The Sydney Contrarian Financial Analysis

Stock Valuation Report

Perseus Mining Limited (ASX: PRU)

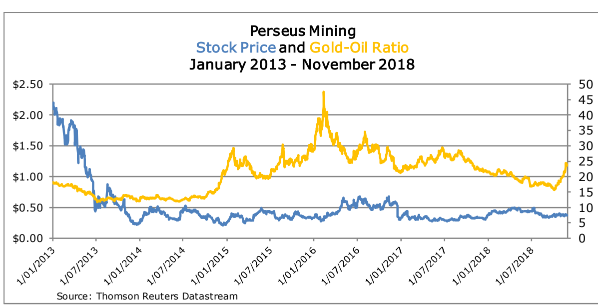
Date	28/11/2018
Classification	Mid-Tier Gold Miner
Current Price	$0.350
No. Issued Stocks (m)	1,034.9
Net Cash + Bullion ($ m)	$21.27
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$362.22
Enterprise Value ($ m)	$340.95

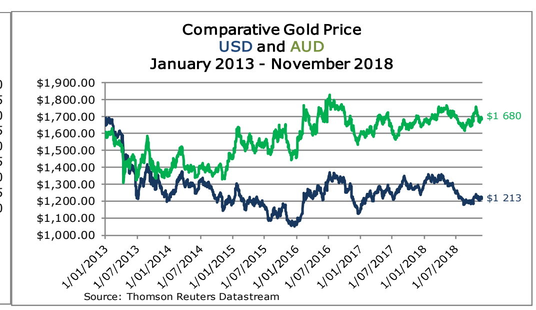
Ranking	**Very Undervalued**
Price Range	$0.37-$0.95
Annual Production Guidance (oz p.a.)	260 000-300 000
All-In Sustaining Cost Guidance ($/oz)	$1 250-1 425
EV/AISC-Adjusted Production Guidance ($/oz)	$1,619.50
EV/AISC-Adjusted Production Range ($/oz)	$2 000-4 000
Resources (oz)	7,280,000
Reserves (oz)	3,464,000

Summary

Perseus Mining has successfully commissioned their second producing mine, Sissingue at Cote d'Ivoire, in March 2018, lifting mine production to above 250koz p.a. (up from 176koz in 2017) and bringing All-in Sustaining Cost to $1 340/oz (down from $1 756/oz in 2017). Furthermore, the company is projecting 2019 production to approach 300koz p.a. while they seek to develop their 1.5Moz reserve Yaoure project to production (projected to be in 2020) using internally generated operating cash flows. Since 2011 when they commenced production, the company has produced around 1.4Moz of gold, though operations at Edikan has been mediocre in the recent three years. The company has reported scaling back of resources and reserves in both Sissingue and Yaoure, although Edikan has been able to see resources and reserves increase after accounting for mine depletion, hence the results on resource conversion are mixed.

Investor interest in this company has been tepid to negative as a result of perceived continual underperformance with highly volatile production and AISC. Furthermore, the company raised substantial equity capital in 2016 to purchase Amara Incorporated (owner of the Yaoure project) and development progress has been slow. However, this may possibly be as bad as it gets as the company is now reporting more reliable performance and they are generating more free cash. Should the company deliver similar results in the coming two quarters, this could strengthen the case to investors that the poor performance is indeed behind them. With gold prices steady in the recent three months and oil price falling some 30%, better operating performance could be a reality. If that is the case, the current price of $0.35 may be well below the reasonable price range of $0.37-0.95 based on its production and cost profile.



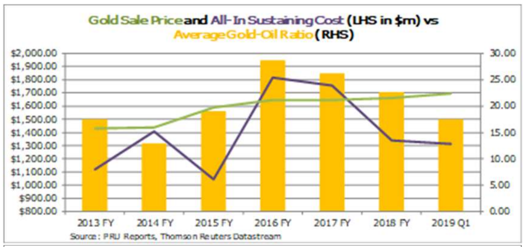


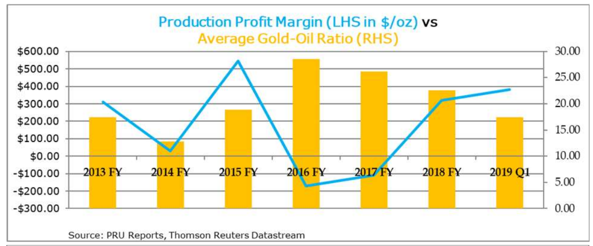
Prevailing Environment

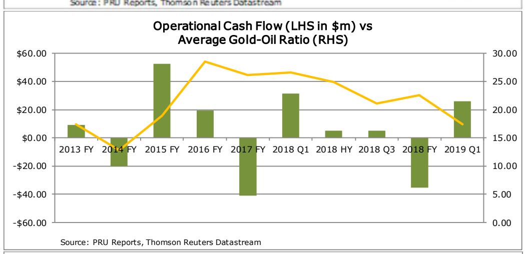
2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US$1 350 in January/February to US$1 180 in August/September. At the same time, crude oil price increased from US$60 to US$75 per barrel and only began to drop in early October to US$50 now. As a result, many gold mining companies faced narrower profit margins and cash flow generation. However, for companies with Australian operations, a weakening Australian dollar slightly offset this pressure through hedging gold sales.

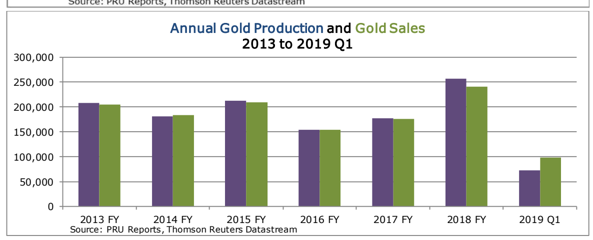
As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 24 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

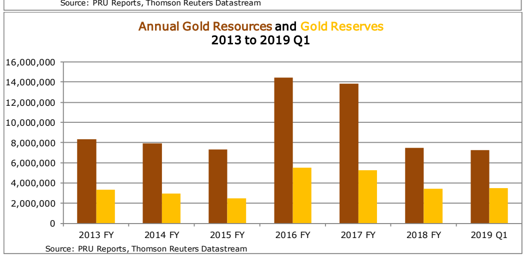
Operational and Financial Performance Charts











SWOT Analysis

Strengths	**Weaknesses**
• Two operating mines allowing for economies of scale and more reliable cash flow generation. • Confidence in developing their third mine using internally generated funds and clear plans to deliver 500koz p.a. in the next five years.	• Track record has been put in doubt, especially with disappointing 2016 performance when peers delivered strong results. • Company stocks trade at a discount relative to its peers.
Opportunities	**Threats**
• Continued improvement in operational efficiency in Edikan and Sissingue mines will deliver further operating cash flows and reduce debt. • A strong cash balance of $72.3m and net cash position of $21.6m offers opportunities on mine expansion and possibly acquisitions.	• West African governments have high level of corruption and this can threaten mine operations if there is government unrest or arbitrary change of legislation. • Unexpected delays and operational problems can once again cause investors to abandon the stock.

Peer Comparison