Australian Gold Fund Valuation and SWOT Analysis

Stock Valuation Report
St Barbara Mines Limited (ASX: SBM)

Date	3/05/2019
Classification	Mid-Tier Gold Miner
Current Price	$3.060
No. Issued Stocks (m)	526.0
Net Cash + Bullion + 0.5 x GIC ($ m)	$385.99
Last Dividend Payment ($ p.a.)	$0.12
Market Capitalisation ($ m)	$1,604.27
Enterprise Value ($ m)	$1,218.28

Ranking	**Very Undervalued**
Price Range	$3.26-$4.38
Annual Production Guidance (oz p.a.)	365 000-375 000
All-In Sustaining Cost Guidance ($/oz)	$1 075-$1 100
EV/AISC-Adjusted Production Guidance ($/oz)	$3 595
EV/AISC-Adjusted Production Range ($/oz)	$4 000-$5 500
Resources (oz)	9,162,000
Reserves (oz)	3,923,000

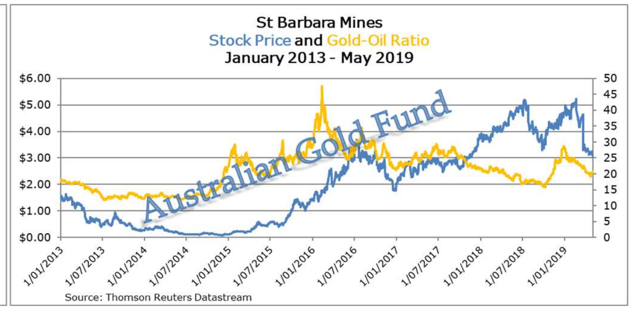
Summary

St Barbara Mines delivered the March quarterly report on 18th April 2019. The quarterly production level declined slightly to 88 358oz at AISC of $1 098/oz from 89 244 oz at AISC of $1 108/oz in the December quarter. Production at the Gwalia mine improved slightly from 53 257oz at AISC of $1 081/oz to 54 261oz at AISC of $1 016/oz while Simberi mine declined slightly from 35 987oz at AISC of $1 146/oz to 34 097oz at AISC of $1 229/oz. The cash balance increased from $357m to $382m after including a dividend payment of $0.04 that amounted to $14m after accounting for dividend reinvestment. The 2019 full year guidance has been slightly reduced from 365 000-385 000oz at an AISC of $1 045-$1 100/oz to 365 000-375 000oz at AISC of $1 075-1 100/oz resulting from a slight downgrade for the Gwalia mine while the Simberi mine has experienced a slight upgrade.

The March quarter operational performance is considered robust relative to other mining companies for this period. While the Gwalia mine produced more at a lower cost, the mine operations are reaching to depths below the ground that will start to lead to costs adding up even though the mining grade is above 10g/t. This has been recognised in the 2019 full year guidance decreasing to 235 000-240 000oz at AISC of $980-$1 000/oz, down from 245 000-255 000oz at AISC of $930-$970/oz. The mine production is lower than the levels in the previous four years when it ranged 250 000-265 000oz p.a. The Simberi mine operations experienced the reverse of Gwalia in that production was lower this quarter than the last but the 2019 guidance has been upgraded from 120 000-130 000oz at $1 275-$1 375/oz to 130 000-135 000oz at $1 245-$1 300/oz.

Despite results appearing positive, the stock price declined around 25% since the start of the year when the company announced the $100m Gwalia Mass Extraction project proposal concluded that the company will prefer using trucks to haul ore from the Gwalia mines rather than the hydraulic option, which would cost more than twice the $100m life of mine expenditure. Under the chosen option to haul ore, the Gwalia mine is expected to deliver around 200 000-220 000oz in 2020 and then 230 000oz p.a. from 2021-2022. Management downgraded the ore processing capacity from 1.4Mt p.a. to 1.1.Mt p.a. and expects this to be achieved from 2022 onwards. Separately, the Gwalia Deeps Expansion project that was commenced in Q3 2017 has increased from $100m to $112m. The culmination of these updates may have been too much for the market, leading to the sharp selloff. However, the reaction appears to be excessive.

Taking the juxtaposition of the robust operating results vs the disappointment on the outlook of the company's operations leading to a sharp decline in the stock price, the valuation has been slightly downgraded from the previous report. The current stock price is $3.06, but compares to the valuation range of $3.26-$4.38, deeming it very undervalued. The strong cash reserve is worth considering in the context that the company can use it to expand their portfolio of assets.

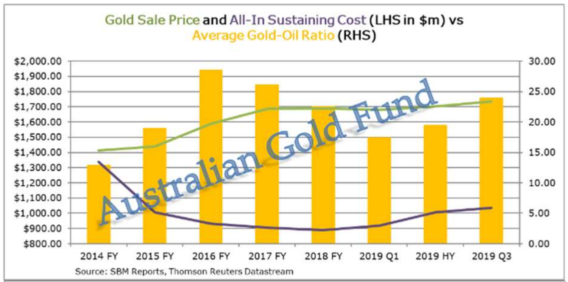


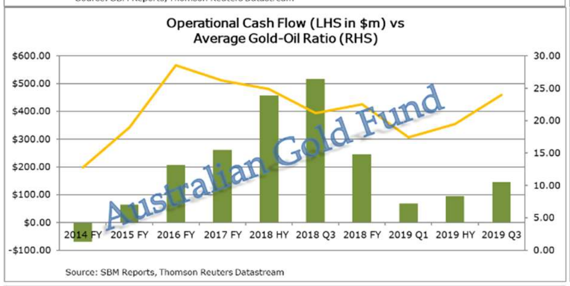
Prevailing Environment

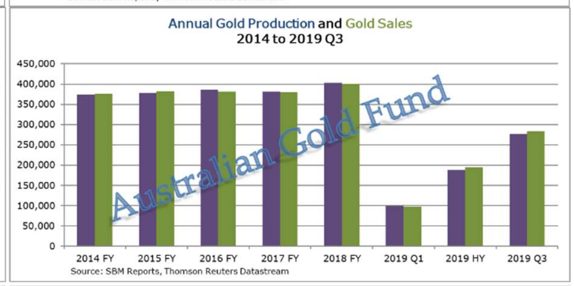
The March quarter has been a challenging one for many gold mining companies despite the gold price trading in the US$1 280-1 345/oz and A$1 790-1 880/oz range. Part of this is caused by the oil price rising 33% from US$45/bbl to US$60/bbl during the quarter, leading to the gold to oil ratio placing some pressure on costs. Since the December 2018 rate rise by the US Federal Reserve that brings the Federal Funds Rate to 2.25-2.5%, the gold price rose to over US$1 300/oz and reached as high as US$1 345/oz in late February. The corresponding rise in the oil price came as a result of higher demand during the northern hemisphere winter as well as increasing geopolitical tension in the Middle East. Furthermore, the oil price rose partly due to reduction in the US inventory. The gold to oil ratio for the March quarter started at a strong 28.3 and gradually fell to 21.5 at the end of the quarter, resulting in an average gold to oil ratio of 23.9 during this period.

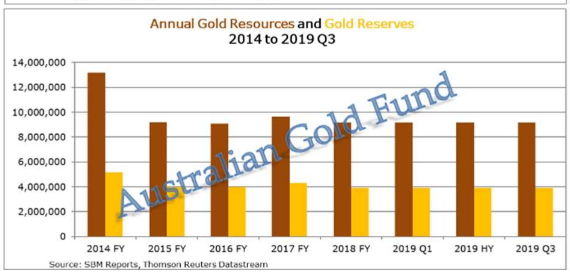
Since the end of the March quarter, the gold price has further weakened while the oil price has increased. The gold to oil ratio has fallen to the 20-21 mark, but there are signs that the gold price is nearing a bottom while the oil price is falling. The months of April and May tend to be cyclical bear periods for gold, with June and July seeing its price recover. This may be repeated in 2019 as the global stock markets are again approaching a peak.

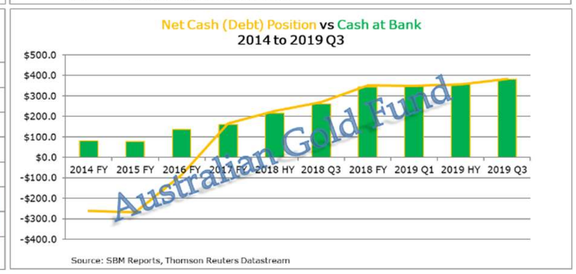
Operational and Financial Performance Charts







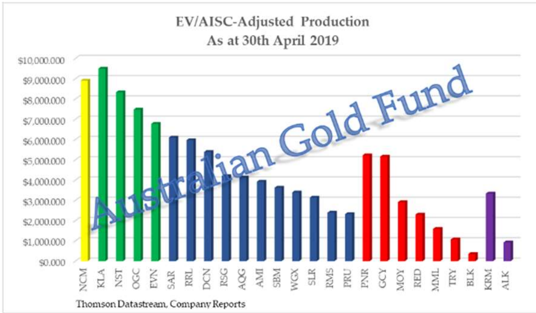


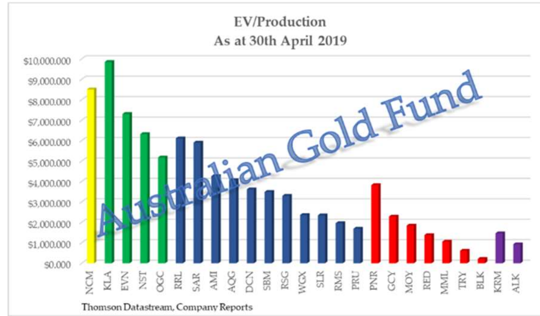


SWOT Analysis

Strengths	Weaknesses
• Excellent track record in operational performance and cash flow generation. • Secure financial position with substantial cash reserves to back growth development.	• Gwalia mine expansion project showing signs of peaking as forecasted production levels are falling despite investments in expanding the mine.
Opportunities	**Threats**
• Large cash reserves can be deployed to make acquisitions of neighbouring mines in the Leonora region while many mining companies are currently trading at lower prices. • The Simberi mine production life can be extended with development of underground operations and a sulfide plant.	• As the Gwalia mine operations reach deeper levels, the production costs may increase and the sunk costs of expansion projects may not be recouped.

Peer Comparison





Glossary

The **Price Range** determines a reasonable range for which the company stock price should be trading at. This range is relatively wide as it considers the *margin of safety*. A company whose stock price is currently outside the fair value range is significantly over or undervalued and investors should look more deeply into the company's operations, financial performance and recent market announcements. This range should not be taken as the sole driver for investment decisions, but as a starting point for further research to identify the potential causes for the current stock price.

EV/AISC-Adjusted Annual Production is a *comparative measure* used for valuing companies in this report and can be used to determine relative value. The enterprise value is the sum of the market value of equity (stock price multiplied by number of issued stocks) and net debt (total borrowings less cash and gold bullion, but excluding gold in circuit and ore stockpiles). The AISC-adjusted annual production is measure whereby the annual production of gold per oz is divided by the AISC adjusted by a factor of 1 000. The intuition behind this measure is to value the company by taking into account annual production but giving favourable treatment for lower AISC and penalising for higher AISC. The factor of 1 000 is arbitrarily chosen. As an illustration, if a company produces 250 000oz p.a. at AISC of $1 250, the AISC-adjusted production is 200 000.

The measure is by no means perfect and other factors should be considered including reserve and resource life, projected production volume and costs, management quality and geographic location. Further, it is of a retrospective nature, focusing on past performance and this may not be a good indicator for future performance.

The **EV/AISC-Adjusted Production Range** is used to determine the Price Range for the company. This range takes into account the baseline range depending on the company's classification, as determined by the annual gold production level. The range can be adjusted upwards or downwards based on other factors that are presented in the SWOT Analysis section.

Disclaimer

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