FY 2017 Results — Marketing Communication (Connected Research)

Goldplat#

BBG Ticker: GDP LN *Price: 6.125p* *Mkt Cap: £10.2m* **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 (%)
2016A	20,185	1,878	1,982	0.56	n/a	0.5x	5.4x	10.4x	n/a
2017A	31,650	3,784	2,836	0.20	n/a	0.3x	2.7x	7.6x	n/a
2018F	36,958	4,978	3,801	1.08	n/a	0.3x	2.0x	5.6x	n/a
2019F	40,161	5,302	3,988	1.13	n/a	0.3x	1.9x	5.4x	n/a

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

Positive Cash Flow a Platform for Growth

Strong FY 2017, Positive Free Cash Flow

Goldplat's (GDP LN) strong operational performance resulted in an increase in production of 14% YoY to 43koz in FY 2017, another record year of production. This has driven earnings outperformance beating our earnings estimates. Revenue of £31.7m was up 57% YoY as GDP benefitted from stronger gold prices and favourable currency movements alongside record production. Consequently, GDP has achieved a 148% increase in operating profit YoY to £2.9m and a 100% increase in EBITDA to £3.8m. Profit before tax was up 43% YoY to £2.8m. GDP generated £2.8m in free cash flow in the period, the first time since FY 2013 that GDP has been cash flow positive. We have upgraded our earnings estimates for FY 2018F on the back of these strong results and now expect £5m in EBITDA this coming year.

Growth Strategy Announced

GDP's management believe that there are more attractive opportunities on the primary mining side of the business and have consequently set a target of matching production from primary mining with that of the recovery business within three years.

Given management's background we believe that they are well placed to identify and acquire suitable assets, although we recognise that this is an ambitious target and that securing assets cheaply is not an easy task. However, given the strong earnings and cash flow outlook GDP is expected to benefit from a material rerating to its valuation and a stronger balance sheet which means that it should be well placed to begin this transformational process.

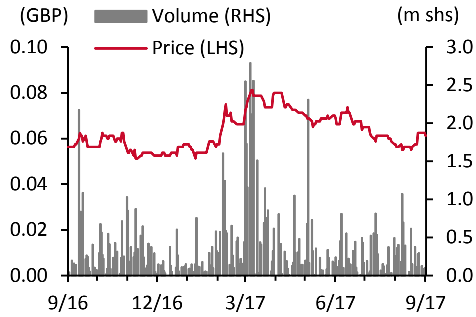
Recommendation and Target Price

Having generated close to £3.8m in EBITDA in FY 2017F and trading on a forward 2.0x EV/EBITDA multiple we believe that the stock remains deeply undervalued. **Our 12 month Target Price is upgraded to 17p/sh, implying 178% 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
	6.5%	-10.9%	8.9%

***SOURCE**: FactSet, as of 15 September 2017 close.*

Market:	LSE AIM
Target price:	17p
Shares in issue	167m
Free float:	90%
Net cash (June 2017):	£1.5m
Enterprise value:	£8.7m
Major shareholders	
Halifax Share Dealing	10.85%
Martin Ooi	10.00%
Toronto Dominion Bank	9.32%

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Return to Positive Free Cash Flow

Goldplat's (GDP LN) strong operational performance resulted in an increase in production of 14% YoY to 43koz, another record year of production. This has driven earnings outperformance beating our earnings estimates. Revenue of £31.7m was up 57% YoY as GDP benefitted from stronger gold prices and favourable currency movements alongside record production. Consequently, GDP has achieved a 148% increase in operating profit YoY to £2.9m, a 100% increase in EBITDA to £3.8m beating our estimate of £3m comfortably despite delays to Kilimapesa's ramp up. Profit before tax was up 43% YoY to £2.8m. Profit for the year from continuing operations of £1.3m was up 37% YoY although we note that GDP took a £1m non-cash charge for the write-down on the Nyieme project classified as a discontinued operation. The strong results are demonstrative of the operational turnaround that has taken place at GDP over the past two years and has resulted in the company generating £2.8m in free cash flow in the period, the first time since FY 2013 that the group has been cash flow positive. With the full benefit of Kilimapesa expected to come through in FY 2018 and the recovery business expected to continue strong performance we expect further earnings and cash flow growth in FY 2018.

Gold prices averaged US$1,240/oz in H2 FY 2017, exactly in line with our estimates, while gold production increased by 1% to 21.5koz. However, the timing of sales means that gold sold was lower than gold produced by c2koz, which we expect to be made up in FY 2018. Gold income was of £17.2m was up 20% in H2 versus H1 as a result of higher gold prices. Stronger revenues benefitted earnings directly with the EBITDA margin increasing 2% to 12% in H2 and a total of £2.1m. Capital spending, primarily at Kilimapesa, was weighted towards H1 2017 with the major capital projects then being completed in the second half.

Full Year and H2 FY 2017 Results Highlights, £000

		H1 FY 2017F	H2 FY 2017F	*% Chng, HoH*	FY 2017
Production	*Koz*	21,317	21,540	1%	42,857
Metal Transfers	*Koz*	3,279	2,894	-12%	6,173
Sales	*Koz*	16,653	24,172	45%	40,825
Gold income	*£'000*	14,415	17,235	20%	31,650
Gross Profit	*£'000*	2,122	2,850	34%	4,972
EBITDA	*£'000*	1,448	2,112	46%	3,784
EBITDA margin, %	*%*	10%	12%	22%	11%
Net finance Costs	*£'000*	325	(11)	nm	314
Profit Before Tax	*£'000*	1,334	1,666	25%	3,000
Tax	*£'000*	(401)	(459)	nm	(860)
Net income	*£'000*	742	606	nm	1,348
Capex	*£'000*	(1,160)	(596)	nm	(1,756)

SOURCE: *Company Data, VSA Capital Research.*

GDP completed a number of capital projects in FY 2016 and FY 2017 which are now having a positive impact on earnings. Capital spending of £1.8m in FY 2017 included the remaining spending on the first two phases of Kilimpesa (total cost US$2m). GDP also purchased and installed additional elution capacity in Ghana to increase GDP's internal ability to produce refined bullion and decrease the risk associated with Rand Refinery. This has meant that the company has successfully achieved its near term targets off stabilising and developing the core recovery business while stemming losses at Kilimapesa, with the operation now running at a profitable level.

As a result of the strong earnings performance, GDP has strengthened its balance sheet with a FY 2017 year end cash position of £2.6m. At year end the outstanding loan balance, primarily to Scipion was £1.2m which will likely be repaid during FY 2018F. Given our outlook for continued positive cash flow generation we expect further strengthening in GDP's balance sheet and cash position going forward.

As a result of the strong result and improved outlook we are upgrading our earnings forecasts and now anticipate EBITDA of £4.98m for FY 2018F. Returning to profit at Kilimapesa and strengthening the core recovery business provides a significant catalyst for the stock to rerate and we believe that given the current outlook the stock continues to be deeply undervalued, trading on a one year forward EV/EBITDA multiple of 2.0x, a discount of 65% 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 2015	FY 2016	FY 2017F	FY 2018F	FY 2019F	FY 2020F	FY 2021F
Production, oz	30,524	37,666	42,857	45,800	49,300	49,300	49,300
Sales, oz	24,904	40,763	40,825	46,800	49,300	49,300	49,300
Revenue	16,628	20,185	31,650	36,958	40,161	39,695	38,764
EBITDA	(132)	1,878	3,784	4,978	5,302	4,952	4,370
Operating Profit	(711)	1,212	2,910	4,063	4,082	3,732	3,150
Profit Before Tax	(796)	1,982	2,836	3,801	3,988	3,638	3,056
Minority Interest	251	462	628	846	878	800	671
Net Income	(1,143)	986	1,348	1,815	1,885	1,718	1,440
P/E,	neg	10.4x	7.6x	5.6x	5.4x	6.0x	7.1x
EV/EBITDA,	neg	5.4x	2.7x	2.0x	1.9x	2.1x	2.3x
EPS	(0.68)	0.56	0.20	1.08	1.13	1.03	0.86
Capex	(909)	(1,284)	(1,756)	(1,500)	(1,000)	(750)	(750)
FCF	(1,553)	(549)	2,835	2,240	2,712	3,908	3,170
Gold price	1,229	1,168	1,259	1,315	1,360	1,340	1,300

SOURCE: *Company data, VSA Capital Research.*

Kilimapesa Operational Turnaround Achieved

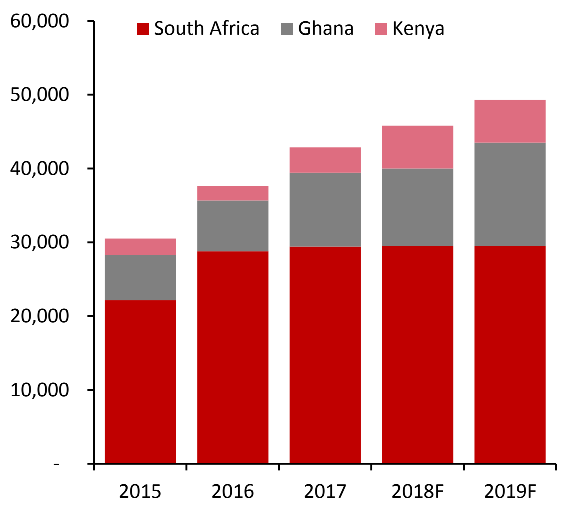
Production at Kilimapesa in FY 2017 was 3,408oz, up 70% YoY as GDP achieved a run rate of 120tpd and 1,254oz production in the final quarter of the year. The run rate in the final two months, which were profitable, was 5,800oz annualised. We anticipate this to be maintained in FY 2018, although note the company has indicated the potential to exceed this. With the full commissioning of phase two of the new plant completed post year end, this run rate is highly achievable, in our view. As we have previously highlighted the positive contribution to earnings from Kilimapesa will significantly enhance GDP's earnings and will be key to the company delivering positive free cash flow generation consistently.

GDP reports that it has reached daily throughput on occasion of 160tpd indicating that there is potential to further increase production at Kilimapesa beyond our 5.8koz estimate. GDP has decided to take the decision to construct a second mill immediately to provide back up to the first mill and latterly provide additional production capacity. For the time being, GDP will continue to process artisanal tailings although it is expected that by year end GDP will be supplying its mill solely with ore from the underground mine.

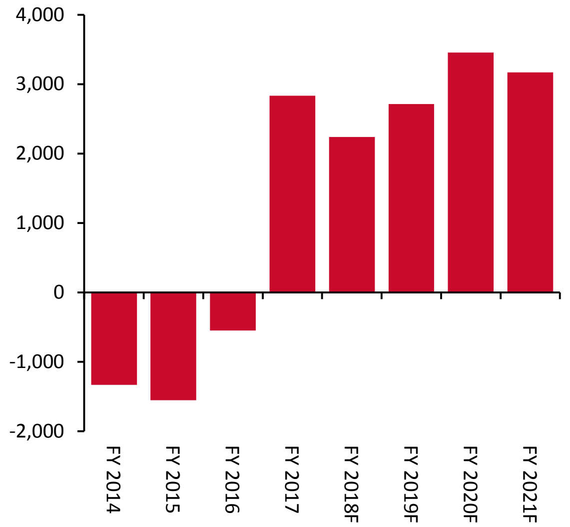
In FY 2017 GDP completed phases one and two of development which included the construction of the CIL plant moved from Ghana, two ball mills from South Africa as well as the concentrator facility, thickener, a tailings pit as well as a front end crusher. As well as completion of stages one and two of the processing facility, GDP also made significant positive progress in development of the underground mine. A mechanical loader was purchased to facilitate ore handling along with a Kempe core drilling machine to drill upcoming mining zones and thus better understand the orebody. GDP was slightly behind schedule in terms of underground development at year end although the progress that has been made in terms of exploration and reef drive development is significant.

In FY 2017 Kilimapesa reported a net loss of £1.1m (FY 2016 £711k). The increased loss was largely a result of a stronger Kenyan shilling versus Sterling. However, with the final two months of the year turning a profit we expect this profitable run rate to continue into FY 2018. This positive contribution, the first for a decade from Kilimapesa, is likely to have a significant positive contribution to group earnings with weight of losses no longer hindering the broader group's positive performance.

Group production forecast, koz



Free Cash Flow Forecast, £'000



SOURCE: *Company data, VSA Capital Research.*

Ghana Recovery

At GDP's Ghanaian recovery operations the group achieved a strong performance with a profit before tax of £1.8m, up 169% YoY. Production of 10koz was up 45% YoY although due to the timing of sales, gold sold was down 7% YoY to 8.3koz. We expect this balance to be normalised in FY 2018. We also note that previously GDP has benefitted from a zero tax rate in Ghana due to the location of the operation in the Tema Free Trade Zone. However, the new rate of 15% continues to be favourable, in our view.

GDP has attributed the increase in profitability to a consistent delivery of higher margin material from usual suppliers as well as a significant one off clean up contract from Obuasi. For FY 2018F we note that the benefits of the initial South American contracts. This was a large contract from Uruguay and further contracts are expected to be secured in FY 2018F from South America. With traditional African sources of supply becoming less reliable this proactive approach, as we have said before, is a highly positive strategy and taps into large mature gold mining markets with long term potential.

Also in Ghana during FY 2017 GDP bought and constructed a 3t elution plant for US$155k and US$1m respectively. This is a saving of US$1m compared to the initial plan of moving a column from the South African recovery operations. The column is expected to be operational by December 2017.

As well as the South American strategy, we believe that the discussions that the company is currently in with the Ghanaian Government offer another attractive potentially significant source of supply. The Government is exploring the possibility that GDP be involved in the rehabilitation of former artisanal mining areas by cleaning up mining tailings. Given this has been a significant industry in Ghana this could be a lucrative opportunity which further strengthens GDP's local relationships. Currently GDP are completing extensive sampling programmes to assess gold content and contaminant content as well as the most efficient processing methods for gold recovery. In addition a pilot plant has been procured which is expected to be operational by Q2 FY 2018.

We continue to expect strong performance from Ghana, with 10.5koz production in FY 2018 as a result of successful execution of GDP's positive initiatives.

South Africa Recovery Operations

In South Africa, GDP achieved an operating profit of £3.3m, up 57% YoY. Production in SA of 29.4koz was up 2% YoY while gold sold or transferred at 28.7koz was down 4% YoY as the timing of sales in FY 2016 meant that more gold was sold than produced as inventory backlog was cleared. GDP in FY 2017 focused SA production on higher margin by-products utilising the CIL circuits. This was further enhanced by favourable moves in currency as Sterling weakened versus the Rand.

We continue to expect strong performance at the South African operations and note that while the company believe that the base case production level based on repeated contracts and long term relationships is around 22kozpa the sourcing teams have performed strongly in recent years securing large individual contracts consistently which has resulted in closer to 30kozpa. We believe that with these initiatives will continue to be successful and note that GDP is making new efforts to secure material from smaller producers as well as large mining companies. Given the stronger margins associated with production from the CIL circuits, the company is targeting procurement of a greater proportion of material suitable for these circuits. As a result, we believe that 29.5kozpa will be achievable in FY 2018 solely from the South African operations.

As was widely reported, in June 2017 the Broad Based Socio-Economic Empowerment Charter for South Africa mining and minerals industry was announced. There has been significant push back from key industry players and the Chamber of Mines and it is some way from being formally enacted, however, GDP is making suitable preparations to ensure that it would continue to be compliant with the next Charter as it is indeed compliant with the existing one. The potential changes include increasing the Black Economic Empowerment shareholding from 26% to 30% as well as changes to Board demographics.

Growth Strategy Taking Shape

GDP has laid out plans to increase its mining business following the successful turnaround at Kilimapesa which puts the group on a stable footing with all core operations running profitably allowing management to dedicate time to growing the business. The team has decided that it will be easier to ramp up the mining side of the business as the current sourcing teams for recovery materials are fully employed while the South American initiative is at an early stage. The target that GDP has set is to match production from primary mining with that of the recovery operations within three years which would indicate additional production of somewhere between 30kozpa-40kozpa.

While we believe that given management's background they are well placed to identify and acquire suitable assets we believe that this is an ambitious target and that securing assets cheaply is not an easy task. However, we do believe that given the strong earnings and cash flow outlook GDP is expected to benefit from a material rerating to its valuation and a stronger balance sheet which means that it will be well placed to begin this transformational process.

Rand Refinery Contract Dispute

GDP recently announced an update to the ongoing dispute over a contract with Rand Refinery. With no resolution having yet been achieved GDP has now decided to issue an application to the High Court of South Africa for recovery of the fees owed by Rand Refinery.

It is not clear at this point how long resolution might take; however, the impact does not affect our forward estimates for GDP. Indeed, from an operational perspective we highlight GDP's efforts to reduce its exposure to Rand Refinery by increasing internal elution capacity and using alternative refiners.

Non-Core Exploration

Management took the decision in FY 2017, to fully write down the carrying value of the Nyieme exploration project in Burkina Faso. This was expensed through the P&L at a cost of £955k. GDP had determined that it had no intention to commit further capital to the project or to apply for an extension ore renewal of the project.

At the Anumso project in Ghana, having previously agreed an earn in contract with **Ashanti Gold Corp (AGZ CN)** that will enable AGZ to earn 51% of GDP's 90% interest in the project should it meet the spending requirements. This is US$1.5m over 18 months with an option to acquire a further 24% of GDP's interest by spending a further US$1.5m on the project or paying it to GDP directly. By year end FY 2017, Ashanti had spent US$750k which included setting up a base camp, the analysis of historic core, a 20 hole RC drill programme as well as comprehensive soil sampling. These results are currently outstanding.

Management Changes

GDP has made two recent notable appointments to its Board of Directors. Werner Klingenberg has been appointed Finance Director having been working for GDP for two years, while Sango Ntsaluba has also been appointed to the Board as a Non-Executive Director. Ian Visagie continues to sit on the Board as Executive Director although has stepped back from his role as group CFO.

Werner Klingenberg, Finance Director

Werner initially qualified as a Chartered Accountant with Deloitte in South Africa and he has accrued significant commercial experience, both within Southern Africa and at an international level. His extensive knowledge spans audit and financial management and systems. Having initially worked within the telecommunications and retail industries, Werner joined Goldplat in 2015 as Group Financial Manager. Within this role he has been integral in managing Goldplat's financial affairs. With a proven knowledge and understanding of the Group's gold operations, he brings a wealth of experience that makes him best placed to occupy the role of Finance Director, as the Group continues to deliver on its strategy of increasing productivity and profitability.

Sango Ntsaluba, Non-Executive Director

Sango is the executive chairman and co-founder of **NMT Capital (Pty) Limited**, a diversified investment holding group. Sango founded **Sizwe Ntsaluba Gobodo**, one of South Africa's 'Big 5' accounting firms. Alongside a distinguished auditing career, Sango has extensive corporate experience in areas that include logistics and the automotive industry. He currently serves as an independent board member of Barloworld Limited, a leading global industrial company listed on the Johannesburg Stock Exchange ("JSE"), with responsibility for chairing the group's audit committee. He also serves on the boards of JSE listed companies **Pioneer Foods Group Limited**, a producer and distributor of a range of branded food and beverage products, and Basil Read Holdings Limited, a diversified construction company. Sango is the Chairman of the board of Goldplat's subsidiary, Goldplat Recovery (Pty) Ltd. NMT Capital (Pty) Limited, a company of which he is a director and shareholder, holds a 26 per cent interest in Goldplat Recovery (Pty) Limited.

Valuation & Earnings Estimates

Changes to Assumptions

We have adjusted our gold price outlook only modestly upwards as prices have followed our current assumptions closely. The rate rise trajectory has flattened as we expected which has pushed gold prices higher. We expect broad range bound trading to continue as the risks of further tightening along with a slower rate hiking trajectory support the gold price whilst downward pressure comes from the continuing process of monetary tightening, 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
1,604	1,286	1,229	1,168	1,259	1,315	1,360	1,340	1,300	1,275

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

Changes to Operational and Financial Assumptions

We have adjusted our production estimates to reflect a new higher normalised basis for production going forward. We expect group production to increase modestly from 42.9koz to 45.8koz in FY 2017F driven by a higher base case run rate at Kilimapesa. The investment at Kilimapesa is set to increase production to 5.8kozpa although we note that there is potential to increase this further. Production in Ghana and South Africa is likely to be largely unchanged YoY at 10.5koz and 29.5koz respectively. Given that GDP have demonstrated an ability to procure sufficient material to support a higher run rate in South Africa we are upgrading our long term production outlook from 23koz to 29.5koz.

Production Forecasts

Total Gold Production, koz	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Ghana Recovery	6,111	6,883	10,031	10,500	14,000	14,000
Kilimapesa	2,278	2,005	4,500	6,000	5,800	5,800
South Africa Recovery	22,135	28,778	29,418	23,000	29,500	29,500
Total	**30,524**	**37,666**	**42,857**	**45,800**	**49,300**	**49,300**

***SOURCE:** Company Data, VSA Capital Research.*

Our capital expectations for GDP are for £1.5m in FY 2018F and £1m in FY 2019F largely due to expansion of capcity in Ghana and the remaining capital for Kilimapesa.

Earnings Changes, £000

	Revenue			EBITDA			PBT			Net Income		
	Old	New	% Change	Old	New	% Change	Old	New	% Change	Old	New	% Change
2018F	25,020	36,958	48%	3,364	4,978	48%	2,349	3,801	62%	1,177	1,815	54%
2019F	28,082	40,161	43%	4,282	5,302	24%	3,000	3,988	33%	1,505	1,885	25%
2020F	27,657	49,300	78%	3,494	4,952	42%	2,212	3,638	64%	1,108	1,718	55%

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 17p/sh., a 39% upgrade which implies 178% upside potential.

Valuation Summary

1 yr forward EBITDA, £000	4,978
Target 12-mo forward EV/EBITDA	5.8x
Fair EV, £000	**28,871**
Net Debt, £000	(2,727)
Other, £000	2,673
Total Fair Equity Value, £000	**28,817**
# of shares (2015)	167,441
Per Share Fair Value, £000	17.21
NAV fair target price	**16.80**
Blended 12-mo Target Price, GBp/share	**17.00**
Current Price, GBp	6.13
Upside, %	178%

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	28,069	1.0x	28,069
Total NAV, £000			**19,423**
Consolidated Net Debt			(2,727)
Minority Interest			2,673
Total Equity Value			**28,123**

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

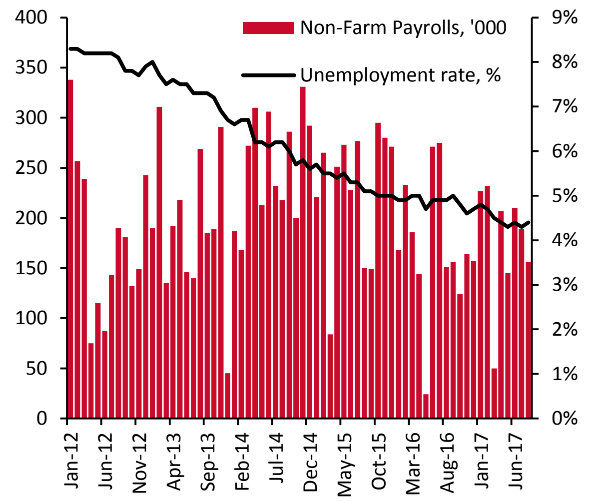
Slower Rate Rise Trajectory to Support Prices

In line with our expectations the markets view of the anticipated rate rise trajectory has been pushed out with a third hike in December 2017 now in the balance. As a consequence the gold price is up 13.6% YTD, having risen xx% since the beginning of H2 we do not expect a further rise in 2017. This is based on two factors, the first that the underlying health of the US economy is not sufficiently strong to justify further rate hikes if the Fed continues to maintain a "data dependent" approach and secondly the inefficacy of Trump's presidency which makes meaningful legislation that would have an inflationary impact even more unlikely. Most recently the gold price has also benefitted from heightened geopolitical tensions surrounding North Korea; however, we believe that the monetary drivers are having a far more significant impact.

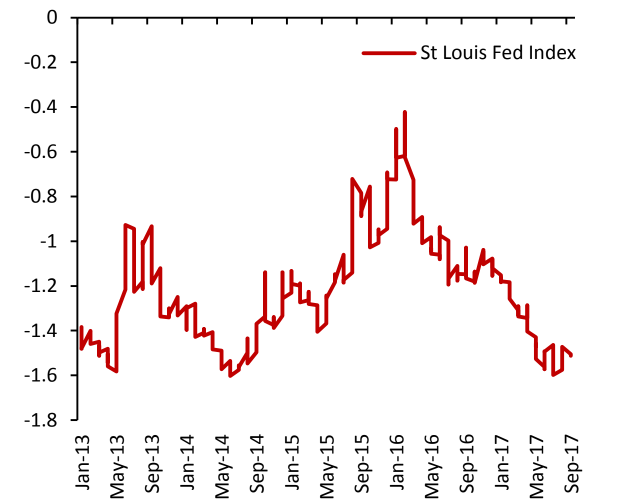
The rationale behind raising rates further appears increasingly hard to justify based on the underlying data, indeed, core inflation has not since the target of 2% since 2012 and was 1.7% in August 2017. Wage growth also remains stagnant despite the fact that unemployment is now well below the Fed's long term rate of 4.7% at 4.4%. Without a combination of wage growth and productivity improvements we do not believe that core inflation would justify further rate hikes and hiking too fast in this situation would likely undermine the economy.

This weak underlying data clashes with the view that the Fed should be raising rates simply to provide greater firepower in the event of a downturn as without this underlying stability tightening presents risks to the economy in itself. The St Louis Fed Index, which measures financial conditions, is at its lowest point since 2014 showing that while rates have risen it has become easier and cheaper to obtain financing. However, unless the Fed changes tack from a data driven response we believe that the trajectory will have to be shallower or the recovery will be at risk. In addition, we believe that the aggressive indications that the Fed will begin to unwind QE as early as this year are unlikely to be justifiable given this soft run of data.

Key US Data



St Louis Fed Index



SOURCE: *Bloomberg, VSA Capital Research.*

Donald Trump's rhetoric has also been a key contributor to both dollar and gold price volatility in recent months. This has been intensified by the Comey incident and the potential repercussions that entail. There is plenty of potential for further volatility although the "good Trump" scenario of a low tax and low regulation economy appears unlikely.

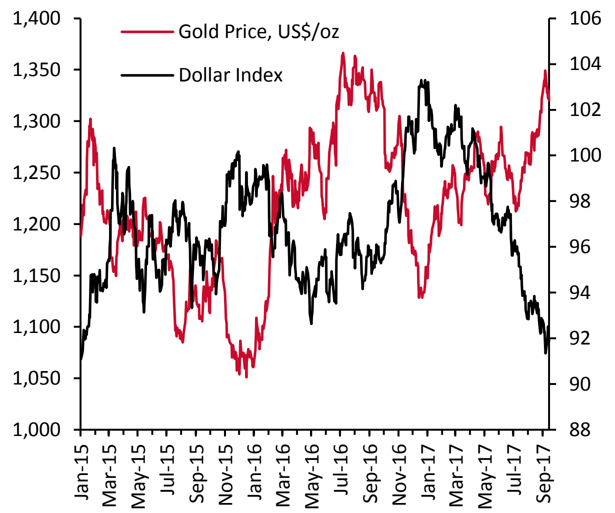
In Europe stability does appear to be returning after establishment candidates prevailed in Holland and France and now only the German elections are outstanding for the Eurozone. The Eurozone recovery is perhaps the surprise of the year, however, Brexit is likely to provide support for gold demand with negotiations likely to include periods of severe tension. Europe is the second largest market for gold coins and bars and although annual demand of 196t was down

11% YoY in 2016 demand was up 9% YoY to 61t in Q1 2017. That said given the results of the French and Dutch elections, investment demand related to the Europe is likely to be a lesser factor for the remainder of the year.

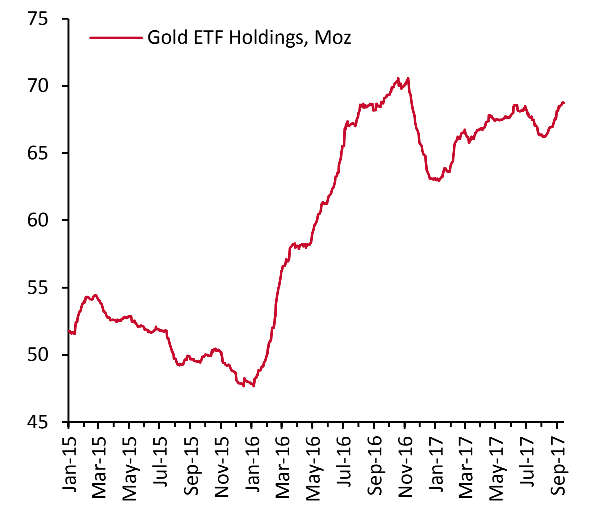
Investment Demand

Investment demand has been the key driver behind higher gold prices with ETF investment reversing a QoQ net outflow with an increase of 109t. Although ETF investment was lower YoY we highlight that Q1 2016 experienced the strongest inflows since 2009 and a decline was therefore highly likely. Investment demand has been driven by the decreasing downside risk associated with a slower rate hike trajectory as well as political uncertainty. Both these factors are likely to continue to dominate although we note that the risk associated with European elections has diminished significantly.

US$ Index versus Gold price, US$/oz



Gold ETF Flows

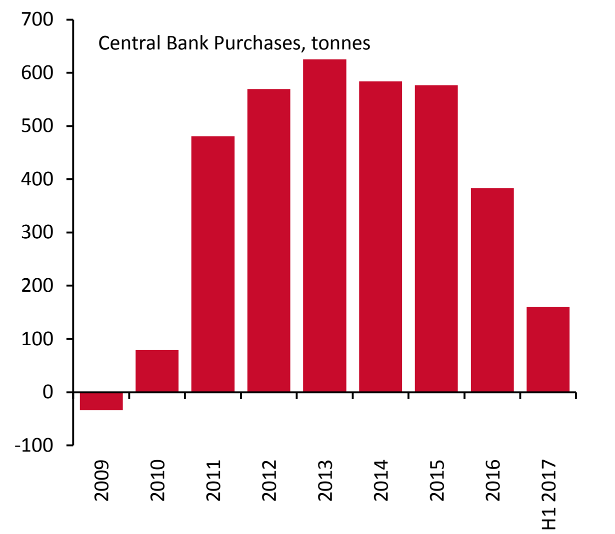


***SOURCE:** FactSet, Bloomberg, VSA Capital Research.*

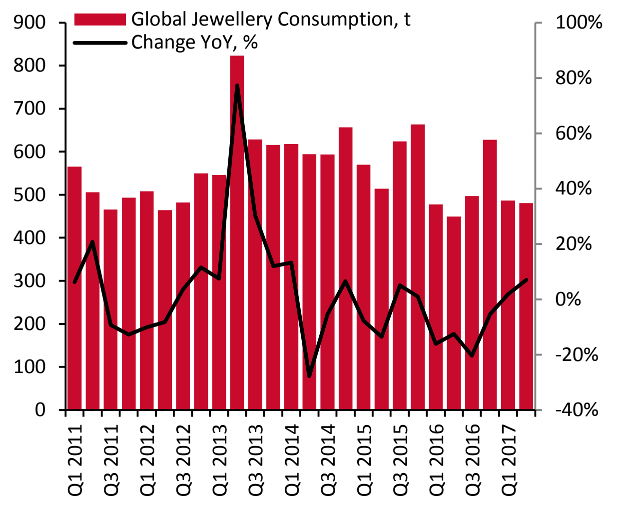
Central Banks Net Purchases Slow

Central bank net purchases rebounded in Q2 2017 up 20% YoY although remain below the five year average of 135t, with buying still driven by a small number of key players. Russia was the dominant buyer supported by Kazakhstan and Turkey. The countries have been frequent purchasers over the past two years in the face of currency volatility. China meanwhile continued to stay out of the market with no new purchases.

Central Bank Purchases



Global Quarterly Jewellery Consumption



SOURCE: Bloomberg, VSA Capital Research.

Jewellery Demand Weakness Continues

In Q2 2017 the jewellery market was down 1% QoQ to 481t, however, this was 7% higher YoY, albeit from a low base and H1 demand of 968t was below 1,000t for only the fourth time since 2000. In India demand was up strongly, 41% YoY, to 127t driven primarily by expectations of a sharp increase in the Goods and Service Tax (GST). However, seasonal buying around festivals was strong while rural sentiment improved. That said the pre-emptive buying which resulted in strong imports in H1 may detract from H2 purchases. Meanwhile in China, jewellery demand continued to be subdued with buying in Q2 down 5% YoY to 138t making it the lowest Q2 in China for five years. The switch in consumers' jewellery tastes continues to favour lower carat pieces which have higher design and therefore are higher margin products for jewellers with pricing dominated by the craftsmanship of the piece rather than by gold weight.

Price Forecast

Gold prices are up 13.6% YTD in line with our view that early expectations of US potential rate hike trajectory were too aggressive. Our view is that the tightening trajectory will continue albeit at a slower pace hence our gold price forecast profile with the gold price receiving support from continued fiat currency debasement over the long term. However, we recognise the potential upside for the gold price of faster tightening and the associated risks to global economic growth. Consequently we believe that gold is likely to continue to trade in within the broad range of US$1,200-1,400/oz of the past few years as Central Banks and investors continue to wrestle with normalising global monetary policy.

VSA Gold Price Forecast YE June

FY 2013A	FY 2014A	FY 2015A	FY 2016A	FY 2017A	FY 2018F	FY 2019F	FY 2020F	FY 2021F	LT
1,604	1,286	1,229	1,168	1,259	1,315	1,360	1,340	1,300	1,275

SOURCE: Bloomberg, VSA Capital Research.

Financial Statements

Profit and Loss (£000)

	2015A	2016A	2017A	2018F	2019F	2020F	2021F
Revenue	**16,628**	**20,185**	**31,650**	**36,958**	**40,161**	**39,695**	**38,764**
Cost of sales	(15,660)	(17,177)	(26,454)	(30,225)	(33,178)	(33,096)	(32,865)
Gross Profit	**968**	**3,008**	**5,196**	**6,732**	**6,983**	**6,600**	**5,899**
SG&A	(1,679)	(1,796)	(2,286)	(2,669)	(2,901)	(2,867)	(2,800)
Finance Income	843	809	22	2	2	2	2
Finance costs	(807)	(39)	(96)	(263)	(96)	(96)	(96)
Impairment of assets	(121)	-	-	-	-	-	-
Profit before taxation	**(796)**	**1,982**	**2,836**	**3,801**	**3,988**	**3,638**	**3,005**
Mining and income tax	(96)	(534)	(860)	(1,140)	(1,225)	(1,120)	(930)
Profit for the year	(892)	1,448	1,976	2,661	2,763	2,518	2,075
Non-controlling interest	251	462	628	846	878	800	659
Attributable to equity holders of the company	**(1,143)**	**986**	**1,348**	**1,815**	**1,885**	**1,718**	**1,416**
Loss from discontinued operations	-	46	(1,012)	-	-	-	-
Profit for the year	(1,143)	946	336	1,815	1,885	1,718	1,416

***SOURCE:** Company data, VSA Capital Research.*

Balance Sheet (£000)

	2015A	2016A	2017A	2018F	2019F	2020F	2021F
Non-current Assets							
Property, Plant & Equipment	4,449	5,404	7,181	7,766	7,546	7,076	6,607
Intangibles	7,033	9,726	8,707	8,707	8,707	8,707	8,707
Pre-production Expenditure	2,136	-	-	-	-	-	-
Proceeds from Sale of Shares in Subsidiary	1,357	1,271	1,424	1,424	1,424	1,424	1,424
Non-Current Cash Deposits	233	160	201	201	201	201	201
Total Non-Current Assets	**15,208**	**16,561**	**17,513**	**18,098**	**17,878**	**17,408**	**16,939**
Current Assets							
Inventories	7,727	7,747	8,962	10,125	12,103	11,963	11,682
Trade & Other Receivables	3,305	6,255	12,003	13,163	12,654	12,507	12,213
Cash & Bank Balances	-	-	-	-	-	-	-
Total Current Assets	**630**	**2,148**	**2,650**	**2,799**	**5,270**	**7,085**	**8,505**
Total Assets	**11,662**	**16,150**	**23,615**	**26,088**	**30,026**	**31,555**	**32,401**
Equity							
Share Capital	1,685	1,675	1,675	1,675	1,675	1,675	1,675
Share Premium	11,498	11,441	11,441	11,441	11,441	11,441	11,441
Exchange Reserve	(6,707)	(6,218)	(5,193)	(5,193)	(5,193)	(5,193)	(5,193)
Retained Earnings	9,868	10,953	11,305	13,120	15,005	16,723	18,139
Minority Interest	1,893	2,246	2,673	2,673	2,673	2,673	2,673
Total Equity	**18,237**	**20,097**	**21,901**	**23,716**	**25,601**	**27,319**	**28,735**
Non-Current Liabilities							
Loans & Borrowings	56	-	-	-	-	-	-
Obligations Under Finance Leases	199	157	229	229	229	229	229
Provisions	121	383	446	446	446	4 46	446
Deferred Tax Liabilities	459	510	584	584	584	584	584
Total Non-Current Liabilities	**835**	**1,050**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**
Current Liabilities							
Bank Overdraft	-	92	-	-	-	-	-
Loans & Borrowings	104	55	1,172	72	72	72	72
Obligations Under Finance Leases	120	129	154	154	154	154	154
Taxation	18	153	211	211	211	211	211
Trade & Other Payables	7,556	11,135	16,431	18,773	20,607	19,948	18,909
Total Current Liabilities	**7,798**	**11,564**	**17,968**	**19,210**	**21,044**	**20,385**	**19,346**
Total Liabilities	**8,633**	**12,614**	**19,227**	**20,469**	**22,303**	**21,644**	**20,605**
Total Equity & Liabilities	**26,870**	**32,711**	**41,128**	**44,186**	**47,905**	**48,964**	**49,340**

SOURCE: *Company data, VSA Capital Research.*

Statement of Cash Flows (£000)

	2015A	2016A	2017A	2018F	2019F	2020F	2021F
Cash Flows From Operating Activities							
Net Income	(1,143)	986	1,348	1,815	1,885	1,718	1,416
Depreciation	390	514	650	915	1,220	1,220	1,220
Amortisation	189	192	224	-	-	-	-
Loss on sale of PP&E	148	62	4	-	-	-	-
Equity settled share based payment transactions	-	72	16	-	-	-	-
Changes in Working Capital							
(Increase)/decrease in inventories	(2,639)	(20)	(1,215)	(1,163)	(1,978)	140	281
Decrease/(increase) in trade and other receivables	1,481	(2,950)	(5,748)	(1,160)	509	147	293
Decrease in trade and other payables	1,574	3,579	5,296	2,342	1,834	(659)	(1,039)
Provisions	(8)	244	-	-	-	-	-
Interest received	843	809	22	-	-	-	-
Interest paid	(679)	(39)	(96)	-	-	-	-
Taxes paid	(76)	(342)	(805)	-	-	-	-
Net cash generated by operating activities	219	2,912	1,529	2,749	3,470	2,566	2,170
Cash flows from investing activities							
Payments for property, plant and equipment	(909)	(1,284)	(1,756)	(1,500)	(1,000)	(750)	(750)
Other	(99)	57	(93)	-	-	-	-
Net cash from investing activities	**(1,008)**	**(1,227)**	**(1,849)**	**(1,500)**	**(1,000)**	**(750)**	**(750)**
Cash flows from financing activities							
Proceeds from borrowings	160	-	1,538	-	-	-	-
Repayments of Borrowings	-	(105)	(421)	(1,100)	-	-	-
Dividends paid	-	-	-	-	-	-	-
Payment of finance lease liabilities	(196)	(114)	(203)	-	-	-	-
Net cash used in financing activities	**(36)**	**(219)**	914	(1,100)	-	-	-
Net increase in cash and cash equivalents	**(825)**	**1,466**	**594**	**109**	**2,470**	**1,816**	**1,420**
Cash and cash equivalents at the beginning of the year	**1,455**	**630**	**2,096**	**2,690**	**2,799**	**5,270**	**7,085**
Cash and cash equivalents at the end of the year	**630**	**2,096**	**2,690**	**2,799**	**5,270**	**7,085**	**8,505**

SOURCE: *Company data, VSA Capital Research.*

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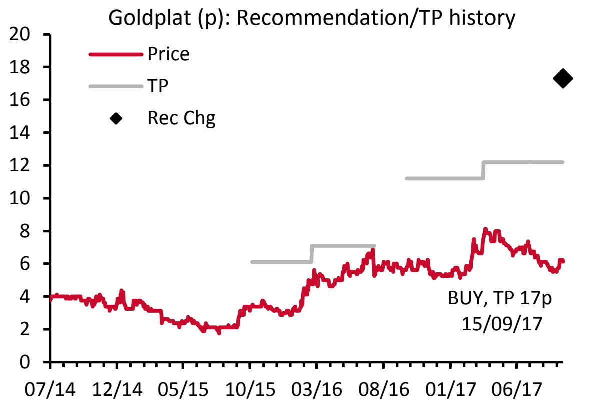
Recommendation and Target Price History



***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.