

S.P. Angel – Goldplat – Flash Note – 17 Jan 2014

Goldplat (GDP LN) 6.5 pence, Mkt Cap £11m – Operating Update Points to Difficult Trading Conditions Target Price Reduced 12 pence (20p)

- **Recovery Operations**
- **South Africa (GPL)** – The South African recovery operations have had a difficult first half.
- Operations have been impacted by the fall in the gold price as a result of they way contracts were structured.
- Material bought in through contracts were struck at high prices against prices actually realised at the time of sale due the fall and volatility in the gold price.
- In addition, processing of by products through Rand Refinery was temporarily held up in the first half.
- The South African operations were impacted by new measures brought in by Rand Refinery an accreditation process to ensure that the source of concentrate being sent for smelting and refining could be verified as “conflict free” gold.
- Goldplat’s Recovery Operations therefore had to go through a period of accreditation which took almost four months of the first half before its by products could be sent to Rand Refinery for processing.
- By products constitute a third of their South African profits - this has been a temporary stop to the processing of by products which has since been normalised.
- Now that Goldplat has achieved the accreditation status, they are now well positioned relative to other “secondary” producers to send material to the Rand Refinery offering scope for future business opportunities.
- By products acquired over the first half were of lower grade and higher price making it difficult to process profitability.
- A number of initiatives have been introduced by Hansie van Vreden who took over as the Managing Director of the South African operations last year which should partially mitigate a fall off in profits in the operations.
- Contracts are being renegotiated so that customers receive the gold price achieved at point of sale.
- By products which are currently stockpiled will be processed over a 24 hour shift improving returns.
- Costs are being saved through the introduction of liquid cyanide in the CIL circuits which will result in cost savings as this is much cheaper than granulated cyanide.
- **GRG (Gold Recovery In Ghana)** – GRG restarted operations at Tema through the treatment of stockpiles on site.
- The procurement of artisanal tailings at more commercial rates is slowly being achieved – these form part of the material being treated through the Adamus toll treatment plant.
- GRG’s targeting of the higher value carbon business is continuing.
- **Kilimapesa:** The mine continues to run on care and maintenance with losses likely to continue but at a lower pace than last year.
- The board is currently reviewing options for Kilimapesa.

Gold Recovery Operations expected to underperform materially in the first half

Based on this trading update, we have brought our numbers for Goldplat down significantly.

- We expect GPL now to report losses in the first half with some recovery in the second half.
- Ghana should generate profits we do not expect these profits to offset losses in South Africa.
- While South Africa is expected to recover in the second half, we do not expect this division to regain the same level of profitability achieved last year against a lower gold price environment.
- Contracts are currently being restructured but will not fully be in place.
- South Africa is unlikely to enjoy the same protection it did last year in using the flexibility of its high grade stockpile which is likely to have been run down last year.

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- Ghana has held up better with operations resuming at Tema and the currency offering a better hedge against lower gold prices.
- Artisanal tailings which constitute part of the business at Adamus is being bought at more commercial prices.

We are downgrading profits from the Gold Recovery Operations for the full year

- Profits for the full year from the Gold Recovery Operations are being brought down to £1.79m from the £5.3m achieved last year and had formed the basis for our forecasts for this year.
- The company's operations have been more operationally geared to the gold price than expected.

Kilimapesa remains on care and maintenance and is likely to be loss making

- The company continue to look at options for Kilimapesa but based on the small scale of production at the mine and high royalties at the state and community level, the mine is expected to be loss making.
- Losses are likely to be reduced significantly from last year but are still expected to be around £416,000.
- We had expected losses to be contained this year.

Profits for the full year expected to be materially reduced

- A combination of losses from Kilimapesa, reduced profits from Goldplat's South African operations will result in much reduced profits for the full year.
- We expect full year profits to fall from our expectations of £3.8m to £500,000.

Next year should be a better year but will be one of bedding down existing initiatives

- We expect the initiatives being put into place by the new team to lead to increased profitability being re-established at the recovery operations.
- Initiatives are being introduced to improve margins and the profitability of the company through the introduction of a more disciplined approach to sourcing of material, structuring of contracts and improvements in costs.
- Profits are likely to recover at both South African and Ghana but are unlikely to achieve the levels reached last year against a more muted gold price environment.
- Options being considered for Kilimapesa could also provide a respite from losses and potential for value.
- We expect the operations to be close to cash neutral for this year, retaining most of the cash balance from last year with scope to build this up in the following year.

June Year End		2010	2011	2012	2013	2014E
Revenue	£'000s	10,663	19,620	26,225	28,904	28,105
Operating Costs	£'000s	8,604	16,566	20,178	24,338	26,315
Operating Profit	£'000s	2,059	3,054	4,727	2,394	516
Post Tax Profit	£'000s	1,346	2,531	4,644	1,729	416
Cash	£'000s	918	2,488	4,573	2,360	2,067
EPS	pence	1.1	1.6	2.9	1.3	0.2
P/E		6.2x	4x	2.3x	5.2x	28.6x
Dividend	pence			0.6	0.12	0
Dividend Yield	%			6.9%	1.4%	0.0%

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