# CAH.AU

# Catalpa Resources Limited

**A$ 1.50**

30 March 2010
Gold
Australia (WA)
Production & New Plant Construction
Exchange: ASX:CAH

**Less than two years ago CAH was a hopeful capitalised at A$15m. Now it is about to become a ~130kozpa gold producer, is in the ASX300 index, and is capitalised at >A$250m. As its Edna May mine commissions in May, we expect further re-rating towards our A$2.07 base case valuation.**

## Capital Profile

| | | | |
|---|---|---|---|
| Share price (A$) | 1.50 | | |
| 52 week range (A$/share) | 0.761 | to | 1.96 |
| Number of shares (m) | 160.8 | | |
| Options and warrants (m) | 15.5 | | |
| Convertible notes (m) | 0.0 | | |
| Fully diluted (m) | 176.3 | | |
| Market capitalisation (undiluted) (A$m) | 241.2 | | |
| Debt (A$m) - Mar 10F * | 65.0 | | |
| Enterprise value (A$m) | 306.2 | | |
| Major shareholders: HSBC Custody Nominees (14.4%), ANZ Noms. (7.9%), Citicorp Nominees PL (7.2%), National Nominees Ltd (4.5%) | | | |
| Avg monthly volume (m) | 8 | | |
| Cash (A$m) - Mar 10F * | 25.4 | | |
| Price/Cash (x) | 9.5 | | |
| Price/Book (x) | -21.0 | | |
| ASX-listed options: | CAHO | | |

* A$7m of A$65m loan held in a cash retention account, net debt is A$58m.

## Production and Financial Forecasts

| YEAR END: June | 2009a | 2010F | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Gold Price (US$/oz) | 886 | 1,047 | 1,002 | 973 | 950 |
| Equity Production (koz) | 0.0 | 25.3 | 125.9 | 128.2 | 120.5 |
| Revenue (A$m) | 0.1 | 32.9 | 176.8 | 182.3 | 169.8 |
| EBIT (A$m) | -2.6 | 8.5 | 84.0 | 86.3 | 72.7 |
| Net Profit (norm) (A$m) | -2.6 | 4.0 | 55.7 | 57.8 | 48.8 |
| EPS (norm) (A¢/share) | -0.07 | 2.8 | 32.1 | 33.3 | 28.2 |
| CFPS (A¢/share) | -0.2 | 4.8 | 52.4 | 54.5 | 47.1 |
| Dividends (A¢/share) | 0 | 0 | 5 | 10.0 | 10.0 |
| **PER (x)** | **na** | **54.5** | **4.7** | **4.5** | **5.3** |
| **P/CF (x)** | **na** | **31.0** | **3.1** | **2.8** | **3.2** |
| **Yield (%)** | **0** | **0** | **0** | **7%** | **7%** |
| EV/EBITDA (x) | na | 32.6 | 3.3 | 3.2 | 3.7 |
| Shares on Issue (EOP)* | 1171.8 | 160.8 | 160.8 | 160.8 | 160.8 |

**Key Assumptions:**
Forecasts: Gold price: (long term from FY13) = US$850/oz; A$/US$=0.80 (long term).

## Investment Points

Our FY11 gold production forecast is 126koz.

100kozpa Cracow JV (30% CAH) is now contributing.

Construction of A$92m 100kozpa Edna May plant on track, on budget, for first production May '10.

Total group resource 1.91moz, reserves 1.02moz.

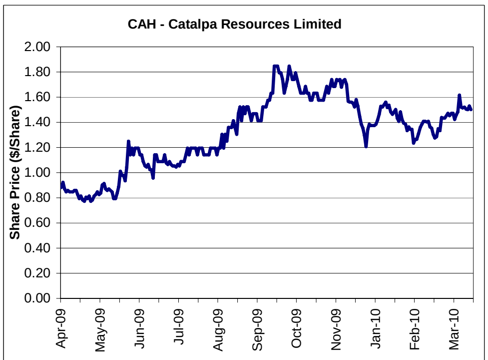
Strong forward sales (~55% for 5 yrs) at A$1,557/oz.

A$20m capital raising and debt restructure further de-risks the company and will accelerate exploration.

CAH targeting growth towards 170kozpa - potential high grade Edna May deeps (u/g ore) and regional targets.

Our med-term share price expectation is A$2.00/share running up to Edna May commissioning. (NAV is A$350m, A$2.07/share).

Prospective P/E ratio for FY11 is only ~ 5x.



Source: Bloomberg

## Company Comment

**Overview:** CAH was listed on the ASX in Aug '02, and is on track to re-commence production at Edna May in 2Q10 at a rate of ~100kozpa. It also has a 30% JV interest in the 100kozpa Cracow JV (QLD).
**The Cracow Joint Venture:** Situated in S QLD, Cracow is a high grade underground mining field based on an epithermal system that has yielded over 1.1moz since 1932. Newcrest Mining (ASX:NCM) is the operator (70%). Based on high % of resource conversion to reserves and recent discoveries of new shoots (e.g. Kilkenny) it is likely that the mine will have a life well in excess of 10 years.
**Cracow Performance:** In 4Q09 the JV produced 24.1koz. Grades were a bit down (6.97g/t) but cash costs were in line (A$532/oz). We are forecasting FY10 output of 104koz for Cracow with treatment of 452kt of ore grading 7.8g/t. Cash costs US$453/oz (A$115/t of ore treated). Our assessed NAV of the Cracow JV is A$161m (@5% discount rate), assuming (conservatively) a 6.5 year Cracow mine life.
**Edna May Status:** CAH reports that the A$92m Edna May Project construction is on schedule and within budget, for the expected first pour in May '10, 70% debt funded utilising an A$65m Macquarie Bank finance facility (A$7m currently in a cash retention account) and ~30% equity funded. In FY11 we have assumed 2.7mt of ore processed to produce 95.4koz at ave. A$630/oz opex. Base case valuation (NPV @ 5%DR) is A$272m assuming 60% resource conversion to reserves (42mt LOM, 13 year life). Margins are boosted by the spectacular forward sales book of ~70% of first five years gold forward sold at A$1,557/oz.
**Exploration Emphasis:** CAH will accelerate exploration to upgrade existing resources and bring in new resources (e.g. Golden Point gneiss) with A$11m of the A$20m raising allocated to exploration.
**Corporate Developments:** CAH has recently announced a debt restructure and an A$20m equity raising. The debt restructure involves converting mezzanine to senior debt. Meanwhile, CAH has raised A$10m through a share placement @A$1.32 (bringing in two new investment funds) and will raise a further A$10m from an underwritten 1:19 renounceable rights issue @$1.25/share. The A$20m will be utilised for start-up working capital and resource exploration at Edna May and regional targets.
**Catalpa's Growth Targets:** CAH sees potential to fuel strong growth to ~170kozpa organically through the significant higher-grade underground potential at Edna May, and from the regional exploration potential of the relatively unexplored Westonia greenstone belt, where numerous targets await drilling.
**Investment Comment:** Catalpa's spectacular growth in the last 12 months now sees it in the ASX300 index, less than three months from first pour at Edna May. The current modest capital raising further de-risks the project start-up and underlines the importance of on-going resource definition and exploration. Our base case NPV is **A$2.07share** (US$850 long term gold, A$/US$ 0.80). Using spot gold (US$1,110/oz, A$/US$=0.92, long term) gives a valuation of **A$2.68**/share. We expect that the shares will regain momentum after the rights issue towards a post-commissioning target of **A$2.00/share.**

## Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

| Gold | Classification | Project Equity | Ore Mt | Au g/t | Cut Off g/t | Au t | Au koz | Au Eqty koz |
|---|---|---|---|---|---|---|---|---|
| **Reserves** | | | | | | | | |
| Edna May | Proved & Probable | 100% | 24.8 | 1.09 | 0.4 | 27.0 | 868 | 868 |
| Greenfinch | Proved & Probable | 100% | 2.5 | 1.07 | 0.5 | 2.7 | 86 | 86 |
| Cracow ** | Proved & Probable | 30% | 0.7 | 7.20 | na | 7.2 | 231 | 69 |
| **Total** | | | **21.1** | | | **36.9** | **1,185** | **1,023** |
| **Resources *** | | | | | | | | |
| Edna May | Meas+Ind+Inf | 100% | 47.9 | 1.00 | 0.4 | 47.6 | 1,530 | 1,530 |
| Greenfinch | Meas+Ind+Inf | 100% | 4.0 | 1.02 | 0.4 | 4.0 | 130 | 130 |
| Cracow ** | Meas+Ind+Inf | 30% | 3.1 | 8.20 | na | 25.8 | 828 | 248 |
| **Total** | | | **55.0** | | | **77.4** | **2,488** | **1,908** |
| **Mineralised Material** (est., non compliant with JORC) | | | | | | **0.0** | **0.0** | **0.0** |

* Resources includes reserves ** Cracow data from NCM release 17.8.09

## Contacts

Mr Bruce McFadzean
Managing Director
Tel: 61 (8) 9321 3088
Perth, WA, Australia
www.catalparesources.com.au

## Directors

P Maloney (Non Exec Chair)
B McFadzean (MD)
J Rowe (Non Exec)
M Pollock (Non Exec Dir)
B Sullivan (Non Exec Dir)
G Freestone (Non Exec Dir)

Analyst: Dr Tony Parry
tonyparry@rcresearch.com.au

## Key Projects

| Project | Ownership/ Option | Metal | JV Partner | Target Type | Process Route | Project Status | Location |
|---|---|---|---|---|---|---|---|
| Edna May | 100% | Au | na | IRG/reef | CIL | Construction | Aus (WA) |
| Cracow | 30% | Au | NCM | epithermal | CIL | Operating | Aus(QLD) |

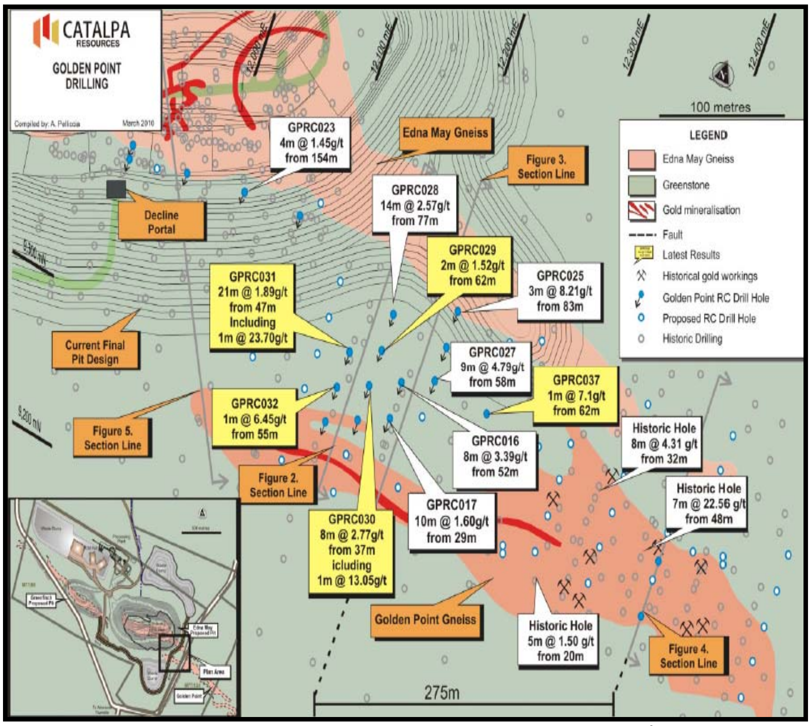
# CATALPA RESOURCES LIMITED VALUATION

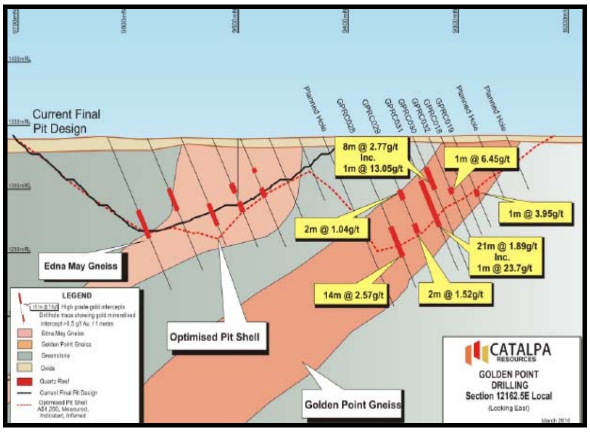
**Pro forma as at June 2010 post renouceable entitlement issue.**

| | Equity | Equity Gold Resource (moz) | Resource Valuation US$/oz | RCR Target Price A$m ^ | Valuation with Spot Prices * |
|---|---|---|---|---|---|
| **Projects** | | | | | |
| + Edna May Gold Project NPV** | 100% | 1.66 | 150 | 272 | 386 |
| + Cracow JV NPV ** | 30% | 0.25 | 238 | 48.3 | 64.8 |
| + Regional & U/G Exploration | 100% | | | 10.0 | 15.0 |
| Sub Total | | | | 330.3 | 465.8 |
| | | | | | |
| + Cash (est Jun '09) | | | | 26.9 | 26.9 |
| + Tax Losses | | | | 9.4 | 9.4 |
| + Discounted Value of Forward Sales (5% nominal) | | | | 81.0 | 54.0 |
| - Debt (est. Jun '09) | | | | 65.0 | 65.0 |
| - Corporate Overhaeds (NPV @ 5%) | | | | 32.9 | 32.9 |
| Sub Total | | | | 19.4 | -7.6 |
| | | | | | |
| **CAH NET ASSET VALUE** | | | 143 | **349.7** | **458.2** |
| | | | | | |
| **Capital Structure^^** | | | | | |
| Shares (Jun '10) (m) | | | | 160.8 | 160.8 |
| Fully Diluted Shares (Jun '10) (m) | | | | 176.3 | 176.3 |
| | | | | | |
| **CAH NET ASSET VALUE PER SHARE** | **:A$/share** | | | **2.18** | **2.85** |
| **CAH NET ASSET VALUE DILUTED** | **:A$/share fully diluted** | | | **2.07** | **2.68** |

^^ Capital structure assumes 1:19 entitlement issue is completed.
^Target valuation based on RCR long term gold price forecast of US$850/ounce (from 2Q12), A$/US$ = 0.80.
* Spot price valuation is based on current spot price of US$1,110/oz, A$/US$ = 0.92 as long term prices.
** Edna May and Cracow project valuations based on after tax nominal NPV @ 5% discount rate.

**Of the A$20m to be raised, A$11m is allocated to exploration, underlining the importance of further resource definition and resource exploration drilling. Recent drilling of the Golden Point gneiss (see below) is very encouraging for defining additional resources SE of the current proposed pit shell.**




Source: Catalpa Resources Ltd

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Resource Capital Research
ACN 111 622 489
www.rcresearch.com.au

Suite 1306
183 Kent Street
Sydney, NSW 2000

Tel: +612 9252 9405
Fax: +612 9251 2859
Email: johnwilson@rcresearch.com.au