Kingsgate Consolidated Limited

June Quarter Shows Cash Generation Potential

Wilson HTM INVESTMENT GROUP

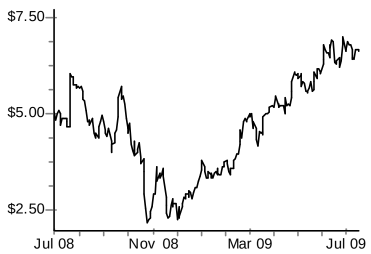
16 July 2009

$6.63

BUY

Keith Williams
03 9640 3802
keith.williams@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	KCN
Market Cap	$677 M
Issued Shares (dil)	102.1 M
Avg Mth T'over	7.20 M
12 Mth High – Low	$7.01 - $2.20

Key Data/Ratios – FY 2009

EBITDA / Sales	44.4%
EBIT / Sales	30.8%
Debt / Equity	0.8%
Interest Cover	17.8 x
ROE	14.2%
EPS Growth	265.6%
DCF	$7.27
12 Mth Price Target	$7.56

Recommendation

We are maintaining our BUY recommendation after upgrading FY2010 earnings by 22% to $50m. The upgrade mainly reflects increased production (10koz), off-set by an increased AUDUSD forecast, and minor upgrades to the gold futures strip used in our valuation (gold futures DCF methodology). Our target price is now $7.56/share (DCF valuation 30th June 2010), a 14.9% increase which reflects the above changes as well as the removal of a market discount (remaining 10%) that we have carried since late 2008 to reflect equity market conditions.

Key Points

- The June quarter continued to demonstrate the turnaround in operating performance at Chatree. Production was 43koz gold at a very low cash cost of US$228/oz, some US$200/oz lower than the global average industry cash cost as of late 2008.
- June quarter performance was a significant improvement on the March quarter, which recorded 33koz gold production at a cash cost of US$364/oz.
- Increased June quarter gold production was due to an increased head grade of 2.3g/t, up from 1.7g/t in the March quarter. An increase in qoq production had been flagged, although the result exceeded our forecast by 3koz.
- The lower qoq net cash cost is significantly to higher head grades (gold and silver), and a slightly lower stripping ratio (1.6:1 vs 1.8:1).
- Guidance for FY2010 is 120-140koz gold. Our forecast was at the very low end of this range at 120koz, and we have upgraded to the mid point (130koz). However, production may prove to be higher. Access to high grade C-North ore is currently restricted due to a face slip and if this is resolved early, production could prove higher than our forecast. A geotechnical review of the slip area is being undertaken to determine remedial action required.
- The company's financial position has improved markedly over the course of the half year from net debt of $2.9m to net cash of ~$28m, although $14.5m positive cashflow was due to the exercise of options over KCN shares. The company is now free of corporate debt. Remaining balance sheet interest bearing liabilities (~$2.2m) relate to the Akara Mining preference shares which are classified as debt. The year end cash balance of $30m was not as high as our forecast of $41m. A significant contributor will likely have been the mining rate which substantially exceeded the milling rate over the half year (3.1Mt vs 1.3Mt). At a mining cost of around US$3/tonne, and an average stripping ratio for the half year of ~1.7:1, the additional mining cost over the cost of the ore processed would have been US$10-15m.
- A revised cost estimate has been received from Ausenco for the 5Mtpa mill expansion. A decision to proceed is expected late this quarter. Our forecasts incorporate this expansion.
- Resource definition drilling at Chatree North A-Pit continued to focus on defining the limits of mineralisation. On the western side of A-Prospect, drilling was completed in the quarter and revealed shallower dipping mineralisation than expected. This has reduced ore tonnage potential in this area although the exact significance is unknown at this stage. In the main A-Pit, a provisional resource estimate indicates that added resources have replaced ore mined over the last 12 months. Q prospect drilling results indicate a likely merging of mineralisation at the southern end with that at the northern end of A-Pit that will facilitate one large pit.
- We have incorporated impending revisions to commodity price forecasts into revised forecasts (see tables over). We have also removed the remaining 10% market discount to forward DCF valuation in setting the revised target price which is now $7.56/share, an increase of $0.98/share or 14.9%. DCF valuation is $7.27/share, previously $7.04/share.
- FY 2009 NPAT forecast is now $32m, (-$4m), reflecting lower than forecast metal sales (timing issue) and higher D&A. Our FY2010 NPAT forecast is now $50m, an upgrade of $9m or 22%.

BUY: Total return +10% or more over a 12 month period
HOLD: Total return expected to be between +10% to -10% over a 12-month period
SELL: Total return expected to be -10% or more over a 12 month period
TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Year to June	NPAT (Rep) $M	NPAT (PSig) $M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2008a	36.2	7.9	8.5	133.3	77.6	20.1	33.1	0.0	0.0	0
2009e	31.9	31.9	31.2	265.6	21.2	21.2	31.2	0.0	0.0	0
2010e	50.4	50.4	49.4	58.1	13.4	80.8	8.2	26.0	3.9	0
2011e	31.4	31.4	30.7	-37.7	21.6	75.5	8.8	16.0	2.4	0

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Commodity Price Forecast Revisions

Changes To Precious Metal Price Forecasts

		Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	LT
Gold	US$/oz	834	915	950	900	838	825	825	800	800	750	600
	A$/oz	1,069	1,284	1,191	1,148	1,085	1,084	1,097	1,072	1,077	1,013	800
Gold Futures	US$/oz	852	917	925	929	934	941	955	969	985	1,003	1,042
Silver	US$/oz	12.6	13.1	15.5	15.3	15.0	15.1	15.1	15.0	15.0	14.9	10.9
	A$/oz	16.2	18.4	19.4	19.5	19.4	19.8	20.1	20.1	20.2	20.1	14.5
Platinum	US$/oz	1,205	1,096	1,200	1,163	1,138	1,150	1,150	1,250	1,250	1,260	1,270
	A$/oz	1,545	1,537	1,504	1,483	1,474	1,511	1,530	1,676	1,682	1,703	1,693

CHANGES	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	LT
Gold	0.0%	-3.6%	7.3%	7.5%	3.1%	17.9%	17.9%	23.1%	23.1%	25.0%	0.0%
Gold Futures	0.0%	0.0%	0.4%	0.3%	0.3%	0.2%	0.8%	1.3%	1.8%	2.4%	4.4%
Silver	0.0%	-1.5%	16.1%	16.9%	15.9%	20.8%	20.8%	28.2%	28.2%	36.7%	0.0%
Platinum	0.0%	-0.2%	11.6%	6.9%	2.2%	0.0%	0.0%	2.0%	2.0%	2.9%	3.7%

Source: WilsonHTM
Gold futures strip updated to 07 July 2009

Changes To Foreign Exchange Rate Forecasts

		Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	LT
Rate	AUDUSD	0.78	0.71	0.80	0.78	0.77	0.76	0.75	0.75	0.74	0.74	0.75

CHANGES	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	LT
AUDUSD	0.0%	5.4%	17.0%	15.9%	15.0%	13.1%	10.2%	7.9%	6.1%	2.8%	0.0%

Source: WilsonHTM

Kingsgate Consolidated Limited (KCN : $6.63)

PRODUCTION

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Gold (koz)	86	74	93	101	67
Silver (koz)	291	232	293	450	550

PRICES

Yr Ending June	2007A	2008A	2009E	2010E	2011E
AUDUSD (USD)	0.79	0.90	0.75	0.79	0.77
Gold (US$/oz spot)	638	824	875	925	831
Silver (US$/oz spot)	12.73	15.42	12.08	15.38	15.03
Gold (US$/oz futures)			917	927	938

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Before Abs (c)	-25.7	8.5	31.2	49.4	30.7
EPS Growth (%)	N/A	133.3%	265.6%	58.1%	-37.7%
PER (x)	**-21.6**	**77.6**	**21.2**	**13.4**	**21.6**
CFPS (c)	-21.9	20.1	21.2	80.8	75.5
P/CF (x)	**-25.3**	**33.1**	**31.2**	**8.2**	**8.8**
EV/EBITDA (x)	-37.8	33.4	12.5	4.4	5.1
DPS (c)	0.0	0.0	0.0	26.0	16.0
Yield (%)	0.0%	0.0%	0.0%	3.9%	2.4%
Franking (%)	0%	0%	0%	0%	0%

DCF VALUATION @

	6.0 %		10.0%	
Yr Ending June	A$m	A$ps	A$m	A$ps
Chatree Gold Project	725.0	7.10	618.1	6.06
Corporate Items	-36.7	-0.36	-36.8	-0.36
Hedge Book	0.00	0.00	0.00	0.00
Interests In Other Entities	0.00	0.00	0.00	0.00
Exploration/Development	0.0	0.00	0.0	0.00
Net (Debt)/Cash	27.8	0.27	27.8	0.27
Additional Capital - Dilution	26.2	0.26	26.2	0.26
Total Valuation	742.3	7.27	635.3	6.22

PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	-46.4%	13.2%	30.8%	41.9%	31.4%
ROA (%)	N/A	5.1%	16.8%	42.7%	75.5%
ROE (%)	N/A	4.3%	14.2%	17.4%	9.8%
ROFE (%)	N/A	5.7%	18.9%	51.7%	127.1%

INTERIMS ($m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
Yr Ending June	**1H A**	**2H A**	**1H A**	**2H E**	**1H E**
Sales Revenue	34.2	40.1	19.3	97.7	89.9
EBIT	0.7	9.1	-9.5	45.5	40.1
Net Profit	**29.4**	**6.8**	**-11.9**	**43.8**	**38.8**
EPS	-2.6	11.2	-12.8	42.9	38.0

1. Gearing = (Debt + CNotes) / (Debt + Cnotes + Equity)

BALANCE SHEET ($m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	5.1	40.2	30.0	298.1	314.7
Total Assets	225.0	203.3	297.2	355.0	396.5
Debt	21.2	1.6	2.2	0.6	0.6
Total Liabilities	40.8	22.2	30.4	28.8	28.8
Total Shareholders Equity	184.2	181.0	266.8	312.2	327.0
Total Funds Employed	200.3	142.4	238.9	28.8	53.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Debt / Equity (%)	11.5%	0.9%	0.8%	0.2%	0.2%
Gearing (%) [1]	10.3%	0.9%	0.8%	0.2%	0.2%
Interest Cover (x)	-10.7	5.2	32.1	-38.1	-3.3
Debt / CashFlow (x)	-1.1	0.1	0.1	0.0	0.0
(Debt+CNotes)/ CashFlow	-1.4	0.1	0.1	0.0	0.0

PROFIT & LOSS ($m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	52.0	74.4	117.0	165.2	166.7
EBITDA	-15.7	19.1	52.0	87.2	71.4
Depn and Amortisation	8.4	9.3	15.9	18.0	19.0
EBIT	**-24.2**	**9.8**	**36.0**	**69.2**	**52.4**
Net Interest Expense	-2.4	-1.1	-0.7	1.8	15.9
Pre-tax Profit	**-26.4**	**7.9**	**34.9**	**71.0**	**68.3**
Tax	-3.1	0.0	3.0	6.6	10.2
Tax rate (%)	11.8%	0.0%	8.7%	9.2%	15.0%
Minorities / pref divs	0.0	0.0	0.0	14.0	26.7
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	**-23.3**	**7.9**	**31.9**	**50.4**	**31.4**
Abnormals	10.7	28.3	0.0	0.0	0.0
Reported Net Profit	-12.6	36.2	31.9	50.4	31.4

CASHFLOW ($m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Operating Cash Flow	-19.9	18.7	21.7	82.4	77.1
Capital Expenditure	-14.4	-20.5	-10.2	-106.8	-31.8
Expln, Develop, Evaln	-13.3	-12.7	-38.6	-31.1	-12.1
Asset Sales/Acquisitions	14.1	70.0	0.0	330.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-13.6	36.8	-48.7	192.1	-43.9
Share Issues/(Buybacks)	10.5	0.0	15.8	12.4	6.1
Debt Drawdown (Repay)	21.2	-20.0	0.5	-1.6	0.0
Dividends Paid	-3.7	0.0	0.0	-17.3	-22.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	28.0	-20.0	16.2	-6.5	-16.6
Cash Increase (Decrease)	-5.5	35.5	-10.8	268.0	16.6

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2007A	2008A	2009E	2010E	2011E
+/-10% US$ Gold Price	0.0%	0.0%	30.8%	27.5%	39.3%
+/-10% US$ Silver Price	0.0%	0.0%	1.5%	2.4%	6.9%
'+/- 1c Movement US$/A$	0.0%	0.0%	4.2%	3.7%	0.0%

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BRISBANE Ph: 07 3212 1333 Fax: 07 3212 1399	SYDNEY Ph: 02 8247 6600 Fax: 02 8247 6601	MELBOURNE Ph: 03 9640 3888 Fax: 03 9640 3800	GOLD COAST Ph: 07 5509 5500 Fax: 07 5509 5599
DALBY Ph: 07 4660 8000 Fax: 07 4662 4169	HERVEY BAY Ph: 07 4197 1600 Fax: 07 4197 1699	TOWNSVILLE Ph: 07 4725 5787 Fax: 07 4725 5104	GEELONG Ph: 03 5225 1500 Fax: 03 5225 1599

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