

Catalpa Resources Ltd. (CAH.ASX)

\$20m Capital Raising eliminates mezzanine debt

Tuesday 16 March 2010

Event: CAH to raise \$20m in new equity and convert a \$10m mezzanine facility into an existing project loan facility. \$10m will be placed to new Institutional Investors at \$1.32/share and \$10m will be raised from a fully underwritten renounceable Entitlement Offer at \$1.25/share. The refinancing will result in 16.1m new shares being issued, or ~11% of the current issued capital.

In our view, the capital restructuring is in the best interest of equity holders considering the high cost of the mezzanine facility both in terms of the higher interest rate and dilution via options. The interest rate saving on converting the mezzanine debt is 250bp. If the mezzanine facility had been utilised, CAH would have to issue 6.06m options @ \$0.825/share to Macquarie Bank.

On balance, the capital raising provides CAH with an additional \$20m which the company proposes to use to:

- Facilitate the restructure;
- Accelerate resource definition and exploration drilling at Edna May; &
- Provide a working capital buffer during commissioning of Edna May.

CAH reiterated the Edna May project remains within budget and ahead of schedule with commencement of ore commissioning of the process plant in mid April.

Valuation. Our previous modelling had already anticipated raising an additional \$10.5m to replace the mezzanine debt facility. Therefore, our EPS forecasts and DCF based valuations per share decrease in line with slightly higher diluted capital than previously anticipated. We have also adjusted for 1HFY10 Accounts released on 10 March 2010. **Our DCF based valuation of CAH, assuming a A\$1,176/oz long term gold price and a 10% discount rate, is \$1.73/share and \$1.73/share one year forward.**

Recommendation. We retain our BUY recommendation and have slightly reduced our price target to \$2.10/share (previously \$2.15/share), reflecting a 20% premium to our one-year forward DCF based valuation. We view the key catalyst as the successful commissioning of the Edna May gold project expected in May 2010. In our view, **it is rare to see a gold stock trading at a discount to its NPV and we believe the current share price provides an excellent buying opportunity.**

Year to June (\$m)	2009a	2010e	2011e	2012e	2013e
Revenue	0.3	21.4	179.6	179.6	189.0
% change	nm	nm	739.1	0.0	5.2
EBITDA	-6.6	6.0	93.0	93.0	97.3
EBITDA margin	nm	28.0	51.8	51.8	51.5
NPAT rep	-6.8	-1.4	54.2	56.1	61.5
NPAT adj	-6.8	0.6	54.2	56.1	61.5
EPS adj (c)	-0.6	0.4	33.7	34.9	38.3
% change	nm	nm	nm	3.6	9.6
Dividend (c)	0.0	0.0	0.0	0.0	0.0
PER (x)	nm	-190.0	5.0	4.8	4.4
EV/EBITDA (x)	-33.0	40.7	2.2	1.5	0.7
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Resources	
Rating:	BUY
(previous):	BUY

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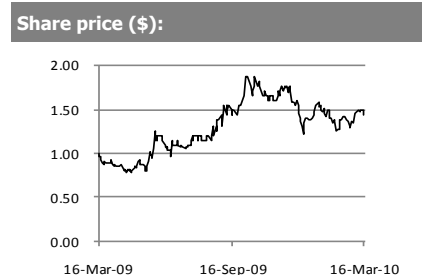
Share price:	\$1.44
Price target:	\$2.10
(Previous)	\$2.15
NPV per share:	\$1.73
Risk:	Medium

Shares on issue(post raising) (m):	160.7
Shares on issue (diluted) (m):	188.1
Free float:	100%
Average daily volume:	200,915

Market cap (\$m):	270.8
FY10e Enterprise value (\$m):	306.3
FY10e Net debt (\$m):	35.5
FY10e Gearing (ND/ND+E):	21.4
FY10e S'holders equity (\$m):	130.3
FY10e NTA per share (\$):	0.90

Forecast:	2010e
Free cash flow (\$m):	-86.7
Return on average equity:	0.5
Net interest cover:	1.6

Forecast:	2011e
Free cash flow (\$m):	62.7
Return on average equity:	29.4
Net interest cover:	26.1



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Catalpa Resources (CAH)

Full Year Ended 30 Jun

Profit and Loss (\$m)	2009a	2010e	2011e	2012e
Sales revenue	0.3	21.4	152.9	152.9
Other revenue	0.0	0.0	26.7	26.7
Total revenue	0.3	21.4	179.6	179.6
EBITDA	-6.6	6.0	93.0	93.0
EBITDA margin (%)	nm	28.4	121.6	60.8
D & A tangibles	0.2	2.1	12.5	12.5
EBIT	-6.7	3.9	80.5	80.5
EBIT margin (%)	nm	32.2	105.2	52.6
Net Interest exp (incom	0.1	2.5	3.1	0.3
Profit before tax	-6.8	1.4	77.4	80.2
Tax expense / (benefit)	0.0	0.8	23.2	24.1
NPAT pre-minorities	-6.8	0.6	54.2	56.1
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-6.8	0.6	54.2	56.1
Significant items	0.0	-2.1	0.0	0.0
NPAT reported	-6.8	-1.4	54.2	56.1
NPAT adjusted*	-6.8	0.6	54.2	56.1
EPS adjusted c	-0.6	0.4	33.7	34.9

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
EBITDA	-6.6	6.0	93.0	93.0
Net Interest	-0.1	-2.2	-3.1	-0.3
Tax	0.0	-1.2	-23.2	-24.1
Δ Working Capital	3.6	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Operating Cashflow	-3.0	2.5	66.7	68.7
Capex	-5.5	-86.6	-4.0	-4.0
Net Acquisitions	0.0	0.0	0.0	0.0
Exploration and Evaluati	0.0	-7.0	0.0	0.0
Other	-3.1	4.4	0.0	0.0
Investing Cashflow	-8.6	-89.2	-4.0	-4.0
Equity proceeds	41.1	20.0	0.0	0.0
Debt proceeds	0.0	55.0	0.0	0.0
Debt repayment	0.0	0.0	0.0	-11.0
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	-1.1	0.0	0.0
Financing Cashflow	41.1	73.9	0.0	-11.0
Net Cashflow	29.5	-12.8	62.7	53.7

Ratios	2009a	2010e	2011e	2012e
EPS rep c	-0.5	-0.8	28.8	29.8
EPS adj c	-0.5	0.3	28.8	29.8
EPS adj growth (%)	nm	nm	nm	nm
PER x	nm	-190.0	5.0	4.8
EV/EBITDA x	-32.8	40.7	2.2	1.5
EV/EBIT x	-32.0	62.5	2.5	1.7
Payout ratio	0.0	0.0	0.0	0.0
DPS Total c	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Average RoE (%)	nm	0.5	29.4	23.3
Average RoA (%)	nm	0.3	20.8	18.4
Gearing (ND/ND+E) (%)	nm	21.4	nm	nm
Net interest cover x	nm	1.6	26.1	275.9
ND/EBITDA x	nm	5.9	nm	nm
NTA (\$ per share)	0.26	0.90	1.15	1.5
# Shares Diluted (m)	1382.6	188.1	188.1	188.1

Source: FSB research

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H10a	2H10e	1H11e	2H11e
Sales revenue	3.7	17.7	76.5	76.5
Other revenue	0.0	0.0	13.3	13.3
Total revenue	3.7	17.7	89.8	89.8
EBITDA	-0.2	6.2	46.5	46.5
EBITDA margin (%)	-6.7	35.2	60.8	60.8
D & A tangibles	1.6	0.5	6.3	6.3
EBIT	-1.8	5.7	40.2	40.2
EBIT margin (%)	nm	32.2	52.6	52.6
Net Interest exp (incom	0.0	2.5	2.0	1.1
Profit before tax	-1.8	3.2	38.2	39.2
Tax expense / (benefit)	-0.2	1.0	11.5	11.8
NPAT pre-minorities	-1.6	2.3	26.7	27.4
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-1.6	2.3	26.7	27.4
Significant items	-2.1	0.0	0.0	0.0
NPAT reported	-3.7	2.3	26.7	27.4
NPAT adjusted*	-1.6	2.3	26.7	27.4
EPS adjusted c	-1.0	1.4	16.6	17.1

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	32.3	19.5	82.2	135.9
Receivables	0.8	2.1	2.1	2.1
Inventories	0.0	3.6	3.6	3.6
PPE	7.5	103.6	95.0	86.5
Exploration	1.5	71.4	71.4	71.4
Investments	0.0	0.0	0.0	0.0
Other	7.2	5.5	5.5	5.5
Total Assets	49.3	205.7	259.9	305.0
Accounts payable	4.1	11.7	11.7	11.7
Provisions	0.5	5.4	5.4	5.4
Tax liabilities	0.0	7.0	7.0	7.0
Debt	0.1	51.3	51.3	40.3
Other	0.0	0.0	0.0	0.0
Total Liabilities	4.7	75.4	75.4	64.4
Reserves and capital	78.6	165.7	165.7	165.7
Retained earnings	-34.0	-35.4	18.7	74.9
Minorities	0.0	0.0	0.0	0.0
Total Equity	44.6	130.3	184.5	240.6

Assumptions	2010e	2011e	2012e	LT
Gold price	1,065	1,000	1,000	1,000
AUD/USD	0.90	0.85	0.85	0.85
Edna May prod. (koz)	-	100	100	108
Cracow prod. (koz)	18	30	30	30
Total production (koz)	18	130	130	138

Valuation	now		one year	
	\$m	\$/share	\$m	\$/share
Edna May	134.7	0.78	178.8	0.95
Cracow	46.5	0.27	39.5	0.21
Exploration	20.0	0.12	20.0	0.11
Corporate	-23.3	-0.14	-21.9	-0.12
Hedge book	131.9	0.77	107.5	0.57
Net cash / (Debt)	-12.1	-0.07	0.8	0.00
NPV	297.6	1.73	324.6	1.73

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