

Saracen Mineral Holdings Ltd

(SAR \$1.23) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	18 th July 2017	\$1.40/sh

Qtrly Report

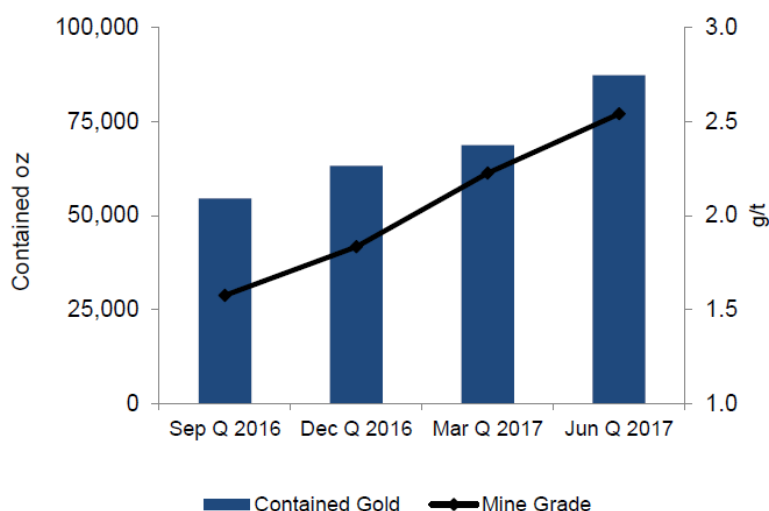
Investment case

An excellent qtrly result has resulted in a 50% increase in cash Q on Q as the inflection point from cash consuming to cash generative operations is reached. This trend is expected to continue in FY'18 as production and costs are maintained and we forecast cash to increase by \$80m in FY'18. The Karari ramp up to 1.2mtpa has been seamless and recent deep exploration success should be quantified in the updated reserve/resource due shortly. We increase our Price Target to \$1.40/sh or 1.3x NAV and SAR can now rival its mid cap peers, such as RRL, SBM and NST as a genuine mid cap, free cash generative, gold producer.

Key points

- Record production qtr of ~80koz @ AISC of \$1,127/oz (Mar Q 65koz @ AISC of \$1,510/oz).

Figure 1 – Rising group mined grade and production



Source: Saracen Mineral Holdings Ltd

- Average gold price rec'd of A\$1,642/oz generating a margin of \$515/oz and operating cashflow of ~\$48m.
- Free cash generation of \$15m for Q despite spending \$25m on growth capital + exploration, \$4.3m on repaying finance lease and \$2.7m on Kailis acquisition.
- Outstanding result at Karari with a 42% increase in gold production to 27.7koz and tonnes mined up 52% (302kt). Annualised t'put now at 1.2mtpa. Ramp up has been seamless.

Saracen Min Holdings Ltd	Year End 30 June	
Share Price	1.23	A\$/sh
Price Target	1.40	A\$/sh
Valuation	1.09	A\$/sh
	(npv 10%)	

Shares on issue	807	m, diluted *
Market Capitalisation	936	A\$m
Enterprise Value	891	A\$m
Debt	0	A\$m
Cash	45	A\$m
Largest Shareholder	Van Eck 11	

Production F/Cast	2016a	2017f	2018f
Attrib. Prod'n (koz)	189	273	310
Cash Cost (A\$/oz)	868	1043	974
Total Cost (A\$/oz)	1165	1352	1178

Assumptions	2016a	2017f	2018f
Spot Gold Price US\$/oz	1235	1277	1238
AUDUSD	0.73	0.75	0.75

Key Financials	2016a	2017f	2018f
Revenue (A\$m)	277	426	516
EBITDA (A\$m)	73	118	182
NPAT (A\$m)	26	53	87
Cashflow (A\$m)	110	112	153

CFPS (Ac)	14	14	19
P/CFPS (x)	10.6	8.4	6.5

EPS (Ac)	3	7	11
EPS growth (%)	125%	103%	65%
PER (x)	45.0	17.8	11.4

EV:EBITDA (x)	12.2	7.5	4.9
EV:EBIT (x)	24.1	16.9	7.3

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

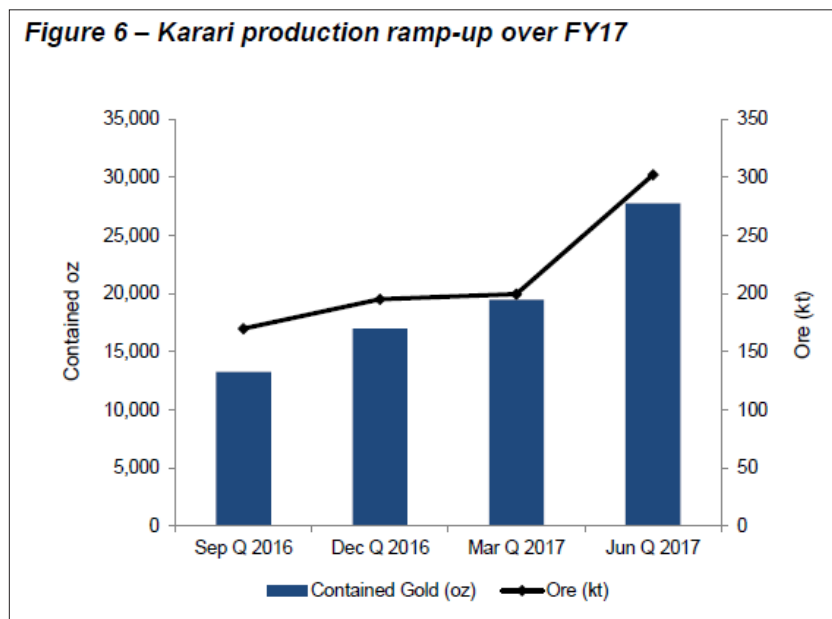


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- Modest improvement at Deep Sth with grade and production up to 16.2koz @ 3.1 g/t (13.1koz @ 2.9 g/t Mar'Q)
- Thunderbox record production of 34.8koz @ AISC of \$1,045/oz. Grade and recoveries improved. C Zone and Kailis pre strip commenced with \$11m spent (included in AISC).
- Excellent drill results from Karari (already announced) give visibility to a potentially long life +10yr asset. Updated reserve/resource due in August'17.
- 40koz @ A\$1,718/oz was added to the hedge book replacing 41koz delivered at \$1,588/oz. The book now stands at 235koz @ \$1,573/oz.
- FY'18 guidance unchanged at 300koz @ AISC of \$1,150/oz but updated 5 yr plan expected in Nov'17 post Whirling Dervish drilling, Karari deep drilling and Kailis development. We see upward risk to these forecasts.

Analysis

This was an excellent qtrly result with the first real free cash generation in the company's history. The inflection point to cash generative operations has been reached and should continue.

Karari has been the real surprise with a seamless ramp up to 1.2mtpa and some excellent drill results demonstrating potential of a long (+8yr) operation. This should be quantified in the upcoming reserve/resource estimate.

Normally, a project is drilled, studied and then mined so many of the parameters are known and it's about delivery versus a DFS. Karari has evolved from a \$10m exploration punt to a +100koz operation and as such we believe has been discounted by the market. We believe there is a 1moz resource potential and if the deeper (800m below surface) is successful this could point to a +10yr operation.

We believe that SAR can beat its current FY'18 guidance of 300koz @ AISC of \$1,150/oz and forecast 310koz @ AISC of \$1,178/oz but see real upside in FY'19 as Whirling Dervish is bought into the production mix, displacing the low grade stockpiles and forecast production of 213koz at Carosue Dam.

At current guidance and gold price operating cashflow of \$135m is possible. With our higher production and gold price assumption we forecast cashflow of \$153m and free cash of \$80m.

Our valuation remains at \$1.09/sh but we increase our PT to \$1.40/sh or 1.3x NAV. It is now generating free cash and has some potentially game changing drill program coming up in the next six months.

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Market Statistics Year End 30 June

Share Price	\$1.23	A\$/sh	Directors	
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
			M Connolly	Dir
Total Dil. FPOrd	807.1	m		
Market Capitalisation	\$936	m	Shareholders	
Enterprise Value	\$891	m	Van Eck	11%
Debt (est)	\$-	m	Wroxby	7%
Cash (est)	\$45	m		
<i>Hedging 235koz @ \$1,573/oz</i>				

Asset Valuation	A\$m	A\$/sh
Carosue Dam	438	0.37
Thunderbox	335	0.41
Hedging	(26)	(0.03)
Corporate	(27)	(0.03)
Expl'n	120	0.15
Unpaid Capital	-	-
Debt	-	-
Cash	45	0.06
Total	886	1.09

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

Prices (A\$/oz)	2016aJun H'17	2017f	2018f	2019f
Avg Spot Gold Price	1,700	1,651	1,672	1,743
Avg Gold Price Rec'd	1,628	1,611	1,629	1,734

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	1,360	1,374	1,194

Ratio Analysis (A\$m)	2016aJun H'17	2017f	2018f	2019f
CF (A\$m)	110	80	112	153
CF / Sh (Ac/sh)	14	10	14	19
CF Ratio (x)	10.6	-	8.4	6.5

Earnings (A\$m)	26	38	53	87
EPS (Ac/sh)	3.2	4.7	6.5	10.8
EPS Growth (%)	125%	0%	103%	65%
Earnings Ratio (x)	45.0	-	17.8	11.4

E'prise Val. (A\$m)	1,130	892	892	864
EV : EBITDA (x)	12.2	12.1	7.5	4.9
EV : EBIT (x)	24.1	23.2	16.9	7.3

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

EBIT Margin (%)	13%	0%	12%	24%
ROE (%)	10%	0%	18%	25%
ROA (%)	10%	0%	13%	26%

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

Profit and Loss (A\$m)	2016aJun H'17	2017f	2018f	2019f
Gold Sales	288	246	435	541
Hedging Revenue	-12	-6	-11	-27
Deferred Revenue	0	0	0	0
Interest Revenue	1	1	1	3
Other Revenue	0	0	0	0
TOTAL REVENUE	277	241	426	516
Operating Costs	190	160	291	320
Dep/Amort	34	35	65	58
W/O & Provisions	2	1	1	1
Corp O/H	12	7	15	12
EBITDA	73	74	118	182
EBIT	37	38	53	122
Interest Expense	0	0	0	0
NPBT	38	39	54	125
Tax	12	1	2	37
Minorities	0	0	0	0
NET PROFIT	26	38	53	87
Net Abnormal Gain/(Loss)	0	0	0	0
NET PROFIT After Abn'l	26	38	53	87

Cash Flow (A\$m)	2016aJun H'17	2017f	2018f	2019f
Net Profit	26	38	53	87
+ Working Capital Adj.	35	6	12	0
+ Dep/Amort	34	35	45	46
+ Provisions	2	1	1	1
+ Tax Expense	12	1	2	37
- Tax Paid	0	0	0	19
- Deferred Revenue	0	0	0	0
Operating Cashflow	110	80	112	153
-Capex + Development	104	51	84	36
-Exploration	8	14	31	25
-Assets Purchased	0	0	0	0
+Asset Sales	0	0	0	0
+ Other	0	0	0	0
Investing Cashflow	-111	-65	-115	-61

+Equity Issues	0	0	0	0
+Loan D'down/Receivable	0	0	0	0
-Loan Repayment	0	4	6	4
-Dividends	0	0	0	16
Financing Cashflow	-2	-4	-6	-4

Period Sur (Def)	-4	11	10	88
Cash Balance	35	45	45	133

Balance Sheet (A\$m)	2016aJun H'17	2017f	2018f	2019f
Assets				
Cash	35	45	45	133
Current Receivables	5	5	5	5
Other Current Assets	31	42	42	42
Non-Current Assets	292	314	314	289
Total Assets	362	405	405	469

Liabilities				
Borrowings	4	0	0	0
Current Accounts Payable	27	43	43	43
Other Liabilities	70	70	70	70
Total Liabilities	101	113	113	113

Net Assets	261	292	292	356
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Reserves and Resources

	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
Equity Share Gold			1,529		
Enterprise Value / oz (A\$)			583		106

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