

Caledonia Mining

Q1 results

Solid start, expansion on track, yields 8%

Metals & mining

13 May 2015

Price **41.5p**
Market cap **£22m**

C\$1.21/US\$, C\$1.86/£

Net cash (C\$m) at 30 March 2015 26.1

Shares in issue 52.1m

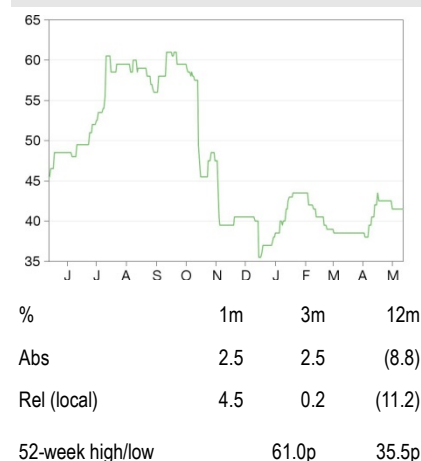
Free float N/A

Code CMCL

Primary exchange TSE

Secondary exchange AIM

Share price performance



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

Q215 & H115 results August 2015

FY16 dividend declaration August 2015

Q315 results November 2015

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The first quarter of 2015 has provided Caledonia with a solid footing to progress towards its FY15 production and expansion goals. Production is in line with budget, and expansion underway and firmly on track (with the tramming loop estimated to be ready a few weeks earlier than planned). We reiterate our forecasts and stress that Caledonia is a lowest-quartile AISC African gold miner with significant cash flow-funded growth due to start coming through in early 2016. A 6c dividend (equating to an 8% yield, twice the FTSE Mining Index average) is currently payable quarterly, with cash flow at current gold prices making a similar dividend in 2016 look likely.

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	4.2	14.8
12/14	59.1	12.2	7.5	7.6	10.3	9.8
12/15e	66.6	14.3	19.4	6.0	4.0	7.8
12/16e	83.2	26.2	34.0	6.0	2.3	7.8

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

Gold sold includes FY14 work in progress (WIP)

Blanket produced 9,960ozs gold at an all-in-sustaining cost (AISC) of production of US\$959/oz (a like-for-like increase of 4%), although this is expected to fall through 2015 due to further cutbacks in G&A and head office capex. Blanket sold 10,773ozs (including 813ozs held as WIP at end 2014) at an average realised gold price of US\$1,200/oz. Q115 net attributable profit was C\$1.6m with cash slightly reducing year-on-year from C\$26.7m to C\$26.1m. All figures are on a 100% basis. Caledonia's FY15 gold production target remains at 42koz.

Expansion – all projects on track

Caledonia's expansion to 70-75koz of gold by 2021 was initiated in Q414. Three projects are underway: the No 6 Winze (due to be completed in mid-2015 and adding reserve-based production from early 2016), the tramming loop (adding greater haulage capacity from mid-2015), and excavation of the main central shaft (a 6m wide, 1.1km deep shaft that will act as the main haulage conduit to surface) will start in earnest in mid-2015. We believe that the successful completion of the above will re-establish Caledonia as an effective, growth-focused, low-cost gold producer.

Valuation: Forecasts reiterated at this stage

Caledonia yields 7.9%, twice the FTSE Mining Index average of 4.2%. We reiterate the forecasts in our April note [2015 pivotal to Blanket's growth](#), using gold prices from our February 2015 sector report [Gold: The value of gold and other metals](#) and a C\$:US\$ rate of 1.21 (previously 1.26). On this basis, and with a C\$:£ rate of 1.86, our valuation is £1.47 (C\$2.74) a share using a 10% discount rate to reflect general equity risk. This valuation should be viewed in conjunction with the revised investment plan 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.

Caledonia Mining is a research client of Edison Investment Research Limited

Exhibit 1: 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	66,563	83,168	105,279
Cost of Sales		(35,232)	(38,609)	(45,266)	(49,735)	(56,686)
Gross Profit		29,881	20,473	21,297	33,433	48,593
EBITDA		25,317	16,252	18,806	30,682	45,572
Operating Profit (before amort. and except.)		22,041	12,344	14,205	26,081	40,971
Intangible Amortisation		0	0	0	0	0
Exceptionals		(12,526)	980	(668)	0	0
Operating Profit		9,515	13,324	13,537	26,081	40,971
Net Interest		(108)	(155)	134	109	117
Profit Before Tax (norm)		21,933	12,189	14,339	26,190	41,088
Profit Before Tax (FRS 3)		9,407	13,169	13,671	26,190	41,088
Tax		(9,897)	(6,604)	(1,819)	(4,486)	(9,092)
Profit After Tax (norm)		12,036	5,585	12,520	21,704	31,996
Profit After Tax (FRS 3)		(490)	6,565	11,851	21,704	31,996
Minority interests		(2,565)	(1,668)	(2,385)	(4,009)	(5,811)
Net income (norm)		9,471	3,917	10,134	17,695	26,185
Net income (FRS3)		(3,055)	4,897	9,466	17,695	26,185
Average Number of Shares Outstanding (m)		52.0	52.1	52.1	52.1	52.1
EPS - normalised (c)		18.2	7.5	19.4	34.0	50.2
EPS - normalised and fully diluted (c)		18.2	7.5	19.5	34.0	50.3
EPS - (IFRS) (c)		(5.9)	9.3	18.2	34.0	50.2
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	53,120	68,639	82,579
Intangible Assets		0	0	0	0	0
Tangible Assets		33,448	40,388	53,120	68,639	82,579
Investments		0	0	0	0	0
Indigenisation receivable		0	0	0	0	0
Current Assets		36,154	36,908	32,075	35,407	53,909
Stocks		6,866	7,571	4,448	4,860	5,529
Debtors		3,889	2,151	5,471	6,836	8,653
Cash		25,222	26,838	21,808	23,363	39,379
Other		177	348	348	348	348
Current Liabilities		(7,534)	(5,781)	(4,955)	(6,314)	(10,977)
Creditors		(5,738)	(5,781)	(4,955)	(6,314)	(10,977)
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	67,259	84,752	112,530
Minority interests		(51)	(804)	(3,189)	(6,692)	(12,503)
Shareholder equity		51,923	57,731	64,070	78,061	100,027
CASH FLOW						
Operating Cash Flow		22,768	18,822	17,115	29,180	43,532
Net Interest		(108)	(155)	134	109	117
Tax		(7,974)	(4,999)	(1,819)	(4,486)	(9,092)
Capex		(11,738)	(6,786)	(17,333)	(20,120)	(18,540)
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	(5,030)	1,555	16,016
Opening net debt/(cash)		(27,942)	(23,426)	(26,838)	(21,808)	(23,363)
HP finance leases initiated		0	0	0	0	0
Other		0	467	(0)	0	0
Closing net debt/(cash)		(23,426)	(26,801)	(21,808)	(23,363)	(39,379)

Source: Company accounts and Edison Investment Research

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