/oz) | 1,293 | 1,282 | 961 | 773 | 644 |
| Total equity | 261 | 273 | 331 | 449 | 585 | | | | | | |
| Net debt | -31 | -12 | -85 | -235 | -404 | Earnings Sensitivity | 2016 | 2017E | 2018E | 2019E | 2020E |
| Cashflow (A\$m) | 2016 | 2017E | 2018E | 2019E | 2020E | EPS%Δ/10% AUDUSD (%) | na | 18.4 | 24.2 | 25.2 | 24.8 |
| Operating cashflow | 110 | 98 | 148 | 205 | 218 | EPS%Δ/10% Gold (%) | na | 20.3 | 26.6 | 27.8 | 27.3 |
| Capex | -105 | -83 | -55 | -41 | -35 | | | | | | |
| Net acq/disposals | 0 | 0 | 0 | 0 | 0 | | | | | | |
| Exploration exp/Other | -7 | -29 | -20 | -13 | -13 | | | | | | |
| FCF ex acqns & explor exp | -2 | -14 | 73 | 150 | 169 | | | | | | |
| Net change in cash | -4 | -16 | 73 | 150 | 169 | | | | | | |
| Per share data | 2016 | 2017E | 2018E | 2019E | 2020E | Reserves & Resources | Reserves | Resource | | | |
| Reported EPS (¢) | 3 | 4 | 10 | 16 | 18 | | Amount | Grd.() | Amount | Grd.() | |
| Core EPS (¢) | 3 | 4 | 10 | 16 | 18 | Gold reserves | 1,530 | 1.78 | 8,414 | 1.80 | |
| DPS (¢) | 0 | 0 | 0 | 0 | 0 | | | | | | |
| CFPS (¢) | 14 | 12 | 18 | 25 | 27 | | | | | | |
| BVPS (¢) | 32 | 34 | 41 | 56 | 73 | | | | | | |
| Wtd avg ord shares (m) | 794 | 807 | 807 | 807 | 807 | | | | | | |
| Wtd avg diluted shares (m) | 809 | 821 | 821 | 821 | 821 | | | | | | |
| Valuation ratios | 2016 | 2017E | 2018E | 2019E | 2020E | Valuation | | | | | |
| PE (x) | 31.6 | 25.4 | 10.4 | 6.3 | 5.5 | WACC (%) | | | | | 10.0 |
| EV/EBIT (x) | 21.7 | 21.2 | 7.3 | 3.9 | 2.7 | | | | | | |
| EV/EBITDA (x) | 11.5 | 8.6 | 4.6 | 2.8 | 2.1 | NPV Valuation | | | US\$M | A\$/sh. | |
| FCF yield (%) | 1 | 2 | 11 | 20 | 22 | Carosue Dam Operations | | | 210 | 0.36 | |
| Dividend yield (%) | 0 | 0 | 0 | 0 | 0 | Thunderbox Operations | | | 186 | 0.32 | |
| Payout ratio (%) | 0 | 0 | 0 | 0 | 0 | Exploration | | | 79 | 0.14 | |
| Operating performance | 2016 | 2017E | 2018E | 2019E | 2020E | Corporate costs | | | -33 | -0.06 | |
| EBITDA margin (%) | 26 | 24 | 34 | 42 | 47 | Gold hedges | | | -15 | -0.03 | |
| Operating ROE (%) | 11 | 12 | 27 | 34 | 29 | Net debt | | | 9 | 0.01 | |
| Operating ROIC (%) | 10 | 10 | 25 | 43 | 53 | Total | | | 436 | 0.82 | |
| Net debt to equity (%) | -12 | -4 | -26 | -52 | -69 | | | | | | |
| Debt to total capital (%) | 1 | 2 | 2 | 1 | 1 | | | | | | |

Saracen Mineral Holdings Ltd

Company description

Saracen Mineral Holdings Ltd (SAR) is a gold mining company operating in Western Australia. Their two operations are at Carosue Dam: including the Karari, Deep South and Whirling Dervish mines and at Thunderbox: including the Thunderbox and Kailis mines.

Investment strategy

We rate SAR as Buy. SAR has a strong organic growth opportunity and we forecast production of +300kozpa by FY18. Ramp up in production at Karari and Deep South should lift near-term production and development of the Kailis, Whirling Dervish and Thunderbox UG mines should drive longer term growth. Catalysts in CY17 include near mine reserve extensions, released July 17, the Thunderbox UG feasibility study, released by SepQ, and production expansion at multiple mines. We forecast AISC to fall towards ~A\$1,100/oz in FY18 lifting margins at a time of revenue growth.

Valuation

We value SAR using a combination of NAV x1.2 (\$0.98/sh), P/E x12 and EV/EBITDA x7 with respective weightings of 50/25/25. This yields a value and share price target of \$1.20/sh.

To derive a sum-of-the-parts NAV we apply a nominal WACC of 10% (beta 1, ERP 5%, RFR 5.5%) to discounted cash flows over the life of the group's individual assets. Our long-term assumptions include US\$1050/oz gold, AUDUSD of 0.75. Our DCF valuation is net of cash and overheads.

Risks

SAR operates two complex multi mine operations which could negatively impact operating efficiency. Developing mines may be delayed or fall short of production estimates. Exploration drilling and feasibility studies may be below expectations.

Our valuation of the company is exposed to macroeconomic developments affecting the gold price and exchange rates, operational risks that might affect volumes and input costs, and political risks that might affect costs and the company's reputation. Upside risks to our forecasts and target price include a better than-expected operating performance from the company's assets. Other upside risks include a higher-than-expected gold price and weaker-than-expected operating currencies. If the impact on the company from any of these factors proves to be less/more negative than we anticipate, the stock could materially outperform/underperform our target price.

This stock is High Risk based upon our quantitative model but this risk rating is not supported by qualitative factors such as steady operational growth, high-quality management and Citi's medium term view of the gold price. Therefore a High Risk rating has not been applied.

Appendix A-1

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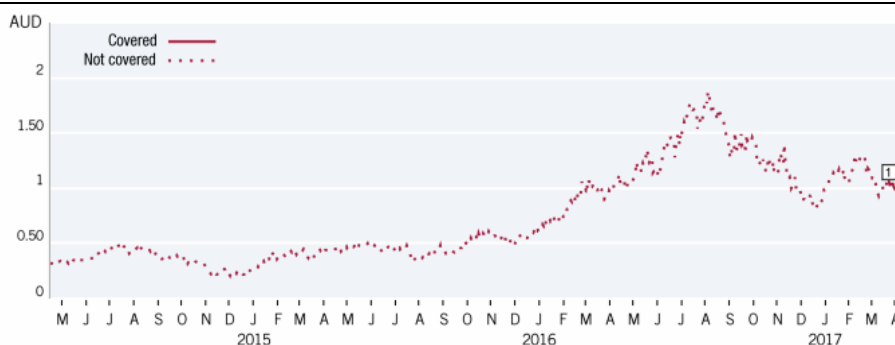
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Saracen Mineral Holdings Ltd (SAR.AX)

Ratings and Target Price History Fundamental Research

Analyst: Trent Allen
Covered since March 23 2017



| Date | Rating | Target Price | Closing Price |
|--------------------|--------|--------------|---------------|
| 23-Mar-17 02:32:57 | *1 | *1.25 | 1.06 |

*Indicates Change

Saracen Mineral Holdings Ltd (SAR.AX)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

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Covered since March 23 2017



Rating/target price changes above reflect Eastern Time

*Indicates Change

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|---|-----------------|------|------|----------------|------|------|
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