

Financing largely complete

Sumatra Copper & Gold (SUM) has all but completed its financing for Phase 1 of Tembang's development. Phase 1 capex required is US\$55m which is due to be secured via an agreed US\$35m Credit Suisse loan facility and c US\$20m to be raised via a 1:3 rights issue (in April/May). A further A\$8.36m will also be raised via a separate placement of 38m shares at A\$0.22 to provide SUM with additional interim funding. The latter equity issue will be fully underwritten by a major Indonesian shareholder, Provident Capital contingent on SUM securing its final forestry permit (anticipated at end-March). With full Tembang construction to start in earnest following a granting of its forestry permit (anticipated) end of March, first production is now forecast for Q114. On this basis we value Tembang on a fully diluted basis at A\$0.32/share (at our long-term gold price of US\$1,676/oz Au and US\$28.15/oz Ag and a 10% discount rate).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/11	0.0	(1.8)	(1.1)	0.0	N/A	N/A
12/12e	0.0	(1.4)	(0.6)	0.0	N/A	N/A
12/13e	0.0	(3.0)	(0.9)	0.0	N/A	N/A
12/14e	33.5	6.6	1.2	0.0	13.3	N/A

*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Forestry permit – last piece of the jigsaw

On 13 February Sumatra announced it had completed all the requirements for its Final Tembang Forestry Permitting. Essentially this has entailed Sumatra lodging a submission for the final document required; a 'Borrow and Use' permit. Once granted this will mean the company can finalise its financing agreements, specifically the 1:3 entitlements offer with Provident Capital.

Shares outperforming ASX since August 2012

Sumatra's share price continues to reflect its good progress towards eventual first production. Its shares have now outperformed the ASX200 by c 22% since the announcement of Provident's 28m share subscription (at A\$0.135 per share) of 8 August 2012. Relative to its own share price, it has recorded a c 57% improvement during the same period.

Valuation: Share discount narrows in line with development

Adjusting for dilution of 38m shares to raise A\$8.36m, a share price of A\$0.23 to raise the A\$20m via a 1:3 rights issue, and updating for an A\$/£ exchange rate of 1.47, we value Sumatra's shares at A\$0.32 (using our long-term gold and silver prices of US\$1,676/oz and US\$28.15/oz respectively, and a 10% discount rate to reflect general equity risk). This also accounts for first production occurring in Q114 (previously December 2013). In our October 2012 note our A\$0.35 valuation put Sumatra shares at a 54% discount, which we viewed as a reflection of the market awaiting financing arrangements to be announced and its final forestry permit to be granted. With financing largely complete and the forestry permit application well advanced, Sumatra shares now stand at a 28% discount, which we expect to narrow further as it finalises its financing, obtains final permits, enters development and ultimately production.

Mining

28 February 2013

Price **A\$0.23**

Market cap **A\$59m**

A\$1.47/£

Shares in issue 258.6m

Free float N/A

Code SUM

Forecast net cash (A\$m) at 7.4

31 December 2012

Primary exchange ASX

Other exchanges N/A

Share price performance



%	1m	3m	12m
Abs	24.3	39.4	100.0
Rel (local)	19.5	23.4	72.4
52-week high/low	A\$0.23	A\$0.06	

Business description

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 3,219km².

Next events

Forestry permit	End-March 2013
Complete financing	Start April 2013

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Exhibit 1: Financial summary

	£'000s	2011	2012e	2013e	2014e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	33,484
Cost of Sales		0	0	(32)	(21,900)
Gross Profit		0	0	(32)	11,584
EBITDA		(1,857)	(1,258)	(1,290)	10,326
Operating Profit (before amort. and except.)		(1,857)	(1,328)	(3,144)	7,575
Intangible Amortisation		0	0	0	0
Exceptionals		(1,632)	(106)	0	0
Other		0	0	0	0
Operating Profit		(3,489)	(1,435)	(3,144)	7,575
Net Interest		14	(74)	151	(1,011)
Profit Before Tax (norm)		(1,843)	(1,403)	(2,993)	6,564
Profit Before Tax (FRS 3)		(3,476)	(1,509)	(2,993)	6,564
Tax		0	0	0	(1,641)
Profit After Tax (norm)		(1,843)	(1,403)	(2,993)	4,923
Profit After Tax (FRS 3)		(3,476)	(1,509)	(2,993)	4,923
Average Number of Shares Outstanding (m)		167.3	243.6	339.1	395.3
EPS - normalised (p)		(1.1)	(0.6)	(0.9)	1.2
EPS - normalised fully diluted (p)		(0.9)	(0.5)	(0.7)	1.1
EPS - (IFRS) (p)		(2.1)	(0.6)	(0.9)	1.2
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		14,639	18,910	43,816	54,509
Intangible Assets		13,363	16,704	16,704	16,704
Tangible Assets		127	1,057	25,963	36,656
Investments		1,149	1,149	1,149	1,149
Current Assets		2,023	5,488	14,827	10,855
Stocks		0	0	0	2,790
Debtors		0	0	0	2,752
Cash		1,570	5,035	14,374	4,859
Other		453	453	453	453
Current Liabilities		(1,508)	(1,452)	(1,455)	(3,253)
Creditors		(1,508)	(1,452)	(1,455)	(3,253)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	0	(20,603)	(20,603)
Long term borrowings		0	0	(20,603)	(20,603)
Other long term liabilities		0	0	0	0
Net Assets		15,154	22,946	36,585	41,508
CASH FLOW					
Operating Cash Flow		(1,127)	(1,420)	(1,287)	6,580
Net Interest		82	(74)	151	(1,011)
Tax		0	0	0	(1,641)
Capex		(4,581)	(4,341)	(26,760)	(13,443)
Acquisitions/disposals		(179)	0	0	0
Financing		3,282	9,301	16,632	0
Dividends		0	0	0	0
Net Cash Flow		(2,523)	3,466	(11,265)	(9,515)
Opening net debt/(cash)		(4,248)	(1,570)	(5,035)	6,229
HP finance leases initiated		0	0	0	0
Other		(156)	0	0	0
Closing net debt/(cash)		(1,569)	(5,035)	6,229	15,744

Source: Sumatra Copper & Gold and Edison Investment Research.

(NB Weighted average no. of shares in 2013 includes an assumed 98.9m occurring from 1:3 rights issue at A\$0.23 per share with Provident Capital)

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