

# Sumatra Copper & Gold

## Clearing a path to production

Sumatra Copper & Gold has been granted its 'Pinjam Pakai' or 'Borrow and Use' permit by the Indonesian government, and in doing so has passed the most critical milestone on its path towards first gold production at Tembang, forecast to occur in 2014. With this last permit ending a 15-month long permitting campaign by the company, SUM can now look towards finalising a US\$20m equity raise (due by 14 June 2013), which in turn will unlock the US\$35m Credit Suisse financing agreement approved in February 2013. Our current valuation for Sumatra's Tembang project envisages first production in Q114, on which basis we value the company's shares at A\$0.30 (at a 10% discount rate and long-term gold and silver prices of US\$1,676/oz and US\$28.15/oz respectively).

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
12/12	0.0	(3.3)	(1.7)	0.0	N/A	N/A
12/13e	0.0	(4.4)	(1.2)	0.0	N/A	N/A
12/14e	33.0	4.9	0.9	0.0	10.8	N/A

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

## Indonesian low-cost gold project

With the gold price decreasing c 14% from US\$1,561 on 11 April to US\$1,348/oz by 15 April, and the average direct cost of mining at c US\$1,000/oz, it is critical that any gold miner operates at economically robust levels. Sumatra's life of mine C1 cost of production is US\$788/oz, which, after netting off silver credits of US\$343/oz and adding on royalties of US\$74/oz, gives a low total operating cost of US\$519/oz. Even with the recent decrease in the gold price, Sumatra as a junior gold development company has appreciated by c 11% ytd, outperforming the ASX200 by c 10%. Alternatively, its current share price of A\$0.20 discounts a gold price of only US\$1380/oz.

## Valuation: Shares trading at 37% discount

Adjusting for the A\$20m 2:5 non-renounceable rights issue raised at a share price of A\$0.17 (ie 117.8m shares), and updating for an exchange rate of A\$1.49/£, we value Sumatra's shares at A\$0.30 (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 assumes first production occurs in Q114. Even using current spot gold and silver prices of US\$1,445/oz and US\$23/oz respectively, our valuation is still A\$0.20. Both valuations use assumptions outlined in our note [Final clarification on Stage 1](#) published on 9 October. Our forecast 2013 PBT figure has reduced from £6.6m to £4.9m, largely reflecting an increase in our forecast for the company's G&A expenditure based on its audited FY12 results. G&A in FY12 was reported as £2.6m versus our forecast of £1.5m.

Major forestry permit granted

Metals & mining

13 May 2013

Price **A\$0.19**

Market cap **A\$56m**

A\$1.49/£

Net cash (at end Dec 2012) (£m) 1.52

Shares in issue 296.6m

Free float 100%

Code SUM

Primary exchange ASX

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 0.0 (4.8) 73.9

Rel (local) (4.2) (8.5) 45.9

52-week high/low A\$0.24 A\$0.07

## 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 3,219km<sup>2</sup>.

## Next events

2:5 rights issue completion 14 June 2013

Construction start H213

First Au production Q114

## Analysts

Tom Hayes +44 (0)20 3077 5725

Charles Gibson +44 (0)20 3077 5724

[mining@edisongroup.com](mailto:mining@edisongroup.com)

[Edison profile page](#)

**Exhibit 1: Financial summary**

	£'000s	2011	2012	2013e	2014e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		0	0	0	33,035
Cost of Sales		0	0	(31)	(21,606)
Gross Profit		0	0	(31)	11,428
EBITDA		(1,857)	(2,624)	(2,483)	8,977
Operating Profit (before amort. and except.)		(1,857)	(2,624)	(4,290)	6,285
Intangible Amortisation		0	0	0	0
Exceptionals		(1,632)	588	0	0
Other		0	0	0	0
Operating Profit		(3,489)	(2,035)	(4,290)	6,285
Net Interest		14	(717)	(87)	(1,395)
Profit Before Tax (norm)		(1,843)	(3,341)	(4,377)	4,890
Profit Before Tax (FRS 3)		(3,476)	(2,752)	(4,377)	4,890
Tax		0	0	0	(1,223)
Profit After Tax (norm)		(1,843)	(3,341)	(4,377)	3,668
Profit After Tax (FRS 3)		(3,476)	(2,752)	(4,377)	3,668
Average Number of Shares Outstanding (m)		167.3	200.6	371.3	414.4
EPS - normalised (p)		(1.1)	(1.7)	(1.2)	0.9
EPS - normalised fully diluted (p)		(0.9)	(1.2)	(1.0)	0.8
EPS - (IFRS) (p)		(2.1)	(1.4)	(1.2)	0.9
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
<b>BALANCE SHEET</b>					
Fixed Assets		14,639	17,749	42,343	52,915
Intangible Assets		13,363	15,898	15,898	15,898
Tangible Assets		127	113	24,707	35,278
Investments		1,149	1,739	1,739	1,739
Current Assets		2,023	5,379	16,579	11,448
Stocks		0	0	0	2,753
Debtors		0	0	0	2,715
Cash		1,570	4,832	16,031	5,433
Other		453	547	547	547
Current Liabilities		(1,508)	(1,594)	(1,642)	(3,416)
Creditors		(1,508)	(1,594)	(1,642)	(3,416)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	(3,312)	(26,802)	(26,802)
Long term borrowings		0	(3,312)	(26,802)	(26,802)
Other long term liabilities		0	0	0	0
Net Assets		15,154	18,222	30,477	34,145
<b>CASH FLOW</b>					
Operating Cash Flow		(1,127)	(2,208)	(2,435)	5,282
Net Interest		82	63	(87)	(1,395)
Tax		0	0	0	(1,223)
Capex		(4,581)	(3,808)	(26,401)	(13,263)
Acquisitions/disposals		(179)	0	0	0
Financing		3,282	6,084	16,632	0
Dividends		0	0	0	0
Net Cash Flow		(2,523)	132	(12,291)	(10,599)
Opening net debt/(cash)		(4,248)	(1,570)	(1,520)	10,771
HP finance leases initiated		0	0	0	0
Other		(155)	(182)	0	0
Closing net debt/(cash)		(1,570)	(1,520)	10,771	21,370

Source: Sumatra Copper & Gold and Edison Investment Research. Note: Weighted average number of shares in 2013 includes an assumed 117.8m occurring from the 2:5 rights issue at A\$0.17 per share with Provident Capital.

Edison, the investment intelligence firm, is the future of investor **interaction with corporates**. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Berlin, Sydney and Wellington. Edison is authorised and regulated by the Financial Services Authority ([www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584](http://www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584)). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is not regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2013 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Sumatra Copper & Gold and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is not registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). It is not intended for retail clients. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2013. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.