



Goldplat Plc (GDP LN)

SP Angel Acts as Nomad and Broker to Goldplat

Buy TP 18 p

Goldplat – Update following Review of Operations

Price: 7 p Mkt Cap £11.8 m

4th June 2013

June Year End		2009	2010	2011	2012	2013E	2014E
Revenue	£'000s	11,149	10,663	19,620	26,225	31,465	26,149
Operating Costs	£'000s	9,325	8,604	16,566	21,698	27,365	21,899
Operating Profit	£'000s	1,824	2,059	3,054	4,527	4,100	4,250
EBITDA	£'000s	1,824	2,059	3,003	5,244	3,900	4,675
Post Tax Profit	£'000s	1,064	1,059	2,244	4,644	2,412	3,353
Cash	£'000s	1,551	918	2,488	4,573	4,409	5,825
EPS	pence	0.9	0.8	1.4	2.3	1.3	1.8
P/E		19.8x	21x	11.7x	5.8x	5.4x	3.9x
EV/EBITDA		10.7x	8.3x	6.8x	4.5x	4.0	3.2x
Dividend	pence				0.6	0.6	0.6
Dividend Yield	%				8.6%	8.6%	8.6%

Key Issues

- **Kilimapesa (Kenya):** Against a falling gold price and operational issues previously highlighted the management have decided to put Kilimapesa under care and maintenance.
- **Gold Recovery Ghana** - The Ghanaian recovery business has been impacted by lower margins at their tolling operations of Adamus (now Endeavour) and also at the Tema CIL plant.
- A review of the CIL section at Tema, the company have decided to close down this section till better priced material can be sourced directly from major gold producers.
- **Goldplat South Africa** – The operations at the recovery operations in South Africa are performing well with all new initiatives on target.

Valuation

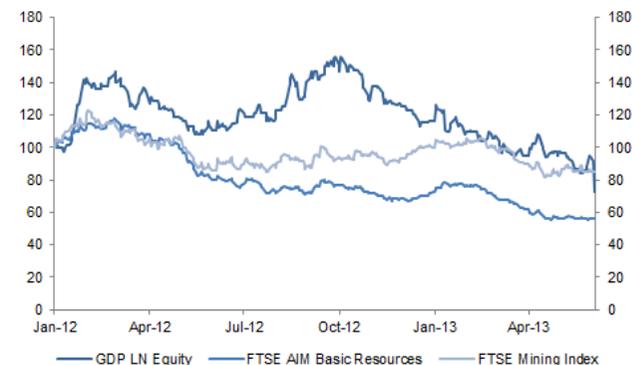
We value Goldplat primarily on its recovery business with no value being assigned to the gold production business given recent management moves to restructure the business.

We value Goldplat's recovery business on an EV/EBITDA multiple of 5x which on a projected EBITDA of £4.2m puts a valuation of £21m. Other exploration is estimated at £1.4m and net cash at £4.6m at year end.

The downgrade brings down the EPS for FY 2013 to 1.3 pence and FY 2014 to 1.8 pence putting the stock on a PE of 5.4x and 3.9x respectively.

The current cash flow forecasts support the potential for a dividend payment at the same level as FY 2012 putting the shares on a dividend yield of 8.6%.

Share price performance (normalised)



Source: Bloomberg

Research Analysts:

Carole Ferguson +44 (0) 203 0473
Email: carole.ferguson@spangel.co.uk

John Meyer +44 (0) 203 0470
Email: john.meyer@spangel.co.uk

Sergey Raevskiy +44 (0) 203 0474
Email: sergey.raevskiy@spangel.co.uk

UK Equities Sales/Trading

Jody Downes +44 (0) 203 0471
Richard Parlons +44 (0) 203 0472



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Review of Operations:

- **Kilimapesa (Kenya):** Against a falling gold price and operational issues previously highlighted the management have decided to put Kilimapesa under care and maintenance.
- The cost of keeping the mine on care and maintenance will be met by processing of stockpiles at the mine and will not add to the losses already incurred at the mine.
- We have already factored in losses of £750,000 for Kilimapesa in our forecasts for FY 2013.
- **Gold Recovery Ghana** - The Ghanaian recovery business has been impacted by lower margins at their tolling operations of ore with Adamus (now Endeavour) and also at the Tema CIL plant.
- The Tema CIL plant has also been hit by the volatility of the gold price where expensive material sourced from artisans has impacted profitability.
- Following a review of the CIL section at Tema, the company have decided to re-direct some of the material through Adamus and close down this section till better priced material can be sourced directly from major gold producers.
- The other section which includes two fluidized bed incinerators used for the reprocessing of high value carbon material should be operating normally with the current re-commissioning of one of the lines post repair.
- **Goldplat South Africa** – The operations at the recovery operations in South Africa are performing well with all new initiatives on target.
- The CIL plant to process new tailings re-treatment commissioned in March is performing well and the second rotary kiln to process high grade wood chips is on target to be commissioned in July 2013.
- The CIL plant is expected to generate profits of around \$600,000 a year with material for 5 years of production.
- The rotary kiln will double the capacity at GPL and treat the wood chip stock pile with seven years worth of capacity.

Conclusion:

The care and maintenance programme at Kilimapesa will contain losses at the operations and will pay for itself till the company is able to negotiate better terms to make this operation against the current gold price.

We had factored in losses for Kilimapesa of £750,000 already and do not expect losses to widen from here. Kilimapesa contributed only a small amount to our valuation at £2.5m which we have now removed from our valuation.

The performance of the CIL section at Tema will impact profitability at the gold recovery operations in Ghana where high cost material sourced from artisans combined with transport costs makes this section currently uneconomic. This operation has also been less able to absorb gold price volatility as opposed to South Africa where contracts are mainly with larger gold producers and where there is a stockpile available to optimise margins.

Against this backdrop closing down the CIL section at Tema until material can be sourced more efficiently and through contractual arrangements with larger mining companies makes sense.

Gold Recovery Ghana (GRG) accounts for 45% of group profits. With the Adamus (Endeavour) tolling operations accounting for 55% of operations at GRG and the CIL section for around 35%, we are reducing our Group EBITDA forecasts for 2013 from £4.22m to £3.9m or around 7.5%. For FY 2014 we are reducing our EBITDA forecasts to £4.7m from £6.09m reflecting a lower contribution from GRG and no profit contribution from Kilimapesa. We expect GRG's operating profits to be reduced by £850,000 and the profit contribution from Kilimapesa of £300,000 is no longer included.

The South African operations are performing ahead of expectations and with a lower rand and flexibility in operations has been able to mitigate the impact of the recent volatility in gold prices.

We believe management are addressing the key issues in the underperforming areas and the basis for growing profits in the underlying business remains intact with potential for a step up in growth through expansion into Burkina Faso.

Risks

Commodity Risk

Gold prices: The gold price has a limited impact on the recovery but the company does have exposure through its stock pile. Gold production is more impacted by the price particularly as it is a high cost producer. Gold prices have gone up on risk aversion over the last two years and are likely to be volatile with the markets looking for economic recovery. We forecast gold prices rising for the next two years to \$1800/oz and \$1700/oz respectively and then coming down to \$1500/oz before reverting to a long term price of £1250.

Operational and Technical Risk

Processes: The recovery business uses a number of processes – these use standard mine plant equipment using the company's own knowledge. We believe this risk is limited given the company's track record.

Geology: The mine plan is based on targeting high grade veins with grades higher than the JORC resource grade. This is based on ongoing development work done by the company and in-house estimates of reserve potential.

Political Risk: The company operates in countries where they may be exposed to political risk and regime change.

Management Risk

The success of the company has been built up by key individuals in the company and the business could be impacted should these individuals no longer work in the business.

Investment Research

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