

ANALYST: PETER KOPETZ

## Sumatra Copper & Gold (SUM)

25<sup>th</sup> June 2012

### TEMBANG STAGE 1 – BELINAU & ASMAR SMALL BUT LUCRATIVE

#### Recommendation

**High Risk/Spec Buy**

#### Tembang Stage 1 Fair Value

**\$0.26c**

#### Consensus Valuation

**\$n/a**

#### Key Ratios

Investment Data	
Share Price (\$)	0.08
Ord Shares (m)	190.6
Market Cap (\$m)	15.3
EV (\$m)	14.6
EV (\$m) (diluted)	19.3
Options (m)	59.4
(Net Debt) /Cash	5.7
12m Low/High (\$)	0.08/0.26

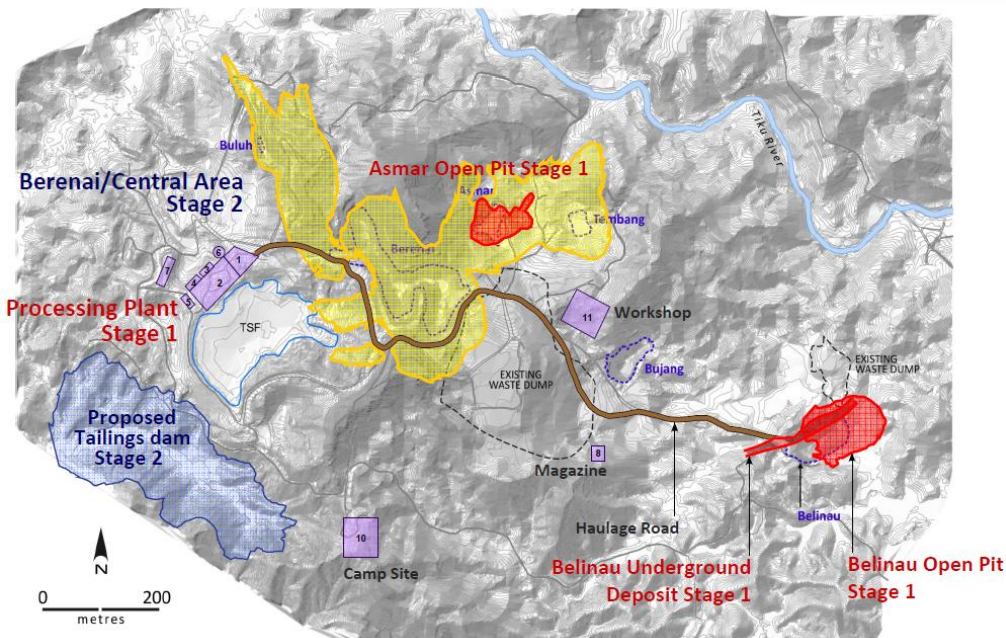
Source: State One

#### Management

J. Ford	Man Director
W. Morris	Chairman
A. Sjoekri	N/Exec Director
P. Nightingale	N/Exec Director
J. Waller	N/Exec Director

#### Substantial Shareholders

Macquarie Group	9.2%
Newcrest Mining	7.0%



Source: SUM

- The optimisation at Belinau & Asmar has been remarkable, with mining pre-production capital being slashed from ~\$50M (original PFS) to \$10M as at April. Cash costs have also decreased from ~\$550/oz to \$350-\$450/oz and production rate increased from 200Ktpa to 400Ktpa on the back of the inclusion of Asmar to the production mix. The DFS is due in July 2012.
- Our modelling sees a production profile of 30Koz and 300Koz of gold and silver respectively over a 5 year mine life. Belinau will contribute the bulk of the ounces and at our forecasted gold and silver prices SUM should see net profits of ~\$20M per annum. Our valuation on Tembang Stage 1 alone is 26c per share or \$50M using a discount of 15%.
- Early cash flows will be used for further exploration and Stage 2 development. SUM is unashamedly trying to follow in Kingsrose Mining's (KRM) footsteps with a small operation with every chance it will turn into something bigger and better.
- Mining and processing to be relatively simple with an open pit mine at Belinau and Asmar using a conventional CIL 400Ktpa plant. Gold recoveries at 90%. SUM is using a tried and tested method of owner operator with majority local workforce.

#### PFS – Belinau Deposit (March 2012)

LOM Production Plan	134,000 oz AuEq <sup>(1)</sup>
C1- Cash Operating Costs (incl. silver credits)	US\$551/oz Au
Mining Pre-Production Capital	US\$22m
Mine life	3 years (stage 1)
Production rate	200,000 tpa
Gold Recovery	90%
Silver Recovery	80%
Reserve in Stage 1 Production Plan	13% of Resource

#### PFS Optimisation Belinau & Asmar (April 2012)

Target LOM Production Plan	186,000 oz AuEq <sup>(1)</sup>
C1- Target Cash Operating Costs (incl. silver credits)	US\$350 to US\$450/ oz Au
Mining Pre-Production Capital	US\$10m
Mine life	5 years (stage 1)
Production rate	400,000 tpa
Target Gold Recovery	90%
Target Silver Recovery	80%
Reserve in Stage 1 Production Plan	18% of Resource

Source: SUM

## TEMBANG PROJECT INFRASTRUCTURE



Source: SUM

### Key Risks

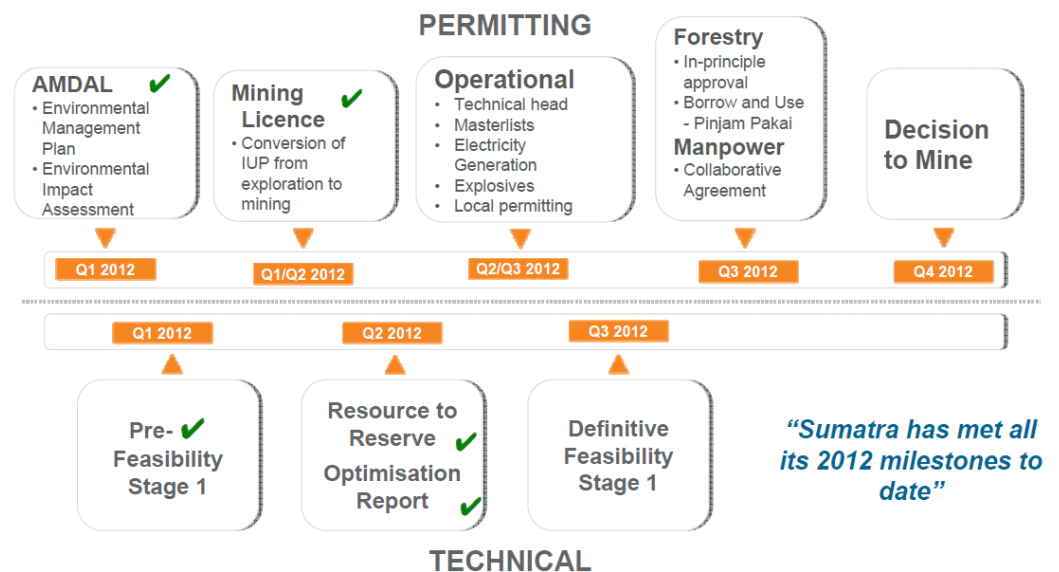
**Funding** - Potentially SUM might not be able to secure the required capex funding due to the current market conditions

**Sovereign** - Recently proposed Indonesian changes to decrease foreign ownership of mining companies to 49% by 10<sup>th</sup> year and additional taxes on unprocessed commodities has created uncertainty and increased sovereign risk

**Management** - Management has an unproven track record but seems capable of bringing Tembang into production successfully at this level.

- We visited SUM's two projects in Sumatra, Tembang and Tandai and we were pleasantly surprised about Tembang's existing infrastructure and access, and further exploration potential at both Tembang and Tandai. No doubt the existing infrastructure will reduce capex significantly and most importantly their mining footprint will only increase slightly on previous operators which should aid in obtaining permits and local relations.
- There are many positives; the people behind SUM have plenty of experience in mining in South East Asia; relatively low capex and cash costs; historical info on previous mining operation at Tembang which will hopefully help greatly in avoiding previous mistakes; exploration upside; 100% ownership; and benign metallurgy
- Our biggest concerns are funding and company's cash position. With SUM heading towards development and in the current market, we anticipate headwinds and potential delays. Cash position as at the end of March 2012 was \$700k with the company managing to secure a \$5M convertible note from Macquarie in the 2<sup>nd</sup> quarter 2012. We understand SUM's preferred development funding option is more debt which is a high risk strategy in the current market.

### TIMELINE



Source: SUM

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