

31 July 2018

Australia

EQUITIES

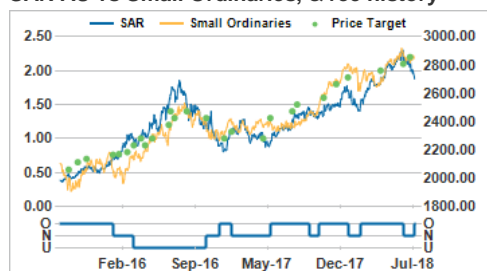
SAR AU Outperform
Price (at 06:10, 31 Jul 2018 GMT) A\$1.91

Valuation	A\$	1.69
- DCF (WACC 5.0%, beta 0.4, ERP 5.0%, RFR 4.3%)		
12-month target	A\$	2.20
12-month TSR	%	+15.2
Volatility Index		High
GICS sector		Materials
Market cap	A\$m	1,562
30-day avg turnover	A\$m	9.1
Number shares on issue	m	818.0

Investment fundamentals

Year end 30 Jun		2017A	2018E	2019E	2020E
Revenue	m	422.9	510.5	603.2	667.9
EBIT	m	35.9	122.3	202.0	284.5
Reported profit	m	28.2	94.0	143.8	204.2
Adjusted profit	m	31.1	83.4	143.8	204.2
Gross cashflow	m	108.2	159.7	220.7	279.0
CFPS	¢	13.2	19.3	26.6	33.7
CFPS growth	%	76.1	46.1	37.8	26.4
PGCFPS	x	14.4	9.9	7.2	5.7
PGCFPS rel	x	0.94	0.77	0.65	0.56
EPS adj	¢	3.8	10.1	17.3	24.6
EPS adj growth	%	18.7	165.9	71.9	42.0
PER adj	x	50.3	18.9	11.0	7.8
PER rel	x	2.13	0.94	0.68	0.53
Total DPS	¢	0.0	0.0	0.0	4.0
Total div yield	%	0.0	0.0	0.0	2.1
Franking	%	nmf	nmf	nmf	100
ROA	%	9.4	26.2	33.4	36.4
ROE	%	11.2	24.3	30.9	31.9
EV/EBITDA	x	13.1	7.5	5.4	4.2
Net debt/equity	%	-9.4	-24.3	-31.6	-52.4
P/BV	x	5.3	4.0	2.9	2.1

SAR AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2018
(all figures in AUD unless noted)

Analysts

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Saracen Mineral Holdings

Exploration underpins the net leg of growth

Key points

- ▶ SAR has reported a round of very strong drill results from across the portfolio.
- ▶ Highlights come from Karari and Whirling Dervish which looks likely to repeat the success of Karari.
- ▶ A very strong set of drill results particularly from Karari and Whirling Dervish which now in our view cornerstone SAR's growth ambitions at CDO.

Event

- SAR has reported a round of very strong drill results from across the portfolio.

Impact

- **Karari cements its position as the cornerstone.** Drilling from the new 1940 drill drive has returned some exceptional results including 16.2m at 16.2g/t, 14.7m at 10.2g/t, 19.0m at 6.3g/t and 14.4m at 8.3g/t. These all come from outside the reserve and demonstrate the strong reserve growth to be expected at Karari. Interestingly an off-set target 80m south of Karari returned 8m at 5.3g/t, highlighting the potential for further extensions.
- **Whirling Dervish showing real promise too.** Infill and extensional drilling at Whirling Dervish continues to meet with success. Recent in-fill drilling results include 9.0m at 24g/t, 15.8m at 5.2g/t, 12.1m at 5.3g/t and 30.2m at 3.5g/t. Demonstrating similar trends to early drilling at Karari, extensional drilling into the Footwall Zone has intersected solid downhole widths of good grade including 34.3m at 5.7g/t, 26m at 2.5g/t, 18.9m at 4.3g/t and 6.4m at 8.1g/t. Broad spaced drilling along strike from Whirling Dervish has returned 15.2m at 2.3g/t and 9.7m at 2.0g/t from Whirling Dervish North. There are numerous other historical targets to follow up along the Carosue Dam corridor.
- **Thunderbox and Kailis delivering too.** Shallow drilling at Thunderbox Zone D has also returned encouraging open pittable results and drilling at Kailis stage 2 has highlighted the potential for grades much higher than the reserve with 9m at 15.7g/t and 3.0m at 14.1g/t.

Earnings and target price revision

- No change.

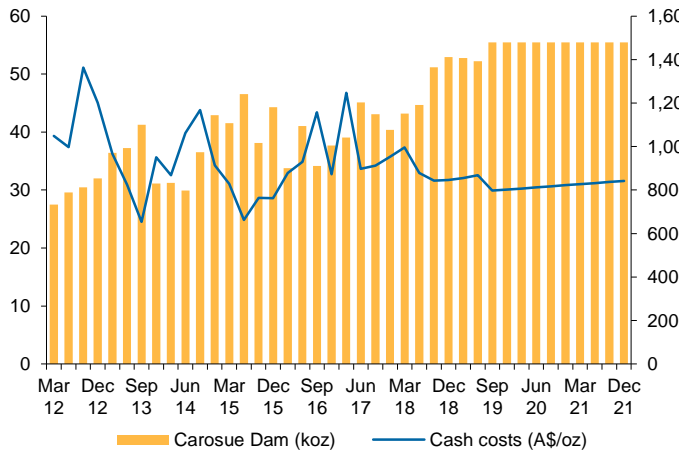
Price catalyst

- 12-month price target: A\$2.20 based on a Blend of 50% 1.4x NAV and 50% 6x CFPS methodology.
- Catalyst: We expect exploration to continue to deliver positive results.

Action and recommendation

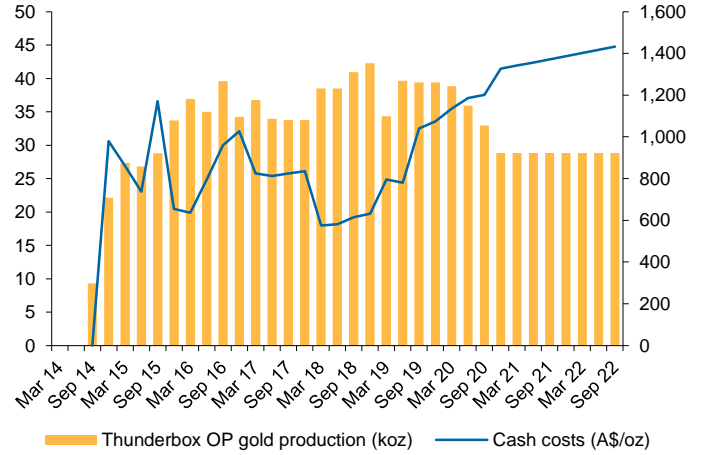
- **Upgrade to Outperform from Neutral.** A very strong set of drill results particularly from Karari and Whirling Dervish which now in our view cornerstone SAR's growth ambitions at CDO. The Carosue Dam corridor looks increasingly prospective for a repeat of the success at Karari. Further open pit results in and around Thunderbox should provide an incremental production lift and extend mine life.

Fig 1 Carosue Dam quarterly gold production



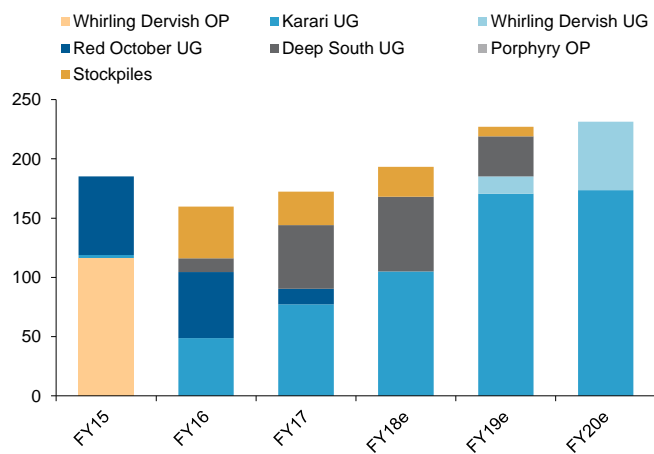
Source: SAR, Macquarie Research, July 2018

Fig 2 Thunderbox quarterly gold production



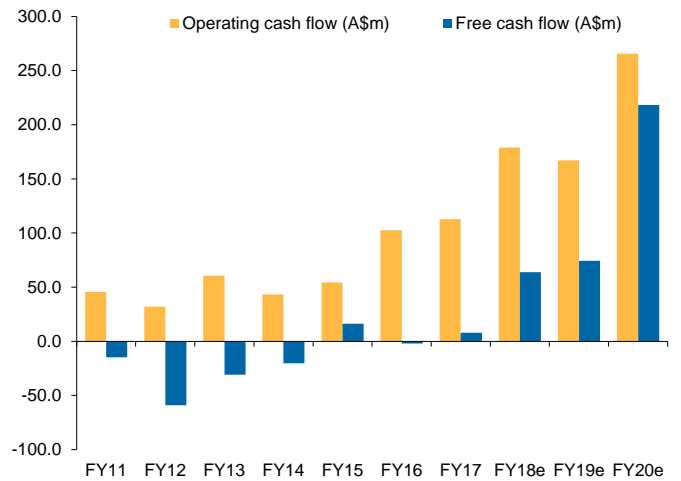
Source: SAR, Macquarie Research, July 2018

Fig 3 Carosue Dam production by mine



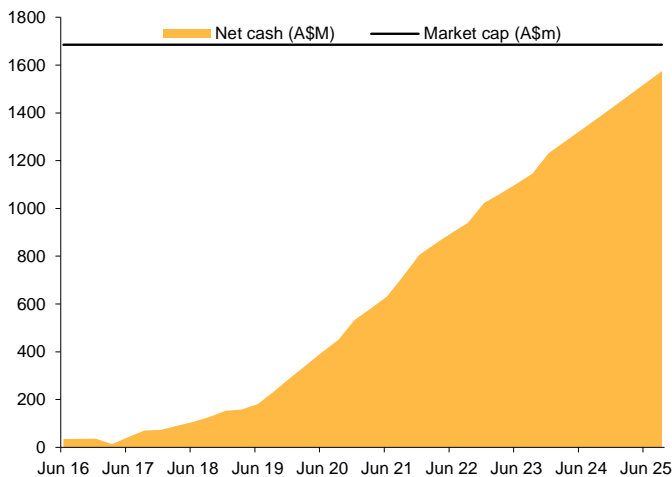
Source: SAR, Macquarie Research, July 2018

Fig 4 SAR cash flow outlook



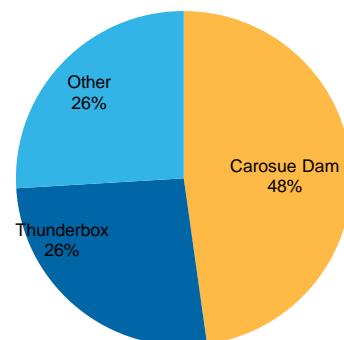
Source: SAR, Macquarie Research, July 2018

Fig 5 SAR net cash vs market capitalisation



Source: SAR, Macquarie Research, July 2018

Fig 6 SAR NPV by project



Source: SAR, Macquarie Research, July 2018

Fig 7 SAR summary model

Saracen Mineral Holdings								
ASX: SAR	Price: (A\$ps)	1.91			Year end: Jun	Rating: Outperform	Up/dn	TSR
	Mkt cap: (A\$m)	1,567			Diluted shares (m)	820.2	Target: 2.20	15% 15%
ASSUMPTIONS		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e
Exchange Rate	A\$/US\$	0.84	0.73	0.75	0.78	0.76	0.78	0.76
Spot Gold	(US\$/oz)	1,223	1,167	1,258	1,299	1,338	1,369	1,375
Spot Gold	(A\$/oz)	1,461	1,600	1,667	1,673	1,767	1,746	1,821
RATIO ANALYSIS		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e
Diluted share capital	m	797.5	809.1	817.9	829.0	827.2	827.2	827.2
EPS (diluted and pre sig. items)	A¢	1.4	3.2	3.8	10.1	17.4	24.7	22.2
P/E	x	136.7x	59.7x	50.3x	18.9x	11.0x	7.7x	8.6x
CFPS (Operating)	A¢	6.8	12.7	13.8	21.6	20.2	32.1	30.3
P/CF	x	28.1x	15.1x	13.9x	8.8x	9.5x	5.9x	6.3x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	4.0	5.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%	2.6%
Franking Level	%	0%	0%	0%	25%	100%	100%	100%
Book value per share	x	0.29	0.32	0.36	0.47	0.65	0.90	1.08
P/Book value	x	6.6x	5.9x	5.3x	4.0x	2.9x	2.1x	1.8x
R.O.E. (pre sig items)	%	5%	10%	11%	21%	27%	28%	21%
R.O.A. (pre sig items)	%	5%	11%	9%	23%	30%	32%	24%
Interest Cover	x	49.0x	177.6x	148.3x	-89.4x	-59.4x	-39.3x	-18.8x
EBITDA per share	A\$ps	0.08	0.09	0.14	0.24	0.33	0.43	0.39
EV/EBITDA	x	23.2x	21.2x	13.9x	7.5x	5.1x	3.3x	3.1x
FCF Yield	%	1%	0%	0%	4%	5%	14%	13%
EARNINGS		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e
Sales Revenue	A\$m	250	277	423	510	603	668	683
Other Revenue	A\$m	0	0	0	0	0	0	0
Total Revenue	A\$m	250	277	423	510	603	668	683
Operating Costs	A\$m	(174)	(191)	(297)	(300)	(313)	(297)	(348)
Operational EBITDA	A\$m	76	85	126	211	290	371	335
Exploration Expense/Write-offs	A\$m	(0)	(1)	(2)	(1)	(3)	(0)	(0)
Corporate & Other Costs	A\$m	(10)	(12)	(13)	(12)	(11)	(11)	(12)
EBITDA	A\$m	66	72	111	197	276	359	323
D&A	A\$m	(50)	(34)	(75)	(75)	(74)	(74)	(74)
EBIT	A\$m	17	39	36	122	202	285	249
Net Interest	A\$m	(0)	(0)	(0)	1	3	7	13
Profit Before Tax	A\$m	16	38	36	124	205	292	262
Tax Expense	A\$m	(5)	(12)	(5)	(40)	(62)	(88)	(79)
Minorities	A\$m	0	0	0	0	0	0	0
Adjusted NPAT	A\$m	11	26	31	83	144	204	183
Significant Items (post tax)	A\$m	0	0	(3)	11	0	0	0
Reported NPAT	A\$m	11	26	28	94	144	204	183
CASHFLOW		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e
Net Profit	A\$m	11	26	28	94	144	204	183
Interest/Tax/D&A	A\$m	44	40	69	75	27	69	68
Working Capital/other	A\$m	(1)	36	16	10	(3)	(7)	(1)
Net Operating Cashflow	A\$m	54	102	113	179	167	266	251
Capex	A\$m	(36)	(105)	(105)	(120)	(97)	(47)	(51)
Investments	A\$m	(2)	0	0	5	5	0	0
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0
Free cash flow	A\$m	16	(2)	8	64	74	218	200
Dividends Paid	A\$m	0	0	0	0	0	0	(33)
Debt	A\$m	(14)	(2)	(8)	1	(0)	(0)	(0)
Equity Issuance	A\$m	0	0	0	0	0	0	0
Other	A\$m	0	0	0	0	0	0	0
Net Financing Cashflow	A\$m	(14)	(2)	(8)	1	(0)	(0)	(33)
Net change in cash	A\$m	3	(4)	(1)	65	74	218	167
ATTRIBUTABLE MINE OUTPUT		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e
Gold production (equity)								
Carosue Dam	(koz)	167.5	157.2	156.0	171.3	209.0	221.8	221.8
Thunderbox	(koz)	0.0	31.5	116.8	145.2	138.3	160.2	152.8
Total	(koz)	167.5	188.7	272.8	316.5	347.3	382.0	374.7
Cash costs								
Carosue Dam	(A\$/oz)	878	831	1,036	934	853	805	825
Thunderbox	(A\$/oz)			838	850	824	601	927
Cash costs	(A\$/oz)	878	693	951	896	842	719	866
AISC Cash Costs								
Carosue Dam	(A\$/oz)	1,156	1,098	1,424	1,201	1,080	1,009	1,012
Thunderbox	(A\$/oz)			1,276	1,073	958	691	972
AISC Cash Costs	(A\$/oz)	1,156	1,098	1,360	1,142	1,031	876	996
Operational EBITDA Contribution (pre hedging)								
Carosue Dam	A\$m	83	123	78	108	176	193	205
Thunderbox	A\$m	0	14	94	106	124	176	130
OPERATIONAL OUTLOOK								
RESERVES AND RESOURCES (ATTRIBUTABLE)								
Reserves								
Project		Mt	g/t	koz				
Carosue Dam		6.4	3.0	610				
Porphyry		4.9	1.2	181				
Safari Bore		0.0	0.0	0				
Stockpiles		0.2	1.4	11				
Carosue Dam		11.5	2.2	802				
Thunderbox-OP		7.3	1.7	389				
Bannockburn & KOTH		5.3	1.5	290.0				
Thunderbox		20.7	1.8	1,197				
Total		32.2	1.9	1,999				
Resources								
Project		Mt	g/t	koz				
Carosue Dam		32.3	2.2	2,312				
Porphyry		32.0	1.5	1,541				
Safari Bore		5.9	2.8	531				
Stockpiles		3.7	0.7	80				
Carosue Dam		83.9	1.9	5,026				
Thunderbox		49.9	1.8	2,957				
Bannockburn		18.9	1.7	1,058				
Thunderbox		68.8	1.8	4,015				
Total		152.7	1.8	9,041				
	EV/Reserve (A\$/oz)		736		EV/Resource (A\$/oz)		163	
BALANCE SHEET		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e
Cash	A\$m	38	34	34	98	172	390	557
PP&E & Mine Development	A\$m	146	248	261	311	329	302	279
Exploration	A\$m	38	44	47	56	103	109	115
Total Assets	A\$m	300	362	404	531	679	886	1,037
Debt	A\$m	1	4	6	2	2	2	1
Total Liabilities	A\$m	71	101	110	137	141	144	145
Total Net Assets / Equity	A\$m	229	261	294	394	537	742	892
Net Debt / (Cash)	A\$m	(37)	(31)	(28)	(96)	(170)	(388)	(555)
Gearing (net debt/(nd + equity))	%	(19%)	(13%)	(10%)	(32%)	(46%)	(110%)	(165%)
Gearing (net debt/equity)	%	(16%)	(12%)	(9%)	(24%)	(32%)	(52%)	(62%)
EQUITY DCF VALUATION		Macquarie forecasts				Spot prices		
Projects		A\$m	A\$ps	A\$m	A\$ps			
Carosue Dam		654	0.79	588	0.71			
Thunderbox		360	0.43	315	0.38			
Undeveloped Resources		359	0.43	472	0.57			
Unpaid capital/Other		0	0.00	0	0.00			
Forwards		(11)	(0.01)	16	0.02			
Corporate		(55)	(0.07)	(55)	(0.07)			
Net cash (debt)		96	0.12	96	0.12			
Net Equity Value (@ 5% WACC Real)		1,402	1.69	1,432	1.73			
Price Target (50% 1.4 x NAV, 50% 6x CFPS)			2.20					
P/NAV			1.13x					

Source: SAR, Macquarie Research, July 2018

Macquarie Quant View

The quant model currently holds a reasonably positive view on Saracen Mineral Holdings. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

348/1591

Global rank in Materials

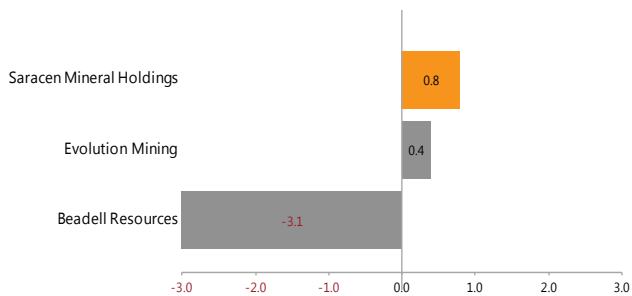
% of BUY recommendations: 25% (2/8)
 Number of Price Target downgrades: 0
 Number of Price Target upgrades: 5



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. Two rankings: Local market (Australia & NZ) and Global sector (Materials)

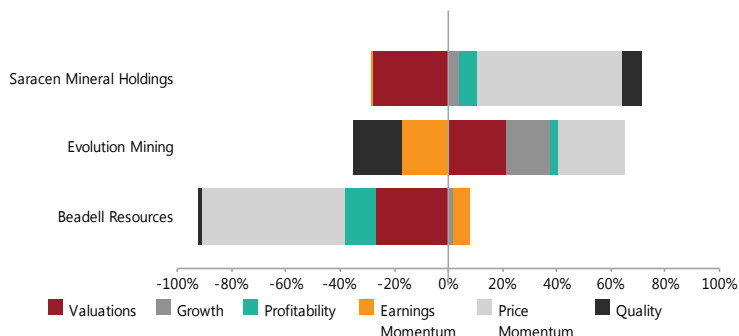
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



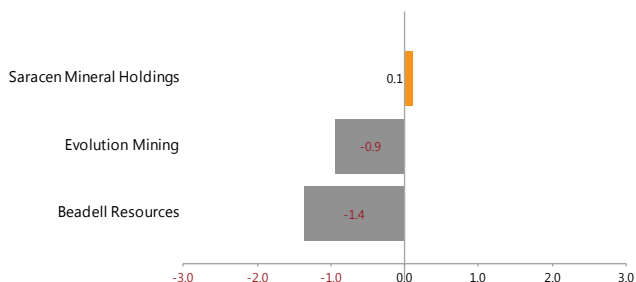
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



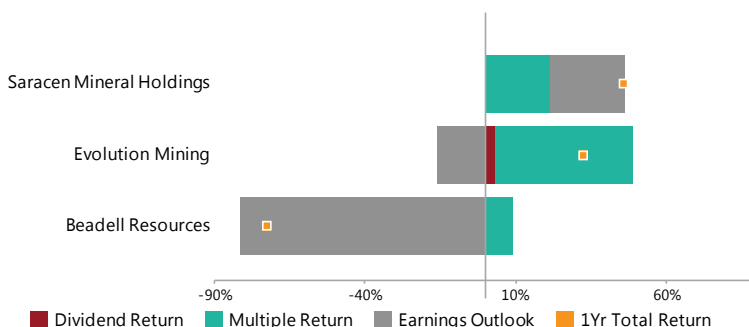
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



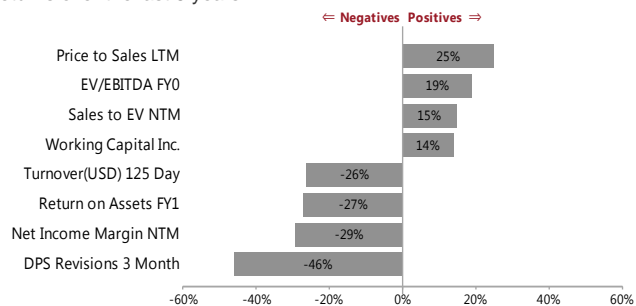
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



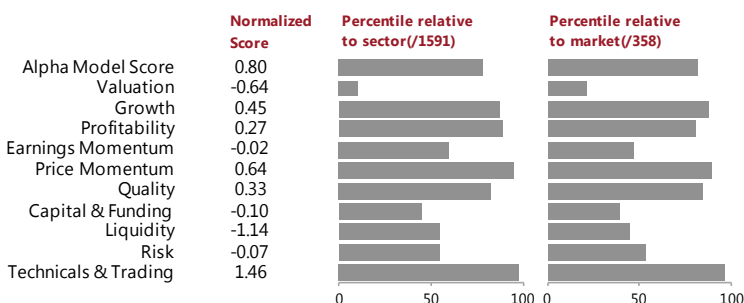
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Mazi Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
 * Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

SAR AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
 Source: FactSet, Macquarie Research, July 2018

12-month target price methodology

SAR AU: A\$2.20 based on a Blend of 50% 1.4x NAV and 50% 6x CFPS methodology

Company-specific disclosures:

SAR AU: Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of Saracen Mineral Holdings Ltd.

Important disclosure regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BVG code)	Recommendation	Target Price
31-Jul-2018	SAR AU	Outperform	A\$2.20
17-Jul-2018	SAR AU	Neutral	A\$2.20
26-Jun-2018	SAR AU	Neutral	A\$2.10
17-Apr-2018	SAR AU	Outperform	A\$2.00
15-Feb-2018	SAR AU	Outperform	A\$1.90
06-Jan-2018	SAR AU	Neutral	A\$1.90
01-Dec-2017	SAR AU	Outperform	A\$1.80
23-Oct-2017	SAR AU	Outperform	A\$1.60
10-Oct-2017	SAR AU	Outperform	A\$1.50
08-Sep-2017	SAR AU	Neutral	A\$1.50
02-Aug-2017	SAR AU	Outperform	A\$1.50
18-Jul-2017	SAR AU	Outperform	A\$1.40
11-May-2017	SAR AU	Outperform	A\$1.30
19-Apr-2017	SAR AU	Neutral	A\$1.00
11-Jan-2017	SAR AU	Neutral	A\$1.10
20-Dec-2016	SAR AU	Outperform	A\$1.00
07-Dec-2016	SAR AU	Outperform	A\$1.30
25-Oct-2016	SAR AU	Neutral	A\$1.30
26-Aug-2016	SAR AU	Underperform	A\$1.40
19-Jul-2016	SAR AU	Underperform	A\$1.30
07-Jul-2016	SAR AU	Underperform	A\$1.40
01-Jul-2016	SAR AU	Underperform	A\$1.20
11-May-2016	SAR AU	Underperform	A\$1.00
19-Apr-2016	SAR AU	Underperform	A\$.90

06-Apr-2016	SAR AU	Underperform	A\$1.00
15-Mar-2016	SAR AU	Underperform	A\$.90
24-Feb-2016	SAR AU	Neutral	A\$.80
29-Jan-2016	SAR AU	Neutral	A\$.77
11-Jan-2016	SAR AU	Neutral	A\$.76
21-Oct-2015	SAR AU	Outperform	A\$.70
24-Sep-2015	SAR AU	Outperform	A\$.65
27-Aug-2015	SAR AU	Outperform	A\$.54

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