EQUITY RESEARCH

FOSTER STOCKBROKING

Level 21
25 Bligh St
Sydney NSW 2000

# 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

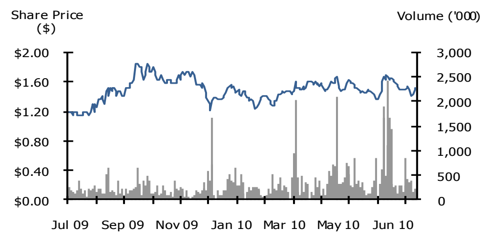
| **Rating** | **Buy** |
|---|---|
| Previous | Buy |

| **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**




**Analyst**

Michael Evans +61 2 9993 8163
michael.evans@fostock.com.au
www.fostock.com.au

## 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** |
| Minoritiy 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 |

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** |
| Minoritiy 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** |

*Source: FSB research*

# FOSTER STOCKBROKING CONTACTS


**DEALING**

| | | |
|---|---|---|
| Stuart Foster | +61 (0)2 9993 8131 | stuart.foster@fostock.com.au |
| Jason Lal | +61 (0)2 9993 8167 | jason.lal@fostock.com.au |
| Kevin Massey | +61 (0)2 9993 8130 | kevin.massey@fostock.com.au |
| Trenton Brown | +61 (0)2 9993 8161 | trenton.brown@fostock.com.au |
| Tolga Dokumcu | +61 (0)2 9993 8144 | tolga.dokumcu@fostock.com.au |
| George Mourtzouhos | +61 (0)2 9993 8136 | george.mourtzouhos@fostock.com.au |

**RESEARCH**

| | | |
|---|---|---|
| Dominic Rose | +61 (0)2 9993 8150 | dominic.rose@fostock.com.au |
| Michael Evans | +61 (0)2 9993 8163 | michael.evans@fostock.com.au |

**CORPORATE SERVICES**

| | | |
|---|---|---|
| Martin Carolan | +61 (0)2 9993 8135 | martin.carolan@fostock.com.au |
| Mark Hinsley | +61 (0)2 9993 8139 | mark.hinsley@fostock.com.au |

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP


Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between –10% and 10%; Sell = return <-10%. Spec Buy = return > 20% for stock with very high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Important Notice: