

# Saracen Mineral Holdings Ltd

## (SAR \$1.12) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	4 <sup>th</sup> July 2017	\$1.35/sh

### Carosue Dam Site Visit

#### Investment case

This is best we have seen Carosue Dam look. We have upgraded our valuation to \$1.09/sh (from \$0.99/sh) with increased confidence that Karari mine life can be extended, Whirling Dervish will contribute to production and Deep Sth grade issues are under control. Deep drilling at Karari could give visibility to 10yrs and with lots of news flow in the next six months including; updated reserves/resource, Karari deep drilling, Whirling Dervish drilling and updated 5 yr plan we expect the positive momentum to continue. We increase our Price Target to \$1.35/sh.

#### Key points

- The exploration and development success at Karari has been exceptional; finally providing investors with some long term visibility and a source of base load production for this operation.
- The ramp up to 100kt of ore mined per month, achieved in April'17 has continued and site personnel are confident this 1-1.2mt pa can be maintained, if not increased in subsequent years.
- We upgrade Karari production forecasts from 88koz pa to 110koz and extend mine life from 5yrs to 7yrs. We forecast peak Carosue Dam production of 210koz in FY'19. Our valuation has increased to \$1.09/sh

#### Karari

- The heavy investment in the past 18 months at Karari should result in a significant increase in both resource and reserves. We believe that the current 860koz resource can grow to +1moz and similarly reserves can grow from 212koz to ~ +350koz, despite mining depletion of 70koz last FY.
- SAR has completed 3yrs of grade control at Karari and an increase in the endowment at 2,200oz pvm means that it only has to mine ~50m vertically per annum to achieved its 100koz target. We believe this could ultimately reach 75m vertical or 1.5mt pa, equating to 140koz.
- SAR plan to drill a fence of holes at the 1,600m RL, some 400m below current workings and ~ 200-300m below the new reserve. If successful this could give visibility of a 8-10yr operation and allow for some long term planning – ie ventilation, haulage etc. This drilling should commence in the 1st H FY'18 and could be a 'game changer'.
- A total of 36,000m of drilling at a cost of \$5m is planned at Karari in FY'18.

#### Deep South

- Deep South operations have stabilised in terms of grade and stope dilution. The overall grade is likely to be closer to 3 g/t rather than the 3.7 g/t estimated in the June'16 reserve. We have modelled this new grade in and believe that its can still generate ~ \$10-15m in free cash per annum.

#### Whirling Dervish

- The Whirling Dervish decline and drill drive has commenced. The plan is to drill 36,000m in the 1st H FY'18 to grade control the first 18 months of production plus drill some deeper holes to target extensions to the orebody.
- We see potential for Whirling Dervish to be bought into the production mix in early FY'19 at a rate of say ~700kt pa. This could produce 55-60koz pa.

Saracen Mineral Holdings Ltd	Year End 30 June	
Share Price	1.12	A\$/sh
Price Target	1.35	A\$/sh
Valuation	1.09	A\$/sh
	(npv 10%)	

Shares on issue	807	m, diluted *
Market Capitalisation	936	A\$m
Enterprise Value	896	A\$m
Debt	0	A\$m
Cash	40	A\$m
Largest Shareholder		Van Eck 11%

Production F/Cast	2016a	2017f	2018f
Attrib. Prod'n (koz)	189	278	301
Cash Cost (A\$/oz)	868	1059	986
Total Cost (A\$/oz)	1165	1374	1194

Assumptions	2016a	2017f	2018f
Spot Gold Price US\$/oz	1235	1277	1240
AUDUSD	0.73	0.75	0.76

Key Financials	2016a	2017f	2018f
Revenue (A\$m)	277	422	500
EBITDA (A\$m)	73	96	171
NPAT (A\$m)	26	32	79
Cashflow (A\$m)	110	92	144

CFPS (Ac)	14	11	18
P/CFPS (x)	10.6	10.2	6.3

EPS (Ac)	3	4	10
EPS growth (%)	125%	22%	150%
PER (x)	45.0	29.6	11.4

EV:EBITDA (x)	12.2	9.3	5.2
EV:EBIT (x)	24.2	28.2	8.1

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

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

#### Share Price Chart



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- The strategy for feeding the 2.4mtpa mill is to replace the low grade stockpiles with higher grade underground ore. In FY'17 we estimate stockpiles accounted for ~ 900kt. We forecast this to reduce to around 700kt with the increase of Karari ore and by FY'19 this could reduce to <100kt as the ore blend could be:
  - 1.2mt from Karari
  - 500kt from Deep Sth
  - 600kt from Whirling Dervish
  - 100kt of low grade stockpiles (1 g/t Au).
- This could see production approach or exceed the 200koz pa level (grade dependent).
- We forecast Carosue Dam capital of \$25m in FY'18 with the significant drill programs proposed plus some capital works program.
- Exploration will also focus on the 1.5km corridor between Karari and Whirling Dervish where there has been little exploration to date. In terms of its peers, both underground are relatively very shallow

### Analysis

This was an excellent site visit and one that has given us sufficient confidence to upgrade our Carosue Dam production forecasts, increase mine life and upgrade our valuation and Price Target.

We had previously modelled Karari as a 5 yr operation with peak production of 88koz. We now have confidence to model it as a 7yr operation with peak production of 110koz @ AISC of \$1,040/oz.

The transformation of this asset over the past two years has been outstanding. From the original concept of a modest \$10m exploration decline with the base case of repaying the capital, to a potentially long life, >100koz pa producer.

Karari deep drilling is a potential game changer should it be successful. This could give visibility to a potential 10 yr operation and a significant re rating.

We have reduced our Deep Sth production in line with lower grades but added in Whirling Dervish production profile.

The net effect of all these changes is our valuation has increased from \$0.99/sh to \$1.09/sh.

We expect the June Q to produce ~ 80koz with Carosue Dam @ 45koz and Thunderbox at 35koz. We expect some modest free cash generation and forecast an end of FY'17 cash balance of \$40m.

We do not expect SAR to update its 5 yr plan until later in the year, once the Whirling Dervish drilling is complete. We still forecast FY'18 production of 301koz @ AISC of \$1.194/oz but increasing to ~340koz @ \$1.155/oz in FY'19.

We maintain our Buy and increase our PT to \$1.35/sh or 1.25x NAV. It is on the cusp of real free cash generation and has some potentially game changing drill program coming up in the next six months.

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## Saracen Mineral Holdings Ltd

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## Market Statistics

		Year End 30 June			
<b>Share Price</b>	<b>\$1.12 A\$/sh</b>	<b>Directors</b>			
Issued Capital		G Clifford	Chair'n		
FP Ord	807.1 m	R Finlayson	Mgr Dir		
Opts (@0.235/sh June'13) -	m	M Reed	Dir		
		S Tough	Dir		
<b>Total Dil. FPOrd</b>	<b>807.1 m</b>	M Connelly	Dir		
Market Capitalisation	\$936 m	<b>Shareholders</b>			
Enterprise Value	\$896 m	Van Eck	11%		
Debt (est)	\$- m	Wroxby	7%		
Cash (est)	\$40 m				
<i>Hedging 236koz @ \$1,546/oz</i>					

Asset Valuation	A\$m	A\$/sh
Carouse Dam	437	0.38
Thunderbox	336	0.42
Hedging	(26)	(0.03)
Corporate	(27)	(0.03)
Expl'n	100	0.13
Unpaid Capital	-	-
Debt	-	-
Cash	40	0.05
<b>Total</b>	<b>860</b>	<b>1.09</b>

F/Cast Production (A\$m)	2016aJun H'17	2017f	2018f	2019f
<b>Attrib. Prod'n (koz)</b>				
Carosue Dam	158	83	153	167
Thundebox	31	65	125	135
<b>Total Attrib (koz)</b>	<b>189</b>	<b>147</b>	<b>278</b>	<b>301</b>

Prices (A\$/oz)	2016aJun H'17	2017f	2018f	2019f
Avg Spot Gold Price	1,700	1,642	1,668	1,743
Avg Gold Price Rec'd	1,628	1,608	1,627	1,652

Cash Cost (A\$/oz)	2016aJun H'17	2017f	2018f	2019f
Carosue Dam	868	1,090	1,059	769
Thunderbox	1,279	1,323	1,219	1,082
Avg Cash Cost (A\$/oz)	868	1,090	1,059	986
All in Costs (A\$/oz)	1,165	1,359	1,374	1,194

Ratio Analysis (A\$m)	2016aJun H'17	2017f	2018f	2019f
CF (A\$m)	110	51	92	144
CF / Sh (Ac/sh)	14	6	11	18
CF Ratio (x)	10.6	-	10.2	6.3

Earnings (A\$m)	26	18	32	79	151
EPS (Ac/sh)	3.2	2.3	3.9	9.8	18.7
EPS Growth (%)	125%	0%	22%	150%	91%
Earnings Ratio (x)	45.0	-	29.6	11.4	6.0

E'prise Val. (A\$m)	1,130	896	896	782	655
EV : EBITDA (x)	12.2	17.2	9.3	5.2	3.7
EV : EBIT (x)	24.2	48.4	28.2	8.1	4.3

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

EBIT Margin (%)	13%	0%	8%	22%	36%
ROE (%)	10%	0%	11%	23%	32%
ROA (%)	10%	0%	8%	24%	35%

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

Profit and Loss (A\$m)	2016aJun H'17	2017f	2018f	2019f
Gold Sales	288	242	431	525
Hedging Revenue	-12	-5	-10	-27
Deferred Revenue	0	0	0	0
Interest Revenue	1	1	1	2
Other Revenue	0	0	0	0
<b>TOTAL REVENUE</b>	<b>277</b>	<b>238</b>	<b>422</b>	<b>500</b>
Operating Costs	190	179	311	314
Dep/Amort	34	33	64	59
W/O & Provisions	2	1	1	1
Corp O/H	12	6	14	12
EBITDA	73	52	96	171
EBIT	37	19	32	111
Interest Expense	0	0	0	0
NPBT	38	19	33	113
Tax	12	1	2	34
Minorities	0	0	0	0
<b>NET PROFIT</b>	<b>26</b>	<b>18</b>	<b>32</b>	<b>79</b>
Net Abnormal Gain/(Loss)	0	0	0	0
<b>NET PROFIT After Abn'l</b>	<b>26</b>	<b>18</b>	<b>32</b>	<b>79</b>

Cash Flow (A\$m)	2016aJun H'17	2017f	2018f	2019f
Net Profit	26	18	32	79
+ Working Capital Adj.	35	5	11	0
+ Dep/Amort	34	26	47	47
+ Provisions	2	1	1	1
+ Tax Expense	12	1	2	34
- Tax Paid	0	0	0	18
- Deferred Revenue	0	0	0	0
<b>Operating Cashflow</b>	<b>110</b>	<b>51</b>	<b>92</b>	<b>144</b>
-Capex + Development	104	26	59	38
-Exploration	8	18	35	20
-Assets Purchased	0	0	0	0
+Asset Sales	0	0	0	0
+ Other	0	0	0	0
<b>Investing Cashflow</b>	<b>-111</b>	<b>-44</b>	<b>-94</b>	<b>-58</b>
+Equity Issues	0	0	0	0
+Loan D'down/Receivable	0	0	0	0
-Loan Repayment	0	0	2	4
-Dividends	0	0	0	16
<b>Financing Cashflow</b>	<b>-2</b>	<b>0</b>	<b>-2</b>	<b>-4</b>

<b>Period Sur (Def)</b>	<b>-4</b>	<b>7</b>	<b>5</b>	<b>82</b>
<b>Cash Balance</b>	<b>35</b>	<b>40</b>	<b>40</b>	<b>122</b>

Balance Sheet (A\$m)	2016aJun H'17	2017f	2018f	2019f
<b>Assets</b>				
Cash	35	40	40	122
Current Receivables	5	5	5	5
Other Current Assets	31	42	42	42
Non-Current Assets	292	315	315	292
<b>Total Assets</b>	<b>362</b>	<b>402</b>	<b>402</b>	<b>593</b>
<b>Liabilities</b>				
Borrowings	4	0	0	0
Current Accounts Payable	27	43	43	43
Other Liabilities	70	70	70	70
<b>Total Liabilities</b>	<b>101</b>	<b>113</b>	<b>113</b>	<b>113</b>
<b>Net Assets</b>	<b>261</b>	<b>289</b>	<b>289</b>	<b>348</b>

	Reserves		Resources		
	mt	g/t	koz	mt	g/t
Carosue Dam	10.6	1.9	665	80.9	1.8
Thunderbox	15.80	1.70	864	65.20	1.80
<b>Equity Share Gold</b>			<b>1,529</b>		
<b>Enterprise Value / oz (A\$)</b>			<b>586</b>		<b>107</b>

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## Contact Details

**Euroz Securities Limited** +61 8 9488 1400

### International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

### Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

### Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Brian Bates - Executive Director	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Steve Grove - Associate Director	+61 8 9488 1410
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Duncan Relf - Investment Adviser	+61 8 9346 0322
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Richard Gardner - Investment Adviser	+61 8 9488 1444
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

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