



Sumatra SPECULATIVE BUY

Current Price: **\$0.125**

Ticker: **SUM**
Sector: **Materials**

Shares on Issue (m): **190.6**
Market Cap (\$m): **23.8**
Net Cash (\$m): **0.5**
Enterprise Value (\$m): **23.3**

52 wk High/Low: **\$0.11** **\$0.40**
12m Av Daily Vol (m): **0.26**

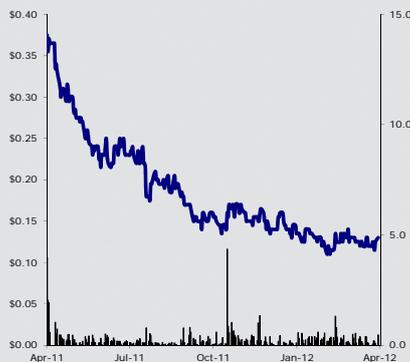
Directors and management

Warwick Morris Non-Executive Chairman
Julian Ford CEO & MD
Adi Adriansyah Sjoekri Director
Jocelyn Waller Non-Executive Director
Peter Nightingale Non-Executive Director

Substantial shareholders

Macquarie Bank 9.6%
Newcrest 7.0%

Share Price Graph



Analysts:
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17 April 2012

Plans firm for Tembang production

Maiden Reserve, 20 year mining lease, project optimisation:

Sumatra Copper & Gold (SUM) recently announced the approval of a 20 year mining lease, and delivered a maiden Reserve of 403koz Au and 5.5Moz Ag, at its 100% owned Tembang project in Sumatra, Indonesia.

The Reserve sits in five extensions to existing open pits (Asmar, Berenai, Buluh, Bujang and Belinau), and one virgin deposit (Aidit). The underground component of 44koz Au and 588koz Ag is at Belinau only.

Post the \$5m convertible debt facility with Macquarie Bank, SUM has ~\$5.5m cash.

Impact:

Positive

The maiden Reserve and project optimisation work further firms up SUM's aggressive production plans with first gold targeted in 2013. The recent appointment of experienced Mining Engineer Don Harper as Mine Manager is a further tick for the development.

Argonaut values Stage 1 at \$0.15 assuming US\$40m capital expenditure, 400ktpa ore throughput, 45kozpa gold output over 5 years, US\$500/oz cash costs (after silver credits), commissioning in June Q 2014, 15% discount rate, and US\$1,200/oz long term gold. This valuation exceeds the current share price, implying the market is attributing nil value to the larger / lower grade Stage 2 development and exploration upside.

Peripheral sheeted veins could reduce potential mining dilution and enhance the project economics, with 73koz Au and 890koz Ag (above a 0.4g/t Au cut-off) falling within the pit designs but excluded from Reserves.

View:

Positive

SUM is one of only three stocks in Argonaut's Indonesian peer group offering an established Reserve base. In terms of Resources, SUM is trading at a modest EV of US\$19/oz v an Indonesian peer average of US\$50/oz.

Risks include timely permitting in a jurisdiction with a mixed track record (environmental permitting and 20 year mining lease received, critical forestry approval anticipated December H), and the recent Government decree to decrease foreign ownership of mining companies to less than 49% by the 10th year of production.

The Company also offers exploration upside across a 3,200km² project portfolio. Under a JV with Newcrest (NCM), SUM is currently drilling the Tandai Project. NCM has met a minimum expenditure position of US\$1.75m and has an option to earn a 70% interest by spending US\$12m over 5 years. The FY12 budget is US\$4.2m.

Recommendation:

Spec Buy

Given solid operational progress, the SUM's discount to peers should be eroded.



Maiden Reserve

Maiden Reserve of 403koz Au and 5.5Moz Ag...

SUM announced a maiden Reserve of 403koz Au and 5.5Moz Ag at Tembang.

Table 1: April 2012 Reserve

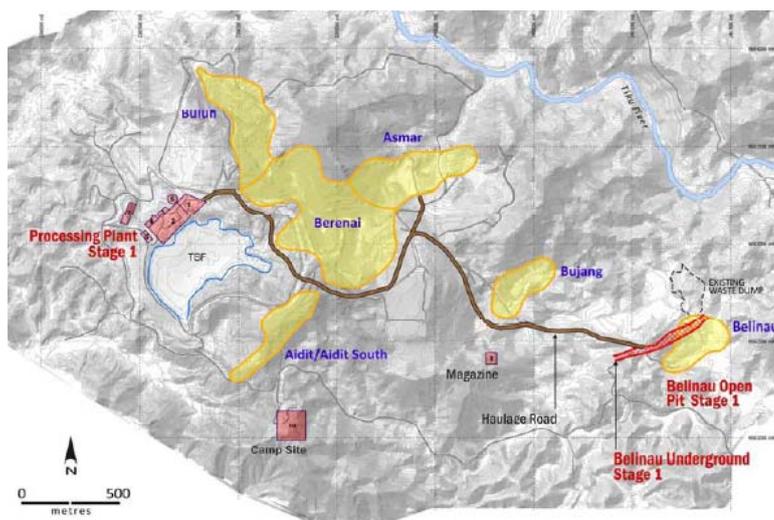
Reserves					
	Mt	g/t Au	g/t Ag	koz Au	koz Ag
Asmar	1.88	1.4	22	84	1,306
Berenai	1.89	2.1	32	127	1,935
Buluh	0.96	2.3	36	71	1,109
Aidit	0.02	3.1	45	2	30
Bujang	0.19	3.7	40	23	278
Belinau O/P	0.15	4.7	62	22	293
Belinau U/G	0.41	5.5	44	74	588
Total	5.50	2.3	31	403	5,539

Source: Argonaut, SUM

...in five extensions to existing open pits...

The Reserve sits in five extensions to existing open pits (Asmar, Berenai, Buluh, Bujang and Belinau), and one virgin deposit (Aidit). The underground component of 44koz Au and 588koz Ag is at Belinau only.

Figure 1: Plan view of Tembang project



...and one virgin deposit

Source: SUM

Cut-off grades were 0.7g/t Au for open pit and 3.4g/t Au for underground.

Sovereign risk

Risks include timely permitting...

SUM's aggressive push towards production doesn't come without risk, in particular timely permitting in a jurisdiction with a mixed track record.

...Government decree to decrease foreign ownership...

The Indonesian Government recently issued a decree to decrease foreign ownership of mining companies to less than 49% by the 10th year of production. However, implementation issues are on-going. It could be argued that although the decree creates uncertainty for investors, the Government wants to make the law more transparent and less complex.

...and a potential tax on mining exports

Government officials are also understood to be considering a 25% tax on mining exports for this year, and a 50% tax for next year. Argonaut notes the new export tariffs appear designed to "catch" the exporters of raw materials e.g. unprocessed coals, iron ore and nickel laterite ore. SUM intends to produce a finished product (will send bullion to Indonesia's only precious metals refinery in Jakarta so the new tax should not apply to Tembang or others who produce similar products).

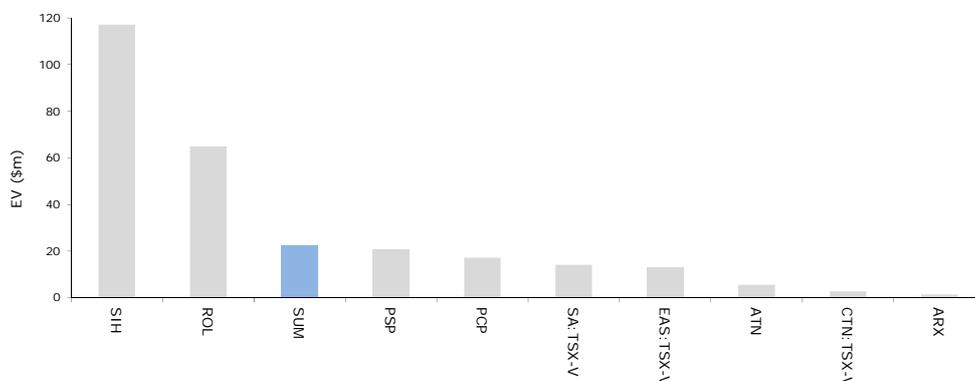


Peer comparison

Argonaut presents a peer group of 10 pre-production stocks...

A peer group of Indonesian pre-production stocks is presented below.

Figure 2: Indonesian explorer peers - EV



Source: Argonaut

G Resources (HK1051, BUY, valuation HK\$0.66) has been omitted from Figure 2 given production is imminent and the EV is an outlier at ~\$800m.

Within the pre-production group, 7 stocks have established Resource estimates, including SUM with a current Tembang Resource (August 2011) of 22.6Mt @ 1.35g/t Au and 17.6g/t Ag for 976koz Au and 12.8Moz Ag.

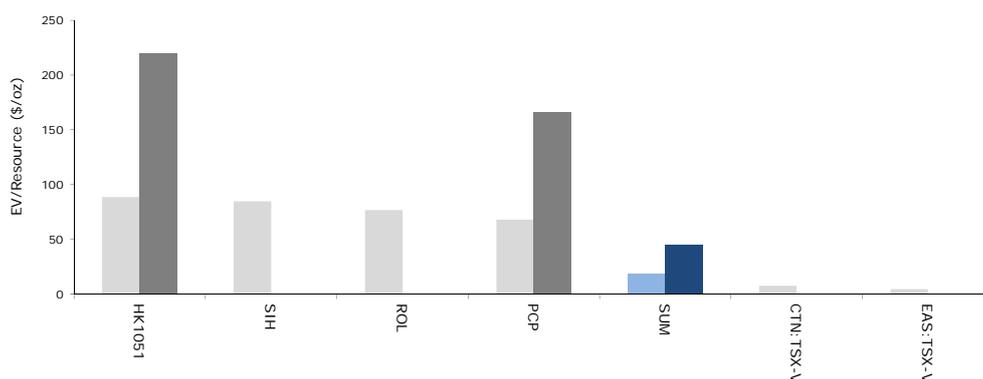
...with only 3 offering established Reserves

However only three stocks offer established Reserves – SUM, G Resources, and Paramount (PCP).

SUM is trading on modest multiples for both metrics:

- EV/Resource oz - US\$19 v peer average of US\$50
- EV/Reserve oz - US\$45 v G Resources US\$220 v PCP US\$167

Figure 3: Indonesian explorer peers - EV / Resource oz



Source: Argonaut

SUM also offers exploration upside across a 3,200km² project portfolio.

SUM is cheap on EV/Resource...

...and EV/Reserve metrics

Also offers exploration upside

Under a JV with Newcrest (NCM), SUM is currently drilling the Tandai Project. NCM has met a minimum expenditure position of US\$1.75m and has an option to earn a 70% interest by spending US\$12m over 5 years. The FY12 budget is US\$4.2m.

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Important Disclosure

In September 2011 Argonaut acted as co-lead manager to a placement to raise \$3.8m.

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