Update

21 September 2011

Sumatra Copper & Gold

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/09	0.0	(2.0)	(1.6)	0.0	N/A	N/A
12/10	0.0	(1.2)	(0.7)	0.0	N/A	N/A
12/11e	0.0	(1.1)	(0.7)	0.0	N/A	N/A
12/12e	0.0	(5.1)	(2.7)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Tembang takes shape

Sumatra Copper & Gold (SUM) has two main brownfield projects, Tembang (100%) and Tandai (30%) – held in JV with Newcrest (70% farm-in for US$12m spent over five years) – and one main exploration project, Sontang (100%). On the basis that Sumatra executes its revised two-stage development scenario with initial gold production in late 2012, we value the company at A$0.32 per share (at US$1,350/oz), a 52% premium to its current share price. We revised our valuation in light of the company's own re-modelling of the Tembang project, with a clear focus on getting the project into production a full year earlier than previously envisaged (2012 vs 2013). This will take greater advantage of the prevailing positive outlook for gold and is at a far lower initial capital cost of US$31.5m for Stage 1 (vs US$75m stated by SUM's previous management in March 2011). This valuation makes no account for Sumatra's eventual 30% share of the Tandai gold project (held in JV with Newcrest Mining) or for its other exploration projects.

Tembang production brought forward a year

To bring the commission date for Tembang forward a year to 2013, Sumatra has opted for a two-stage approach to develop the project. This will see initial mining resulting from development of the Belinau resource in 2012, with initial production of c 22,000oz AuE in 2013. Gold production is predicted to ramp up to c 54,000oz AuE per year first from Belinau in 2014 to 2016, followed by development of the much larger Berenai and Central Area open pits (situated just to the north of Berenai) in production from 2017 to 2022 – the last year of production under current plans.

Tembang PFS due by end 2011

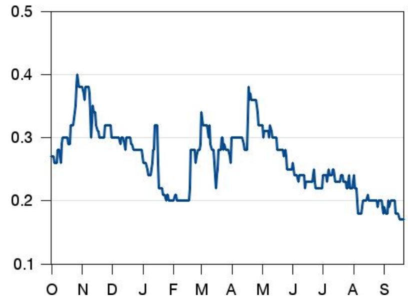
Sumatra's management intends to account for the revised two-stage mining strategy now envisaged for Tembang in a pre-feasibility study due by end 2011.

Valuation: Shares at 47% discount to base case

On the basis that Sumatra executes its mine plan as stated for Tembang, we value the company's shares at A$0.32 (at US$1,350/oz) rising to A$0.70 at the current gold spot price of c US$1,800/oz, with further upside geared to the development of its Tandai JV and other exploration projects, including its wholly-owned Sontang prospect.

Price	A$0.17
Market Cap	A$32m

Share price graph



Share details

Code	SUM
Listing	ASX
Sector	Metals and mining
Shares in issue	190.1m

Price

52 week	High	Low
	A$0.40	A$0.15

Balance Sheet as at 30 June 2011

Debt/Equity (%)	N/A
NAV per share (p)	9.0
Net cash (£m)	1.67

Business

Sumatra Copper & Gold is an emerging producer and explorer located on the island of Sumatra in Indonesia. It owns seven mining business permits (IUPs) covering 3,219 km^2.

Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Geography based on revenues (2010)

UK	Europe	US	Other
0%	0%	0%	100%

Analysts

Charles Gibson +44 (0)20 3077 5724

Tom Hayes +44 (0)20 3077 5725

mining@edisoninvestmentresearch.co.uk

Sumatra Copper & Gold is a research client of Edison Investment Research Limited

Updated resource leads to more robust mine plan

Through the release of an updated resource for its Tembang project (see below), Sumatra has provided itself with a far more robust estimate with which to finalise its pre-feasibility study, and therefore underpin a development scenario for the project. The following sections explain how the company envisages development of Tembang based on far more detailed assessment of the resource and its capabilities to raise funds in the current market climate.

Updated Tembang resource

As per the company's 5 September announcement, an updated resource for Tembang has been calculated. The overall global tonnage and contained gold and silver ounces remain largely unchanged. Instead, the updated resource represents greater integrity of data (including a better understanding of specific gravity measurements used to derive tonnages) and a tighter drill spacing, giving greater confidence in the spatial distribution of economic mineralisation at Tembang – critical to any mine planning exercise. The updated resource is given in the following exhibit:

Exhibit 1: Updated Tembang Resource

Note: PSV = Peripheral Vein Material, stated in previous resource estimates as 'halo' material.

Type	Category	Mt	Au g/t	Ag g/t	Au oz	Ag oz
BELINAU VEIN	Measured	149	7.22	75.5	35	361
	Indicated	266	8.02	67.9	69	580
	Inferred	72	10.5	81.4	24	188
	Sub-total	487	8.14	72.2	128	1,129
OTHER VEINS	Measured	2598	2.27	37.8	190	3156
	Indicated	4423	1.8	25.6	256	3,637
	Inferred	3554	1.8	20.3	202	2,319
	Sub-total	10,575	1.91	26.8	648	9,112
PSV	Measured	n/a	n/a	n/a	n/a	n/a
	Indicated	11,323	0.54	6.9	198	2,523
	Inferred	194	0.5	4.6	3	29
	Sub-total	11,517	0.54	6.9	201	2,552
COMBINED TOTAL	Measured	2747	2.54	39.9	224	3517
	Indicated	16012	1.02	13.1	522	6,741
	Inferred	3820	1.9	20.7	229	2,536
	TOTAL	22,579	1.35	17.6	976	12,794

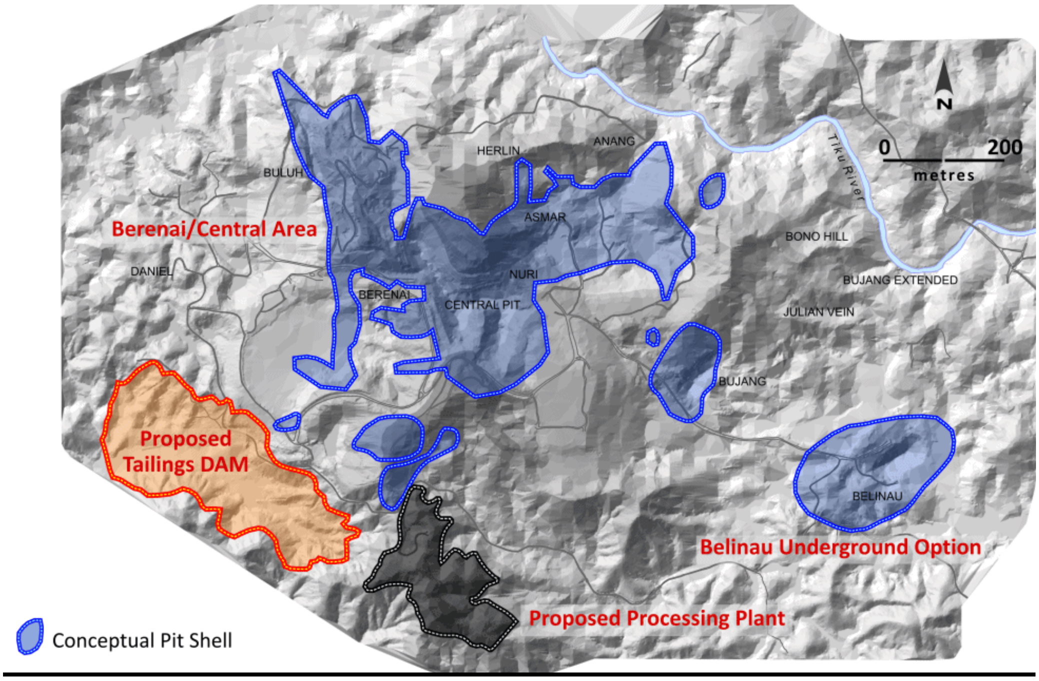
Source: Sumatra Copper and Gold

Revised mine plan provides far more robust financial model

Sumatra stated in its July quarterly activity report how it intends to progress the Tembang mine. The appointment of Julian Ford as chief executive officer in May 2011 brought with it an experienced mining executive who quickly re-assessed Sumatra's initial development proposal for Tembang (see our March Outlook, '*The golden island*') in light of the current gold price environment. Mr Ford's re-assessment resulted in a two-stage approach for developing Tembang, the first concentrating on developing the Belinau resource as a discrete underground mine with two small satellite pits from 2012 – a full year earlier than originally proposed. The second stage will see development of larger open pits from 2016 onwards, as described in the following sections.

Exhibit 2: Proposed outline of pits at Tembang

Note: The Belinau conceptual pit shell is located in the south eastern part of this figure.



Source: Sumatra Copper & Gold

Stage 1 – Belinau open pit and underground development

The Belinau resource is situated independently from the main Tembang resource. Due to its high grade (averaging 8.14g/t Au across all resource categories) and size of 487,000 tonnes, Sumatra intends to treat the deposit as a stand-alone entity. The company plans to develop Belinau as an underground mine first, and will construct the plant and two small open pits (Aidit South and Bujang) in 2012. The life of the Belinau underground and two open pit operations is planned from 2012 to 2015, with a final year of processing stockpiles in 2016.

Stage 2 – Berenai and Central Area open pit development

The second stage of Tembang's development will see an open pit mine excavated over a number of vein deposits (namely Berenai – last worked in the late 1990s, Nuri, Buluh, Asmar, Anang and Herlin) as in Exhibit 1. Stage 2 will form the main, much larger open pit at Tembang (0.75Mt ore production per year versus Stage 1 ore production of c 0.06Mt per year). SUM plans to mine this from when it stops mining activities at Belinau in 2016, until 2022, when the last of the ore will be processed from stockpiles accrued during mining.

Key valuation parameters used

Based on the two-stage approach and incorporating management's own scoping level development plan into our dividend discount mode, we have revised our valuation of Sumatra. Exhibit 3 illustrates the main differences between those valuation parameters used in our March Outlook and the parameters now envisaged as likely to reflect the kind of operation Tembang will become. It is important to re-iterate that these numbers are only guideline figures for Tembang's likely development scenario. Sumatra is carrying out a pre-feasibility study (PFS) for Tembang, due to be completed by end-2011. The PFS will form an even more robust assessment of Tembang's economics, scale and longevity of operations.

Exhibit 3: Comparison of key valuation parameters

Note: *Key valuation parameters used in our March outlook '*The golden island*'.

Revised assumptions September 2011	Unit	Revised value	Old values*
Life of mine	Yr	2012-2022	2013-2023
Tembang commissioning date	Yr	2012	2013
Ramp up/Phase 1 mining - for revised model	Yr	2012-2016	2013-2014
Steady State annual ore tonnes mined	Mtpa	0.75 from 2017 to 2022	1.0 from 2014 - 2023
Annual waste tonnes mined	Mtpa	10.2	6.9
Total annual tonnage mined (after ramp up)	Mtpa	11.0	7.9
Strip ratio		18.9 to 1	6.93 to 1
Gold grade (vein only)	g/t Au	4.3	2.1
Silver grade (vein only)	g/t Ag	52.0	34.6
Gold recovery	%	90.0	90.0
Silver recovery	%	80.0	75.0
Gold equivalent annual production (at steady state)	koz	54.0	74.0
Total capex (Phase 1 and 2)	A$m	45.7	75.0
Year capex expended		Phase 1 2012 (A$31.5m)	2012-2013
		Phase 2 2016 (A$15m)	N/A
Annual sustaining capex	A$m	0.8	2.7
Gold royalty (paid on gold revenue)	%	3.8	3.8
Silver royalty (paid on silver revenue)	%	3.5	3.3
Tax	%	28.0	28.0
Gold price used	US$/oz	1,350	1,350
Silver price used	US$/oz	25	25

Source: Sumatra Copper & Gold

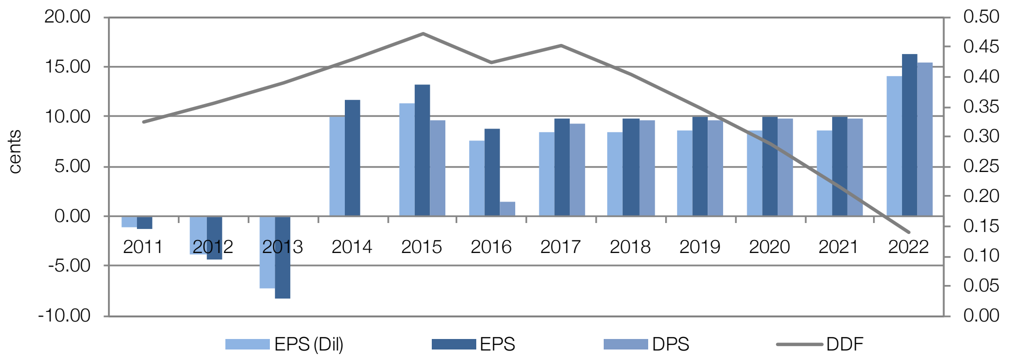
The principal difference that has affected our valuation is the annual gold equivalent production, which we have adjusted down from 74,000oz AuE in our March Outlook to 54,000oz AuE in this revised mine plan, although the gold and silver grades have increased 104% and 50% respectively. The increase in silver grade has also increased the silver recovery factor from 75% to 80%. The decrease in annual gold equivalent production is due to a hair-cut of peripheral sheeted vein mineralisation (know previously as 'Halo' material) and a far more defined model of the open pit design. This latter point crucially relies on the integrity of various engineering factors used as inputs and integrity of the geological model used to define the resource. Both of these points have undergone greater scrutiny since our March Outlook, and with the revised key valuation parameters given in Exhibit 2, form the basis for our adjusted valuation.

Valuation

Assuming Sumatra pays out all its spare cash in the form of dividends from the time the Tembang project enters production in 2012 and is fully ramped up by 2017, we estimate the dividend stream to investors from 2011 to 2022 will be worth A$0.32 per share in current money terms (at a discount rate of 10% to reflect general equity risk). Further, we estimate that the company could be potentially capable of generating on average A$27.0m of free cash-flow per year over the mine's 10-year life. Of note (as shown in Exhibit 4) is that the theoretical dividend in 2016 is depressed. This is due to a capital outlay of c A$15m in 2016 to develop the Stage 2 open pits.

Exhibit 4: Edison estimate of 'base case' EPS, fully diluted EPS and theoretical DPS FY12-FY22

Note: DDF = Discounted dividend flow.



Source: Edison Investment Research

The total value of the potential dividend stream from 2011 to 2022 is A$0.32 (as shown by the line in Exhibit 4), which could theoretically be distributed to shareholders via the distribution of a flat dividend of A$0.09 per share from 2014 to 2022. Insofar as exploration activity is able to extend the life of the Tembang project indefinitely, and the company pays out its flat dividend of A$0.09 per share from 2015 onwards, applying a (relatively conservative) 5% yield to the distribution implies a share price potentially as high as A$1.80 per share. This puts the shares on a theoretical P/E multiple of c 1.7x FY14 earnings.

Sensitivities

Exploration and development-stage mining companies experience a multitude of risks relating to the successful execution and commissioning of a new operating mine. Those pertinent to Sumatra at its current stage of development are detailed below. Empirically, our model has sensitivities to various input parameters, such as the gold price and the discount rate, as shown below.

Exhibit 5: Sensitivity to gold price (US$/oz)

US$/oz	1,150	1,350	1,550	1,750	1,800	2,150
NPV (A$)	0.16	0.32	0.49	0.66	0.70	0.99

Source: Edison Investment Research

Exhibit 6: Sensitivity to discount rate

%	5	7.5	10	18.8	25	30
NPV (A$)	0.48	0.39	0.32	0.17	0.11	0.08

Source: Edison Investment Research

Financials

Sumatra's interim results show cash of A$2.6m (£1.7m) at 30 June 2011, having spent A$1.7m (£1.1m) during the second quarter. After the reporting period Sumatra issued a total of 30.23m shares at A$0.16 each for total proceeds of A$4.8m (£3.2m), enough for around nine months at current cash burn rates. To bring Tembang into production, we forecast that it has a funding requirement of A$29.9m in 2012. This equates to a gearing (net debt/equity) ratio of 169% or a leverage (debt/debt + equity) of 101%. However, it should be noted, accounting for 100% debt funding for Tembang in our model, we forecast Sumatra turning free cash-flow positive (potentially A$23m) in 2014, as gold equivalent production achieves a steady-state rate of c 54koz per year.

Exhibit 7: Financials

£'000s	2009	2010	2011e	2012e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	0	0	0	0
Cost of Sales	0	0	0	0
Gross Profit	0	0	0	0
EBITDA	(1,758)	(1,319)	(1,128)	(3,769)
Operating Profit (before amort. and except.)	(1,797)	(1,320)	(1,133)	(5,076)
Intangible Amortisation	0	0	0	0
Exceptionals	0	0	(1,667)	0
Other	748	368	0	0
Operating Profit	(1,049)	(952)	(2,800)	(5,076)
Net Interest	(62)	81	(13)	0
Profit Before Tax (norm)	(1,859)	(1,239)	(1,146)	(5,076)
Profit Before Tax (FRS 3)	(1,112)	(871)	(2,813)	(5,076)
Tax	0	0	0	0
Profit After Tax (norm)	(1,112)	(871)	(1,146)	(5,076)
Profit After Tax (FRS 3)	(1,112)	(871)	(2,813)	(5,076)
Average Number of Shares Outstanding (m)	76.8	132.2	158.3	190.1
EPS - normalised (p)	(1.4)	(0.7)	(0.7)	(2.7)
EPS - normalised and fully diluted (p)	(1.4)	(0.5)	(0.6)	(2.3)
EPS - (IFRS) (p)	(1.4)	(0.7)	(1.8)	(2.7)
Dividend per share (p)	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A
BALANCE SHEET				
Fixed Assets	7,905	11,881	16,380	34,592
Intangible Assets	7,811	11,757	16,198	16,198
Tangible Assets	94	124	182	18,394
Investments	0	0	0	0
Current Assets	3,721	4,614	366	366
Stocks	0	0	0	0
Debtors	129	0	0	0
Cash	3,399	4,248	0	0
Other	193	366	366	366
Current Liabilities	(465)	(997)	(1,371)	(28,217)
Creditors	(465)	(997)	(1,066)	(4,834)
Short term borrowings	0	0	(305)	(23,382)
Long Term Liabilities	0	0	0	0
Long term borrowings	0	0	0	0
Other long term liabilities	0	0	0	0
Net Assets	11,161	15,498	15,376	6,741
CASH FLOW				
Operating Cash Flow	(1,195)	(1,017)	(3,031)	(3,559)
Net Interest	(62)	82	(13)	0
Tax	0	0	0	0
Capex	(2,190)	(3,107)	(4,505)	(19,518)
Acquisitions/disposals	360	0	0	0
Financing	6,607	4,891	2,996	0
Dividends	0	0	0	0
Net Cash Flow	3,519	848	(4,553)	(23,077)
Opening net debt/(cash)	120	(3,399)	(4,248)	305
HP finance leases initiated	0	0	0	0
Other	0	0	0	0
Closing net debt/(cash)	(3,399)	(4,248)	305	23,382

Source: Edison Investment Research, company accounts