

25 July 2011

Goldplat

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/08	7.7	1.6	0.95	0.00	13.6	N/A
06/09	11.1	2.1	1.53	0.00	8.4	N/A
06/10	10.7	2.2	1.58	0.00	8.2	N/A
06/11e	24.7	3.5	2.21	0.00	5.8	N/A

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

Investment summary: Post-close update

In its post-close update, Goldplat reported that trading at its South African recovery unit (GRL) in the second half of the financial year was "stronger than the first half" and that progress had been made in securing additional supplies of raw materials from both South Africa and Tanzania. It stated a medium-term intention to increase its JORC code-compliant resource at Kilimapesa to 500,000oz (from 134,000oz Au currently) and its resource at Banka to 250,000-300,000oz (vs 207,341 non-JORC code-compliant ounces currently). In line with its strategy of targeting production of 50,000oz pa in the foreseeable future, Goldplat revealed that it had also registered an Expression of Interest relating to the purchase of a gold mining asset in South Africa.

Valuation: Base case valuation 18.2p

In our last note on the company, we valued Goldplat at 18.2p at a long-term gold price of US\$1,350/oz and assuming that it does not replenish its stockpiles. As a result of its operational update, we have revised our forecasts for Goldplat for the year ended June 2011 fractionally, to take account of a higher average gold price over the course of the year, but the absence of any sales of gold from Kilimapesa (previously estimated at 1,126oz). Of more significance, however, is the potential uplift in valuation that might result from Goldplat achieving its exploration targets (below).

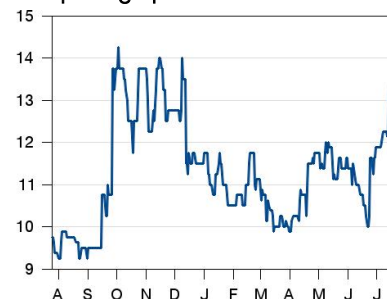
Exploration adds potentially 8.4-18.5 US cents per share

At average values for 'measured', 'indicated' and 'inferred' resource ounces listed in the London market, we calculate that the delineation of an additional 366,497oz of gold resource at Kilimapesa would crystallise between US\$9.0m and US\$21.0m (5.4-12.6 US cents per share) in value for Goldplat. Similarly, we calculate that Goldplat's delineation of a JORC code-compliant resource of 250,000oz at Banka would crystallise between US\$5.0m and US\$10.9m (3.0-5.9 US cents per share) for Goldplat on an attributable basis (cf an acquisition cost of US\$1.5m in 2010). In the meantime, Goldplat's shares are trading at only a small (10%) premium to net asset value and a P/E multiple that is both among the lowest in the sector and likely to decline further as and when Kilimapesa enters production.

Goldplat is a research client of Edison Investment Research Limited

Price 12.88p
Market Cap £22m

Share price graph



Share details

Code GDP
Listing AIM
Sector Mining
Shares in issue 167.12m

Price

52 week High 14.25p Low 9.25p

Balance Sheet as at 31 December 2010

Debt/Equity (%) N/A
NAV per share (p) 11.7
Net cash (£m) 6.3

Business

Goldplat is leveraging 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

	2009	2010	2011e
P/E relative	86%	85%	65%
P/CF	10.2	12.0	6.9
EV/Sales	1.3	1.5	0.6
ROE	15%	14%	14%

Revenues by geography

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

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Investment summary: Operational update

On 14 July, Goldplat released an operational update for the year ended 30 June 2011. The salient features of the update were as follows:

South African recovery operations (Goldplat Recovery Ltd – GRL): Recovery operations are reported to have continued to perform “strongly” at GRL, with trading in the second half of the financial year “stronger than the first half”. A number of raw materials purchase contracts were renegotiated with a view to militating against rising electricity, royalty and transport costs and improving margins. Progress has also been made in securing additional raw materials from Simmer & Jack and AngloGold Ashanti, in particular, while “a number” of Tanzanian gold producers are reported to have expressed interest in supplying raw material to GRL (subject to their receiving permission from the government to export gold in concentrate, rather than bullion, form). Consistent with its strategy of targeting production of 50,000oz pa in the foreseeable future, Goldplat reported that it had registered an Expression of Interest in a small gold mining asset in South Africa in order to supply material to GRL as well as providing additional blue-sky exploration potential. Operationally, the production capacity at the flotation section of the recovery plant has been increased by 15% and a mobile screen has been purchased to pre-screen selected raw materials in order to remove waste material and to increase the grade of the fines generated at the plant. The High Grade mill project to increase milling capacity is progressing with commissioning planned for the end of August 2011.

Ghanaian recovery operations (Gold Recovery Ghana Ltd – GRG): GRG’s toll processing agreements with Golden Star and Adamus Resources were reported to be “performing well” and enhancing profitability. Also, the company is investigating the possibility of collecting gold bearing by-products from gold mining operations in Burkina Faso and Mali for export to GRG in Ghana.

Kilimapesa (Kenya): Goldplat continues to await the grant of a mining licence at Kilimapesa, which it expects in 12 weeks from early July. In the meantime, underground development has started with a view to extending the current 250m strike length of the gold-bearing veins. All parts of the elution plant are expected to reach the mine site by end-August, with commissioning of the plant planned for mid-September, after which it will elute carbon already loaded from the development activities as a precursor to the full scale smelting of bullion for export. As a result, we are anticipating the production of some 3,829oz Au from Kilimapesa in FY12 with revenues from September. Two kilometres south of Kilimapesa, five diamond drill holes from surface have intersected “well-developed quartz veins” at the Vim/Rutha target area, which is expected to contribute towards a substantial resource upgrade by the end of the year and ultimately to increasing the JORC code-compliant resource at Kilimapesa to 500,000oz Au (from 134,000oz Au currently).

Nyieme (Burkina Faso): A 3,000m drilling programme has recently been completed at Nyieme in Burkina Faso (current JORC code-compliant resource 57,701oz at a 1g/t cut-off). The assay results of the programme will be released soon and, in the normal course of events, may be expected to lead to a resource upgrade in due course.

Banka (Ghana): Goldplat is in the process of designing and finalising an exploration programme at Banka, after which a geologist will be deployed to site. Funding has been made available for the programme and drilling will commence as soon as a diamond drill rig is available. The prospect

currently hosts a 207,341oz non-JORC code-compliant resource, which the exploration programme is designed to upgrade to 'an initial maiden JORC compliant resource of 250,000oz to 300,000oz' after the first phase of drilling.

Implications and valuation

At a long-term gold price of US\$1,350/oz and assuming that it does not replenish its stockpiles, we valued Goldplat at 18.2p in our last note on the basis of the value of the stream of potential dividends to shareholders for the period FY11-32 (discounted at 10% per annum to reflect general equity risk). In the more likely scenario, in which the company continues to replenish its stockpiles in line with historic performance, such that it is able to maintain near full production at its South African and Ghanaian recovery plants effectively indefinitely however, we calculated that it would be capable of making a 4.0p per share payout to shareholders from FY17 until FY32 (suggesting that a share price of c 80p may be possible in due course).

In the short term, we have revised our forecasts for Goldplat for FY11 to take account of a higher average gold price over the course of the year, but the absence of any sales of gold from Kilimapesa (previously estimated at 1,126oz). The effects of these changes are shown below:

Exhibit 1: Previous and current Goldplat forecast results (£'000s, except where indicated)

Measure	Previous	Current	Change (%)
Profit before tax	3,720	3,351	-9.9
Taxation	719	538	-25.2
Marginal tax rate (%)	28.0	16.1	-42.5
Profit after tax	3,001	2,813	-6.3
Basic EPS (pence)	1.92	2.01	+4.7

Source: Goldplat, Edison Investment Research

A comparison of H211e with H111 is given in Exhibit 2:

Exhibit 2: H211e financial forecast vs H111a actuals (£'000s, except where indicated)

	H111a	H211e
Revenue	9,652	15,073
Cost of sales	-7,589	-11,960
Depreciation	-137	-136
Gross profit	1,926	2,976
Administrative expenses	-491	-1,076
Operating profit	1,435	1,900
Net finance income/(expense)	-77	93
Profit before tax	1,358	1,993
Taxation	215	323
Marginal tax rate (%)	15.8	16.2
Profit after tax	1,143	1,670
Forex differences on foreign operations	375	0
Total comprehensive income	1,518	1,670
Minority interest	118	82
Ditto (%)	10.3	4.9
Earnings	1,400	1,588
Average no. shares in issue (m)	112.42	167.12
Basic EPS (pence)	1.02	1.00

Source: Goldplat, Edison Investment Research

Such a change in earnings forecasts makes a negligible change to our valuation, as set out above. Of more significance therefore is the potential uplift in valuation that might result from Goldplat's achieving its exploration targets (below).

Exploration

Goldplat's two principal exploration targets are:

- To increase the JORC code-compliant resource at Kilimapesa from 134,000oz to 500,000oz.
- To announce an initial, maiden JORC code-compliant resource of 250,000oz to 300,000oz at its Banka project in Ghana (vs a non-JORC code-compliant resource of 207,341 oz currently).

Of Kilimapesa's resource ounces, 3.0% are currently classified in the 'measured' category, 23.1% in the 'indicated' category and 73.9% in the 'inferred' category. Assuming that Goldplat is able to delineate a total resource of 500,000oz of gold, pro-rata across the same categories, this results in an additional 366,000oz of gold, classified as follows:

Exhibit 3: Kilimapesa resources, actual and targeted

Note: Numbers may not add up owing to rounding.

Type	Classification	Tonnes	Grade (g/t)	Gold content (oz)	Target (oz)	Increase (oz)
Total	Measured	47,800	2.60	3,990	14,943	10,953
	Indicated	402,200	2.38	30,799	115,349	84,550
	Inferred	1,252,600	2.45	98,714	369,707	270,993
	Grand total	1,702,600	2.44	133,503	500,000	366,497

Source: Goldplat, Edison Investment Research

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 to the increase in ounces indicated in Exhibit 3 suggests a valuation of the additional 366,497oz of US\$21.0m, or US\$57.32 per total ounce, or 12.6 US cents (7.9p) per share. Alternatively, assuming that all of the additional ounces are confined to the 'inferred' category suggests a valuation of the additional ounces of US\$9.0m, or 5.4 US cents (3.4p) per share.

At the time of its acquisition by Goldplat, Banka's resource amounted to 207,341 oz, of which 19.7% were in the 'indicated' category and the remaining 80.3% were in the 'inferred' category, albeit none were JORC code-compliant, as shown below.

Exhibit 4: Banka resources

Note: Non-JORC code-compliant.

Zone	Category	Tonnes	Grade (g/t)	Gold (oz)
C-Zone Block 1	Indicated	13,700	3.90	1,718
C-Zone Block 2	Indicated	372,100	3.27	39,126
	Indicated	385,800	3.29	40,844
C-Zone Block 3	Inferred	540,000	1.75	30,386
B-Zone	Inferred	1,263,600	3.35	136,111
	Inferred	1,803,600	2.87	166,497
Total		2,189,400	2.95	207,341

Source: Goldplat, Edison Investment Research

Goldplat's acquisition of the 90% interest in the Banka lease for US\$1.5m equated to a cost of US\$8.04 per attributable ounce. Assuming that Goldplat is able to delineate a JORC code-compliant resource of 250,000oz of gold in the 'inferred' category suggests a valuation of the resource of US\$5.6m, of which US\$5.0m, or 3.0 US cents per share, would be attributable to Goldplat. By contrast, assuming that it is able to delineate a JORC code-compliant resource pro-rata to the existing categorisation of resources, suggests a valuation of the resource of US\$10.9m, of which US\$9.8m, or 5.9 US cents per share, would be attributable to Goldplat.

Exhibit 5: Financials

	£'000s	2008	2009	2010	2011e
Year end 30 June		UK GAAP	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		7,713	11,149	10,663	24,725
Cost of Sales		(5,015)	(8,061)	(6,914)	(19,549)
Gross Profit		2,698	3,088	3,749	5,176
EBITDA		1,983	2,122	2,529	3,709
Operating Profit (before GW and except.)		1,739	1,958	2,296	3,435
Intangible Amortisation		0	0	0	0
Share based payments & other		0	286	(237)	(100)
Other		0	0	0	0
Operating Profit		1,739	2,244	2,059	3,335
Net Interest		(115)	161	(116)	16
Profit Before Tax (norm)		1,624	2,119	2,180	3,451
Profit Before Tax (FRS 3)		1,624	2,405	1,943	3,351
Tax		(570)	(527)	(713)	(538)
Profit After Tax (norm)		1,054	1,889	1,963	3,288
Profit After Tax (FRS 3)		1,054	1,878	1,230	2,813
Average Number of Shares Outstanding (m)		110.4	112.0	112.1	139.6
EPS - normalised (p)		0.95	1.53	1.58	2.21
EPS - FRS 3 (p)		0.95	1.52	0.93	1.87
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		35.0	27.7	35.2	20.9
EBITDA Margin (%)		25.7	19.0	23.7	15.0
Operating Margin (before GW and except.) (%)		22.5	17.6	21.5	13.9
BALANCE SHEET					
Fixed Assets		7,136	8,704	11,276	14,301
Intangible Assets		5,251	5,662	7,297	7,702
Tangible Assets		1,885	2,570	3,589	6,209
Investments		0	472	390	390
Current Assets		4,061	5,683	6,709	13,031
Stocks		1,138	1,473	3,825	3,434
Debtors		1,437	2,012	1,866	3,726
Cash		1,486	2,198	1,018	5,872
Current Liabilities		(1,512)	(1,763)	(3,840)	(4,399)
Creditors		(1,482)	(1,763)	(3,733)	(4,292)
Short term borrowings		(30)	0	(107)	(107)
Long Term Liabilities		(651)	(1,082)	(724)	(724)
Long term borrowings		(301)	(647)	(100)	(100)
Other long term liabilities		(350)	(435)	(624)	(624)
Net Assets		9,034	11,542	13,421	22,209
CASH FLOW					
Operating Cash Flow		1,320	1,554	1,431	2,799
Net Interest		(106)	171	(104)	16
Tax		(439)	(577)	(617)	(538)
Capex		(859)	(1,317)	(1,622)	(1,923)
Acquisitions/disposals		35	1	(73)	(1,000)
Financing		247	491	131	5,500
Dividends		0	0	0	0
Net Cash Flow		198	323	(854)	4,854
Opening net debt/(cash)		(1,132)	(1,155)	(1,551)	(811)
HP finance leases initiated		0	0	0	0
Other		(175)	73	114	0
Closing net debt/(cash)		(1,155)	(1,551)	(811)	(5,665)

Source: Company accounts, Edison Investment Research

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