

Saracen Mineral Holdings

SAR-ASX

 Rating
Outperform

 Price: Feb-19
A\$1.56

 Target
A\$2.00

 Total Rtn
28%

FH1/18 Adds More Cash To The Balance Sheet

Bottom Line: Neutral. Saracen reported adj. EPS of A\$0.05, in-line with BMO's estimate of A\$0.05 and above consensus of A\$0.02. The company ended the quarter with cash and equivalents of A\$83M, which includes the A\$7M of cash proceeds from the sale of King of the Hills.

Key Points

Saracen Mineral Holdings reported adj. EPS of A\$0.05 for H1/18, in-line with BMO's estimate of A\$0.05 and above consensus of A\$0.02. Saracen's strong financial results were driven by strong production numbers during the period, despite a lower-than-expected average gold price. Production for the December Quarter was previously reported on January 16 (see [SAR Production Results](#)).

Lower received gold price sets the stage for better hedge book. During the half, Saracen delivered into some of the lower priced hedges, helping boost the average delivery price of the book going forward. The average gold price received in the half was A\$1,591/oz. As of the 16th of February, the hedge book comprised 265,343 ounces at an average delivery price of A\$1,654/oz.

Saracen ended the period with cash and equivalents of A\$83M. This includes the A\$7M of cash proceeds from the sale of King of the Hills.

BMO  **Capital Markets**

Metals & Mining

Brian Quast, P.Eng., JD.

brian.quast@bmo.com

Analyst

(416) 359-6824

Darren Viegas

Darren.Viegas@bmo.com

Associate

(416) 359-8090

Mohd Choudhry, CPA, CMA

Mohd.Choudhry@bmo.com

Associate

(416) 359-5734

Legal Entity: BMO Nesbitt Burns Inc.



Company Data in AUD

Dividend	AUD0.00	Shares O/S (mm)	812.8
Yield	0.0%	Market Cap (mm)	AUD1,268
NAV	\$0.71	P/NAV	2.2x

BMO Estimates in AUD

(FY-Jun.)	2016A	2017A	2018E
Revenue	277	424	483↓
EPS	0.04	0.04	0.12↓
CFPS	0.14	0.16	0.24
Gold Prod (koz)	189	273	302
AISC (\$/oz)	\$1,138	\$1,513	\$1,067↓

Consensus Estimates

	2016A	2017A	2018E
EPS			0.10

Valuation

	2016A	2017A	2018E
P/E		37.1x	12.9x
P/CFPS		10.0x	6.6x
EV/EBITDA		11.4x	4.8x

Semi-Annual EPS

	H1	H2
2016A	0.01	0.02
2017A	0.02	0.02
2018E	0.05a	0.08

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.

Key Changes

Estimates	2018E
Revenue	483
Previous	487
EPS	0.12
Previous	0.13

Saracen Mineral Holdings - Block Summary Model

Income Statement		2016A	2017A	2018E
Revenue		277	424	483
Operating Costs		191	297	243
G&A		8	10	13
Depreciation		34	75	82
EBITDA		73	108	234
Tax		12	5	46
Adjusted Net Earnings		30	34	98
EPS		0.04	0.04	0.12
Cash Flow Statement		2016A	2017A	2018E
CFO		110	126	192
CFI		(112)	(118)	(100)
CFF		(2)	(8)	1
Free Cash Flow		(2)	8	87
FCF/Share		(0.00)	0.01	0.11
Balance Sheet		2016A	2017A	2018E
Cash & Equivalents		34	34	126
Long-Term Debt		0	0	0
Total Assets		362	404	522
Total Liabilities		101	110	116
Total Shareholders' Equity		261	294	406
Attrib. Production & Cash Costs		2016A	2017A	2018E
Gold Production - Carosue Dam (koz)		157	156	161
Gold Production - Thunderbox (koz)		31	117	141
Total Gold Prod'n (koz)		189	273	302
Total Gold Eq. Production (koz)		189	273	302
Total Cash Costs (\$/oz)		606	761	629
AISC (\$/oz)		\$1,138	\$1,513	\$1,067
Price Assumptions		2016A	2017A	2018E
Gold Price (US\$/oz)		1,168	1,258	1,281
Silver Price (US\$/oz)		15.33	17.86	17.31
Copper Price (US\$/lb)		2.22	2.44	2.96
USD:AUD		0.728	0.755	0.780

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

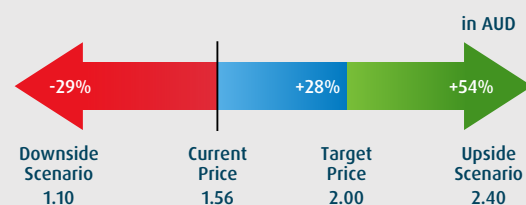
Our A\$2.00 target price is based on a 50% weighting assigned to a 1.5x P/NPV multiple (BMO metal prices, 5% discount rate) and a 50% weighting given to a 12.0x 2018E CFPS multiple. SAR currently trades at 2.2x P/NPV and 6.6x P/2018E CFPS versus the group, which trades at 1.3x P/NPV and 6.4x P/2018E CFPS.

Upside Scenario AUD2.40

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 AUD1.10

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

 Industry
Research

 Company
Models

Exhibit 1: SAR Block Model at BMO Metal Price Assumptions

SARACEN MINERAL HOLDINGS		SAR
Recommendation	OP	Analyst BQ
As at	19-Feb-18	BMO Capital Markets
Year End	December	
Share Price	\$1.56 A\$/share	\$1.24 US\$/share
Target Price	\$2.00 A\$/share	\$1.58 US\$/share
Net Present Value	5% \$0.71 A\$/share	\$0.56 US\$/share
	0% \$0.82 A\$/share	\$0.65 US\$/share
Market Cap	1,268.0 A\$M	1,004.9 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	0.80
Gold	US\$/oz	1,225	1,168	1,258	1,281	1,263
Silver	US\$/oz	17.38	15.33	17.86	17.31	17.80
Copper	US\$/lb	2.90	2.22	2.44	2.96	2.96
Zinc	US\$/lb	1.00	0.80	1.15	1.44	1.37
Oil	US\$/bbl	70.05	46.20	49.45	51.04	50.99

FINANCIAL SUMMARY		2015A	2016A	2017A	2018E	2019E
(December Year End)						
NPAT (pre-Abs)	(AUD\$M)	11.7	29.5	33.9	98.3	116.6
ADJUSTED EPS	(AUD\$/share)	0.01	0.04	0.04	0.12	0.14
PER	(x)	na	42.0x	37.1x	12.9x	10.9x
EBITDA	(AUD\$M)	66.7	73.1	108.1	234.0	239.0
EBITDA/share	(AUD\$/share)	0.08	0.09	0.13	0.29	0.29
EV/EBITDA	(x)	0.0x	16.6x	11.4x	4.8x	4.2x
Cash Flow	(AUD\$M)	65.4	109.8	125.6	191.5	193.0
Cash Flow/share	(AUD\$/share)	0.08	0.14	0.16	0.24	0.24
P/Cash Flow	(x)	18.9x	11.3x	10.0x	6.6x	6.6x
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	483.0	501.4
Other Revenue		0.8	0.7	0.5	0.5	0.0
Operating Costs		(173.8)	(191.3)	(296.8)	(242.6)	(247.6)
Depreciation		(49.5)	(33.9)	(74.7)	(81.7)	(76.4)
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)	(13.1)	(17.5)
Other Costs		0.0	0.0	0.0	(0.6)	4.6
Operating Profit Before Tax		16.8	42.0	38.5	144.4	164.6
Income Tax		(5.0)	(12.4)	(4.6)	(46.1)	(48.0)
Operating Profit After Tax		11.7	29.5	33.9	98.3	116.6
Minorities		0.0	0.0	0.0	0.0	0.0
Net Profit After Tax		11.7	29.5	33.9	98.3	116.6
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	106.0	114.6

SARACEN MINERAL HOLDINGS		2015A	2016A	2017A	2018E	2019E
Cash Operating Costs	AUD\$/oz	695	768	958	759	737
Total Cash Costs	AUD\$/oz	763	832	1,009	806	779
All-In-Sustaining-Costs	AUD\$/oz	1,007	1,138	1,513	1,067	941
All-In-Costs	AUD\$/oz	1,172	1,634	1,696	1,217	1,046
Gold Price Received	AUD\$/oz	1,437	1,621	1,664	1,619	1,577
EBIT to Total Assets		-8.0%	1.9%	-7.2%	8.9%	9.3%
NPAT to Shareholders Equity		4.9%	9.9%	9.7%	26.1%	22.0%

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	155.0	114.6
Non-Cash Items		0.0	0.0	0.0	36.5	78.4
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)	(45.7)	(75.5)
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)	92.7	125.7
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	126.4	252.1

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	126.4	252.1
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	334.0	324.9
Other		116.0	70.5	96.4	180.2	305.9
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	116.1	118.1
Shareholders Funds						
Net Debt to Equity		-16.1%	-11.7%	-11.5%	-31.2%	-48.5%

PROJECT	NPV		GOLD PRODUCTION (koz)				
	0%	5%	2015A	2016A	2017A	2018E	2019E
	AUD\$M	AUD\$M					
CAROSUE DAM	182.4	180.1	167.5	157.2	156.0	161.1	189.5
THUNDERBOX	408.5	296.6	0.0	31.5	116.8	140.5	128.3
			0.0	0.0	0.0	0.0	0.0
Total Production			167.5	188.7	272.8	301.7	317.8
Total Sales			128.0	188.0	266.6	300.7	317.8
Gold Equiv Sales			128.0	188.0	266.6	300.7	317.8
Exploration Credit	31.0	31.0					
Hedge Book	8.3	7.7					
Corporate	(93.7)	(70.8)					
Net Cash	126.4	126.4					
Investments/Bullion	7.6	7.6					
Options & Warrants	0.0	0.0					
Total NPV	670.6	578.7					
Per Share	\$0.82	\$0.71	IRR = -11.0%			P/NPV 2.2x	

Co-Product Cash Cost (US\$/oz)		2015A	2016A	2017A	2018E	2019E
CAROSUE DAM (AUSTRALIA)		640	615	848	728	721
THUNDERBOX (AUSTRALIA)		0	552	645	516	479
QUARTERLY SUMMARY						
ADJUSTED EPS	(AUD\$/sh)		H1/18A	H2/18E	H1/19E	H2/19E
CFPS	(AUD\$/sh)		0.05	0.08	0.08	0.07
FCPS	(AUD\$/sh)		0.12	0.12	0.12	0.11
FCPS	(AUD\$/sh)		0.03	0.08	0.07	0.07

Source: BMO Capital Markets

Exhibit 2: SAR Block Model at Spot Metal Prices

SARACEN MINERAL HOLDINGS		SAR	
Recommendation	OP	Analyst	BQ
As at	19-Feb-18	BMO Capital Markets	
Year End	December		
Share Price	\$1.56 A\$/share	\$1.24	US\$/share
Target Price	\$2.00 A\$/share	\$1.58	US\$/share
Net Present Value	5% \$1.02 A\$/share	\$0.81	US\$/share
	0% \$1.26 A\$/share	\$1.00	US\$/share
Market Cap	1,268.0 A\$M	1,004.9	US\$M
Ordinary Shares	812.8 M		
Options & Warrants	0.0 M		

PRICE ASSUMPTIONS - SPOT PRICES		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Exchange Rate	AUD:USD	0.84	0.73	0.75	0.79	0.79
Gold	US\$/oz	1,225	1,168	1,258	1,312	1,348
Silver	US\$/oz	17.38	15.33	17.86	16.72	16.66
Copper	US\$/lb	2.90	2.22	2.44	3.12	3.25
Zinc	US\$/lb	1.00	0.80	1.15	1.52	1.64
Oil	US\$/bbl	70.05	46.20	49.45	56.86	61.75

FINANCIAL SUMMARY		2015A	2016A	2017A	2018E	2019E
(December Year End)						
NPAT (pre-Abs)	(AUD\$M)	11.7	29.5	33.9	101.9	133.7
ADJUSTED EPS	(AUD\$/share)	0.01	0.04	0.04	0.13	0.16
PER	(x)	na	42.0x	37.1x	12.4x	9.5x
EBITDA	(AUD\$M)	66.7	73.1	108.1	239.6	267.0
EBITDA/share	(AUD\$/share)	0.08	0.09	0.13	0.30	0.33
EV/EBITDA	(x)	0.0x	16.6x	11.4x	4.7x	3.7x
Cash Flow	(AUD\$M)	65.4	109.8	125.6	195.1	210.1
Cash Flow/share	(AUD\$/share)	0.08	0.14	0.16	0.24	0.26
P/Cash Flow	(x)	18.9x	11.3x	10.0x	6.5x	6.0x
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	490.2	540.4
Other Revenue		0.8	0.7	0.5	0.5	0.0
Operating Costs		(173.8)	(191.3)	(296.8)	(242.8)	(248.6)
Depreciation		(49.5)	(33.9)	(74.7)	(81.7)	(76.4)
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)	(13.3)	(18.9)
Other Costs		0.0	0.0	0.0	(1.8)	(3.9)
Operating Profit Before Tax		16.8	42.0	38.5	150.0	192.6
Income Tax		(5.0)	(12.4)	(4.6)	(48.1)	(58.9)
Operating Profit After Tax		11.7	29.5	33.9	101.9	133.7
Minorities		0.0	0.0	0.0	0.0	0.0
Net Profit After Tax		11.7	29.5	33.9	101.9	133.7
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	109.6	131.7

SARACEN MINERAL HOLDINGS		2015A	2016A	2017A	2018E	2019E
Cash Operating Costs	AUD\$/oz	695	768	958	759	737
Total Cash Costs	AUD\$/oz	763	832	1,009	807	782
All-In-Sustaining-Costs	AUD\$/oz	1,007	1,138	1,513	1,069	949
All-In-Costs	AUD\$/oz	1,172	1,634	1,696	1,218	1,053
Gold Price Received	AUD\$/oz	1,437	1,621	1,664	1,643	1,700
EBIT to Total Assets		-8.0%	1.9%	-7.2%	9.6%	11.8%
NPAT to Shareholders Equity		4.9%	9.9%	9.7%	26.8%	24.3%

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	158.6	131.7
Non-Cash Items		0.0	0.0	0.0	36.5	78.4
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)	(45.7)	(75.5)
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)	96.3	142.8
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	130.0	272.9

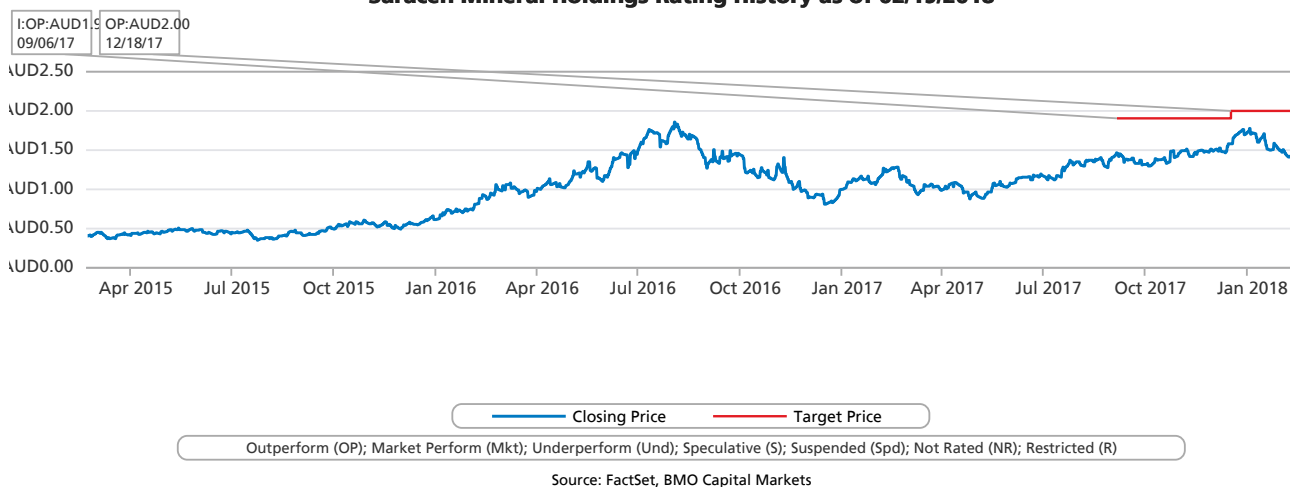
BALANCE SHEET ANALYSIS - AUD\$M		2015A	2016A	2017A	2018E	2019E
(December Year End)						
Current Assets						
Cash and Cash Equivalents		38.4	34.3	33.7	130.0	272.9
Other		71.3	36.2	62.6	53.7	53.7
Non-Current Assets						
Investments		0.0	0.0	0.0	7.6	7.6
Fixed Assets		184.3	291.6	308.1	334.0	324.9
Other		116.0	70.5	96.4	183.8	326.6
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	116.1	118.1
Shareholders Funds		229.2	260.7	294.0	409.3	541.0
Net Debt to Equity		-16.1%	-11.7%	-11.5%	-31.8%	-50.4%

PROJECT	NPV		GOLD PRODUCTION (koz)						
	0%	5%	2015A	2016A	2017A	2018E	2019E		
CAROSUE DAM	AUD\$M	AUD\$M	322.1	298.0	167.5	157.2	156.0	161.1	189.5
THUNDERBOX			657.2	460.7	0.0	31.5	116.8	140.5	128.3
					0.0	0.0	0.0	0.0	0.0
Total Production					167.5	188.7	272.8	301.7	317.8
Total Sales					128.0	188.0	266.6	300.7	317.8
Gold Equiv Sales					128.0	188.0	266.6	300.7	317.8
Exploration Credit			31.0	31.0					
Hedge Book			(15.8)	(15.4)					
Corporate			(107.1)	(80.5)					
Net Cash			130.0	130.0					
Investments/Bullion			7.6	7.6					
Options & Warrants			0.0	0.0					
Total NPV			1,025.2	831.5					
Per Share			\$1.26	\$1.02					
					IRR = -4.2%		P/NPV 1.5x		

Co-Product Cash Cost (US\$/oz)		2015A	2016A	2017A	2018E	2019E
CAROSUE DAM (AUSTRALIA)						
		640	615	848	736	719
THUNDERBOX (AUSTRALIA)						
		0	552	645	520	474
QUARTERLY SUMMARY		H1/18A	H2/18E	H1/19E	H2/19E	
ADJUSTED EPS	(AUD\$/sh)	0.05	0.08	0.08	0.08	
CFPS	(AUD\$/sh)	0.12	0.12	0.13	0.13	
FCPS	(AUD\$/sh)	0.03	0.08	0.08	0.09	

Source: BMO Capital Markets

Saracen Mineral Holdings Rating History as of 02/19/2018



IMPORTANT DISCLOSURES

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Buy	Outperform	47.2%	24.6%	56.4%	49.5%	57.8%	55.3%
Hold	Market Perform	49.6%	17.4%	41.9%	47.3%	40.8%	39.7%
Sell	Underperform	3.2%	10.5%	1.6%	3.2%	1.4%	5.0%

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