

# Mining Morning Thoughts

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## Sumatra Copper & Gold – Indonesian gold explorer lists (SUM AU, A\$0.25, Mkt Cap. A\$31.9m – Buy, valuation A\$0.65)

Sumatra Copper & Gold (SCG) has begun trading on ASX following an IPO in which the company raised approximately A\$12m at A\$0.20/share. The proceeds will be used to advance SCG's gold and base-metals exploration properties on the Indonesian island of Sumatra.

A portion will also be used to repay A\$3.87m under a debt facility from Macquarie Bank, which has provided interim funding since a £5.3m pre-IPO funding round was completed in November 2007 with UK and European investors at 18p per share (now equivalent to A\$0.32) after accounting for subsequent share splits.

### Valuation

As SCG's most advanced project, Tembang, is still at only the prefeasibility-study stage, our valuation is based on a multiple of the in situ resource ounces that the company has thus far established, adjusted for our estimated net cash (post money) of ~A\$8.1m plus cash from at-the-money options (17.21m @ A\$0.20 per share). The peer group median is currently US\$32.9/oz for gold (see full table on p5) and US\$0.55/oz for silver.

**This results in a valuation of A\$0.65 per fully-diluted share, a 160% premium to the current price. We initiate coverage with a Buy recommendation.**

### SCG – valuation using market multiples (146.23m shares fully-diluted)

	A\$m	US\$m	p/sh	A\$/sh
Tembang (SCG's 92.5% share)	64.8	59.7	25.1	0.44
Lebong (SCG's 92.5% share)	19.2	17.7	7.4	0.13
Net cash	8.1	7.5	3.1	0.06
Cash from at-the-money options/warrants	3.4	3.2	1.3	0.02
<b>Total</b>	<b>95.5</b>	<b>88.1</b>	<b>37.0</b>	<b>0.65</b>
Premium				160%

Source: Mirabaud Securities estimates

US\$1 = A\$1.08, £1 = US\$1.63

- The main use of proceeds, apart from repaying the debt facility, will be exploration, with the priority given to drilling. Consequently, we believe the medium-term driver of the share price will be drilling results, rather than advancing the Tembang project.
- We rate the Lebong project as the most promising exploration target (best intersection from drilling to date: 28.8m at 5.6g/t Au).
- The independent competent person (Perth-based CSA Global) estimates Lebong's target potential for resources at 3.5-5.5Moz, plus 3-6Moz at the Tandai project. Both projects have been mined since Dutch colonial times, and have large known mineralised systems.
- SCG has established a greenfield exploration target at Sontang, with gold-silver-zinc-lead mineralisation. The deposit is a manto-type mineralisation.
- Indonesia passed a new mining law in January 2009, reducing associated uncertainty and introducing a new form of basic licence (IUP) which allows full foreign ownership.

### Peer comparison

We believe our valuation is backed up by comparison of SCG's against the company's London-traded peers that have operations/projects in Southeast Asia (see table below). At the IPO price, SCG is clearly the cheapest in this peer group. Our valuation of A\$0.65 per share would put SCG on an EV of US\$29.3/oz, still well below the median for Southeast Asian gold resources (average and median exclude SCG).

### London-quoted gold equities operating in Southeast Asia at 23 Oct. 2009 (gold closed at US\$1,055/oz)

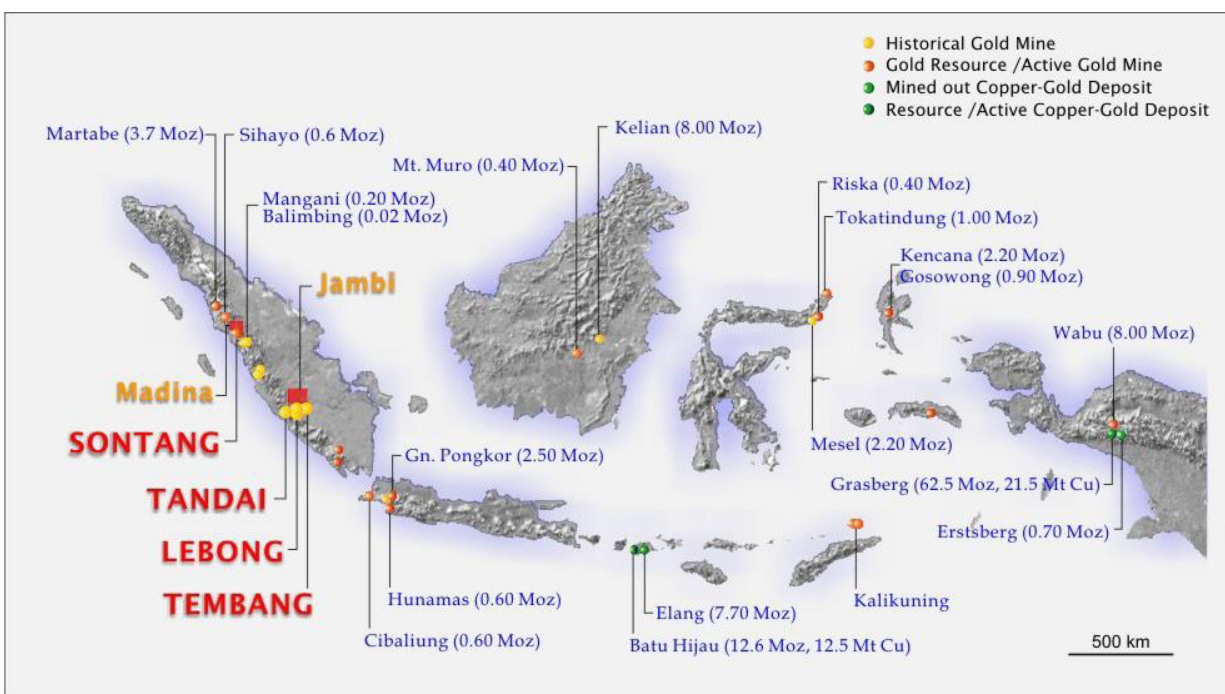
Company	Country of operations	Price (p)	Shares (m)	Mkt. Cap. (US\$m)	Net cash (US\$m)	Attrib. Au only (Moz)	Attrib Au equiv* (Moz)	EV/oz (US\$/oz)
Medusa Mining	Philippines	198.00	168.84	545.1	30.4	2.0	2.0	253.5
Archipelago Resources	Indonesia	27.25	391.02	173.7	32.0	1.4	1.4	98.1
Peninsular Gold	Malaysia	41.50	55.23	37.4	-22.6	0.9	0.9	63.2
Avocet Mining	Indonesia/Malaysia/B. Faso	83.00	194.21	262.8	-21.0	5.0	5.0	56.5
Metals Exploration	Philippines	24.00	269.72	105.6	16.2	1.7	1.7	52.4
Allied Gold	PNG	27.00	472.64	208.1	18.4	4.7	4.9	38.9
<b>Sumatra C&amp;G (valuation)</b>	<b>Indonesia</b>	<b>A\$0.65</b>	<b>127.49</b>	<b>76.4</b>	<b>7.5</b>	<b>2.0</b>	<b>2.4</b>	<b>29.3#</b>
Finders Resources	Indonesia	21.00	180.31	61.7	13.6	0.2	2.0	23.7
Vatukoula Gold	Fiji	1.50	3,642.37	89.1	26.9	5.2	5.2	12.1
<b>Sumatra C&amp;G (IPO price)</b>	<b>Indonesia</b>	<b>A\$0.20</b>	<b>127.49</b>	<b>23.5</b>	<b>7.5</b>	<b>2.0</b>	<b>2.4</b>	<b>6.8#</b>
<b>Average</b>								<b>74.8</b>
<b>Median</b>								<b>54.5</b>

Source: Company data, Mirabaud Securities estimates

\*Attributable gold includes other main metals – ratios: Au:Ag = 59.7, Au:Cu = 5,104, Au:Zn = 14,936  
#Excluded from average and median. £1 = US\$1.63, US\$1 = A\$1.08

### Key asset description

SCG has an economic interest – via a co-operation agreement with its Indonesian partners (the typical structure under the old mining legislation) – in a portfolio of mineral properties covering 6,000km<sup>2</sup> on the Indonesian island of Sumatra. The group is in the process of applying for the new IUP licence on all project areas, and this work is well advanced with one IUP already issued.



Source: SCG

The most advanced of SCG's projects – Lebong, Tembang and Tandai – are gold-silver properties in the southern part of the island, which is basically a poor but politically stable area. SCG holds a 92.5% economic interest in each of these projects.

SCG's most advanced asset is **Tembang**, which provides the bulk of SCG's resources of 2.2Moz gold and 24.1Moz silver (100% basis).

Tembang's resources stand at 1.63Moz gold and 19.8Moz silver (100% basis). The deposit is a series of quartz-vein clusters, with a predominantly southwest-northeast trend. Historical operations exploited only a portion of these clusters, and these remain open to depth. The other clusters have been explored to various degrees, and many remain open along strike as well as at depth.

The deposit was explored extensively by a CRA-BMG JV in the 1980s, and then by Laverton Gold (ASX-listed) which mined it (as Rawas) from 1997 to March 2000 (during which time the gold price was at its lowest levels in recent history).

The mining and geological consultancy Snowden has completed a prefeasibility study of Tembang, which concluded that the project has the potential to be a viable mine at current metals prices, with production ranging from 58,000-125,000oz pa, at cash operating cost of US\$514-568/oz (inc. silver equivalents) and capex of US\$89-177m, and with a mine life of 7-11 years – all depending on the production scenario chosen. The prefeasibility study includes scenarios in which lower-grade mineralisation (~0.8g/t Au) in a 'halo' around the main orebody could be mechanically upgraded (by low-cost screening) to ~2g/t Au prior to processing, thus increasing the resources that are potentially economic and allowing greater throughput.

However, SCG has decided to concentrate the IPO proceeds (net of repayment of the Macquarie facility) on exploration. This will include up to 6,500m of diamond and reverse-circulation drilling to test strike and down-dip extensions at Tembang.

We believe **Lebong** to be SCG's most promising near-term target. The project comprises a main structure (Donok) along the side of a dacite body, plus various satellite prospects, the most significant of which is currently Tambang Sawah, about 8km (10km trucking distance) to the north. The mineralisation is in low-sulphidation epithermal veins and hydrothermal breccias. Tambang Sawah is a quartz diorite dome, with mineralisation in the northern and southern sides.

#### SCG JORC-compliant resources (100% basis)

Project	Measured			Indicated			Inferred			Total		
	Tonnage (Mt)	Grade (g/t)	Au (Moz)	Tonnage (Mt)	Grade (g/t)	Au (Moz)	Tonnage (Mt)	Grade (g/t)	Au (Moz)	Tonnage (Mt)	Grade (g/t)	Au (Moz)
Tembang	2.40	2.13	0.16	17.60	1.08	0.61	33.70	0.79	0.86	53.70	0.94	1.63
Lebong							13.00	1.22	0.51	13.00	1.22	0.51
<b>Total</b>	<b>2.40</b>	<b>2.13</b>	<b>0.16</b>	<b>17.60</b>	<b>1.08</b>	<b>0.61</b>	<b>46.70</b>	<b>0.91</b>	<b>1.37</b>	<b>66.70</b>	<b>1.00</b>	<b>2.14</b>

Project	Measured			Indicated			Inferred			Total		
	Tonnage (Mt)	Grade (g/t)	Ag (Moz)	Tonnage (Mt)	Grade (g/t)	Ag (Moz)	Tonnage (Mt)	Grade (g/t)	Ag (Moz)	Tonnage (Mt)	Grade (g/t)	Ag (Moz)
Tembang	2.40	35.72	2.76	17.60	15.46	8.75	33.70	7.63	8.27	53.70	11.45	19.77
Lebong							13.00	10.24	4.28	13.00	10.24	4.28
<b>Total</b>	<b>2.40</b>	<b>35.72</b>	<b>2.76</b>	<b>17.60</b>	<b>15.46</b>	<b>8.75</b>	<b>46.70</b>	<b>8.36</b>	<b>12.55</b>	<b>66.70</b>	<b>11.22</b>	<b>24.05</b>

Source: SCG

The main Donok structure was mined during the colonial period (up to the Japanese invasion), and was explored (but not mined) in the 1980s and 1990s initially by CSR Minerals Ltd (which sold the property to Billiton in 1988) and then by Aberfoyle (ASX-listed). Tambang Sawah was also mined during the colonial era, and both deposits have attracted artisanal miners.

SCG has already completed 4,100m of drilling on Donok and 1,360m on Tambang Sawah from the earlier funding rounds.

Lebong is subject to a legal dispute comprising overlapping titles, which SCG is hopeful of resolving in its favour. However, the company intends to delay further exploration spending until the dispute is resolved.

Since the pre-IPO round in 2007, SCG has assisted its Indonesian partner PT Nusa Palapa Minerals in the exploration of the **Sontang** project, in central Sumatra. Sontang is held under an Exploration IUP, which is a new type of mining licence under the latest minerals legislation.

The deposit is interpreted to be manto-type mineralisation, comprising hydrothermal alteration dispersed over 1.5km of strike. Average results from 54.8m of channel sampling are 2.87g/t gold, 118g/t silver, 0.59% lead and 5.66% zinc.

A minimum of 1,000m of drilling is planned for later this year. Subject to positive initial results, a second phase of 3,500m is expected.

#### Capital structure

- SCG had 65.45m shares on issue prior to the IPO.
- The IPO comprised 60m shares, and triggered the issue of 538,540 shares to directors (in lieu of fees) and 1.5m shares to the IPO promoters.
- Options comprise 10.96m with employees and 6.25m with Macquarie Bank, all striking at the IPO price of A\$0.20 per share.
- Warrants comprise two tranches: 50,000 and 1.48m, exercisable at 15p per share and 18p per share, respectively.

#### Partner & management

SCG's local partner is **Adi Sjoekri**. Sjoekri is a professional geologist who worked for Newmont in Indonesia, and his input in handling local issues will be crucial to the success of the company.

The managing director of SCG is **Jocelyn Waller**, who has previous experience in small/mid-cap mining companies.

The director of exploration is **Alan Flint**, a professional geologist with a background predominantly in the majors (including Rio Tinto and, most notably, Newmont in Indonesia). We believe Flint's experience will be key to the company realising the exploration potential of its ground.

The non-executive chairman is **Warwick Morris**, who has relevant industry and regional experience as the former chairman of Macquarie's Metals and Energy Capital Division.

The two non-executive directors are **Peter Daresbury** (ex-Highland Gold, ex-KazakhGold) and **Michael Price** (formerly in mining finance with Barclays Capital, Société Générale and NM Rothschild).

### Gold valuations – (AIM-quoted/London-listed gold resources at close 23 September 2009, gold price US\$1,055/oz)

Rank	Company	Country of operations	Price (p)	Shares (m)	Mkt. Cap. (US\$m)	Net cash (US\$m)	Attrib. Au only (Moz)	Attrib Au equiv* (Moz)	EV/oz (US\$/oz)
1	Fresnillo	Mexico	812.00	717.16	9,495.5	174.6	12.0	33.0	282.5
2	Hochschild Mining	Peru	300.00	338.53	1,656.0	-107.7	2.2	6.3	281.2
3	Medusa Mining	Philippines	198.00	168.84	545.1	30.4	2.0	2.0	253.5
4	Randgold Resources	Mali	4,475.00	89.56	6,534.8	741.1	24.0	24.0	241.3
5	Goldplat	Kenya	12.75	111.72	23.2	-0.2	0.1	0.1	180.9
6	Patagonia Gold	Argentina	14.00	593.55	135.5	8.7	0.7	0.8	164.5
7	Centamin Egyptf	Egypt	132.00	1,016.53	2,188.0	102.9	13.2	13.2	157.8
8	Kirkland Lake Gold	Canada	530.00	63.25	546.6	56.6	3.3	3.3	149.5
9	Polymetal	Russia	US\$9.38	342.02	3,208.2	-267.3	14.3	26.5	131.2
10	Archipelago Resources	Indonesia	27.25	391.02	173.7	32.0	1.4	1.4	98.1
11	Yamana Gold	Brazil/Chile	728.00	733.21	8,703.7	-278.2	41.7	107.1	83.8
12	Minera IRL	Peru	66.50	75.50	81.9	17.7	0.4	0.9	72.6
13	Peninsular Gold	Malaysia	41.50	55.23	37.4	-22.6	0.9	0.9	63.2
14	Polyus Gold	Russia	US\$30.10	359.70	10,827.1	134.2	183.5	184.9	57.8
15	Avocet Mining	Indonesia/Malaysia/B. Faso	83.00	194.21	262.8	-21.0	5.0	5.0	56.5
16	Metals Exploration	Philippines	24.00	269.72	105.6	16.2	1.7	1.7	52.4
17	Cluff Gold	Cote d'Ivoire/B. Faso	77.25	117.14	147.5	17.6	2.7	2.7	48.9
18	Trans-Siberian Gold	Russia	38.50	84.91	53.3	4.5	0.9	1.0	48.1
19	GMA Resources	Algeria	4.38	469.00	33.5	-21.8	1.2	1.2	47.3
20	European Goldfields	Greece	343.75	179.89	1,008.3	142.7	9.1	18.7	46.4
21	Persian Gold	Iran	4.75	74.66	5.8	0.1	0.1	0.1	45.7
22	Pan African Resources	SA/Mozambique	8.13	1,408.34	186.7	2.2	4.2	4.2	44.2
23	African Aura Mining	Liberia	71.75	52.88	61.9	3.0	1.4	1.4	40.8
24	Allied Gold	PNG	27.00	472.64	208.1	18.4	4.7	4.9	38.9
25	Galantas Gold	United Kingdom	3.63	190.10	11.3	-2.9	0.4	0.4	35.5
26	Anglo Asian	Azerbaijan	13.50	104.94	23.1	-35.7	0.8	1.7	35.2
27	Highland Gold Mining	Russia	90.25	325.20	478.6	143.9	10.0	10.0	33.4
28	Greystar Resources	Colombia	260.00	70.71	299.8	94.1	5.0	6.3	32.4
29	Norseman Gold	Australia	50.50	172.52	142.1	24.0	3.7	3.7	31.9
30	Hidefield Gold	Argentina	1.50	410.24	10.0	0.2	0.4	0.4	27.3
31	Finders Resources	Indonesia	21.00	180.31	61.7	13.6	0.2	2.0	23.7
32	Nyota Minerals	Ethiopia	7.25	223.83	26.5	10.8	0.7	0.7	22.8
33	Hambledon Mining	Kazakhstan	6.88	516.09	57.9	4.7	2.5	2.6	20.6
34	Ariana Resources	Turkey	3.50	170.75	9.7	2.3	0.3	0.4	19.0
35	Uruguay Minerals	Uruguay	34.00	48.67	27.0	8.1	1.1	1.1	16.8
36	Vatukoula Gold	Fiji	1.50	3,642.37	89.1	26.9	5.2	5.2	12.1
37	Oxus Gold	Uzbekistan	11.25	386.06	70.8	-26.6	7.4	8.5	11.5
38	Ormonde Mining	Spain	6.88	230.96	25.9	2.7	0.5	2.1	11.2
39	Stratex	Turkey	4.13	234.24	15.8	4.4	1.0	1.0	10.9
40	KazakhGold	Kazakhstan	US\$8.43	52.94	446.3	-232.6	59.6	62.3	10.9
41	Central African Gold†	Ghana	1.33‡	736.82	16.0	-4.0	2.1	2.1	9.7‡
42	Chaarat Gold	Kyrgyzstan	23.75	112.91	43.7	12.0	3.3	3.4	9.2
43	Conroy Diamonds &	Ireland	4.50	135.72	10.0	1.0	1.0	1.0	8.7
44	Aurum Mining	Kyrgyzstan	13.75	48.19	10.8	3.7	0.5	0.9	8.3
45	Serabi Mining	Brazil	2.80	140.14	6.4	1.1	0.6	0.6	8.2
46	Kryso Resources	Tajikistan	8.00	152.61	19.9	4.9	2.0	2.0	7.6
47	Peter Hambro Mining	Russia	11.25	171.24	31.4	-70.5	18.5	18.5	5.5
48	Arian Silver Corp	Mexico	4.13	258.14	17.4	-0.1	1.2	3.3	5.3
49	Mercator Gold	Australia	3.13	121.24	6.2	-2.3	2.3	2.3	3.7
50	Shanta Gold	Tanzania	8.25	101.74	13.7	6.0	2.6	2.6	2.9
51	Condor Resources	El Salvador	0.73	471.71	5.6	2.4	0.8	1.2	2.8
52	Central China Goldfields	China	3.03	183.37	9.1	0.9	0.8	3.5	2.3
53	Central Rand Gold	South Africa	16.75	246.92	67.4	39.8	26.4	26.4	1.0
54	Orsu Metals	Kazakhstan	3.38	456.96	25.2	22.3	4.6	8.0	0.4
55	Ovoca Gold	Russia	4.50	442.04	32.4	34.7	1.2	6.0	-0.4
<b>Average</b>									<b>57.6</b>
<b>Median</b>									<b>32.9</b>

Source: Company data, Mirabaud Securities estimates \*Attributable gold includes other main metals – ratios: Au:Ag = 59.7, Au:Cu = 5,104, Au:Zn = 14,936

†Includes 100% of resource (Egyptian govt. shares profit (50:50) but Centamin has zero tax base). £1:US\$1.63, US\$1:A\$1.08, US\$1:C\$1.05, US\$1:R7.46, €1:US\$1.50

‡Price at suspension 25 June, excluded from average and median calculations

## RECOMMENDATIONS HISTORY

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Market index:	FTSE AIM Basic Resources				
Date	Market Index	Stock Price (A\$)	Valuation (A\$)	Opinion	
26-Oct-09	5,316	0.25	0.65	Buy	

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- BUY:** The stock is expected to generate absolute positive price performance of over 20% during the next 12 months.
- OVERWEIGHT:** The stock is expected to generate absolute positive price performance of 10-20% during the next 12 months
- NEUTRAL:** The stock is expected to generate absolute price performance of between 10% positive and 10% negative during the next 12 months.
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- SELL:** The stock is expected to generate absolute negative price performance of over 20% during the next 12 months.

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