FY 2016 Results

Marketing Communication (Connected Research)

Goldplat#

BBG Ticker: GDP LN *Price: 5.75p* *Mkt Cap: £9.6m* **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	0.4x	3.4x	6.8x	n/a
2017F	22,198	3,094	1,928	0.58	n/a	0.4x	2.9x	10.0x	n/a
2018F	23,346	3,306	2,140	0.64	n/a	0.4x	2.7x	9.0x	n/a

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

Transitioning to Growth

Strong H2 FY 2016 and Return to Profit

Gold production of 37.7koz was up 23% YoY in FY 2016, while revenue was up 21% YoY to £20.2m. EBITDA of £1.9m marked a return to profit while PBT of £2m, in line with recent guidance, benefitted from a £0.8m FX gain. Net income, of £1m, was positive for the first time since FY 2012, demonstrating the success of the operational turnaround undertaken this year. In H2 FY 2016 EBITDA was up 148% HoH to £1.4m benefitting from rising gold prices and further depreciation of both the key operational currencies; the Rand and the Cedi.

Kilimapesa Growth Strategy

After the completion of a number of capital projects in FY 2016 which have directly contributed to the improved operational performance and strong FY 2016 financial results, GDP has committed to expanding capacity at Kilimapesa to 4.5koz in FY 2017F rising to 6kozpa thereafter. This should, in our view, return the asset to profitability and stem the losses which have hampered the group's recent results. We have assumed capital costs of £1.2m, in FY 2017, to expand the plant.

We believe that following the operational improvements at the recovery plants and a planned turnaround at Kilimapesa, GDP's earnings outlook has significantly improved and we anticipate EBITDA of £3.1m in FY 2017F and net income of £0.97m. Based on a current EV/EBITDA multiple of 2.9x, a discount of 50% to the long term average, GDP appears undervalued, in our view.

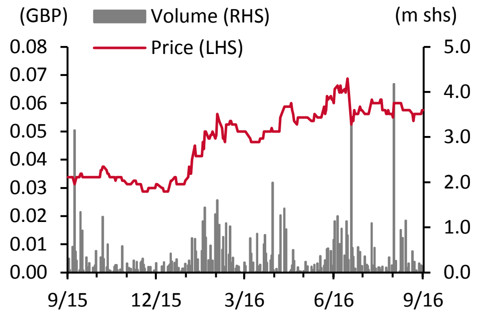
Recommendation and Target Price

Our estimates have been under review following a contractual dispute with Rand Refinery. However, GDP anticipate resolving the dispute during FY 2017 whilst following the strong FY 2016 results we believe the potential impact is somewhat mitigated. **Our 12 month Target Price is 11.2p/sh, implying 94% upside potential and we reinstate our BUY recommendation.**

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
	4.5%	-4.2%	70.4%

***SOURCE**: FactSet, as of 23 September 2016 close.*

Market:	LSE AIM
Target price:	11.2p
Shares in issue	167m
Free float:	90%
Net cash (June 2016):	£2m
Enterprise value:	£7m
Major shareholders	
Halifax Share Dealing	12.03%
Chase Nominees Ltd (FIL)	10.06%
Toronto Dominion Bank	8.63%

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Strong H2 FY 2016 Boosts Turnaround

Whilst prior trading updates have highlighted that the operational turnaround was largely completed during H1 FY 2016, these latest results highlight the strong positive financial impact. We believe that **Goldplat (GDP LN)** is now well positioned to take advantage of a more positive market environment. GDP's results for the full year clearly demonstrate the strength of the recovery with revenue for FY 2016 up 21% YoY to £20.2m and EBITDA recovering from a loss of £132k in FY 2015 to £1.93m in FY 2016. As well as the operational recovery following the **Rand Refinery** issues of FY 2015, the combination of a recovery in gold prices, favourable FX fluctuations and the commissioning of expanded elution capacity all combined to produce a particularly strong result in H2 FY 2016. Indeed, FX gains had a significant impact on the bottom line, contributing £798k as a one off gain in the period. As a consequence, GDP's net income of £0.95m was positive for the first time since FY 2012.

Gold prices averaged US$1,220/oz in H2 FY 2016 while gold production increased by 16% to 20.2koz. However, gold income was in fact lower in H2 compared to H1, down 11% to £9.5m. This resulted from the large component of metal transfers to clients which have a low impact on revenue but a strong impact on margins. Metal transfers to clients increased 224% to 10.1koz HoH. Margins further benefitted from currency fluctuations as the Rand depreciated versus Sterling and the US dollar by 6% and 13% respectively on average HoH. The Ghanaian Cedi depreciated marginally HoH versus the dollar which further benefitted operating costs.

Full Year and H2 FY 2016 Results Highlights, £000

		H1 FY 2016F	H2 FY 2016F	*% Chng, HoH*	FY 2016
Production	*Koz*	17,457	20,209	16%	37,666
Metal Transfers	*Koz*	3,119	10,106	224%	13,225
Sales	*Koz*	14,756	12,782	-13%	27,538
Gold income	*£'000*	10,673	9,512	-11%	20,185
Gross Profit	*£'000*	1,201	1,807	50%	3,008
EBITDA	*£'000*	555	1,323	148%	1,878
EBITDA margin, %	*%*	5%	14%		10%
Net finance Costs	*£'000*	150	620	313%	770
Profit Before Tax	*£'000*	395	1,547	306%	1,942
Tax	*£'000*	(203)	(331)	n/m	(534)
Net income	*£'000*	(11)	957	n/m	946
Capex	*£'000*	(682)	(602)	13%	(1,284)

SOURCE: *Company Data, VSA Capital Research.*

GDP undertook a number of capital projects to improve operational efficiency throughout the year including expanding elution capacity, which reduces GDP's reliance on Rand Refinery. Capital spending of £1.3m in FY 2016 was 13% higher YoY. However, the benefits of the expanded elution capacity are already being felt through higher gold production. Spending for capital projects continues to be funded via internal cash flow and the strong earnings result in FY 2016 provides GDP with significant flexibility. Indeed, additional funding for a plant expansion at Kilimapesa has now been approved which we believe significantly strengthens the earnings outlook in the near term. However, as a result of the additional capital commitments we expect GDP to remain cash flow negative in FY 2017F ahead of positive cash flow in FY 2018F. Capital spending in FY 2017F of £1.8m will largely relate to Kilimapesa (£1.2m), shipping an elution column to Ghana (£180k) and sustaining capital (£360k).

As a result of the strong result and improved outlook we are upgrading our earnings forecasts and now anticipate EBITDA of £3.1m for FY 2017F. Stemming losses at Kilimapesa provides a significant catalyst for the stock to rerate and we believe that given the current outlook the stock is now undervalued, trading on a one year forward EV/EBITDA multiple of 2.9x, a discount of 50% versus the long term average of 5.8x. We therefore believe that the current valuation presents an attractive entry point for investors.

Forecast Highlights, £000

	FY 2014	FY 2015	FY 2016	FY 2017F	FY 2018F	FY 2019F	FY 2020F
Production, oz	29,814	30,524	37,666	38,500	40,000	43,000	43,000
Sales, oz	28,216	24,904	40,763	38,500	40,000	43,000	43,000
Revenue	21,020	16,628	20,185	22,198	23,346	24,691	24,082
EBITDA	574	(132)	1,934	3,094	3,306	3,651	3,097
Operating Profit	153	(711)	1,228	1,965	2,178	2,215	1,661
Minority Interest	171	251	462	471	524	533	397
Net Income	(527)	(1,143)	1,002	965	1,073	1,092	813
P/E, x	neg	neg	6.8x	10.0x	9.0x	8.8x	11.9x
EV/EBITDA, x	16.3x	neg	3.4x	2.9x	2.7x	2.4x	2.9x
EPS	(0.31)	(0.68)	0.60	0.58	0.64	0.65	0.49
Capex	(510)	(909)	(1,284)	(1,800)	(1,300)	(500)	(300)
FCF	(1,329)	(1,553)	(493)	(762)	2,886	4,104	3,492
Gold price	1,286	1,229	1,168	1,350	1,365	1,345	1,315

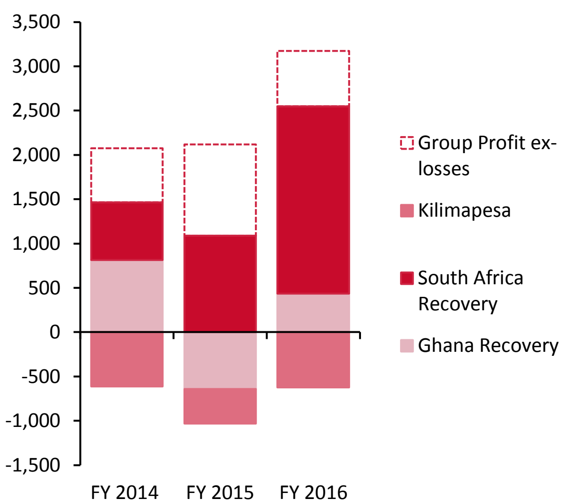
SOURCE: *Company data, VSA Capital Research.*

Kilimapesa to Return to Profit in FY 2017

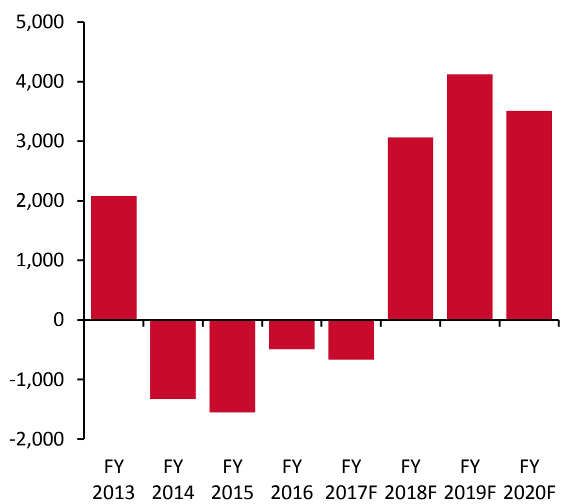
The unexpectedly strong earnings recovery as well as demonstrating the strength of the operational turnaround has enabled GDP to commit sufficient funds to expand the plant at Kilimapesa and increase production to a profitable level of around 4.5koz in FY 2017F and 6kozpa thereafter. While GDP plans to fund the programme from internal cash the stronger earnings outlook means that GDP now has the flexibility to consider alternative financing solutions such as debt or convertible loans.

Production in FY 2016 was 12% lower YoY at 2koz, as a result of a reduced supply of local artisanal tailings. During FY 2016 GDP completed work to re-open Adit D at Kilimapesa Hill and develop mining blocks which involved dewatering and re-equipping previously flooded sections as well as further geological exploration. A new processing plant and tailings facility must now be constructed, which is likely to cost around £1.2m, the majority of the FY 2017F capital budget. The Environmental Impact Assessment (EIA) has already been approved by the Kenyan authorities while the CIL plant which was decommissioned from GDP's operations in Ghana has been shipped and is currently under construction. A second hand ball mill was procured in South Africa and shipped to Kenya during FY 2016. Initial production is expected by the end of H1 FY 2017 with stockpiled material which does not require crushing to be processed first. The crusher is expected to be in operation in Q3 FY 2017 enabling Kilimapesa to run at a profitable rate by financial year end.

Kilimapesa Losses Impact, £'000



Free Cash Flow Forecast, £'000



SOURCE: *Company data, VSA Capital Research, Segment op. profit includes related party transactions.*

Whilst management has sought to minimise losses at Kilimapesa in recent years, these have significantly hampered the group's financial performance. Indeed, GDP operating profit before adjusting for related party transactions and excluding Kilimapesa over the past three years has been £1.5m, £0.45m and £2.55m respectively. We therefore believe that the return on the £1.2m spend, and the value that can be unlocked from the remainder of the business simply by halting the losses, let alone generating profits, will be significant. We expect the turnaround at Kilimapesa to be the major catalyst for GDP's share price over the coming twelve months.

Ghana and Opportunities in South America

The Ghanaian operations bore the brunt of the backlog issues relating to Rand Refinery in FY 2015 and consequently the results of the turnaround are clearest at Ghana. Production at Ghana increased by 13% YoY to 6,883oz while sales from Ghana increased significantly, as the backlog of processed material was cleared; up 248% to 8,964oz. H1 FY 2016 production was significantly higher than H2 FY 2016 at 4,694oz. However, with the commissioning of a shotblast facility in H2 FY 2016, production in FY 2017 is likely to be higher as GDP now has the ability to extract gold from mill liners and deliveries for processing have already been received. With this new revenue stream alongside the recovery at the Ghanaian operations we expect production of around 11koz in FY 2017F.

The Ghana plant site is in the Tema Free Trade Zone and space is constrained, however, the decommissioning of the CIL circuit which was shipped to Kilimapesa has freed up space and in FY 2018F GDP plan to install additional elution capacity. We anticipate the costs of installation at around £1m in FY 2018F, with shipping costs of £180k attributable to FY 2017F. As a result, we expect Ghana's long term production capacity to be around 14kozpa.

With the closure of Ghana's largest gold mine, Obuasi, there has been a decline in available by-product material for GDP to process and has prompted the decision to explore West Africa, South America and North America for greater diversity of by product material sources. GDP has a team in place which is assessing the viability of sourcing by product material from South America. Central and South America produce between 15-20% of global gold production each year and there are therefore significant volumes of by-product materials which would be suitable for GDP.

Tema Port Location, Ghana

***SOURCE:** World Factbook, CIA, VSA Capital Research.*

The Tema Export Processing Zone, in which GDP's operations are situated, includes the largest seaport in Ghana and is therefore a strong strategic location for expanding GDP's reach into other international markets, including South

America. GDP has identified an external business partner with strong contacts across South America and mining experience in Brazil who has already made introductions to GDP with potential future clients. GDP expects to confirm a formal relationship with this partner in early FY 2017. Furthermore, a dedicated South American manager will also be appointed by GDP in early FY 2017. The diversification benefits of seeking new sources of by-product materials from such a large potential source are clear and we believe that South America presents a highly attractive option for GDP although we note that there are legal, regulatory and logistical requirements that remain outstanding.

South Africa Recovery Operations

The South African recovery operations continue to perform strongly, supporting the business through a challenging FY 2015. Tailwinds of rising gold prices and further ZAR depreciation in H2 FY 2016 were key factors in the strong FY 2016 results. We expect the South African operations to maintain their strong performance. However, with the turnaround complete in Ghana and underway in Kenya, the full value of the South African operations should now be realised.

Production in FY 2016 was 28,778oz including 1,593 gold equivalent ounces, up 30% YoY. Having expanded elution capacity from 1.5tpd to 8tpd via a new elution column commissioned in H2 FY 2016, GDP were able to speed up the processing of the backlog material and produce higher volumes of refined bullion. This is also reduces GDP's reliance on a single refiner limiting the potential for a repeat of the FY 2015 issues. With the backlog of inventory now cleared, we expect production in South Africa to normalise at around 23kozpa from FY 2017F while earnings are likely to continue to benefit from the tailwinds of a positive gold price environment and a weak Rand.

During the year, GDP completed the JORC 2012 standard resource definition on the tailings facility located by the South African plant. The resource which contains 1.43mt at a grade of 1.78g/t au and 61.3g/t uranium provides GDP with additional optionality in terms of sourcing material for processing which is certainly positive. However, in order to optimise recoveries further metallurgical testing is required which is currently being undertaken by a local university.

Rand Refinery Contract Dispute

Following the announcement of a dispute with the Rand Refinery over a contract executed in 2016 we placed our forecasts and recommendation under review given the associated uncertainty. The contract involved toll treatment of a large batch of silver sulphide material. GDP produced 1,350oz of gold and 1,593oz of gold equivalent silver. While some remuneration has been received in relation to the contract the disputed portion amounts to ZAR13.5m or £628k at the time of the announcement in July 2016. GDP maintains that it expects to receive the full amount and the two parties have agreed to a process of investigation with a resolution expected in FY 2017.

Given the strength of the FY 2016 earnings, the current cash balance of £2.1m and the positive near term outlook we believe that the potential impact of a negative result has been lessened. Even in the event that GDP does not receive the entire amount it would be able to continue with the current programme of capital projects and therefore our assumptions on future earnings are largely unaffected. Our current projections assume that the full amount is received although there is a risk that this is not achieved.

Anumso Earn In Option

GDP announced in July 2016 that a letter of intent had been signed by **Ashanti Gold (AGZ CN)** (formerly Gulfshore Resources) for an earn-in agreement on GDP's Anumso project in Ghana. GDP announced in September 2016 that this earn-in option agreement has been executed. GDP has a 90% interest in Anumso, a ten year renewable mining lease covering an area of 29km2. Anumso already has a current JORC compliant resource of 166,865oz of gold at 2.04g/t. AGZ now has the exclusive option to earn 75% of GDP's interest in Anumso by spending US$3m over two periods. During the first 18 months AGZ may earn 51% of GDP's interest via US$1.5m of expenditure. AGZ may terminate the agreement in the first six months. In the subsequent period of 12 months AGZ will have the option to earn the remaining 24% via expenditure of US$1.5m on exploration of the project. AGZ will be the operator during the option periods. The execution agreement offers the potential for GDP to realise value from the Anumso project, to which no capital for development was currently dedicated. AGZ having raised £450k in Q2 2106 has recently announced a non-brokered private placement to raise up to £750k.

Valuation & Earnings Estimates

Changes to Assumptions

We have upgraded our gold price outlook to reflect the rising level of macro uncertainty primarily associated with experimental monetary policy with 40% of government debt globally now trading with negative yields. Headwinds to the gold price remain with a potential second US rate rise; however, recent data suggest a more dovish stance while in the run up to the Presidential election we expect rising US dollar volatility. We except range bound trading given these counteracting drivers, however, on balance the risk is to the upside, in our view.

VSA Gold Price Forecast

	FY 2013A	FY 2014A	FY 2015A	FY 2016A	FY 2017F	FY 2018F	FY 2019F	FY 2020F	FY 2021F	LT
Old	1,604	1,286	1,229	1,168	1,200	1,225	1,235	1,250	1,250	1,250
New	1,604	1,286	1,229	1,168	1,350	1,365	1,345	1,315	1,285	1,275

SOURCE: *Bloomberg, VSA Capital Research.*

We have downgraded our GBP/ZAR and GBP/GHS outlook reflecting the latest outlook from the IMF. Whilst the longer term trend is for continued depreciation Sterling has weakened against the Rand in the wake of the Brexit vote which will reverse some of the benefits GDP experienced in the recent financial period, in our view.

GBP/ZAR Assumptions

	FY 2013A	FY 2014A	FY 2015A	FY 2016A	FY 2017F	FY 2018F	FY 2019F	LT
Old	13.80	16.90	18.02	20.43	21.41	22.44	23.50	24.60
New	13.80	16.90	18.02	21.46	21.00	23.00	23.50	24.60

SOURCE: *IMF, VSA Capital Research.*

Changes to Operational and Financial Assumptions

We have upgraded our production estimates to reflect the impact of the capacity expansion as well as the expansion at Kilimapesa. We expect group production to increase modestly from 37.7koz to 38.5koz in FY 2017F with rising production at Ghana and Kenya offsetting a normalisation off operations in South Africa. The investment at Kilimapesa is set to increase production to 4.5kozpa in FY 2017F rising to 6kozpa thereafter. Production in Ghana is likely to rise to 11koz in FY 2017F with 14kozpa thereafter. Furthermore, the impact of higher gold prices and further currency depreciation for the ZAR in the medium term along with a stronger operational outlook has had a net beneficial result on our earnings outlook and consequently our valuation of GDP.

Production Forecasts

Total Gold Production, koz	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Ghana Recovery	13,739	6,111	6,883	11,000	11,000	14,000
Kilimapesa	1,163	2,278	2,005	4,500	6,000	6,000
South Africa Recovery	16,075	22,135	28,778	23,000	23,000	23,000
Total	**30,977**	**30,524**	**37,666**	**38,500**	**40,000**	**43,000**

SOURCE: *Company Data, VSA Capital Research*

GDP has expanded its capital budget for the next two years and we have increased our estimates for capital spending in the near term. The key items are £1.2m for the Kenyan expansion and £1m for additional elution plant capacity. Overall capex in FY 2017F is likely to be £1.8m and £1.3m in FY 2018F.

Earnings Changes, £000

	Revenue			EBITDA			PBT			Net Income		
	Old	New	% Change	Old	New	% Change	Old	New	% Change	Old	New	% Change
2017F	20,414	22,198	9%	1,608	3,094	92%	827	1,928	133%	234	965	312%
2018F	22,741	23,346	3%	2,021	3,306	64%	990	2,141	116%	281	1,073	282%
2019F	2,906	24,691	8%	1,974	3,651	85%	942	2,179	131%	267	1,092	309%

SOURCE: *Company data, VSA Capital Research.*

Valuation Update

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, updated to reflect the latest full year results. As a result of our earnings changes due to updated assumptions as well as updated forecasts regarding capital expenditure and working capital the result is a net increase in our NAV valuation to £14.96m. Based on our current EBITDA forecast for FY 2017F the stock is currently trading at a significant discount of 50% to the long term average which we believe is unjustified given the turnaround to date and the positive outlook at Kilimapesa.

Our blended target price for GDP is therefore 11.2p/sh., a 58% upgrade which implies 94% upside potential.

Valuation Summary

1 yr forward EBITDA, £000	3,094
Target 12-mo forward EV/EBITDA	5.8x
Fair EV, £000	**17,943**
Net Debt, £000	(2,370)
Other, £000	1,642
Total Fair Equity Value, £000	**17,215**
# of shares (2015)	167441
Per Share Fair Value, £000	10.28
NAV fair target price	**12.03**
Blended 12-mo Target Price, GBp/share	**11.16**
Current Price, GBp	5.75
Upside, %	94%

SOURCE: *Company data, VSA Capital Research.*

NAV-based Valuation Approach

Our NAV-based valuation approach is based on a discount rate of 8% and P/NAV multiple of 1.0x. While the South African, Ghanaian and Kenyan operations are distinct the reporting is collective and our valuation is therefore based on the combined operations. We do not attribute a value to the exploration assets in Burkina Faso and Ghana.

Goldplat NAV Valuation

Division	Division NAV (£000)	P/NAV	Fair Equity Value, £000
Goldplat	19,423	1.0x	19,423
Total NAV, £000			**19,423**
Consolidated Net Debt			(2,370)
Minority Interest			1,642
Total Equity Value			**20,151**

SOURCE: *Company data, VSA Capital Research.*

Risks

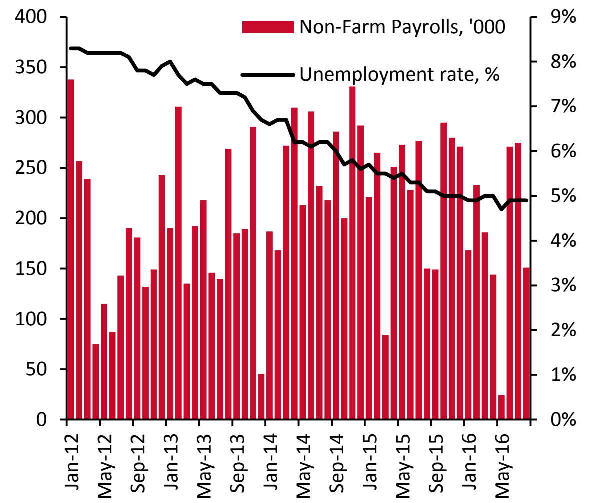
- **Commodity Prices**. The company is primarily exposed to the gold market and unexpected changes to commodity prices are likely to affect our valuation.
- **Political Risk.** Changes to the political regime and mining code in the countries in which GDP operates would potentially alter the risk profile, 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.

Gold Market Update

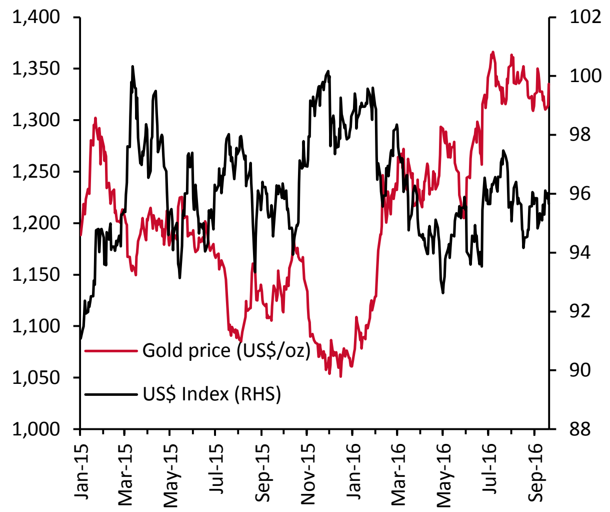
Macro Uncertainty versus Rising US Interest Rates

Through 2016 central banks have pursued increasingly unconventional monetary policy tactics with around 40% of government debt globally now trading with negative yields. Whilst markets have taken the Brexit decision in their stride, for the time being, the ever imminent Italian banking crisis and the ECBs expanded QE programme has prompted investors to raise their gold holdings. Conversely, the potential for a US rate rise has been rising and whilst data dependent the Jackson Hole meeting struck a distinctly hawkish tone. Nonetheless, weaker recent jobs numbers and retail sales have reduced the likelihood of a September hike. Furthermore, as we approach the US Presidential election we expect an increase in dollar volatility which should benefit gold. Given this combination of opposing factors we expect the gold price to trade in a range bound between US$1,250/oz and US$1,400/oz although we view the risk bias as towards the upside in the near term.

Key US Data



US$ Index versus Gold price, US$/oz



***SOURCE:** Bloomberg, VSA Capital Research.*

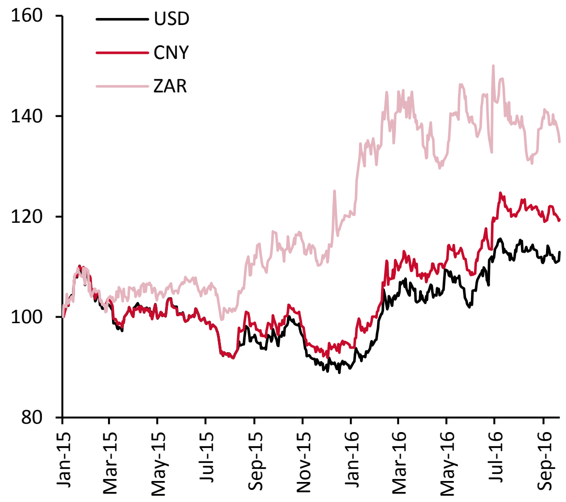
Fed Hawks Circling

Whilst the case for a rate rise has certainly increased in recent months following three consecutive declines in job claimants and the fastest rise in new home sales for nine years we do not believe that the case is as yet persuasive. Although with US unemployment at 4.9%, close to the target of 4.5%, and non-farm payrolls averaging 232k over the past three months; the latest reading of 151k came in below expectations contributing to the decision not to raise rates in September. Furthermore, retail sales in August were weak, down 0.3% versus a 0.1% expected fall following four months of gains. Indeed, we believe that despite strong employment data, low wage and price growth mean that the case for raising rates is not yet compelling. However, further strong data would make a December 2016 increase more likely and with three votes in September for an immediate lift as well as a hawkish tone at Jackson Hole the prospect of a December rate hike is real. However, we also expect USD volatility to increase through 2016 given the upcoming Presidential election. Stronger US economic data and polls suggesting a Clinton victory are likely to dampen the gold price in the near term acting as a counterweight to concerns regarding unorthodox Central Bank activity.

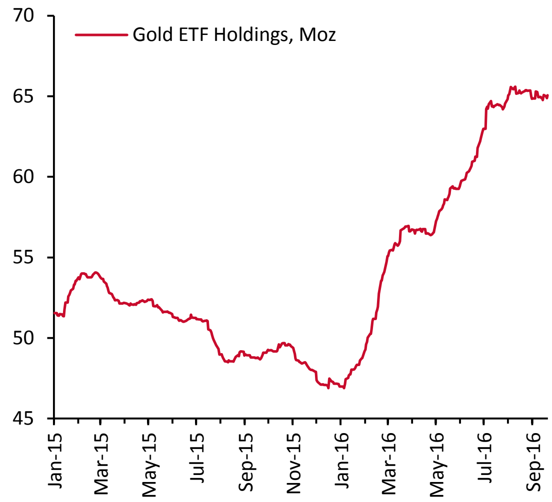
Negative Yields and Eurozone Fears To Continue Driving Gold Investment

The initial rally in the early part of 2016, was supported by strong gold investment demand, rising 122% YoY to 618t in Q1 2016 while the inflows into ETF's at 364t were the highest since Q1 2009. Since then ETF holdings have stabilised around 65t, the highest since mid-2013. The recovery of gold has been prompted in part by the advent of negative yielding bonds and their increasingly prevalence, indeed, around 40% of government debt globally is now trading on negative yields, in particular in the Eurozone and in Japan.

Gold in Key Currencies



Gold ETF Flows



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

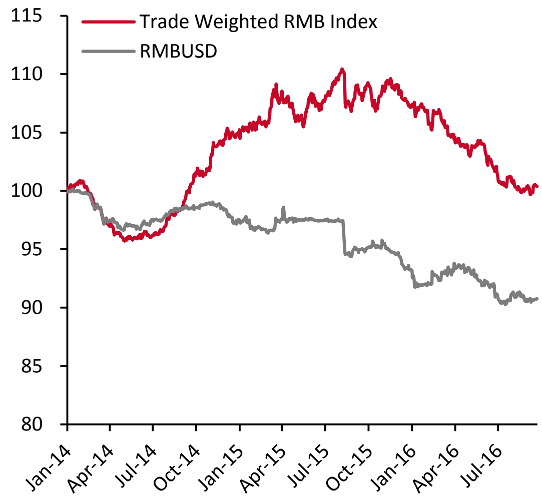
Despite initial support for gold prices in the wake of the Brexit vote markets have been calm following the surprisingly rapid transition to Theresa May's new government and investors have renewed their focus elsewhere. However, despite the current calm, we do not rule out the possibility of renewed volatility as details of the renegotiated relationship become clear. Furthermore, the Bank of England's aggressive rate cut and £150bn lending boost from lower capital buffers also helped to reassure markets.

The greatest risk of Brexit, in our view, is the hastening of a decline of the Eurozone. With German 10 year government bond yields dipping below zero in June 2016 and Italy now facing a banking crisis the Brexit vote has arrived at a time when the Eurozone is under pressure and the ECB has its hands tied in terms of the tools it has available. Although Mario Draghi committed to expanding QE earlier this year to €80bn per month he was forced to broaden the range of assets to include high quality corporate bonds demonstrating the limits of the initial programme. It is not at this point clear what level of QE will be required to support the Eurozone, however, what we know from Japan in the 1990s and the QE deployed by the Fed and BoE after 2008 is that Central Bank confidence plays a key role in the success of its policies. Japan in the 1990s hesitantly rolled out QE in insufficient amounts and its central bank said that it was not certain that it would work and would not necessarily continue. Similarly, Germany's historical anti-inflationary stance means that the Bundesbank President Jens Weidman has already opposed further stimulus in the wake of Brexit. This lack of confidence is, in our view, likely to undermine the success of Eurozone QE and we believe that these are likely to ultimately be ineffective. With the spectre of helicopter money looming we expect investors to look to gold whilst the uncertainty plays out.

China's Investors Hedge Currency Depreciation with Gold

Meanwhile in China, although stock market volatility fell in Q2 2016 to the lowest level since December 2014 we believe that domestic investors are now increasing their allocation to gold due to the devaluation of the RMB. Although Chinese gold ETF holdings make up only a minimal portion of global holdings they more than doubled by 11.1t QoQ while investment demand overall was up by 5% QoQ and 23% YoY to 62t. Despite firm assurances from the PBoC and other senior Government officials that the RMB would remain stable on a trade weighted basis, it has continued to depreciate through 2016, down 3% YTD which indicates that further support for gold from Chinese investors is likely to continue; offsetting weaker jewellery demand.

Trade Weighted RMB Index



SOURCE: *Bloomberg, VSA Capital Research.*

Global Quarterly Jewellery Consumption

SOURCE: *Bloomberg, VSA Capital Research.*

Jewellery Demand Weak in H1 2016

One of the side effects of the sharp price rally, particularly in local currency terms has been a negative impact on global jewellery demand. In Q1 2016 global jewellery demand decreased 19% YoY to 482t. A combination of higher prices and local factors hampered gold jewellery demand in China and India. The threat of an increase in customs tariffs in India dissuaded consumers from making purchases while in China a new national standard for hallmarking resulted in disruption to the supply chain limiting availability. Overall, jewellery demand in India and China was down by 41% and 17% YoY to 88t and 179t respectively, although we highlight that this was heavily offset by stronger investment demand.

Price Forecast Upgrade

Following the recovery in the gold price through H1 2016 and with macro uncertainty likely to offset the potential for US rate rises in the near term we have upgraded our gold price estimates. We believe that given the uncertain outlook, the attraction of gold as a safe haven will prompt strong demand for gold going forward providing further support for the upward trend in prices experienced YTD.

VSA Gold Price Forecast

	FY 2013A	FY 2014A	FY 2015A	FY 2016A	FY 2017F	FY 2018F	FY 2019F	FY 2020F	FY 2021F	LT
Old	1,604	1,286	1,229	1,168	1,200	1,225	1,235	1,250	1,250	1,250
New	1,604	1,286	1,229	1,168	1,350	1,365	1,345	1,315	1,285	1,275

SOURCE: *Bloomberg, VSA Capital Research.*

Financial Statements

Profit and Loss (£000)

	2014A	2015A	2016A	2017F	2018F	2019F	2020F
Revenue	**21,020**	**16,628**	**20,185**	**22,198**	**23,346**	**24,691**	**24,082**
Cost of sales	19,202)	(15,660)	(17,177)	(18,214)	(19,045)	(20,230)	(20,230)
Gross Profit	**1,818**	**968**	**3,008**	**3,984**	**4,301**	**4,461**	**3,852**
SG&A	(1,665)	(1,679)	(1,836)	(2,019)	(2,124)	(2,246)	(2,190)
Finance Income	429	843	809	1	3	3	3
Finance costs	(830)	(807)	(39)	(39)	(39)	(39)	(39)
Impairment of assets	-	(121)	-	-	-	-	-
Profit before taxation	**(248)**	**(796)**	**1,942**	**1,928**	**2,141**	**2,179**	**1,625**
Mining and income tax	(108)	(96)	(534)	(491)	(544)	(554)	(415)
Profit for the year	**(356)**	**(892)**	**1,408**	**1,436**	**1,597**	**1,625**	**1,210**
Non-controlling interest	171	251	462	471	524	533	397
Attributable to equity holders of the company	**(527)**	**(1,143)**	**946**	**965**	**1,073**	**1,092**	**813**

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	6,076	6,247	5,311	4,175
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**	**17,233**	**17,404**	**16,468**	**15,332**
Current Assets							
Inventories	5,088	7,727	7,747	7,298	7,676	6,765	6,598
Trade & Other Receivables	4,786	3,305	6,255	5,474	5,117	5,412	5,278
Cash & Bank Balances	1,455	630	2,148	2,425	2,456	4,281	6,530
Total Current Assets	**11,329**	**11,662**	**16,150**	**15,196**	**15,248**	**16,458**	**18,406**
Total Assets	**26,832**	**26,870**	**32,711**	**32,429**	**32,653**	**32,926**	**33,738**
Equity							
Share Capital	1,685	1,685	1,685	1,675	1,675	1,675	1,675
Share Premium	11,498	11,498	11,498	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	10,886	11,918	12,990	14,081	14,894
Minority Interest	1,642	1,893	2,246	2,246	2,246	2,246	2,246
Total Equity	**19,989**	**18,237**	**20,097**	**21,062**	**22,134**	**23,225**	**24,038**
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	55	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	9,980	9,131	8,314	8,314
Total Current Liabilities	**6,178**	**7,798**	**11,564**	**10,317**	9,468	8,651	8,651
Total Liabilities	**6,843**	**8,633**	**12,614**	**11,367**	10,518	9,701	9,701
Total Equity & Liabilities	**26,832**	**26,870**	**32,711**	**32,429**	32,653	32,926	33,738

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	965	1,073	1,092	813
Depreciation	393	390	514	1,128	1,128	1,436	1,436
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)	449	(378)	911	167
Decrease/(increase) in trade and other receivables	(27)	1,481	(2,950)	781	356	(295)	134
Decrease in trade and other payables	1,970	1,574	3,579	(1,155)	(849)	(818)	-
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**	**2,169**	**26**	**892**	**1,196**
Cash flows from investing activities							
Payments for property, plant and equipment	(510)	(909)	(1,284)	(1,800)	(1,300)	(500)	(300)
Other	(467)	(99)	57	-	-	-	-
Net cash from investing activities	**(977)**	**(1,008)**	**(1,227)**	**(1,800)**	**(1,300)**	**(500)**	**(300)**
Cash flows from financing activities							
Proceeds from borrowings	-	160	(105)	-	-	-	-
Repayments of Borrowings	-	-	-	(92)	-	-	-
Dividends paid	(201)	-	-	-	-	-	-
Payment of finance lease liabilities	(199)	(196)	(114)	-	-	-	-
Net cash used in financing activities	**(400)**	**(36)**	**(219)**	(92)	-	-	-
Net increase in cash and cash equivalents	**(907)**	**(825)**	**1,426**	**369**	**31**	**1,826**	**2,249**
Cash and cash equivalents at the beginning of the year	**2,362**	**1,455**	**630**	**2,056**	**2,425**	**2,456**	**4,281**
Cash and cash equivalents at the end of the year	**1,455**	**630**	**2,056**	**2,425**	**2,456**	**4,281**	**6,530**

SOURCE: *Company data, VSA Capital Research.*

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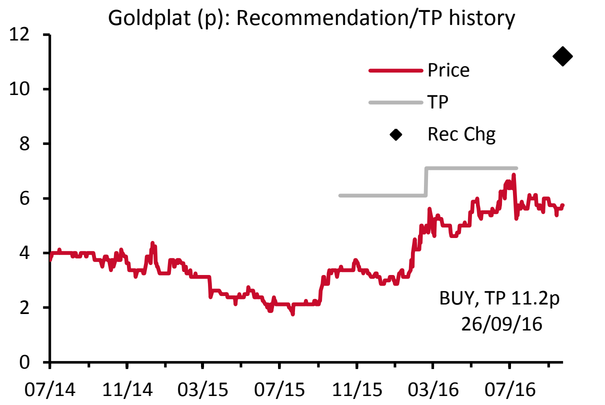
Recommendation and Target Price History



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 26 September 2016.