

Catalpa Resources (CAH.ASX)

Tuesday 27 July 2010

June Quarterly – Group production of 18.3koz.

Event:

- CAH released its June Quarterly Activity Report.

Key details:

- Group gold production of 18,274oz. Edna May – 9,808oz; Cracow – 8,466oz.
- Cash costs of A\$577/oz at Cracow, 5% below 3QFY10 of A\$610/oz.
- Cash costs at Edna May were not reported as it is in ramp up phase.
- Achieved gold price of A\$1,427/oz incorporates hedge sales at ~A\$1,553/oz.
- Ramp up at Edna May to 2.8mtpa of ore remains on track for 31 July 2010.
- FY11 Group production guidance of 115-127koz with 90-97koz forecast from Edna May and 25-30koz from Cracow.
- CAH will deliver ~70koz (~58% of forecast Group production) into the existing hedge facility in FY11 at A\$1,557.50/oz (spot gold is currently ~A\$1,314/oz).
- Cash and bullion at 30 June was \$41m. Debt facility of \$65m is fully drawn.

Analysis:

- Sales and realised prices imply revenue for the quarter of ~\$26m.
- Our modeling assumed no gold sales for Edna May in 2HFY10. Therefore, \$26m in revenue for 4QFY10 is well ahead of our projection of \$17.7m for 2HFY10.
- Monthly production figures show a steady ramp up at Edna May which produced ~ 4.8koz in the month of June.
- Gold sales into the hedge book in FY11 (at prices ~20% above spot gold) should deliver solid cashflows whilst gradually increasing CAH's exposure to spot gold prices.
- CAH's ability to bring Edna May to commissioning on budget and ahead of time gives us increased confidence management can achieve targeted production and costs.
- We have revised our forecast FY11 production at Edna May down to 90koz from 100koz and left our Cracow FY11 production forecast steady at 30koz.

Valuation & Earnings:

- Since our last report, we have made upward revisions to our short term gold price forecasts which have more than offset our revised lower production.
- Our DCF valuation for CAH is \$1.97/share (previously \$1.73/share) and our year-forward DCF is \$1.81/share (previously \$1.73/share).
- Our FY11 EPS has increased ~10% from 34cps to 37cps.

Catalysts:

- Edna May cash costs and production reporting in line with feasibility estimates.

Recommendation:

- We maintain our Buy recommendation and increase our price target to \$2.20/share (previously 2.10/share), to reflect higher near term gold price forecasts.**

Metals & Mining

Rating	Buy
Previous	Buy

Share Price (\$)	1.50
Price Target (\$)	2.20
Previous (\$)	2.10
NPV (\$/share)	1.97
Risk	Medium

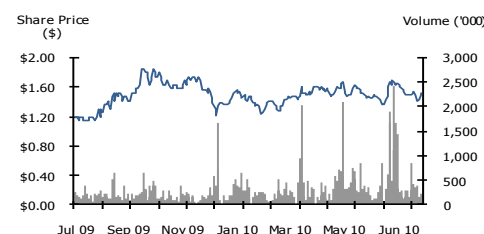
Capital Structure

Shares on Issue (m)	160.8
Shares on Issue diluted (m)	188.1
Free Float (%)	100%
12mth Av Daily Volume (k)	201
Market Cap (\$m)	282.1
FY10e EV (\$m)	308.4

Key Metrics

Year to Dec	2009a	2010e	2011e	2012e
Revenue (\$m)	0.3	38.2	179.6	184.0
EBITDA (\$m)	-6.6	14.0	99.4	103.8
NPAT rep (\$m)	-6.8	2.9	59.2	64.4
NPAT adj (\$m)	-6.8	5.0	59.2	64.4
EPS adj (¢)	-0.6	3.1	36.8	40.1
DPS (¢)	0.0	0.0	0.0	0.0
Op. c/flow (\$m)	-3.0	8.0	70.7	76.0
Inv. c/flow (\$m)	-8.6	-89.2	-4.0	-4.0
FCF (\$m)	-11.6	-81.2	66.7	72.0
PER (x)	nm	96.9	4.8	4.4
EV / EBITDA (x)	nm	17.7	2.1	1.3
Yield (%)	0.0	0.0	0.0	0.0
Net Debt (\$m)	-32.2	26.3	-40.4	-112.4
Gearing (%)	nm	18.2	nm	nm
EBIT / Net int. (x)	nm	3.4	26.9	434.9
Au price (US\$/oz)		1,090	1,200	1,200
AUD/USD		0.88	0.85	0.80
Au prod. (koz)		27.7	120.0	120.0

Share Price



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EDNA MAY

- **Waste mining at Edna May has been accelerated** by replacing a 120t excavator with a 190t excavator and adding an extra truck to the mining fleet to bring it to 6. It appears a small pit failure in the weathered zone has resulted in some flattening of pit walls in the upper 30m of the oxide zone. Accelerated construction of a noise bund wall and increasing the size of the tailings storage facility are other key reasons for adjusting the mining fleet.
- Ore supply to the process plant was sourced from previously mined stockpiles. The reconciled process grade of the stockpiles was 0.88g/t Au, ~10% higher than grade control estimates.
- **Ramping up of the processing plant was impacted by water supply and mechanical issues that have since been resolved.** These issues resulted in 16 lost days of production for the quarter.
- Early indications of achieving BFS gold recovery of 91.6%.

CRACOW (CAH – 30%)

- **CAH's share of Cracow's quarterly production was 8,466oz at an average cash cost of A\$537/oz.**
- Group averaged realised sales price of A\$1,427/oz and all of Edna May' production being sold into the hedge book at ~\$1,553/oz implies Cracow gold production was sold for an average realised price of A\$1,281/oz.
- While Resources and Reserves at Cracow were 0.8moz and 188koz respectively at 31 Dec 2009, continue exploration success gives us increased confidence mine lives at Cracow will be extended. Significant drill intercepts in the quarter include 6.2m @ 24.1g/t Au from 89.8m (PHU007) and 10.7m @ 14.9g/t Au from 130.7m (PHU011).

GOLD PRICE FORECAST CHANGES

Year ending June	2011	2012	2013	2014	2015	LT
Old	1,000	1,000	1,000	1,000	1,000	1,000
New	1,200	1,200	1,200	1,200	1,000	800
% change	20%	20%	20%	20%	-	-20%

Source: FSB Research

VALUATION & RECOMMENDATION

- We have revised our forecast FY11 production at Edna May down to 90koz from 100koz and left our Cracow FY11 production forecast steady at 30koz.
- Since our last report, we have made upward revisions to our short term gold price forecasts which have more than offset our revised lower production.
- Our DCF valuation for CAH is \$1.97/share (previously \$1.73/share) and our year-forward DCF is \$1.81/share (previously \$1.73/share).
- **We maintain our Buy recommendation and increase our price target to \$2.20/share** (previously 2.10/share), to reflect higher near term gold price forecasts. Our price target is based on a 20% premium to our year-forward DCF.
- Key catalysts remain Edna May cash costs and production reporting in line with feasibility estimates.

Catalpa Resources (CAH)

Full Year Ended 30 Jun

Profit and Loss (\$m)	2009a	2010e	2011e	2012e
Sales revenue	0.3	35.6	169.4	180.0
Other revenue	0.0	2.6	10.2	4.0
Total revenue	0.3	38.2	179.6	184.0
EBITDA	-6.6	14.0	99.4	103.8
EBITDA margin (%)	nm	37.8	117.4	57.7
D & A tangibles	0.2	3.2	11.5	11.5
EBIT	-6.7	10.8	87.9	92.3
EBIT margin (%)	nm	39.3	103.8	51.3
Net Interest exp (income)	0.1	3.1	3.3	0.2
Profit before tax	-6.8	7.6	84.6	92.1
Tax expense / (benefit)	0.0	2.7	25.4	27.6
NPAT pre-minorities	-6.8	5.0	59.2	64.4
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-6.8	5.0	59.2	64.4
Significant items	0.0	-2.1	0.0	0.0
NPAT reported	-6.8	2.9	59.2	64.4
NPAT adjusted*	-6.8	5.0	59.2	64.4
EPS adjusted c	-0.6	3.1	36.8	40.1

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
EBITDA	-6.6	14.0	99.4	103.8
Net Interest	-0.1	-2.9	-3.3	-0.2
Tax	0.0	-3.1	-25.4	-27.6
Δ Working Capital	3.6	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Operating Cashflow	-3.0	8.0	70.7	76.0
Capex	-5.5	-86.6	-4.0	-4.0
Net Acquisitions	0.0	0.0	0.0	0.0
Exploration and Evaluation	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	69.0	0.0	0.0
Debt repayment	0.0	0.0	0.0	-13.8
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	-1.1	0.0	0.0
Financing Cashflow	41.1	87.9	0.0	-13.8
Net Cashflow	29.5	6.7	66.7	58.2

Ratios	2009a	2010e	2011e	2012e
EPS rep c	-0.5	1.5	31.5	34.3
EPS adj c	-0.5	2.6	31.5	34.3
EPS adj growth (%)	nm	nm	nm	nm
PER x	nm	96.9	4.8	4.4
EV/EBITDA x	nm	17.7	2.1	1.3
EV/EBIT x	-33.5	23.0	2.3	1.4
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	3.7	30.6	25.0
Average RoA (%)	nm	2.2	20.9	19.3
Gearing (ND/ND+E) (%)	nm	18.2	nm	nm
Net interest cover x	nm	3.4	26.9	434.9
ND/EBITDA x	nm	2.1	nm	nm
NTA (\$ per share)	0.26	0.93	1.21	1.6
# 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	32.0	77.6	91.8
Other revenue	0.0	2.6	5.1	5.1
Total revenue	3.7	34.6	82.8	96.9
EBITDA	-0.2	14.2	45.8	53.6
EBITDA margin (%)	-6.7	44.5	59.0	58.4
D & A tangibles	1.6	1.7	5.2	6.3
EBIT	-1.8	12.6	40.6	47.2
EBIT margin (%)	nm	39.3	52.3	51.5
Net Interest exp (income)	0.0	3.2	2.1	1.2
Profit before tax	-1.8	9.4	38.5	46.1
Tax expense / (benefit)	-0.2	2.8	11.6	13.8
NPAT pre-minorities	-1.6	6.6	27.0	32.3
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-1.6	6.6	27.0	32.3
Significant items	-2.1	0.0	0.0	0.0
NPAT reported	-3.7	6.6	27.0	32.3
NPAT adjusted*	-1.6	6.6	27.0	32.3
EPS adjusted c	-1.0	4.1	16.8	20.1

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	32.3	39.0	105.7	163.9
Receivables	0.8	2.1	2.1	2.1
Inventories	0.0	3.6	3.6	3.6
PPE	7.5	102.4	94.9	87.4
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	224.0	283.2	333.9
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	65.3	65.3	51.5
Other	0.0	0.0	0.0	0.0
Total Liabilities	4.7	89.4	89.4	75.6
Reserves and capital	78.6	165.7	165.7	165.7
Retained earnings	-34.0	-31.1	28.1	92.6
Minorities	0.0	0.0	0.0	0.0
Total Equity	44.6	134.6	193.8	258.3

Assumptions	2010e	2011e	2012e	LT
Gold price	1,090	1,200	1,200	800
AUD/USD	0.88	0.85	0.80	0.80
Edna May prod. (koz)	10	90	90	108
Cracow prod. (koz)	18	30	30	30
Total production (koz)	28	120	120	138

Valuation	now		one year	
	\$m	\$/share	\$m	\$/share
Edna May	194.3	1.13	237.2	1.26
Cracow	67.9	0.39	59.3	0.32
Exploration	20.0	0.12	20.0	0.11
Corporate	-23.3	-0.14	-21.9	-0.12
Hedge book	91.9	0.53	39.7	0.21
Net cash / (Debt)	-12.1	-0.07	5.4	0.03
NPV	338.8	1.97	339.7	1.81

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