28 May 2012

Goldplat

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/10	10.7	2.2	1.58	0.0	7.4	N/A
06/11	19.6	3.1	1.63	0.0	7.2	N/A
06/12e	26.2	5.1	2.13	0.0	5.5	N/A
06/13e	36.5	13.8	6.58	0.0	1.8	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Kenya resource doubled

Goldplat has almost doubled its JORC compliant resource at its Kilimapesa gold mine in Kenya. The additional 118,173oz contributed is from the Red Ray target some two kilometres east of the plant site and based on 13 diamond drill holes averaging 50m per hole equating to a total of 651m. The drilling programme at Red Ray has proved a strike length of 1km open to the east and west. Goldplat now intends to double this resource to achieve its aim of delineating 500,000oz at Kilimapesa and ensure that it carries sufficient gold reserves so as to produce at a rate of 10,000oz Au per year from FY13. With ongoing drilling at Kilimapesa, management expects the 500,000oz to be delineated by the end of the calendar year resulting in a further catalyst for value generation for Goldplat in FY12 (see our 3 April 2012 update note).

Kilimapesa - Grades and recoveries as forecast

Gold production operations at the Kilimapesa mine are occurring as anticipated with grades of 5-6g/t being achieved alongside an 85% recovery rate. With an expected quick ramp-up of the Kilimapesa mine, this should ensure annual production of 10,000oz per year as outlined by management.

Valuation: Kilimapesa and JORC resource – 33.5p/share

We alter our valuation slightly based on a recalculation of minority interest and using forecast production rates from the recovery operations and Kilimapesa mine for nine years (FY13-FY21). Using a gold price of US$1,600/oz for FY12 and FY13 and US$1,350/oz thereafter yields 32.7p/share using a dividend discount model. The sum of the parts valuation equates to 33.5p/share when the attributable value of the JORC resource at the Nyieme licence in Burkina Faso (0.77p/share) is calculated.

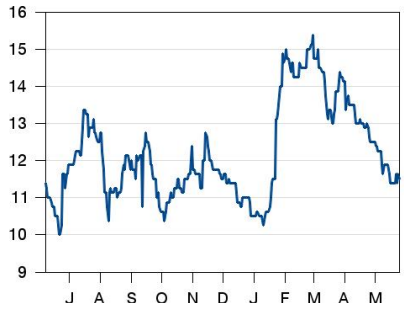
4.4p-12.6p/share upside in potential JORC resources

If Goldplat continues to delineate JORC compliant resources at its exploration portfolio, there remains potential for continued uplift. We calculate that the delineation of an additional 252,516oz of gold resource at Kilimapesa would crystallise between US$5.7m and US$27.8m (2.1-10.3p/share) on an attributable basis, while delineation of a resource at Anumso of 300,000oz would add a further US$6m or 2.25p/share.

Goldplat is a research client of Edison Investment Research Limited

Price	11.8p
Market Cap	£20m

Share price graph



Share details

Code	GDP
Listing	AIM
Sector	Mining
Shares in issue	167.87m

Price

52 week	High	Low
	15.75p	9.80p

Balance Sheet as at 31 December 2011

Net Debt/Equity (%)	N/A
NAV per share (p)	13.4
Net cash (£m)	4.4

Business

Goldplat is using its position as a small, profitable gold producer from its gold recovery operations in Ghana and South Africa to become a mid-tier producer, by acquiring conventional mining assets in Kenya and Burkina Faso.

Valuation

	2011	2012e	2013e
P/E relative	68%	53%	19%
P/CF	22.8	2.7	1.8
EV/Sales	0.8	0.6	0.1
ROE	11%	15%	31%

Revenues by geography

UK	Europe	US	Other
0%	0%	0%	100%

Analysts

Charles Gibson +44 (0)20 3077 5724
Rory Draper +44 (0)20 3077 5757
mining@edisoninvestmentresearch.co.uk

Investment summary: Kilimapesa resource expansion

Performance features of Goldplat's mining and drilling operations at the Kilimapesa Gold mine are as follows:

Kilimapesa Gold plant – Kilimapesa Mine (Kenya): Goldplat has completed the processing of loaded carbon stockpiles at Kilimapesa with 1,151oz of gold produced and sold to Rand Refinery. The company has now moved to purely mining operations from stoping tonnage from the Kilimapesa underground operations with average gold grades of 5-6g/t and recoveries of 85%. Work has begun on a new adit, Adit D, which is 60m vertically below Adit B. With plans for the construction of an additional 700m of flat development over the next 12 months this should ensure expansion of the resource plus increased mining tonnages.

Kilimapesa Hill – Kilimapesa Mine (Kenya): Goldplat confirmed extension of the orebody in depth over 140m and 1.5km on strike to the east at Kilimapesa Hill with five holes and 1,138m drilled, averaging 228m per hole so far in 2012. Goldplat intends to provide a further resource statement by June 2012 with the intention to increase the JORC compliant resource at Kilimapesa to 500,000oz Au (from 247,484oz Au currently) and allowing Goldplat the scale to mine and produce 10,000oz per year.

Red Ray – Kilimapesa Mine (Kenya): The delineation of 118,173oz of gold at the Red Ray target has substantially increased the JORC compliant resource at the Kilimapesa mine. This increase in JORC resource is based on a total of 13 diamond drill holes for 651m. A further nine drill holes comprising 660m are underway, which is designed to infill the Phase 1 drilling as well as test the orebody at depth and extend the strike both east and west to 2.5km.

Exhibit 1: Goldplat – JORC compliant resource at Red Ray target (sub-set of Kilimapesa mine)

Classification	Red Ray Tonnes (t)	Grade (g/t)	Gold content (oz)
Measured	529,923	2.49	42,469
Indicated	292,894	3.00	28,232
Inferred	659,796	2.40	47,472
Grand Total	**1,482,613**	**2.48**	**118,173**

Source: Edison Investment Research, Goldplat

Exhibit 2: Goldplat – JORC compliant resource total at Kilimapesa mine

Classification	Total Tonnes (t)	Grade (g/t)	Gold content (oz)	Target (oz)	Increase (oz)
Measured	565,923	2.51	45,811	92,553	46,742
Indicated	665,894	2.62	56,306	113,757	57,451
Inferred	1,901,796	2.42	145,367	293,690	148,323
Grand Total	**3,133,613**	**2.46**	**247,484**	**500,000**	**252,516**

Source: Edison Investment Research, Goldplat

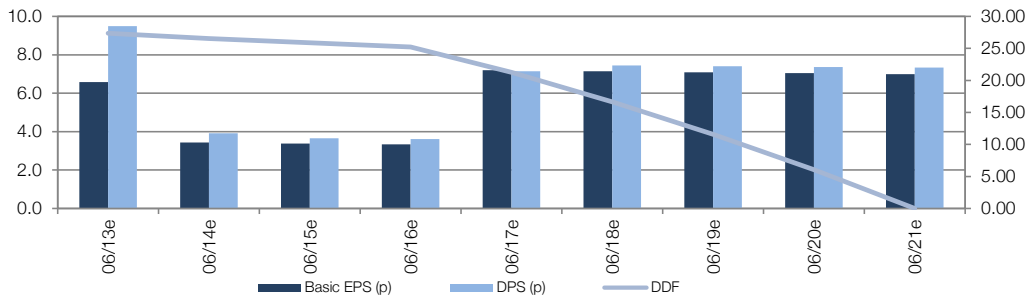
Vim/Rutha – Kilimapesa Mine (Kenya): The evaluation of Vim/Rutha target area, situated 2km south of Kilimapesa Hill, is yet to be completed with assay results expected in May or June and a resource update expected thereafter.

Valuation

We alter our valuation on recalculation of minority interest. Our previous base case valuation for Goldplat of 37.3p/share (see our 3 April 2012 update note) is revised down to 33.5p/share on a sum of the parts basis equating to 33.5p/share. We continue to value Goldplat using a long-term gold price of US$1,350/oz and assume stockpile reserves at its South African operations that would see it continue to operate to at least FY21. In addition the Kilimapesa mine has now reached production stage with an estimated 10,000oz per year to be produced from the mine on an ongoing basis. The base case for Kilimapesa gold production is 10,000oz per year over nine years at a cash cost of US$730/oz (equivalent to US$100/tonne milled) with gold prices reverting from US$1,600/oz to US$1,350/oz in FY14.

Using the above assumptions, we value Goldplat's recovery businesses and Kilimapesa mine at 32.7p/share on the value of the theoretical stream of potential dividends for the period FY13-21 (discounted at 10% per year to reflect general equity risk) as shown in Exhibit 3.

Exhibit 3: Goldplat's basic EPS and maximum DPS forecasts FY13-21



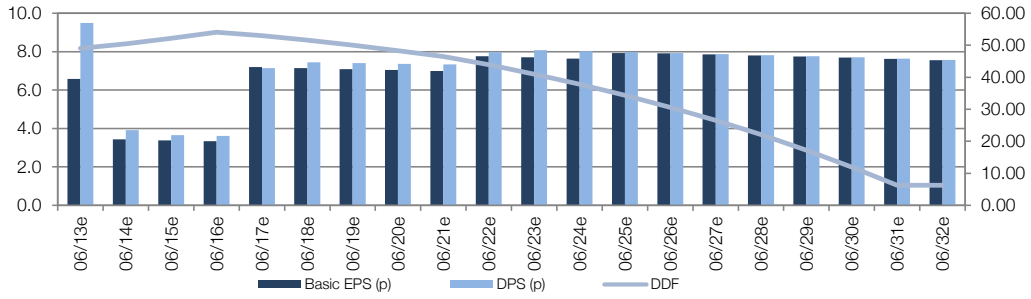
Source: Edison Investment Research

We continue to value the current JORC compliant resource at the Nyieme licence at £1.3m or 0.77p/share on an attributable basis, which gives a total of 33.5p/share.

Perpetual basis

In the scenario where the company continues to replenish stockpiles perpetually, is able to maintain near full capacity production at its South African and Ghanaian recovery plants indefinitely and the Kilimapesa mine continues further resource delineation and gold production at 10,000oz per year, we calculate that Goldplat would be capable of making a 7-8p per share dividend payout to shareholders from FY17 until FY32. This suggests a share price above 50p in current money terms, as detailed in Exhibit 4.

Exhibit 4: Goldplat's basic EPS and maximum DPS forecasts FY13-32



Source: Edison Investment Research

Resource delineation upside

We continue to see valuation upside in Goldplat's exploration portfolio, detailed below:

- To increase the JORC code-compliant resource at Kilimapesa from 247,484oz to 500,000oz.
- To announce an initial, maiden JORC code-compliant resource of >300,000oz at its Anumso project in Ghana (vs a non-JORC code-compliant resource of 262,107oz currently [235,896oz or 90% attributable to Goldplat]).
- To drill test further four previously unidentified mineralised zones at the Nyieme licence in Burkina Faso and increase the JORC resource to >100,000oz.

In the most recent revision to our publication, *Gold – valuation benchmarks are obsolete*, published in January 2010, we calculated average values of US$22.39, US$129.32 and US$365.72 for inferred, indicated and measured ounces listed in London, respectively. Applying these average values and using a pro-rata percentage across the same categories, suggests a valuation of the additional 252,516oz of US$27.8m, or US$110.27 per total ounce, or 16.6c (10.4p) per share. If the additional ounces are confined to the inferred category we would value the resource at US$5.7m, or 3.4c (2.1p) per share.

We reiterate our assumptions on Anumso with the delineation of 300,000oz of gold in the inferred category suggesting a valuation of the resource of US$6.7m, of which US$6m, or 3.6c (2.25p) per share is attributable to Goldplat.

We maintain our valuation of the JORC resource at the Nyieme Licence of 92,589oz Au in the inferred category. This suggests a valuation of $2.06m, or 1.23c (0.77p) per share.

Exhibit 5: Financials

£'000s	2010	2011	2012e	2013e	2014e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	10,663	19,620	26,200	36,515	26,636
Cost of Sales	(6,914)	(14,952)	(19,404)	(20,841)	(16,412)
Gross Profit	3,749	4,668	6,796	15,674	10,224
EBITDA	2,529	3,443	5,554	14,370	8,854
Operating Profit (before GW and except.)	2,296	3,156	5,034	13,663	8,037
Intangible Amortisation	0	0	0	0	0
Share based payments & other	(237)	323	0	0	0
Other	0	0	0	0	0
Operating Profit	2,059	3,479	5,034	13,663	8,037
Net Interest	(116)	(51)	58	164	366
Profit Before Tax (norm)	2,180	3,105	5,092	13,827	8,403
Profit Before Tax (FRS 3)	1,943	3,428	5,092	13,827	8,403
Tax	(713)	(472)	(939)	(983)	(945)
Profit After Tax (norm)	1,963	2,505	4,153	12,845	7,458
Profit After Tax (FRS 3)	1,230	2,956	4,153	12,845	7,458
Average Number of Shares Outstanding (m)	111.8	139.4	167.9	167.9	167.9
EPS - normalised (p)	1.58	1.63	2.13	6.58	3.62
EPS - FRS 3 (p)	0.93	1.96	2.13	6.58	3.62
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	35.2	23.8	25.9	42.9	38.4
EBITDA Margin (%)	23.7	17.5	21.2	39.4	33.2
Operating Margin (before GW and except.) (%)	21.5	16.1	19.2	37.4	30.2
BALANCE SHEET					
Fixed Assets	11,276	13,954	15,762	16,930	17,214
Intangible Assets	7,297	9,668	9,668	9,668	9,668
Tangible Assets	3,589	3,903	5,711	6,879	7,163
Investments	390	383	383	383	383
Current Assets	6,709	13,078	15,920	27,966	34,065
Stocks	3,825	3,367	3,190	3,426	2,698
Debtors	1,866	6,584	4,307	6,003	4,378
Cash	1,018	3,127	8,424	18,538	26,988
Current Liabilities	(3,844)	(4,794)	(5,291)	(5,660)	(4,584)
Creditors	(3,737)	(4,520)	(5,134)	(5,503)	(4,427)
Short term borrowings	(107)	(274)	(157)	(157)	(157)
Long Term Liabilities	(724)	(739)	(739)	(739)	(739)
Long term borrowings	(100)	(62)	(62)	(62)	(62)
Other long term liabilities	(624)	(677)	(677)	(677)	(677)
Net Assets	13,417	21,499	25,652	38,497	45,955
CASH FLOW					
Operating Cash Flow	1,431	777	8,622	12,808	10,131
Net Interest	(104)	(37)	58	164	366
Tax	(617)	(724)	(939)	(983)	(945)
Capex	(1,622)	(2,071)	(2,327)	(1,876)	(1,102)
Acquisitions/disposals	(73)	(1,124)	0	0	0
Financing	131	5,206	0	0	0
Dividends	0	0	0	0	0
Net Cash Flow	(854)	2,027	5,414	10,114	8,450
Opening net debt/(cash)	(1,551)	(811)	(2,791)	(8,205)	(18,319)
HP finance leases initiated	0	0	0	0	0
Other	114	(47)	0	0	(0)
Closing net debt/(cash)	(811)	(2,791)	(8,205)	(18,319)	(26,769)

Source: Company accounts, Edison Investment Research

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