Flashnote

Marketing Communication (Connected Research)

Goldplat#

BBG Ticker: GDP LN *Price: 7.38p* *Mkt Cap: £12.3m* **BUY**

Year to June	Revenue (£'000)	EBITDA (£'000)	PBT (£'000)	EPS (p)	DPS (p)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)	Div Yield (%)
2015A	16,628	(132)	(796)	(0.68)	n/a	0.3x	neg	neg	n/a
2016A	20,185	1,878	1,942	0.56	n/a	0.6x	6.8x	13.1x	n/a
2017F	25,061	2,999	2,242	0.62	n/a	0.5x	4.3x	11.8x	n/a
2018F	25,020	3,364	2,257	0.68	n/a	0.5x	3.8x	10.9x	n/a

***SOURCE**: Company, VSA Capital estimates.*

Debt Funding Secured

US$2m Short Term Debt Facility

Goldplat (GDP) has announced that it has secured a US2m short term debt facility from Scipion Capital. The loan is structured as a revolving pre-export facility and is available for 360 days from first drawdown. Interest is LIBOR plus 9.5%pa and repayment and interest are due monthly. Security on the drawn amounts has been granted over GDP's South African tailings facility.

The expansion at Kilimapesa has to date been funded via internally generated cash for GDP's subsidiaries in Ghana and South Africa. The loan will normalise the working capital position of the subsidiaries with repayment, after commissioning of Stage Two, coming primarily from the Kilimapesa profits over the next 12 months. Furthermore, the improved working capital position will enhance GDP's negotiating position for new contracts by enabling GDP to pay cash up front for by-product material. This is likely to be important for the push into Latin America, in particular where GDP is developing new relationships.

Reduced Cost of Capital

Given the stock continues to be undervalued, in our view, we believe that avoiding equity dilution at the current price level is advantageous to shareholders. Additionally although this is only a modest amount of debt we believe that it enhances the capital structure sufficiently to result in a modestly reduced WACC of 7.6% versus 8% previously.

Recommendation and Target Price

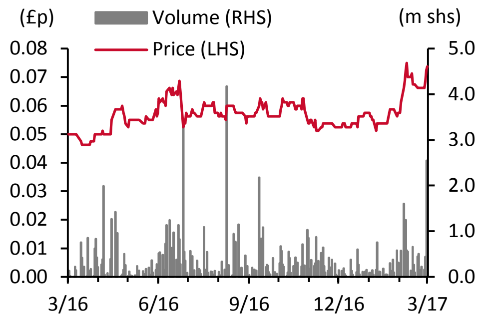
Since the announcement of strong interim earnings, the stock has risen 20%. We believe that the enhanced capital structure and working capital position underpin the ongoing rerating and GDP's earnings outlook; thereby adding value to the stock.

We reiterate our Buy recommendation and increase our target price by 9% to 12.2p/sh, which implies 65% upside potential.

Company Description

Goldplat plc is a gold recovery services company with operations in South Africa and Ghana. It also has a small gold exploration & mining portfolio.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	28.3%	40.5%	47.5%

***SOURCE**: FactSet, as of 16 March 2016 close.*

Market:	LSE AIM
Target price:	12.2p
Shares in issue	167m
Free float:	90%
Net cash (Dec 2016):	£835k
Enterprise value:	£9.5m

Major shareholders	
Halifax Share Dealing	11.66%
Toronto Dominon Bank	10.07%
FIL Limited	10.06%

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Working Capital Flexibility

Goldplat's (GDP) announcement that it has secured a US$2m loan facility is positive, in our view, as it strengthens the operational capability of the company and enhances its capital structure. The loan facility is available for 360 days from the first drawdown although it may be extended or increased in size. Security on the drawn amounts has been granted over GDP's tailings facility in South Africa which has a total JORC resource of 1.43mnt at 1.78g/t gold and 4.7g/t silver. The loan has been made to GDP's wholly owned Jersey subsidiary Gold Mineral Resources owns the operating subsidiaries in Ghana, South Africa, Kenya and Burkina Faso.

The turnaround at Kilimapesa which is due to significantly increase production in FY 2017F and cost around US$2m has been funded entirely from internally generated cash flow to date. This has meant cash from Ghana and South Africa has been utilised to fund the expansion which will result in production increasing by around double from 2koz in FY2016F. In terms of GDP's business model working capital is of vital importance as cash up front plays a vital role in negotiating new contracts. Naturally cash up front results in better terms when GDP is procuring by product material.

The Kilimapesa turnaround is taking place in three phases, the first of which has already been completed, as announced earlier this calendar year. Stage One has processing capacity of around 60tpd while Stage Two which involves the addition of a crushing circuit and three leach tanks will increase capacity to 120ptd and a production run rate of 4.5kozpa. Stage Three which is due to be completed during H2 FY 2017F as well will increase capacity to 200tpd. Consequently we expect Kilimapesa to be operating profitably by the start of FY 2018F which will enable GDP to repay the loan facility primarily from the profits in Kenya.

It is also beneficial when GDP is seeking new relationships with potential suppliers as it is planning to do in South America. GDP has not procured material from the region previously and many of the suppliers are likely to be new, being able to use greater levels of cash for these early contracts is likely to speed up GDP's entry into this new market, in our view. However, we do not believe that it is possible to accurately quantify these benefits at this time and consequently do not factor the benefits into our earnings forecasts.

Goldplat Financial Highlights, £'000

	FY 2014	FY 2015	FY 2016	FY 2017F	FY 2018F	FY 2019F	FY 2020F
Production, oz	29,814	30,524	37,666	43,500	42,000	45,000	45,000
Sales, oz	28,216	24,904	40,763	43,500	42,000	45,000	45,000
Revenue	21,020	16,628	20,185	25,061	25,020	28,082	27,657
EBITDA	574	(132)	1,878	2,999	3,364	4,282	3,494
Operating Profit	153	(711)	1,172	2,021	2,386	3,037	2,249
Minority Interest	171	251	462	511	556	739	545
Net Income	(527)	(1,143)	946	1,046	1,138	1,513	1,116
P/E, x	neg	neg	13.1x	11.8x	10.9x	8.2x	11.1x
EV/EBITDA, x	16.3x	neg	7.1x	4.3x	3.8x	3.0x	3.7x
EPS	(0.31)	(0.68)	0.56	0.62	0.68	0.90	0.67
Capex	(510)	(909)	(1,284)	(2,000)	(1,300)	(500)	(300)
FCF	(1,329)	(1,553)	(549)	1,102	1,638	3,666	2,208
Gold price	1,286	1,229	1,168	1,259	1,300	1,360	1,340

***SOURCE**: Company data, VSA Capital Research*

Our operational estimates are therefore unchanged as a result of the announcement. Our net income estimates for FY 2017F and FY 2018F are adjusted down to reflect higher interest payments.

Valuation

Our valuation for **Goldplat (GDP)** is based on a 50/50 blend of NAV and 12 month forward EV/EBITDA multiple. GDP has historically traded on a trailing EV/EBITDA multiple of 5.8x. Whilst our operational estimates are unchanged we have updated our valuation to reflect the enhanced capital structure of GDP.

Our blended target price for GDP is therefore 12.2p/sh., which implies 65% upside potential.

Valuation Summary

1 yr forward EBITDA, £'000	2,999
Target 12-mo forward EV/EBITDA	5.8
Fair EV, £'000	**17,397**
Net Debt, £'000	(1,216)
Other, £'000	1,642
Total Fair Equity Value, £'000	**17,823**
# of shares (2015)	167,441
Per Share Fair Value, £'000	10.64
NAV fair target price	13.73
Blended 12-mo Target Price, GBp/share	**12.2**
Current Price, GBp	7.38
Upside, %	65%

SOURCE: *Company data, VSA Capital Research.*

NAV-based Valuation Approach

We previously assumed a cost of equity of 8%. However, with the addition of the 9.5%pa loan and using a target structure of 80/20 and tax rate of 35% we reach a new WACC of 7.6%. Our NAV-based valuation approach is based on a discount rate of 7.5% and P/NAV multiple of 1.0x. The impact of the lower discount rate is a modest increase in our NAV valuation of GDP

Goldplat NAV Valuation

Division	Division NAV (£'000)	P/NAV	Fair Equity Value, £'000
Goldplat	23,418	1.0x	23,418
Total NAV, £'000			**23,418**
Consolidated Net Debt			(1,216)
Minority Interest			1,642
Total Equity Value			**22,991**

SOURCE: *Company data, VSA Capital Research.*

Risks

- **Commodity Prices**. The company is primarily exposed to the gold market and unexpected changes to commodity prices are likely to affect our valuation.
- **Political Risk.** Changes to the political regime and mining code in the countries in which GDP operates would potentially alter the risk profile, namely Ghana and South Africa.
- **Operational Risk.** The potential for delays and operating issues are an inherent industry risk and there is the potential for delays to the construction of additional elution capacity. Disruptions to the supply chain present the biggest potential risk for GDP given it is necessary to regularly procure raw materials.

Appendix 3: Financial Statements

Profit and Loss (£'000)

	2014A	2015A	2016A	2017F	2018F	2019F	2020F
Revenue	**21,020**	**16,628**	**20,185**	**25,061**	**25,020**	**28,082**	**27,657**
Cost of sales	19,202)	(15,660)	(17,177)	(20,972)	(20,570)	(22,729)	(23,126)
Gross Profit	**1,818**	**968**	**3,008**	**4,089**	**4,450**	**5,354**	**4,531**
SG&A	(1,665)	(1,679)	(1,836)	(2,068)	(2,064)	(2,317)	(2,282)
Finance Income	429	843	809	614	2	2	2
Finance costs	(830)	(807)	(39)	(394)	(131)	(27)	(27)
Impairment of assets	-	(121)	-	-	-	-	-
Profit before taxation	**(248)**	**(796)**	**1,942**	**2,242**	**2,257**	**3,012**	**2,224**
Mining and income tax	(108)	(96)	(534)	(685)	(564)	(759)	(562)
Profit for the year	**(356)**	**(892)**	**1,408**	**1,557**	**1,693**	**2,252**	**1,661**
Non-controlling interest	171	251	462	511	556	739	545
Attributable to equity holders of the company	**(527)**	**(1,143)**	**946**	**1,046**	**1,138**	**1,513**	**1,116**

SOURCE: *Company data, VSA Capital Research.*

Balance Sheet (£'000)

	2014A	2015A	2016A	2017F	2018F	2019F	2020F
Non-current Assets							
Property, Plant & Equipment	4,202	4,449	5,404	6,426	6,747	6,002	5,057
Intangibles	7,194	7,033	9,726	9,726	9,726	9,726	9,726
Pre-production Expenditure	2,457	2,136	-	-	-	-	-
Proceeds from Sale of Shares in Subsidiary	1,448	1,357	1,271	1,271	1,271	1,271	1,271
Non-Current Cash Deposits	202	233	160	160	160	160	160
Total Non-Current Assets	**15,503**	**15,208**	**16,561**	**17,583**	**17,904**	**17,159**	**16,214**
Current Assets							
Inventories	5,088	7,727	7,747	6,866	6,855	7,694	7,577
Trade & Other Receivables	4,786	3,305	6,255	6,866	6,855	7,694	7,577
Taxation	-	-	-	-	-	-	-
Cash & Bank Balances	1,455	630	2,148	2,891	1,916	3,531	6,016
Total Current Assets	**11,329**	**11,662**	**16,150**	**16,623**	**15,625**	**18,919**	**21,171**
Total Assets	**26,832**	**26,870**	**32,711**	**34,205**	**33,530**	**36,078**	**37,385**
Equity							
Share Capital	1,685	1,685	1,675	1,675	1,675	1,675	1,675
Share Premium	11,498	11,498	11,441	11,441	11,441	11,441	11,441
Exchange Reserve	(5,847)	(6,707)	(6,218)	(6,218)	(6,218)	(6,218)	(6,218)
Retained Earnings	11,011	9,868	10,953	11,999	13,137	14,650	15,766
Minority Interest	1,642	1,893	2,246	2,246	2,246	2,246	2,246
Total Equity	**19,989**	**18,237**	**20,097**	**21,143**	**22,281**	**23,794**	**24,910**
Non-Current Liabilities							
Loans & Borrowings	-	56	-	-	-	-	-
Obligations Under Finance Leases	106	199	157	157	157	157	157
Provisions	129	121	383	383	383	383	383
Deferred Tax Liabilities	430	459	510	510	510	510	510
Total Non-Current Liabilities	**665**	**835**	**1,050**	**1,050**	**1,050**	**1,050**	**1,050**
Current Liabilities							
Bank Overdraft	-	-	92	-	-	-	-
Loans & Borrowings	-	104	55	1,675	55	55	55
Obligations Under Finance Leases	169	120	129	129	129	129	129
Taxation	27	18	153	153	153	153	153
Trade & Other Payables	5,982	7,556	11,135	10,055	9,862	10,897	11,088
Total Current Liabilities	**6,178**	**7,798**	**11,564**	**12,012**	**10,199**	**11,234**	**11,425**
Total Liabilities	**6,843**	**8,633**	**12,614**	**13,062**	**11,249**	**12,284**	**12,475**
Total Equity & Liabilities	**26,832**	**26,870**	**32,711**	**34,205**	**33,530**	**36,078**	**37,385**

SOURCE: *Company data, VSA Capital Research.*

Statement of Cash Flows (£'000)

	2014A	2015A	2016A	2017F	2018F	2019F	2020F
Cash Flows From Operating Activities							
Net Income	(527)	(1,143)	1,002	1,046	1,138	1,513	1,116
Depreciation	393	390	514	978	978	1,245	1,245
Amortisation	28	189	192	-	-	-	-
Loss on sale of PP&E	35	148	62	-	-	-	-
Equity settled share based payment transactions	28	-	16	-	-	-	-
Changes in Working Capital							
(Increase)/decrease in inventories	(651)	(2,639)	(20)	881	11	(839)	116
Decrease/(increase) in trade and other receivables	(27)	1,481	(2,950)	(611)	11	(839)	116
Decrease in trade and other payables	1,970	1,574	3,579	(1,080)	(193)	1,035	191
Provisions	(5)	(8)	244	-	-	-	-
Interest received	429	843	809	-	-	-	-
Interest paid	(832)	(679)	(39)	-	-	-	-
Taxes paid	187	(76)	(342)	-	-	-	-
Net cash generated by operating activities	**470**	**219**	**2,872**	**1,215**	**1,945**	**2,115**	**2,785**
Cash flows from investing activities							
Payments for property, plant and equipment	(510)	(909)	(1,284)	(2,000)	(1,300)	(500)	(300)
Other	(467)	(99)	57	-	-	-	-
Net cash from investing activities	**(977)**	**(1,008)**	**(1,227)**	**(2,000)**	**(1,300)**	**(500)**	**(300)**
Cash flows from financing activities							
Proceeds from borrowings	-	160	(105)	1,528	-	-	-
Repayments of Borrowings	-	-	-	-	(1,620)-	-	-
Dividends paid	(201)	-	-	-	-	-	-
Payment of finance lease liabilities	(199)	(196)	(114)	-	-	-	-
Net cash used in financing activities	**(400)**	**(36)**	**(219)**	**1,528**	**(1,620)**	**-**	-
Net increase in cash and cash equivalents	**(907)**	**(825)**	**1,426**	**835**	**(975)**	**1,615**	**2,485**
Cash and cash equivalents at the beginning of the year	**2,362**	**1,455**	**630**	**2,056**	**2,891**	**1,916**	**3,531**
Cash and cash equivalents at the end of the year	**1,455**	**630**	**2,056**	**2,891**	**1,916**	**3,531**	**6,016**

SOURCE: *Company data, VSA Capital Research.*

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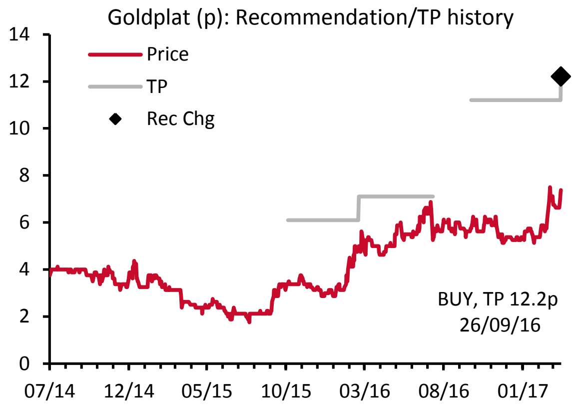
Equities breakdown: 30 June 2015	Spec. BUY	BUY	HOLD	SELL
Overall equities coverage	26.3%	68.4%	5.3%	0.0%
Companies to which VSA has supplied investment banking services	25.0%	75.0%	0.0%	0.0%

Recommendation and Target Price History



***SOURCE**: FactSet data, VSA Capital Research.*

Valuation basis

Our valuation for GDP is based on a 50/50 blend of NAV and 12 month forward EV/EBITDA multiple.

Risks to that valuation

Commodity prices, political risk, execution risk.

This recommendation was first published on 5 October 2015.