

Catalpa Resources

Gold

Gold poured, close to steady state, now for underground

Recommendation	Buy
Last Price	A\$1.50
Target Price	A\$2.17
Forecast Total Return	45%

Company profile

Catalpa Resources Limited is currently progressing ramp up of its Edna May Gold Project. The project is 300km by road from Perth, mid-way between Perth and Kalgoorlie, and a few kilometres from the town of Westonia. Local infrastructure is excellent.

While a new development for CAH, Edna May has been studied extensively. In addition to recent feasibility studies (2004-2009), there have been three prior mining programs, above and below the planned open pit. As a result of this, the deposit has been de-risked well beyond normal levels.

CAH has 352,316oz hedged at A\$1,557/oz.

In addition to Edna May, CAH owns 30% of the Cracow Joint Venture, located in Queensland and operated by Newcrest Mining, owner of the balance.

Share price performance



	1m	3m	12m
Price	9%	(5%)	42%

Source: Iress

Other Information

Iress / Bloomberg	CAH / CAH AU
Market cap	A\$244m
Enterprise value	A\$287m
Average daily volume (m)	0.480
Free float	91%
Number of shares in issue (m)	162.7
Reporting currency	AUD
Quote currency	AUD
Website	www.catalpareources.com.au
Analyst(s)	Hunter Hillcoat +61 2 9293 2142 hunter.hillcoat@investec.com.au

CAH has delivered on and exceeded most of its development targets for Edna May and expects to reach nameplate capacity by the end of July. Together with its 30% production share from Cracow, this takes it to the 130koz/pa production level and puts it well on its way to its target of becoming Australia's next mid-tier producer.

- Recent newsflow:** CAH has continued to deliver on targets with several milestones passed this quarter: CAH poured its first gold in late April, the process plant was fully commissioned by early June and production is on track to reach nameplate capacity of 2.8mtpa by late July. By all indications, initial grade and recovery rates are better than planned, offering the potential for some upside to our numbers.

CAH updated its Edna May reserves, lifting them above 1moz for the first time (1,012koz at 1.06g/t). The update includes maiden reserves from Greenfinch: 86koz at 1.07g/t. We assume life of mine reserves of 1.15moz so the reserve upgrade is confirmatory rather than an upgrade to our numbers. With the open-cut resource definition programs well advanced, CAH intends shifting some exploration focus towards looking at underground opportunities, while continuing with regional exploration.

- Key Issues:** CAH's main challenge in the short term is in commissioning and ramping up Edna May to the initial 100koz/pa target rate. Longer term, CAH has a stated objective of being a 270koz/pa producer, including expanding Edna May to over 150koz/pa (through underground and regional opportunities) and possibly acquiring the outstanding 70% of Cracow, or a third project.
- Valuation & target:** We have recently increased our long-term gold price assumption from US\$850/oz to US\$950/oz (in line with the increasing 3-year average) and have increased short-medium term prices by an average ~US\$150/oz (+13%). As a consequence, our NPV for CAH has increased from A\$1.90/share to A\$2.17/share (+15%), while it would be valued at A\$2.42/share at spot. We have increased our target price from A\$2.09 to A\$2.17/share, which equates to CAH trading at the same average 1.0x NPV multiple that its peer group currently trades at.
- Catalysts.** CAH is still pre commercial production, targeting a relatively low grade ore body. We believe that it will be re-rated in line with its producer peer group as soon as it delivers on targeted production rates and operating costs, potentially within the next six months (we forecast a maiden profit of \$9m in this the period).

Financials and valuation - IFRS compliant

	Year end: 30 June				
	2008	2009	2010E	2011E	2012E
Revenue (A\$m)	0.0	0.1	20.7	152.9	185.4
EBITDA (A\$m)	(2.7)	(6.9)	2.2	66.8	93.7
EBITA	(2.9)	(7.1)	(2.7)	51.8	76.4
PBT (normalised) (A\$m)	(2.3)	(6.8)	(2.8)	49.8	75.1
Net income (normalised) (A\$m)	(2.3)	(6.8)	(2.9)	34.9	52.6
EPS (normalised, continuing) - FD (cents)	(0.6)	(0.5)	(1.7)	19.8	29.8
FCFPS - FD (cents)	(0.3)	(0.2)	5.8	41.2	49.0
NAV per share (cents)	1.8	3.8	61.5	88.9	115.1
DPS (quote) (cents)	0.0	0.0	0.0	0.0	0.0
PE (normalised) (x)				7.6	5.0
Price/NAVPS (x)	82.5	39.4	2.4	1.7	1.3
EV/Revenue (x)			14.0	1.9	1.6
EV/EBITDA(x)			134.5	4.3	3.1
FCF yield(%)	(0.2)	(0.1)	3.9	27.5	32.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: CAH Company accounts/Investec Securities estimates

Readers in all geographies please refer to important disclosures at the end of this report.

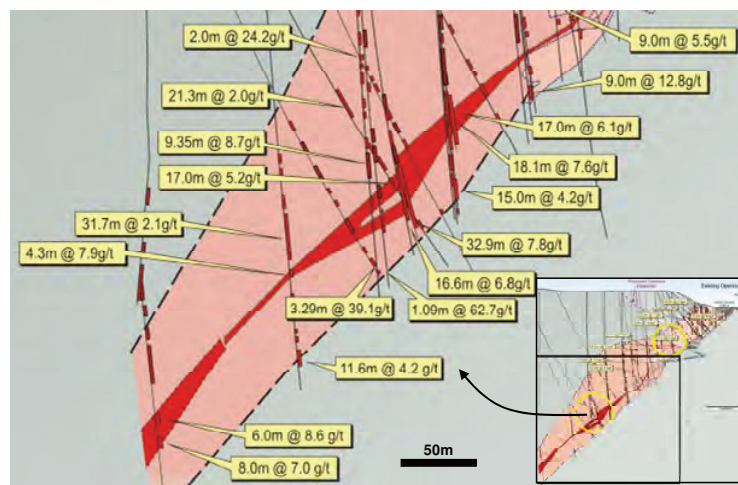
Looking underground

- With the Edna May operation now ramping up close to full capacity and with the open-cut resource definition programs well advanced, CAH intends shifting some focus towards looking at underground opportunities. The Edna May gneiss is known to host high grade quartz veining, as is evidenced by the abundant, significant, intersections already drilled at depth by previous owners (see diagram below), including 32.9m at 7.8g/t and 18.1m at 7.6g/t.
- However, there is as yet no underground resource and from August CAH intends commencing a 10,000m drill program targeting the underground reefs. CAH aims to have a JORC compliant resource by the end of 2010, and to then progress into a feasibility study. A key objective is ascertaining continuity of the mineralised zones, in order to enable mine planning and economic extraction.
- Potential stope sizes are expected to be modest, although high grade, and an underground operation is likely to be based on supplementing the existing open pit operations with higher grade feed (CAH is provisionally targeting underground production rates of around 30-50,000oz/pa at average grades of 6-8g/t). The higher grades should enable cash costs per ounce to be maintained at the same levels as the open cut operations (which we currently assume average around A\$650/oz over the life of mine).
- Capital costs should be modest. CAH aims to dewater and refurbish the existing decline, which extends to 300m vertical depth. The decline was developed by ACM Gold Ltd during 1988-1992, before being abandoned after intersecting barren pegmatite dykes.

Increase in gold price assumptions

- We have increased our long-term gold price assumption from US\$850/oz to US\$950/oz, in line with the increasing 3-year average. In the short to medium term, we have increased the price by an average ~US\$150/oz (+13%) and now have it peaking at US\$1,300/oz in 2012.

Section through underground (from ~350m to ~650m below surface)



Source: Company Reports

Catalpa Resources

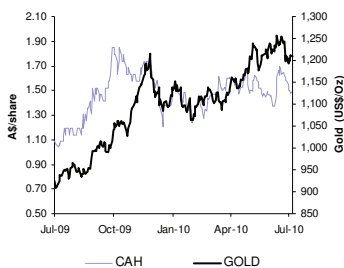
Key valuation/recommendation risks

- Failure to complete ramp up Edna May production in line with guidance and market expectations
- Head grades and/or recovery rates lower than planned (CAH particularly sensitive to this).
- Weaker than expected gold price (notwithstanding the excellent hedge position)
- Increasing fuel/labour/consumable prices

Board members

Peter Maloney, Non-Executive Chairman
 Bruce McFadzean, MD and CEO
 John Rowe, Non-Executive Director
 Barry Sullivan, Non-Executive Director
 Murray Pollock, Non-Executive Director
 Graham Freestone, Non-Executive Director

CAH vs Gold Price



Source: Iress, Bloomberg

Production Summary

		FY'09A	FY'10E	FY'11E	FY'12E	FY'13E	FY'14E
Edna May	000oz	0	0	88	99	102	109
Cracow (30%)	000oz	0	16	27	28	28	28
Total Gold Production	000oz	0	16	115	126	130	136

Operating costs

		FY'09A	FY'10E	FY'11E	FY'12E	FY'13E	FY'14E
Cash Operating Costs	A\$/oz	0	578	632	619	620	604
Total Operating Costs	A\$/oz	0	903	826	820	835	815
Gold Price Received	A\$/oz	0	1,272	1,459	1,469	1,455	1,425
Operating Margin	%	0%	29%	43%	44%	43%	43%

Commodity price assumptions

		FY'09A	FY'10E	FY'11E	FY'12E	FY'13E	LT (2015)
Exchange Rate	A\$/US\$	0.75	0.89	0.91	0.95	0.94	0.80
Gold	US\$/oz	875	1,087	1,250	1,300	1,250	950
Silver	US\$/oz	12.90	16.86	19.23	20.00	19.23	13.77

Key Financials

		FY'09A	FY'10E	FY'11E	FY'12E	FY'13E	FY'14E
Cash from Operations	A\$m	-3	2	62	76	72	77
Total Capex, Exploration	A\$m	-5	-105	-20	-12	-11	-4
Cash Position	A\$m	32	9	28	77	115	172
Total Borrowings	A\$m	0	55	32	17	2	2
Net Debt/(Cash)	A\$m	-32	45	4	-61	-113	-171
Net Debt to Net Debt plus Equity (%)		-260%	31%	2%	-43%	-86%	-151%

Half-year details

		Jun'09A	Dec'09A	Jun'10E	Dec'10E	Jun'11E	Dec'11E
Exchange Rate	A\$/US\$	0.71	0.87	0.90	0.90	0.92	0.95
Gold Production	000oz	0.0	2.9	13.2	52.2	62.9	63.1
Gross Cash Cost	A\$/oz	0	464	603	644	622	619
Revenue	A\$m	0.1	3.9	16.9	60.5	92.4	92.7
EBIT	A\$m	-3.8	-3.9	1.2	13.3	38.5	38.2
Profit before tax	A\$m	-3.6	-3.8	1.1	12.3	37.5	37.6
Profit After Tax	A\$m	-3.6	-3.7	0.7	8.6	26.2	26.3
Reported profit	A\$m	-3.6	-3.7	0.7	8.6	26.2	26.3

Valuation Breakdown

	A\$m	A\$/share (diluted)	Reserves & Resources	
Edna May	272	\$1.54	Edna May	Gold (Moz) Life (Yrs)
Cracow (30%)	50	\$0.28	Investec Estimate	1.15 10.0
Hedgebook	48	\$0.27	Total Reserves	1.01 8.8
Exploration	4	\$0.02	Total Resources	1.66 14.4
Net Cash, Options	9	\$0.05	Cracow (30%)	Gold (Moz) Life (Yrs)
Total NPV	383	\$2.17	Investec Estimate	0.17 5.4
			Total Reserves	0.07 2.2
			Total Resources	0.25 8.1

Source: Investec Estimates

Strengths

- Edna May project well understood (low technical risk) and in a good location
- Experienced board and management team
- Excellent hedge book should ensure strong operating margins
- Earnings diversity from two operations

Weaknesses

- Low grade makes it sensitive to any variation in head grade/recovery rates
- Initial cash generation expected to be applied towards debt repayment

Opportunities

- Pre-emptive right on NCM's 70% of Cracow
- Edna May resource base does not include any gold below 300m depth - good opportunities underground.
- Existing decline at Edna May should facilitate access underground
- Regional area only been lightly explored

Threats

- Undervalued relative to peer group
- Operational problems, hedge book delivery, low grade ore

Catalpa Resources

Summary financials - IFRS compliant

Year end: 30 June

Income Statement	2008	2009	2010E	2011E	2012E
Revenue	0.0	0.1	20.7	152.9	185.4
EBITDA	(2.7)	(6.9)	2.2	66.8	93.7
Depreciation and amortisation	(0.1)	(0.2)	(4.8)	(15.0)	(17.3)
Operating profit	(2.9)	(7.1)	(2.7)	51.8	76.4
Other income, JVs & associates	0.0	0.0	0.0	0.0	0.0
Net interest	0.6	0.3	(0.1)	(2.0)	(1.3)
Share-based payments					
PBT (Normalised)	(2.3)	(6.8)	(2.8)	49.8	75.1
Impairment of acquired intangible assets					
Non recurring items/Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT (reported)	(2.3)	(6.8)	(2.8)	49.8	75.1
Taxation	0.0	0.0	(0.2)	(14.9)	(22.5)
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued / assets held for sale					
Attributable profit	(2.3)	(6.8)	(2.9)	34.9	52.6
Net income (normalised)	(2.3)	(6.8)	(2.9)	34.9	52.6
EPS (reported) - FD (report)	(0.6)	(0.5)	(1.7)	19.8	29.8
EPS (normalised, continuing) - FD (quote)	(0.6)	(0.5)	(1.7)	19.8	29.8
DPS (report)	0.0	0.0	0.0	0.0	0.0
Average number of group shares - FD (m)	384.0	1,472.3	176.3	176.2	176.2
Average number of group shares (m)	345.4	1,171.8	161.2	162.7	176.2
Total number of shares in issue	345.4	1,171.8	161.2	162.7	176.2
Cash flow	2008	2009	2010E	2011E	2012E
Operating profit	(2.9)	(7.1)	(2.7)	51.8	76.4
Depreciation and amortisation	0.1	0.2	4.8	15.0	17.3
Other cash & non-cash movements	(0.5)	3.9	8.7	13.4	14.0
Change in working capital	1.8	(0.3)	0.5	0.0	(0.4)
Operating cash flow	(1.4)	(3.3)	11.4	80.2	107.2
Interest	0.3	0.3	(0.6)	(2.2)	(1.9)
Tax paid	0.0	0.0	0.0	(4.5)	(16.9)
Dividends from associates & JVs					
Cash flow from operations	(1.1)	(3.1)	10.7	73.5	88.4
Maintenance CapEx	0.0	0.0	(0.5)	(0.9)	(2.0)
Free cash flow	(1.1)	(3.1)	10.2	72.6	86.4
Expansionary CapEx	(0.1)	(3.9)	(90.9)	(13.0)	(6.0)
Exceptionals & discontinued operations					
Other financial	0.1	(4.7)	(16.9)	(17.9)	(16.0)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Net share issues	2.9	41.1	20.0	0.0	0.0
Dividends paid	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Change in net debt	1.7	29.4	(77.6)	41.7	64.4
Net cash (debt)	2.8	32.2	(45.3)	(3.6)	60.8
FCFPS - FD (report)	(0.3)	(0.2)	5.8	41.2	49.0
Balance sheet	2008	2009	2010E	2011E	2012E
Property, plant and equipment	3.6	9.0	155.5	158.9	152.1
Intangible assets	0.4	0.0	0.0	0.0	0.0
Investments & other non current assets	0.0	3.7	3.3	3.3	3.3
Cash & equivalents	2.8	32.3	9.2	27.9	77.3
Other current assets	0.1	4.4	11.4	11.4	11.9
Total Assets	6.9	49.3	179.5	201.6	244.7
Total debt	0.0	(0.1)	(54.6)	(31.6)	(16.6)
Preference shares					
Other long term liabilities	0.0	0.0	(8.8)	(8.2)	(8.2)
Provisions & other current liabilities	(0.6)	(4.6)	(17.1)	(17.1)	(17.1)
Pension deficit & other adjustments					
Total liabilities	(0.6)	(4.7)	(80.4)	(56.9)	(41.9)
Shareholder's equity	(6.3)	(44.6)	(99.1)	(144.8)	(202.8)
Minority interests					
Total equity	(6.3)	(44.6)	(99.1)	(144.8)	(202.8)
Total equity and liabilities	(6.9)	(49.3)	(179.5)	(201.6)	(244.7)
Net working capital	(0.0)	0.3	(0.2)	(0.2)	0.2
NAV per share (report)	1.8	3.8	61.5	88.9	115.1

Source: CAH Company accounts/Investec Securities estimates

Definition of research ratings - Expected 12m performance

	Australia / United Kingdom	South Africa
	Expected total return	
Buy	> 10%	> 20%
Hold	-10% to 10%	10% to 20%
Sell	< -10%	< 10%

Investec bases its investment ratings on the stock's expected total return over the next 12 months (with total return defined as the expected percentage change in price plus the projected dividend yield). To take account of differences in costs of capital, risk premia and required rates of return between developed and emerging markets, different ratings bands are applied in the Australia, United Kingdom and South Africa respectively (as shown above).

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Resources Quarterly Update

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