

The Sydney Contrarian Financial Analysis
Stock Valuation Report
St Barbara Mines Limited (ASX: SBM)

Date	12/02/2019
Classification	Mid-Tier Gold Miner
Current Price	\$5.030
No. Issued Stocks (m)	524.3
Net Cash + Bullion (\$ m)	\$357.00
Last Dividend Payment (\$ p.a.)	\$0.12
Market Capitalisation (\$ m)	\$2,637.18
Enterprise Value (\$ m)	\$2,280.18

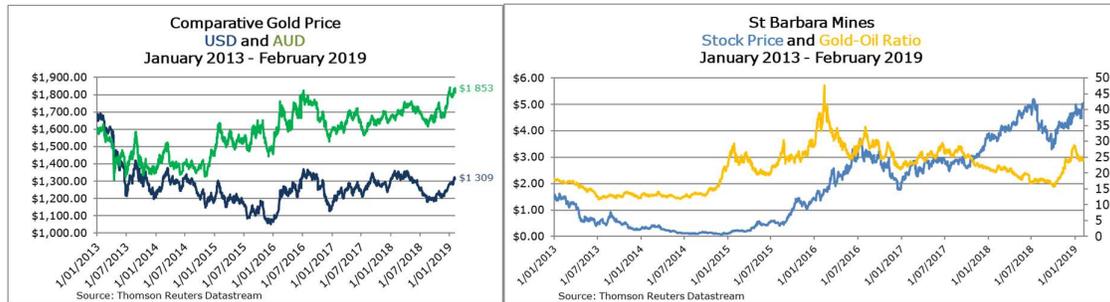
Ranking	Slightly Overvalued
Price Range	\$3.21-\$4.90
Annual Production Guidance (oz p.a.)	365 000-385 000
All-In Sustaining Cost Guidance (\$/oz)	\$1 045-\$1 100
EV/AISC-Adjusted Production Guidance (\$/oz)	\$6,506.00
EV/AISC-Adjusted Production Range (\$/oz)	\$4 000-\$6 000
Resources (oz)	9,162,000
Reserves (oz)	3,923,000

Summary

St Barbara is a mid-tier gold producer with two operating mines – the Leonora/Gwalia mine in Australia and the Simberi mine in Papua New Guinea. Since 2015, the company has made a significant turnaround in their operations. With the Simberi mine producing positive operating cash flows in late 2015, the company became a strong free cashflow generator. To the company's credit, they generated over \$500m in cash from 2014 and have commenced paying dividends to shareholders in the end of the 2017 financial year. The company currently has a substantial cash and bullion balance of \$350m. Their reserves and resources have been on a downward trend despite engaging in some exploration activities. However, there has not been any booking of major reserves and resources for a long time. Fortunately, the management has announced that they will be investing around \$100m on the Gwalia mine to expand their operations, which may hopefully result in more reserves and resources going forward. Failing that, the company has substantial cash reserves and potential borrowing capacity to make acquisitions. Watch this space.

St Barbara's Gwalia mine, producing 250-280koz p.a. over the past six years at AISC of around \$800-1100/oz, was the saving grace of the company. The acquisition of Allied Gold Mines Limited in late 2012, when the gold mining industry was just past its peak drove the company into a nightmare spiral and were it not for a substantial cash balance and a relatively long-dated debenture issue, St Barbara may have been put into administration. The replacement of the former CEO, Tim Lehany, with Robert Vassie has seen the company make a major turnaround. The Simberi mine has become a medium cost mine producing around 120-130koz p.a. With a resource of 3.7Moz and reserves of 1.7Moz, it has relatively long life. There is underground potential with this mine in the future, which may be unlocked in due time and be able to boost the mine's annual production. With the Gwalia mine, they have a 5.5Moz resource and 2.2Moz reserves. The expansion project may see some resources being upgraded into reserves, which may facilitate higher production and cash flow generation.

At the current price of \$5.03, St Barbara is starting to move into overvalued territory despite taking into account their superior operating performance, top class management, strong balance sheet and substantial capacity to make accretive acquisitions of companies or mine assets. However, the spectre of the Allied Gold Mines acquisition may still be haunting them. But, given that the gold mining industry is making a recovery from a 4 year bear market, a repeat episode may be unlikely. Should the company increase its annual production or expand their reserves and resources, they will be re-rated and thus the current price would not be valuing St Barbara too richly.



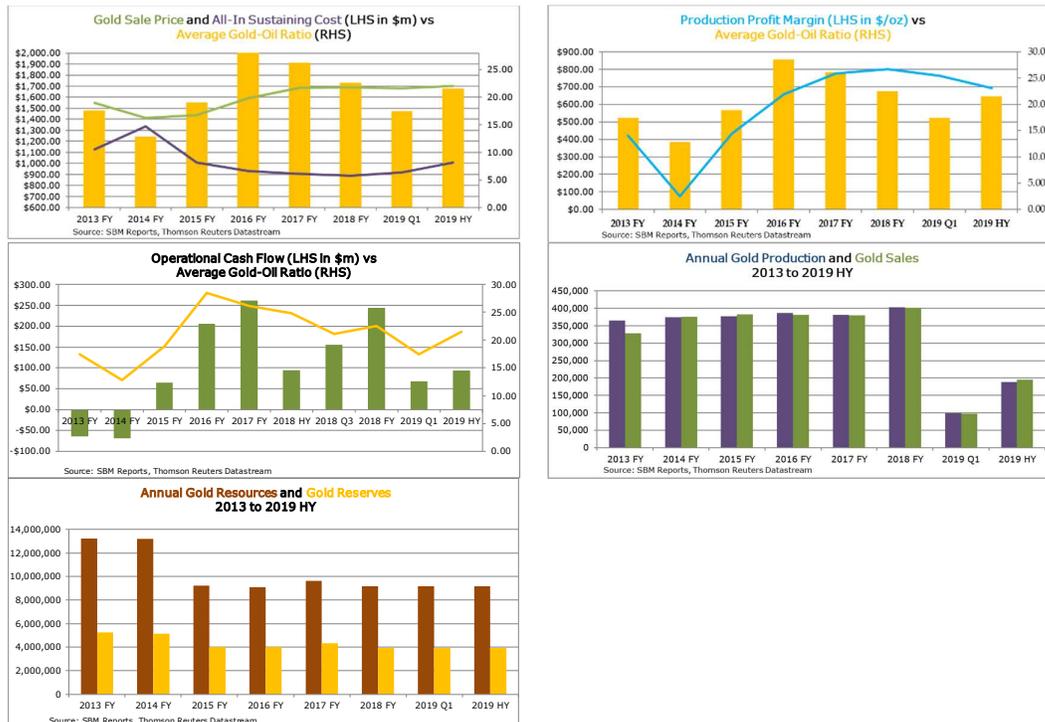
Prevailing Environment

The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation of the slowdown in the property markets in Australia leading to expectations of the Australian economy weakening going forward. Most noteworthy is the gold price in AUD terms was at a record high in intraday trading on 3rd January 2019 at \$1 855/oz as the Australian dollar fell temporarily below US70c. Following the Reserve Bank of Australia February meeting where they announced they are uncertain about whether to raise or lower the cash rate and the Royal Commission on Banking final report being released implying further pulling back on credit lending, the Australian dollar has dropped sharply and thus the gold price in AUD terms has rallied to approach the all-time record high.

More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio usually results in higher profitability and cash flow generation for gold mining companies.

In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US\$40/bbl to US\$52-54/bbl, resulting in the gold-oil ratio pulling back to 24.

Operational and Financial Performance Charts



SWOT Analysis

Strengths

- Strong balance sheet thanks to a track record of low-cost production and cash flow generation.
- Long-life mines supporting their current production stability.

Weaknesses

- Exploration programs have not delivered higher reserves and resources, although they have been able to maintain their levels net of depletion.
- Gwalia being the deepest underground mine in Australia is beginning to experience increasing AISC.

Opportunities

- Large cash balance and no debt give St Barbara the opportunity to make substantial acquisitions or undertake major capital projects to expand.
- A protracted bear market has left a number of gold mining companies that are struggling, offering St Barbara the opportunity to acquire distressed companies at a reasonable price.

Threats

- Peer companies are becoming more aggressive in their development programs and acquisitions, so St Barbara may be falling behind.

Peer Comparison

