

SARACEN MINERAL HOLDINGS (SAR)

Bringing ounces forward into JunQ

Saracen (SAR) reported another record production quarter (MarQ) and the strongest cashflow generation to date. NPAT (unaudited) for the MarQ is expected to be in the range of A\$65-70M, which is a good result and highlights the immediate cash generation from the recently acquired 50%-owned KCGM (Super Pit) operations, which contributed its first full quarter of production.

Group production of **158,132oz at an AISC of A\$1,133/oz** was reported for the MarQ (up from 120,127oz at an AISC of A\$1,098/oz DecQ). YTD Group production currently stands at 374,584oz at an AISC A\$1,081/oz, and a similar production quarter would exceed the 500koz FY20 guidance by +6%. FY20 guidance remains unchanged, and SAR has also retained its 600koz guidance for FY21. A strong final quarter (JunQ) has been flagged, with plans to prioritise the milling of higher-grade portions of the Carosue Dam and Thunderbox stockpiles. The result of bringing some of the FY21 production ounces forward to capitalise on the current high AUD gold price to increase cashflows and strengthen the balance appears prudent, especially during this period of economic uncertainty around Covid-19.

Thunderbox delivers an impressive 50koz at ASIC of A\$682/oz Carosue Dam produced 49,478oz (52,899oz DecQ) at an ASIC A\$1,308/oz (ASIC A\$1,231/oz DecQ), Thunderbox delivered 50,091oz (46,594oz DecQ) at an AISC A\$682/oz (A\$754/oz SepQ) and KCGM reported 58,563oz (20,634oz DecQ) at an AISC A\$1,415/oz (AISC A\$1,522/oz DecQ). Our forecast for the quarter was Group production of ~157koz, so largely in-line.

SAR continues to build stockpiles ahead of milling and currently has in excess of 1.7Moz available for processing (CDO ~9 month, TBO ~13 months and KCGM ~25 months (low grade) in stocks), which is pro-active should the business be impacted by Covid-19. SAR is in the envious position of having all its operations in WA, and a workforce largely WA-based, which has clear advantages in the current restrictive environment.

The average gold price received for quarter was A\$2,228/oz (up ~10% qoq) for sales of ~A\$369M (up 54%). Our estimate for a corporate-all-in-cost (CAIC) is A\$1,865/oz (down 12% qoq), growing cash and equivalents by A\$56M. SAR added 80koz at A\$2,385/oz to the hedge book, after MarQ delivery of 77koz, for a total hedge position of 542.5koz gold at A\$2,056/oz.

Balance sheet strengthened amid Covid-19 uncertainty

Cash and equivalents were higher qoq up from A\$283.3M DecQ to A\$340.3M MarQ, after early debt repayment of A\$25M, growth capex of A\$46M, exploration spend of A\$14M, and tax payments (final FY19 payment of ~A\$15M and PAYG FY20 of ~A\$10M). Debt at MarQ end was A\$360M. Post-quarter SAR drew-down A\$45M from its Corporate facility to maximise cash reserves, so cash and equivalents are now ~A\$385M, with debt of ~A\$405M (unchanged Net Debt position of A\$20M). Some discretionary expenditure has also been deferred including greenfield exploration.

Maintain Accumulate, with improved Price Target \$5.10/s

We maintain our **Accumulate** recommendation on SAR, with a **price target of \$5.10/s** (up from \$4.35/s). Our latest SAR NAV is now \$3.78/s (up from \$3.25/s), and spot NAV is A\$5.80/s (0.8x P/NAV spot). SAR appears poised for a strong final quarter, notwithstanding potential Covid-19 impacts.

Share Price	\$4.490
Valuation	\$3.78
Price Target (12 month)	\$5.10

Brief Business Description:
WA gold producer and explorer

Hartleys Brief Investment Conclusion
Acquired 50% of the Super Pit, a long-life asset which is expected to add +245kozpa to Group production, complimentary to the Carosue Dam and Thunderbox operations. Group production growth to +600kozpa in FY21. Significant exploration upside.

Chairman & MD

Tony Kiernan(Chairman)
Raleigh Finlayson (MD)

Top Shareholders (est)

Van Eck Associates	10.0%
BlackRock Group	9.8%

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Level 11, 40 The Esplanade
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Issued Capital	1102.9m
- fully diluted	1120.1m

Market Cap	A\$4952.0m
- fully diluted	A\$5029.2m

Cash & Bullion (31 Mar 20a)	A\$340.3m
Debt (31 Mar 20a)	A\$360.0m

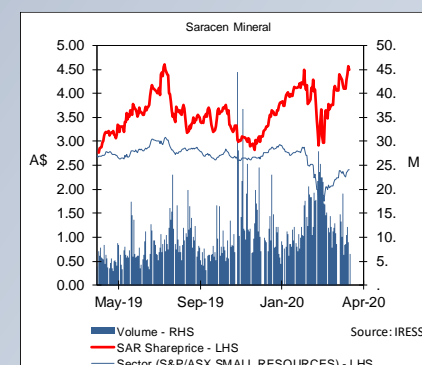
EV	A\$4971.7m
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EV/Resource oz	A\$331/oz
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EV/Reserve oz	A\$715/oz
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	Prelim. (A\$m)	FY19a	FY20e	FY21e
Prod Sold (koz Au)	355	534	637	
Op Cash Flw	228.1	448.0	690.9	
Norm NPAT	93.0	261.8	349.5	
CF/Share (cps)	11.3	27.2	31.7	
EPS (cps)	11.3	27.2	31.7	
P/E	39.8	16.5	14.2	

Resources (Moz)	15.0
Reserves (Moz)	7.0



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EARNINGS CHANGES

Fig. 1: Earnings changes

	Unit	30 Jun 18		30 Jun 19			30 Jun 20			30 Jun 21		
		Actual	Actual	Old	New	% diff	Old	New	% diff			
Au Production	koz	318	355	533	534	0%	675	637	-6%			
All in sustaining costs (AISC)	A\$/oz	1139	1030	1327	1279	-4%	1203	1264	5%			
Net Revenue	A\$m	511.0	555.6	1087.1	1139.3	5%	1373.5	1403.7	2%			
Total Costs	A\$m	-304.1	-337.9	-589.9	-596.3	1%	-714.8	-724.4	1%			
EBITDA	A\$m	206.8	217.7	497.2	543.0	9%	658.6	679.4	3%			
- margin		40%	39%	46%	48%	4%	48%	48%	1%			
Depreciation/Amort	A\$m	-94.3	-87.9	-106.0	-157.1	48%	-166.9	-157.4	-6%			
EBIT	A\$m	112.5	129.8	391.2	385.9	-1%	491.8	521.9	6%			
Net Interest	A\$m	0.8	1.6	-12.0	-11.9	-1%	-18.8	-22.6	na			
Norm. Pre-Tax Profit	A\$m	113.3	131.4	379.2	374.0	-1%	472.9	499.3	6%			
Norm. Tax Expense	A\$m	-37.7	-38.3	-113.7	-112.2	na	-141.9	-149.8	na			
- rate		33.3%	29.2%	30.0%	30.0%	na	30.0%	30.0%	na			
Reported Tax Expense	A\$m	-37.7	-38.9	-113.7	-112.2	na	-141.9	-149.8	na			
Normalised NPAT	A\$m	75.6	93.0	265.4	261.8	-1%	331.0	349.5	6%			
Abnormal Items	A\$m	0.0	-0.5	0.0	0.0		0.0	0.0				
Reported Profit	A\$m	75.6	92.5	265.4	261.8	-1%	331.0	349.5	6%			
Minority	A\$m	0.0	0.0	0.0	0.0		0.0	0.0				
Profit Attrib	A\$m	75.6	92.5	265.4	261.8	-1%	331.0	349.5	6%			
capex + exploration	A\$m	130.2	196.4	253.6	267.7	6%	198.0	211.0	7%			
Net Debt	A\$m	-99.6	-118.7	143.5	-29.7	-121%	-144.8	-482.1	233%			
Dividends Per Share	cps	-	-	5.0	-	-100%	5.0	5.0	0%			

Source: Saracen Mineral Holdings Ltd Actuals; Hartleys Estimates

GUIDANCE FY20 AND LONG-TERM ESTIMATES

SAR continues to invest in sustainable growth and now plans to increase gold production in FY20. The production increase is expected to be derived from the ramp-up at the Whirling Dervish underground (Carosue Dam); and Stage 2 mining of the Kailis pit, along with grade improvements at the C Zone (Thunderbox). Production growth at the Carosue Dam is via a planned mill expansion (to ~3.2Mtpa) and introduction of paste fill at the key underground mines to allow for close to full orebody extraction (improve mine recoveries and efficiencies). At the Thunderbox the new underground mine will be supplemented by open pits.

Company guidance for FY20 was 350–370koz at an AISC range of A\$1,025 - 1,075/oz, but with the KCGM (Super Pit) acquisition completed in late Nov'19, production guidance was increased to +500koz at an AISC range of A\$1,200-1,250/oz. We now model ~534koz at an AISC estimate of ~A\$1,280/oz in FY20. To increase reserves and build confidence in mine plans, SAR has an exploration budget for +A\$50M in FY20, which may now be increased.

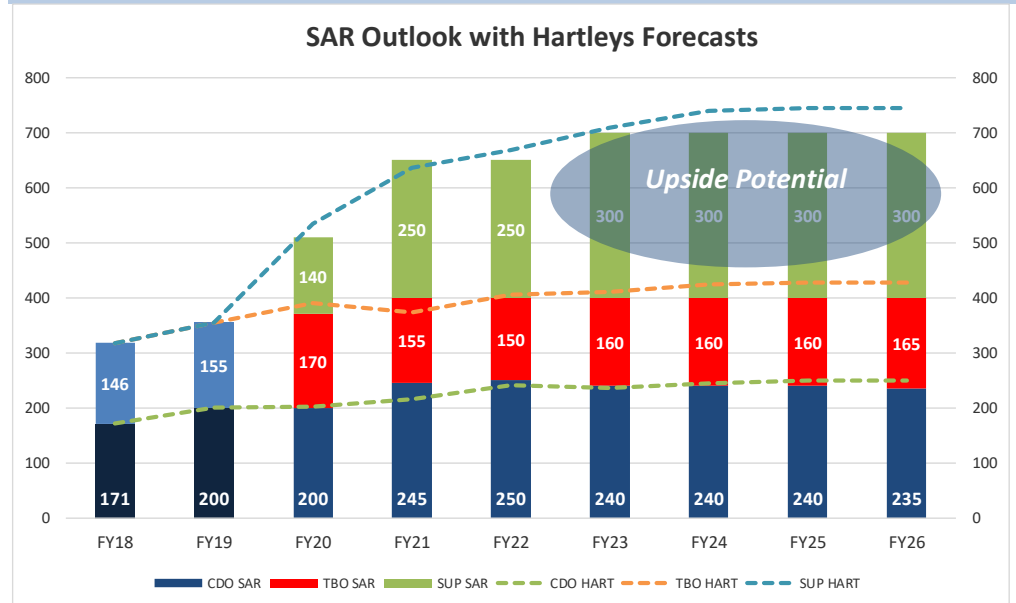
Latest reserves and resources have updated the 7 year outlook for Carosue Dam and Thunderbox, with the Super Pit adding a reserve life of +12 years. The production outlook for FY21 – FY26 looks very strong sustaining 600kozpa and importantly are underpinned by 100% reserves. We now forecast ~637koz an ASIC of ~A\$1,260/oz in FY21, but will be adjusted as Company Guidance is updated.

Our longer term production estimates remain subject to change

The production outlook for FY21 – FY26 looks very strong, and could sustain +600kozpa with potential up to 700kozpa

Fig. 2: SAR Production Outlook with Hartleys Estimates

Production forecasts remain subject to change



Source: Saracen Mineral Holdings Ltd; Hartleys Estimates; subject to change

VALUATION UPDATE

Our current SAR NAV is \$3.78/s (up from \$3.25/s)

Our sum of parts valuation for SAR assumes a ~9 year mine life at Carosue Dam and Thunderbox, which implies some addition resource conversion. Our Thunderbox model assumes the open pit operation transitions well to underground, which has potential to reach steady-state production in FY21. Modelling for the Thunderbox underground uses Company released inputs.

Current spot NAV of \$5.78/s

Our latest modelling includes the Super Pit acquisition (50% interest), and adds a discounted A\$2,013M (or A\$1.80/s) value, and will be further updated over the coming quarters. We assume a 12 year mine life at the Super Pit.

We assume a nominal \$A200M (\$0.18/s) value for exploration upside potential and we believe SAR is well positioned for further near-mine exploration success at Thunderbox, Carosue Dam and Super Pit.

Fig. 3: Hartleys Sum of Parts Valuation for SAR

We maintain our **Accumulate** recommendation

Share Price Valuation (NAV)	Risked Est. A\$m	Est. A\$/share
100% Thunderbox (pre-tax NAV at disc. rate of 8%)	1350	1.21
100% Carosue Dam (pre-tax NAV at disc. rate of 8%)	1838	1.64
50% KCGM (pre-tax NAV at disc. rate of 8%)	2013	1.80
Other Exploration	200	0.18
Investments	1	0.00
Corporate Overheads	-105	-0.09
Net Cash (Debt)	-20	-0.02
Tax (NPV future liability)	-934	-0.83
Options & Other Equity	0	0.00
Hedges	-111	-0.10
Total	4,233	3.78

Source: Hartleys Estimates

Gold price volatility has downside/upside risks to our valuation and price target

PRICE TARGET

Our price target for SAR is based on our base case valuation (NAV) weighted for consensus and spot pricing and trading multiples. Our latest 12-month price target is \$5.10/s (previously \$4.35/s).

Latest price target of
\$5.10/s (from \$4.35/s)

Fig. 4: SAR Price Target Methodology

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	40%	\$3.78	\$3.99
NPV base case at spot commodity and fx prices	40%	\$5.78	\$6.15
NPV base case discount rate 5%	10%	\$4.34	\$4.48
1.5x NAV	10%	\$5.67	\$5.98
Risk weighted composite		\$4.82	
12 Months Price Target		\$5.10	
Shareprice - Last		\$4.490	
12 mth total return (% to 12mth target + dividend)		14%	

Source: Hartleys Estimates

RISKS

Fig. 5: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Debt can be repaid, with little to no impact from Covid-19	Moderate	Meaningful	A\$400M debt was used to complete the Super Pit purchase and SAR has repaid A\$15M DecQ and A\$25M MarQ. Post-MarQ SAR has drawn A\$45M from a Corporate facility to further strengthen the balance sheet, with cash is now ~A\$385M, and debt ~A\$405M (Net Debt A\$20M). With current and forecast strong gold prices, cashflow generation is expected to cover repayments. If SAR, for some reason has any production issues and positive cashflows are not maintained then risks could be to the downside.
Super Pit model assumptions are value accretive	Moderate	Meaningful	We have made some big assumptions in our Super Pit model, which remain subject to revision as Company Guidance is provided. Upside and downside potential exists.
+8 year mine lives at Thunderbox and CDO	Moderate	Meaningful	SAR is leveraged to the success of the Thunderbox and CDO operations. If the operations vary largely from our modelling our valuation will be at risk to the upside and downside
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of SAR, changes in these assumptions can change our valuation to both the upside and downside
Exploration upside potential	Moderate	Meaningful	We assume exploration upside at both operations. Some downside risk to our valuation exists if SAR has no further exploration success
Commodity prices	Moderate	High	SAR like all producers is heavily reliant on commodity prices. SAR has a history of prudent hedging to minimise the downside risk associated with falling commodity prices

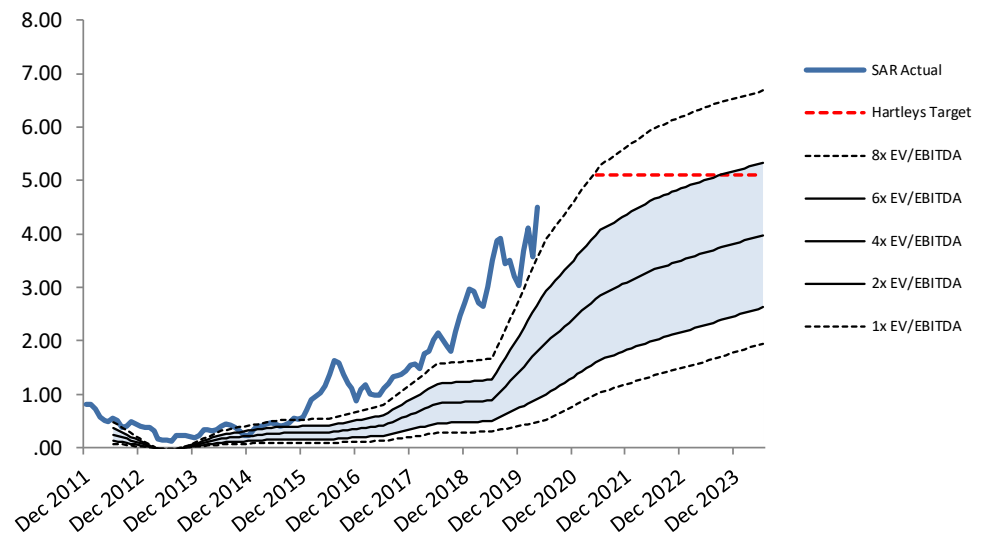
Conclusion

We have made significant assumptions but believe these are achievable.

Source: Hartleys Research

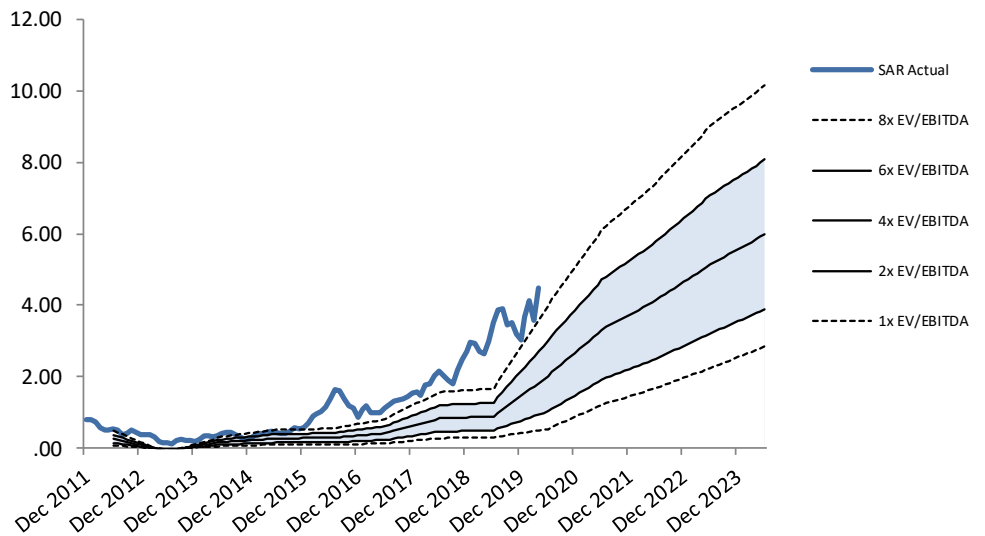
EV/EBITDA BANDS

Fig. 6: *Using Hartleys base case commodity forecasts*



Source: Hartleys Estimates, IRESS

Fig. 7: *Using spot commodity prices*



Source: Hartleys Estimates, IRESS

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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