

Caledonia Mining

2015 pivotal to Blanket's growth

FY14 results

Metals & mining

Caledonia's FY14 results reflect a challenging period for the Blanket mine. Subdued grades and limitations imposed by infrastructure have led the company to re-invigorate the operation via a substantial US\$70m investment programme (funded from cash-flow). This investment has already started, with the goal to lift production to 70-75koz by 2021, and provide for greater flexibility in mining at Blanket. FY15 will be the first full year of production under the new plan and a realistic 42koz production target has been set as expansion gathers pace.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	65.1	21.9	18.2	11.4	4.0	15.8
12/14	59.1	12.2	7.5	7.6	9.5	10.5
12/15e	69.7	15.0	20.4	6.0	3.5	8.3
12/16e	87.1	27.4	35.5	6.0	2.0	8.3

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

Overall a solid performance for FY14

Caledonia produced 41,771oz of gold (8.3% lower than FY13: 45,527oz, but 4.4% higher than its revised 40,000oz FY14 production target) at all-in sustaining costs of production of US\$969/oz – a fraction lower than FY13 US\$973/oz albeit based on 8.3% fewer ounces. Though a previous expansion plan was put in place post-indigenisation in 2012, which sought to lift production to 76koz by 2017, production faltered due to an asymmetric development plan limiting production options as grades reduced. We consider that the expansion plan now in place provides significantly more flexibility in mining Blanket's orebodies, allowing for Caledonia to materially increase production upwards of its current c 40,000ozpa level.

Dividend potential for FY16 intact

Caledonia sold 42,927oz at an average realised price of US\$1,245/oz bringing in gross profits of C\$20.5m (FY13: C\$29.9m) and resulting in attributable net profit of C\$4.9m (C\$11.1m for FY13 - normalised for a C\$14.2m impairment charge). Within the current gold price environment, and in our view of Blanket's current operational performance at c 40kozpa level, we consider Caledonia could comfortably maintain its annual 6c (paid quarterly) dividend policy into FY16.

Valuation: Requires FY15 to run smoothly to de-risk

Adjusting for its FY14 results, revised gold prices as per our February 2015 sector report Gold: The value of gold and other metals, and a C\$:\$ rate of 1.88 (1.83 previously) and C\$:US\$ rate of 1.26 (1.16 previously), our previous £1.46 (C\$2.67) base case valuation of Caledonia's shares increases by 4.1% to £1.52 (C\$2.84) a share using a 10% discount rate to reflect general equity risk. This valuation should be viewed in conjunction with the revised investment plan, summarised on page 2 and detailed in our January 2015 Outlook note [Future-proofing Blanket](#). A solid FY15 with production occurring as forecast would provide the market with the confidence it needs to positively re-rate the company's shares.

1 April 2015

Price **38.5p**

Market cap **£20m**

C\$:\$1.88

Net cash (C\$m) at 31 December 2014 26.8

Shares in issue 52.1m

Free float N/A

Code CMCL

Primary exchange TSE

Secondary exchange AIM

Share price performance



% 1m 3m 12m

Abs (1.3) 0.0 (17.2)

Rel (local) 0.9 (3.6) (19.6)

52-week high/low 61.0p 35.5p

Business description

Caledonia Mining mines gold at its main operating asset, the 49%-owned Blanket gold mine in southern Zimbabwe. It is also progressing its understanding of a number of promising satellite projects close to Blanket.

Next events

Operations update Q115

Analysts

Tom Hayes +44 (0)20 3077 5725

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

[Edison profile page](#)

Working capital freed up through selling to Fidelity

A positive effect of Caledonia selling its gold to the Zimbabwean refinery Fidelity Printers & Refiners has been a halving of its receivables from US\$4m to US\$2m. This is simply due to the gold now being refined in-country rather than being exported to Switzerland, reducing travel times and thus allowing for quicker payment. Further, the cynicism surrounding Zimbabwe requiring all gold producers in-country to sell their gold to Fidelity, so far, appears unfounded. Caledonia has been paid on time and in full for every parcel of gold sold. This is a positive indication of Zimbabwe's growing appreciation of the importance of the gold mining sector to its economy.

Two further positive developments relating to the gold sector are a reduction in the gold royalty from 7% to 5%, and a reduction of Fidelity's refining fees from 1.50% to 1.25%. Both are included in our financial forecasts.

Cash generation still strong through growth phase

Our in-house gold price assumptions result in end year cash positions for Caledonia of C\$21.4m in FY15 (C\$19.2m previously), C\$23.2m in FY16 (C\$18.3m previously). FY16 includes Edison's assumption that 6c total dividend is paid by Caledonia. Our forecasts have been affected by FY14 results, and specifically the low gold price achieved. Production should increase markedly during 2017 (c 65koz of gold, a y-o-y increase of 31%) which drives strong growth in cash to C\$40.0m by end FY17e. On the same basis and using a flat US\$1,150/oz gold price our end-year cash forecasts for FY15, FY16 and FY17 are C\$16.8m, C\$8.9m and C\$14.7m respectively.

Management has also lowered G&A costs through a reduction in its executive management team and has proposed the closure of its Zambian office (which was used to manage its Nama exploration asset) and is also working to reduce its tax burden outside of Zimbabwe. A successful closure of the Zambian office and reduction in taxes would, obviously, be positive to Caledonia's costs with the effects felt through FY15.

Development on-track, 2015 a pivotal year

Marking a positive start to Blanket's expansion, Caledonia states that the tramming loop (which will provide greater amounts of ore and waste to be transported to the No. 4 shaft and to surface) is c 50% complete and should be finished mid-2015. Pre-development works on the new 6m diameter central shaft (which will become the main transport route to surface for Blanket's ore and waste) are underway and excavation will start mid-2015, slightly ahead of schedule.

The No. 6 Winze, which was put into development before the current expansion plan was initiated, has seen its development rate return to "an acceptable level" after initial periods of slower manual excavation. The No. 6 Winze is due to be completed at the end of July 2015.

It is paramount to Caledonia's investment case, and increasing confidence in its ability to manage and complete its numerous development programmes at Blanket (and by extension grow production), that 2015 runs without any significant setbacks. The appointment of Dana Rooets as COO (an experienced deep-level South African gold mine engineer) provides greater management depth at the Blanket mine, and notwithstanding unforeseen events, should provide the experience required to successfully complete Blanket's expansion.

A summary of Caledonia's revised investment plan

The revised investment plan includes a new mine schedule for Blanket. This schedule indicates declining production from ore reserves, which are largely above 750m, from 42koz in 2015 to only

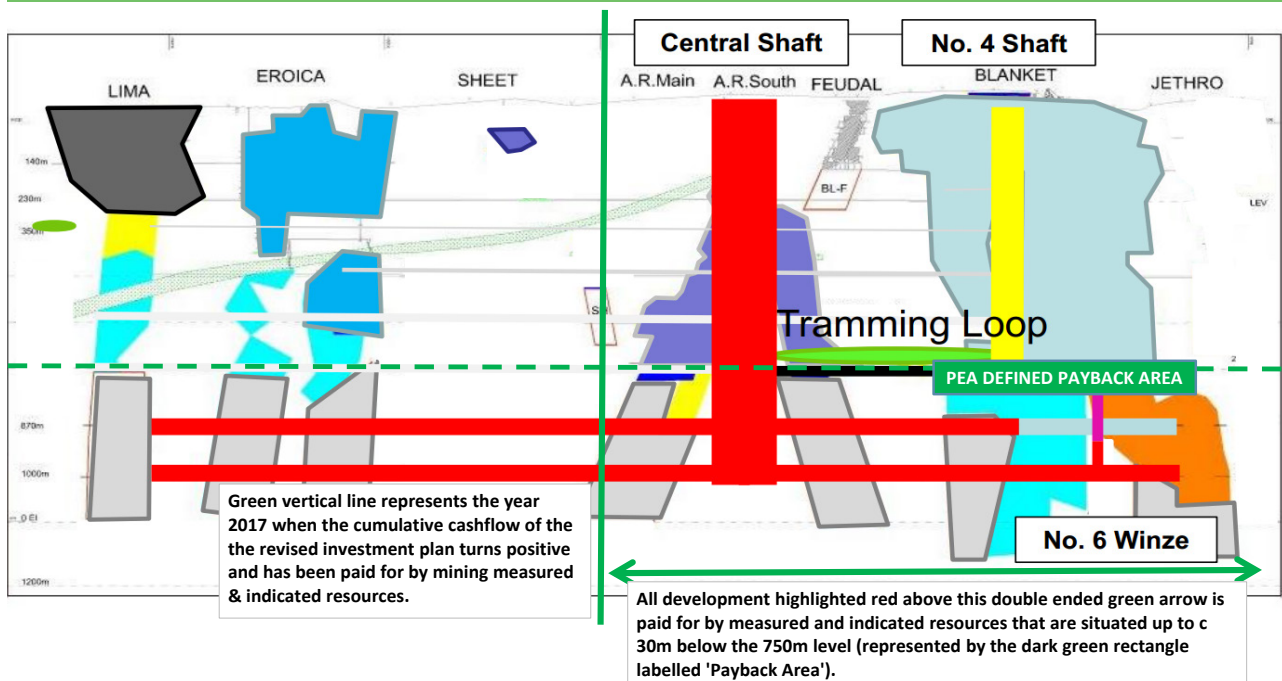
6koz by 2021, with a corresponding increase in production from inferred mineral resources from 2016 (4-5koz in 2016) to 70-75koz by 2021.

The most important point to take from the revised investment plan is that the majority of capital expenditure will be spent during the 2015-17 period, totalling US\$50m (C\$57m at a forex rate of US\$0.87/C\$). During this time, 97% of planned gold production will come from the mining and processing of indicated and measured category mineral resources (according to the 1 December 2014 PEA), with only 3% from inferred mineral resources.

The period 2015 to 2017 will see the central shaft completed as well as a new tramming loop, extension to the No. 6 Winze and half the lateral development (comprising two haulage drives) needed to access the Lima and Eroica inferred resources located in the north-western half of the mine (see Exhibit 1).

The remaining capex of C\$20m (US\$19m) from 2018-21 will be invested alongside production from mineral resources that will be converted into ore reserves below the 750m level.

Exhibit 1: Longitudinal section of the revised development plan from NW (left side) to SE (right side)



Source: Caledonia Mining, Edison Investment Research

Exhibit 2: Financial summary

	C\$'000s	2013	2014	2015e	2016e	2017e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		65,113	59,082	69,704	87,092	110,246
Cost of Sales		(35,232)	(38,609)	(47,402)	(52,082)	(59,360)
Gross Profit		29,881	20,473	22,302	35,010	50,886
EBITDA		25,317	16,252	19,693	32,130	47,722
Operating Profit (before amort. and except.)		22,041	12,344	14,875	27,312	42,904
Intangible Amortisation		0	0	0	0	0
Exceptionals		(12,526)	980	(700)	0	0
Operating Profit		9,515	13,324	14,175	27,312	42,904
Net Interest		(108)	(155)	134	107	116
Profit Before Tax (norm)		21,933	12,189	15,009	27,419	43,020
Profit Before Tax (FRS 3)		9,407	13,169	14,310	27,419	43,020
Tax		(9,897)	(6,604)	(1,905)	(4,698)	(9,521)
Profit After Tax (norm)		12,036	5,585	13,104	22,721	33,499
Profit After Tax (FRS 3)		(490)	6,565	12,404	22,721	33,499
Minority interests		(2,565)	(1,668)	(2,498)	(4,198)	(6,085)
Net income (norm)		9,471	3,917	10,606	18,522	27,414
Net income (FRS3)		(3,055)	4,897	9,907	18,522	27,414
Average Number of Shares Outstanding (m)		52.0	52.1	52.1	52.1	52.1
EPS - normalised (c)		18.2	7.5	20.4	35.5	52.6
EPS - normalised and fully diluted (c)		18.2	7.5	20.4	35.6	52.6
EPS - (IFRS) (c)		(5.9)	9.3	19.0	35.5	52.6
Dividend per share (c)		11.4	7.6	6.0	6.0	0.0
Gross Margin (%)		45.9	34.7	32.0	40.2	46.2
EBITDA Margin (%)		38.9	27.5	28.3	36.9	43.3
Operating Margin (before GW and except.) (%)		33.9	20.9	21.3	31.4	38.9
BALANCE SHEET						
Fixed Assets		33,448	40,388	53,721	69,972	84,569
Intangible Assets		0	0	0	0	0
Tangible Assets		33,448	40,388	53,721	69,972	84,569
Investments		0	0	0	0	0
Indigenisation receivable		0	0	0	0	0
Current Assets		36,154	36,908	32,167	35,797	55,165
Stocks		6,866	7,571	4,658	5,090	5,790
Debtors		3,889	2,151	5,729	7,158	9,061
Cash		25,222	26,838	21,432	23,201	39,967
Other		177	348	348	348	348
Current Liabilities		(7,534)	(5,781)	(5,095)	(6,618)	(11,501)
Creditors		(5,738)	(5,781)	(5,095)	(6,618)	(11,501)
Short term borrowings		(1,796)	0	0	0	0
Long Term Liabilities		(10,094)	(12,980)	(12,980)	(12,980)	(12,980)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(10,094)	(12,980)	(12,980)	(12,980)	(12,980)
Net Assets		51,974	58,535	67,812	86,171	115,254
Minority interests		(51)	(804)	(3,302)	(6,994)	(13,079)
Shareholder equity		51,923	57,731	64,510	79,178	102,175
CASH FLOW						
Operating Cash Flow		22,768	18,822	17,643	30,557	45,586
Net Interest		(108)	(155)	134	107	116
Tax		(7,974)	(4,999)	(1,905)	(4,698)	(9,521)
Capex		(11,738)	(6,786)	(18,151)	(21,070)	(19,415)
Acquisitions/disposals		0	0	0	0	0
Management Fees		470	0	0	0	0
Dividends		(7,934)	(3,974)	(3,127)	(3,127)	0
Net Cash Flow		(4,516)	2,908	(5,406)	1,769	16,766
Opening net debt/(cash)		(27,942)	(23,426)	(26,838)	(21,432)	(23,201)
HP finance leases initiated		0	0	0	0	0
Other		0	467	0	0	(0)
Closing net debt/(cash)		(23,426)	(26,801)	(21,432)	(23,201)	(39,967)

Source: Company accounts, Edison Investment Research

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, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (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 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

DISCLAIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Caledonia Mining 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 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). 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. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. 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 2015. "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.