

# KCN.AU

## Kingsgate Consolidated Limited

A\$ 7.87

21 September 2009  
Gold, Silver  
Thailand  
Production, Advanced Exploration  
Exchanges: ASX:KCN

**Higher grades (2.3g/t) have dropped 2Q09 opex to a low US\$228/oz. FY09 production 93koz, to grow to 137koz FY10 and 210koz FY11. The Sino Gold-Edorado merger should increase focus on KCN as a low cost, potential >200koz quality SE Asian gold producer.**

### Capital Profile

Share price (A\$)	7.87
52 week range (A\$/share)	2.20 to 8.39
Number of shares (m)	96.1
Options and warrants (m)	5.9
Convertible notes (m)	0.0
Fully diluted* (m)	102
Market capitalisation (undiluted) (A\$m)	756.3
Debt (A\$m) - Sep 09F	0.0
Enterprise value (A\$m)	756.3
Major shareholders: Gold 2000 Ltd. (6.3%), Jabre Capital (6.5%)	
Directors (6.3%)	
Avg monthly volume (m)	15
Cash (A\$m) - Sep 09F	35.7
Price/Cash (x)	21.2
Price/Book (x)	3.3
Listed company options:	No

### Production and Financial Forecasts

YEAR END: June	2008a	2009a	2010F	2011F	2012F
Equity Production (koz)	74.1	93.0	137.5	210.5	188.1
EBIT (A\$m)	5.7	34.9	79.7	112.8	86.7
Net Profit (norm) (A\$m)**	-8.2	32.5	72.5	92.1	70.4
EPS (norm) (A¢/share)	-8.1	34.3	72.7	91.9	70.7
CFPS (A¢/share)	13.6	48.2	92.7	141.1	113.1
Dividends (A¢/share)	0	15	20	25	25
PER (x)	-97.3	23.0	10.8	8.6	11.1
P/CF (x)	58.1	16.3	8.5	5.6	7.0
Yield (%)	0.0%	2.0%	2.5%	3.2%	3.2%
EV/EBITDA (x)	50.58	16.27	8.00	5.26	6.55
Exploration and Evaluation (A\$m)	5	30	16	16	16
Drilling - RAB (m)	60,000	86,000	88,000	88,000	88,000
Drilling - RC/Diamond (m)	85,000	130,000	140,000	140,000	140,000
Land holding ('000 ha)	130	130	130	130	130

\*\* Net profit after extraordinary for FY08 was A\$36m after A\$44.4m pre tax profit on sale of shares in Andean Resources Ltd

### Investment Points

Thailand-based KCN is an unhedged mid tier gold producer in a strong growth phase.

Production 93koz in FY09, forecast 137koz in FY10, increasing to ~210koz FY11 (plant expansion from 2.6 to 5.0mtpa).

Solid FY09 profit and resumed dividend, profit expected to double in FY10.

Transition to new Chatree North leases has dramatically lifted grades (2.3g/t 2Q09), gold output and profitability.

Excellent drilling results from resource drilling Chatree N - indicates likely higher resource grades.

Highly grade sensitive - every 0.1g/t increase in long term reserve grade adds A\$1/share to NPV.

Regional exploration success - Chokdee discovery could underpin 10moz province (current 3moz resources).

Current cash ~A\$36m. Profit growth and 1. term grade upside potential could drive stock towards A\$10/share.

### Company Comment

**Overview:** Kingsgate re-listed on the ASX in 1988, focused on gold mining and exploration in Thailand where it has benefited from its first mover position. KCN's Chatree mine has been in production since 2001 and is now a leading example of a low cost, efficiently operated SE Asian gold mining operation, benefitting from a low tax regime. **Chatree Production has Soared:** After low production (17koz) and operating losses in 2H08, the opening of the Chatree N leases has boosted production which has soared to 76koz in 1H09 due mainly to much higher grades from Chatree N in 1H09 (2.3g/t in 2Q09 and 1.7g/t in 1Q09 versus 1.0g/t @2H08). The production plant has been running at full capacity (~2.6mtpa) since Mar '09. Opex has fallen dramatically. 1Q09 cash costs (incl. royalties) are down to US\$228/oz in 2Q09 versus US\$364/oz 1Q09, confirming KCN currently in the lowest quartile of global gold producers.

**Outlook:** As we have seen from the past two quarters, the key to future performance is all about grades, and secondly future plant expansion. We are expecting grades to come back to around 1.85g/t average for FY10, still well above the reserve grade of 1.2g/t with annual production of 137,000oz forecast, and EBIT of A\$80m, net earnings more than doubling to A\$0.73/share. A review of the proposed plant expansion to 5.0mtpa is underway - decision expected 4Q09. We have assumed that expansion will proceed at a capital cost of A\$130m (50% debt funded, balance funded by cashflow), start up by 4Q10. This will bring production up to around 210kozpa in FY11. In FY12 production drops to 188koz assuming grades come back to current reserve grades (but will they?). **Chatree N Resource Drilling:** Total reported reserves (Chatree and Chatree N at 30 June 2008) are 1.39moz and resources 3.16 moz at a grade of 1.2g/t. KCN expects an increase in resources and reserves in the next 24 months with an on-going drill program (5 drill rigs, >100,000m pa). The high grade intersections being reported at Chatree N are encouraging for longer term increases in reserve grades.

**Grade Sensitivity:** Our modeling indicates that a 0.1g/t increase in reserve grade (or US\$100/oz increase in the gold price) increases the NPV by ~A\$1/share. This is a key issue to watch.

**Regional Exploration:** 1300km<sup>2</sup> surrounding Chatree, with many drill ready targets. Chokdee 20km N of Chatree, has resulted in a major new discovery, could rival total Chatree resources of 5moz to date.

**Investment Comment:** Our NPV is **A\$6.26/share**, (5% DR, US\$850/oz long term Au, A\$/US\$=0.78, 65% resource conversion) or **A\$8.11/share** at Au price of US\$1,000/oz. In the longer term the higher grades from Chatree N resource drilling could have a A\$2-A\$3/share effect on valuation due to possible lifting of longer term resource grades. KCN is a stand-out low cost dividend-paying Asian producer now coming into the range of institutional funds as it approaches A\$1bn market cap.

### Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian:		(JORC)						
Gold	Classification	Project	Ore	Au	c/off	Au	Au	Eqty
Reserves		Equity	Mt	g/t	g/t	t	koz	koz
Chatree	Total	100%	1.4	2.10	0.5	2.9	100	100
Chatree North	Total	100%	33.9	1.20	0.5	40.7	1,290	1,290
Stockpiles	Total	100%	0.03	1.10	0.5	0.0	3	3
<b>Total</b>			<b>33.9</b>	<b>1.20</b>	<b>0.5</b>	<b>43.7</b>	<b>1,393</b>	<b>1,393</b>
<b>Resources</b> (includes proved and probable reserves)								
Chatree	Meas+ind+inf	100%	15.7	1.40	0.5	22.0	690	690
Chatree North	Meas+ind+inf	100%	65.3	1.20	0.5	78.4	2,470	2,470
Stockpiles	Meas+ind+inf	100%	0.0	1.10	0.5	0.0	3	3
<b>Total</b>			<b>81.0</b>	<b>1.20</b>	<b>0.5</b>	<b>100.4</b>	<b>3,163</b>	<b>3,163</b>

Mineralised Material (est., non compliant with JORC)

0.0 0.0 0.0

Reserves and Resources as at 30 June 2008

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C Carracher (Non Exec Dir)

Analyst: Dr Tony Parry  
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### Key Projects

Project	Ownership/Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Chatree	100%	Au	none		CIL 2.4mtpa	Production	Thailand
Chatree North	100%	Au	none		as above	Production	Thailand
Chokdee	100%	Au	none		na	Mid Expl.	Thailand

**Kingsgate Consolidated Limited**

YEAR END: June

Year

ASSUMPTIONS	2008a	2009a	2010F	2011F	2012F
A\$/US\$	0.90	0.75	0.80	0.79	0.78
Gold Price (US\$/oz)	834	886	925	900	899
Gold Price Realised (US\$/oz)	854	875	933	900	899

**EQUITY PRODUCTION**

Chatree Production (koz)	74	93	137	211	188
KCN Equity Production Gold (koz)	74	93	137	211	188
Cash Costs (US\$/oz)**	457	479	335	323	401

\*\* Cash Cost is direct operating cost before royalties and by product credits

**PROFIT AND LOSS (A\$m)**

Revenues	76	117	170	252	233
Operating costs (direct)	-42	-53	-58	-86	-96
Depreciation/amortization	-9	-12	-15	-31	-29
Exploration Expensed	0	0	-2	-2	-2
Corporate	-15	-8	-8	-8	-8
Other (incl. Royalties)	-4	-9	-8	-12	-11
<b>EBIT</b>	<b>6</b>	<b>35</b>	<b>80</b>	<b>113</b>	<b>87</b>
Interest	2	2	2	4	4
<b>Operating profit/loss</b>	<b>3</b>	<b>33</b>	<b>77</b>	<b>108</b>	<b>83</b>
Tax	-12	-1	-5	-16	-12
Minorities	0	0	0	0	0
<b>Net profit/loss</b>	<b>-8</b>	<b>33</b>	<b>72</b>	<b>92</b>	<b>70</b>
Net abnormalities/extraordinaries	44	0	0	0	0
Net profit/loss (reported)	36	33	72	92	70

**BALANCE SHEET (A\$m)**

<b>Cash and deposits</b>	<b>40</b>	<b>30</b>	<b>24</b>	<b>119</b>	<b>170</b>
Total current assets	57	58	34	129	180
<b>PP&amp;E</b>	<b>140</b>	<b>200</b>	<b>315</b>	<b>298</b>	<b>277</b>
Total non-current assets	147	213	344	343	338
Total assets	203	271	378	472	518
Total current liabilities	16	17	12	19	17
Reclamation reserves	0	0	0	0	0
<b>Long term debt</b>	<b>2</b>	<b>0</b>	<b>60</b>	<b>58</b>	<b>48</b>
Total non-current liabilities	6	8	69	66	56
Total liabilities	22	26	81	85	73
<b>Equity</b>	<b>181</b>	<b>245</b>	<b>297</b>	<b>387</b>	<b>445</b>
<b>Total debt</b>	<b>0</b>	<b>2</b>	<b>63</b>	<b>60</b>	<b>50</b>
Net debt	-40	-28	38	-59	-120
Average shares (fully diluted) (m)	101	102	102	102	102

**FLOW OF FUNDS (A\$m)**

<b>EBITDA</b>	<b>15</b>	<b>46</b>	<b>95</b>	<b>144</b>	<b>115</b>
Cash flow from operating activities					
Operating surplus	20	34	109	162	127
Corporate	-15	-8	-8	-8	-8
Net borrowing cost	-6	-2	-5	-7	-11
Net tax paid	0	-7	-2	-12	-11
Net exploration paid	-5	-30	-16	-16	-16
Other non cash items	24	32	19	22	30
<b>Net cash from operating activities</b>	<b>19</b>	<b>18</b>	<b>97</b>	<b>141</b>	<b>111</b>
Cash flow from investing activities					
Capital expenditure	-20	-12	-130	-14	-8
Asset Sales & Other	57	-36	-26	-16	-16
<b>Net cash from investing activities</b>	<b>37</b>	<b>-48</b>	<b>-156</b>	<b>-30</b>	<b>-24</b>
Cash flow from financing activities					
Net proceeds from issue of shares	0	16	0	0	0
Dividends paid	0	0	-24	-19	-24
Net proceeds from borrowings	-20	0	63	-3	-10
<b>Net cash from financing activities</b>	<b>-20</b>	<b>16</b>	<b>38</b>	<b>-22</b>	<b>-34</b>
Net change in cash	36	-14	-20	89	53

**PRODUCTION STATISTICS**

Chatree					100%
Ore Treated (kt)	2,000	2,405	2,560	4,500	5,000
Head Grade (g/t)	2.40	1.20	1.85	1.62	1.30
Recovery (%)	90	90	90	90	90
Recovered grade (g/t)	2.18	0.96	1.67	1.46	1.17
Gold Produced (koz)	140	74	137	211	188
<b>Equity Production (koz)</b>	<b>140</b>	<b>74</b>	<b>137</b>	<b>211</b>	<b>188</b>
<b>Cash Costs (US\$/oz)</b>	<b>206</b>	<b>462</b>	<b>335</b>	<b>323</b>	<b>401</b>
Production Costs (A\$/t)	16.09	19.08	22.47	19.09	19.28
<b>EBIT (A\$m)</b>	<b>17.4</b>	<b>-13.2</b>	<b>62.3</b>	<b>118.3</b>	<b>86.8</b>

Year

FINANCIAL RATIOS	2008a	2009a	2010F	2011F	2012F
Net debt/equity (%)	-5%	-4%	5%	-8%	-16%
Net debt/ net debt + equity (%)	-6%	-4%	5%	-8%	-19%
Current ratio (x)	7.0	3.3	2.8	10.5	14.7
EBIT/interest (x)	3	19	32	25	22
Debt/operating cashflow (%)	0%	12%	64%	43%	45%
Exploration/total overhead (%)	2%	3%	17%	17%	17%
EV/EBITDA (x)	50.6	16.3	8.0	5.3	6.6
Market cap/net cash (x)	18.8	27.5	-19.7	12.8	6.3
Market cap/book (x)	4.2	3.1	2.5	2.0	1.7

**FINANCIAL SENSITIVITIES**

% Change in EPS for a 10% increase in:

AUD/USD		-58%	-17%	-21%
Gold Price		64%	19%	23%

% Change in NPV for a 10% increase in forecast minelife commodity assumptions for:

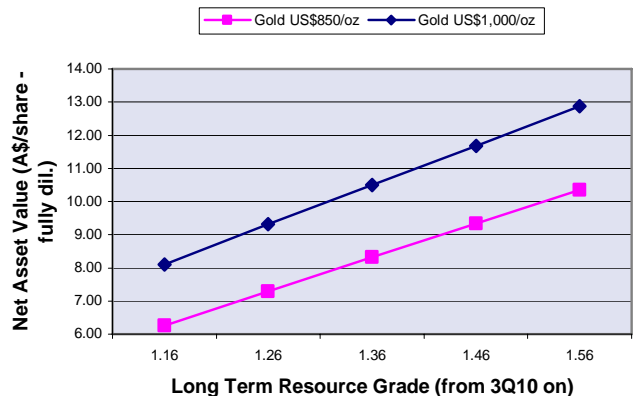
	Base A\$/share	+ 10% A\$/share	%
Gold Price US\$850/oz	6.26	7.31	17%

**VALUATION (A\$m)**

Q3 08

Assumptions		Base	"What if"
Long Term Gold Price		:US\$/oz	850
Long Term AUUS			0.78
<b>Projects</b>			
Chatree and Chatree North	100%	NPV@5%	A\$112/oz
			313
			389
Based on reserves only			
<b>Resources and Exploration</b>			
Chatree and Chatree North	100%	NPV@5%	A\$91/oz
			289
Regional Exploration	100%		50
			75
<b>Other</b>			
<b>Assets</b>			
Cash and deposits (3Q09)			36
Rehabilitation Fund			0
Other			-26
<b>Liabilities</b>			
Debt			0
Corporate			-57
Reclamation Reserve			0
<b>Net Assets</b>			<b>604</b>
			<b>793</b>
Fully Diluted Shares (m)			102
<b>Net assets/share (A\$/share)</b>			<b>6.26</b>
			<b>8.11</b>
Valuation/Reserve oz		:US\$/oz	169
Valuation/Reserve & Resource oz		:US\$/oz	149
			222
			196

**EFFECT OF LONG TERM GRADE ON NET ASSET VALUE**



**It's All About Grades**

Our modelling predicts 1.16g/t residual reserve grade in 3Q10.  
The sensitivity of KCN NAV to better grades is significant

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