

16 February 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	11.6	N/A
06/09	11.1	2.0	1.32	0.00	8.3	N/A
06/10	10.7	2.3	1.40	0.00	7.6	N/A
06/11e	18.3	3.7	1.90	0.00	5.8	N/A

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

Investment summary: Permission at Kilimapesa

This week, after two years of waiting, Goldplat announced that it has been granted permission to start operations at Kilimapesa in the Migori Archaean Greenstone Belt. Permission is extant for a period of one year (renewable thereafter). Nevertheless, it allows Goldplat to commence commercial operations while it awaits the grant of a full Mining Lease, which "is expected to be completed in the near future". Goldplat is notable for being a profitable gold producer trading at a discount to book value (11.6p per share). Subject to its hitting production and cost targets, at a long-term gold price of US\$1,350/oz, we estimate that it is worth 18.2p per share in our 'base case' scenario (in which it processes only its existing stockpiles) and up to 30p per share in the event that it replenishes its stockpiles indefinitely (but excluding the potential for exploration success).

Kilimapesa production ramp up

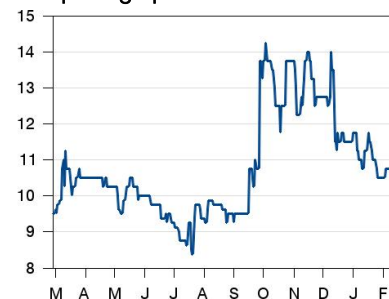
Goldplat's medium-term target is to achieve a production rate of approximately 5,000oz gold (Au) per annum within 12 months of being granted its mining licence, although initially we expect the production rate to be lower (eg 3,000oz per annum). With approximately 4.5 months left, we therefore anticipate that Kilimapesa will produce c 1,126oz for the current financial year. In the longer term, Goldplat intends to increase its production capability by investing in an elution plant and carbon regeneration kiln to allow the export of gold bullion rather than concentrate.

Valuation: Trading below NAV

Goldplat's shares are trading at a 40% discount to our 'base case' valuation, notwithstanding the decrease in risk implied by the approval to commence commercial operations at Kilimapesa. 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, we estimate that it will be capable of making a c 4.0p per share payout to shareholders from FY17.

Price 11.0p
Market Cap £18m

Share price graph



Share details

Code GDP
Listing AIM
Sector Mining
Shares in issue 167.12m

Price

52 week High Low
14.25p 8.25p

Balance Sheet as at 30 June 2010

Debt/Equity (%) N/A
NAV per share (p) 11.6
Net cash (£m) 0.8

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%	89%	69%
P/CF	7.9	8.6	5.5
EV/Sales	1.0	1.1	0.6
ROE	13%	12%	13%

Revenues by geography

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

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Kilimapesa – permission granted

This week, after two years of waiting, Goldplat announced that its local subsidiary has been granted permission by the Kenyan government to start operations at Kilimapesa in the Migori Archaean Greenstone Belt. The permission has been granted under the terms of a Mining Location, which was registered recently over the mining area and allows operations to continue for a period of one year (renewable). As such, it represents an interim measure while the Mining Lease grant process, which “is expected to be completed in the near future in order to secure long-term mining rights over the gold prospect”, progresses.

Goldplat’s initial target is to achieve a production rate of approximately 5,000oz Au per annum within 12 months of being granted its mining licence, although initially we expect the production rate to be lower (eg 3,000oz per annum). With approximately 4.5 months left, we anticipate that Kilimapesa will produce c 1,126oz for the current financial year. In the longer term, Goldplat intends to increase its production capability by investing in an elution plant and carbon regeneration kiln to allow the export of gold bullion rather than concentrate.

Goldplat had originally hoped to commence commercial production in early 2009. Its delay – even within the context of FY11 – coupled with a strong rand has therefore caused us to revise our forecasts as shown in the table below.

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

Measure	Pre-Kilimapesa announcement	Post-Kilimapesa announcement	Change (%)
	2011	2011	
Revenue	18,813	18,291	-2.8
Cost of sales	(13,009)	(12,745)	-2.0
Depreciation	(416)	(415)	-0.2
Gross profit	5,389	5,131	-4.8
Administrative expenses	(1,457)	(1,457)	u/c
Operating profit	3,932	3,674	-6.6
Profit on sale of interest in subsidiary	0	0	u/c
Net finance income/(expense)	16	16	u/c
Profit before tax	3,948	3,691	-6.5
Taxation	783	711	-9.2
Marginal tax rate (%)	28.0	28.0	u/c
Profit after tax	3,165	2,980	-5.8
Minority interest	568	320	-43.7
Minority interest (%)	18	11	-38.9
Earnings attributable to shareholders	2,596	2,660	+2.5
Basic EPS (pence)	1.86	1.90	-6.5
Fully diluted EPS (pence)	1.65	1.69	-6.7

Source: Goldplat, Edison Investment Research

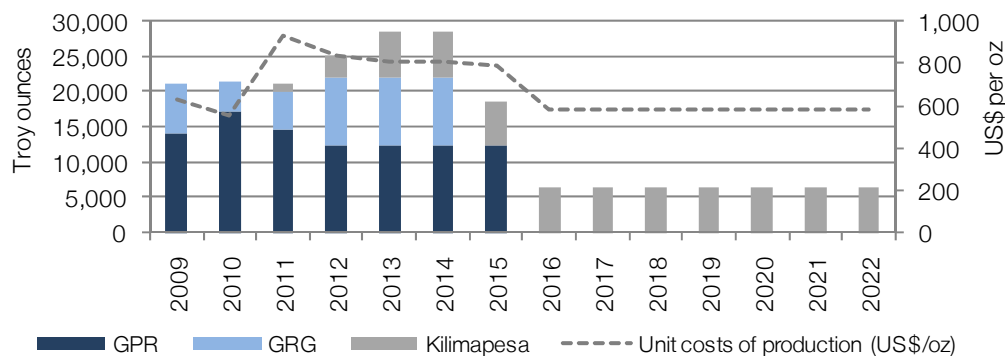
Goldplat intends to commence production at Kilimapesa immediately. However, the delay in granting it permission to enter commercial production has rendered its original cost budgeting relatively historic. As a result, it is in the process of reviewing and updating all of its cost data and assumptions for Kilimapesa. Once it has completed this process, it will make an announcement to the market, expected in the first two weeks of March.

Updated valuation

Our valuation of Goldplat has changed little since our last note of December 2010, although our confidence in the valuation has increased as a result of the announcement confirming permission to commence development and mining at Kilimapesa. Over the next 12 years (assuming that it makes no attempt to replenish its stockpiles of material), our forecast of Goldplat’s output and cost profiles are as follows:

Exhibit 2: Forecast ‘base case’* production and unit costs, FY09-FY22

Note: * Assumes no additions to stockpiles; NB Kilimapesa’s total resource base capable of supporting operations until 2032.



Source: Edison Investment Research

NB In reality, management is targeting production of c 50,000oz pa in the foreseeable future, with 20,000oz coming from GPR and GRG, 10,000oz from Kilimapesa and 20,000oz from acquisitions yet to be made or announced.

On the basis of the production profile set out in Exhibit 2 and at a long-term gold price of US\$1,350/oz, we estimate the value of the stream of potential dividends to shareholders over the period FY11 to FY32 to be 18.2p (discounting at 10% 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, it would be capable of making a 4.0p per share payout to shareholders from FY17 until FY32.

Exhibit 3: Financials

	£'000s	2008 UK GAAP	2009 IFRS	2010 IFRS	2011e IFRS
Year end 30 June					
PROFIT & LOSS					
Revenue		7,713	11,149	10,663	18,291
Cost of Sales		(5,259)	(8,225)	(7,147)	(13,160)
Gross Profit		2,454	2,924	3,516	5,131
EBITDA		1,983	2,010	2,400	4,089
Operating Profit (before GW and except.)		1,739	1,846	2,400	3,674
Intangible Amortisation		0	0	0	0
Share based payments & other		0	398	(341)	0
Other		0	0	0	0
Operating Profit		1,739	2,244	2,059	3,674
Net Interest		(115)	161	(116)	16
Profit Before Tax (norm)		1,624	2,007	2,284	3,691
Profit Before Tax (FRS 3)		1,624	2,405	1,943	3,691
Tax		(570)	(527)	(713)	(711)
Profit After Tax (norm)		1,054	1,480	1,571	2,980
Profit After Tax (FRS 3)		1,054	1,878	1,230	2,980
Average Number of Shares Outstanding (m)		110.4	112.0	112.1	139.6
EPS - normalised (p)		0.95	1.32	1.40	1.90
EPS - FRS 3 (p)		0.95	1.68	1.10	1.90
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		31.8	26.2	33.0	28.1
EBITDA Margin (%)		25.7	18.0	22.5	22.4
Operating Margin (before GW and except.) (%)		22.5	16.6	22.5	20.1
BALANCE SHEET					
Fixed Assets		7,136	8,704	11,276	13,790
Intangible Assets		5,251	5,662	7,297	7,704
Tangible Assets		1,885	2,570	3,589	5,696
Investments		0	472	390	390
Current Assets		4,061	5,683	6,709	11,536
Stocks		1,138	1,473	3,825	2,540
Debtors		1,437	2,012	1,866	3,257
Cash		1,486	2,198	1,018	5,738
Current Liabilities		(1,512)	(1,763)	(3,840)	(3,001)
Creditors		(1,482)	(1,763)	(3,733)	(2,894)
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	21,601
CASH FLOW					
Operating Cash Flow		1,320	1,554	1,431	3,143
Net Interest		(106)	171	(104)	16
Tax		(439)	(577)	(617)	(711)
Capex		(859)	(1,317)	(1,622)	(1,928)
Acquisitions/disposals		35	1	(73)	(1,000)
Financing		247	491	131	5,200
Dividends		0	0	0	0
Net Cash Flow		198	323	(854)	4,720
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)	(5,531)

Source: Company accounts/Edison Investment Research

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