EDISON

Caledonia Mining

Q315 results

Development gathers pace

Metals & mining

Caledonia's Q315 results indicate continuing steady progress in implementing its revised investment plan (RIP), with year-to-date gold production of 31.3koz making its FY15 guidance of 42koz of gold look eminently achievable. In US dollar terms, on-mine costs remained stable q o-q. Increased capex in Q3 reflects adherence to the RIP as well as normal run-of-mine equipment purchases. Accounting for the lower gold price environment, Caledonia will inject US$5m of its own treasury in FY16 to support implementation of the RIP, as well as to continue quarterly dividend payments.

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	4.6	13.7
12/14	59.1	12.2	7.5	7.6	11.1	9.1
12/15e	64.5	8.5	11.1	6.0	7.5	7.2
12/16e	78.8	20.6	30.2	6.0	2.8	7.2

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

Cash cost stable, all-in increased y-o-y on RIP capex

Blanket produced 10,927oz gold from 117kt of ore milled (in total 120kt was hauled to surface, with the remaining amount stockpiled), at an all-in sustaining cost of production of US$1,011/oz. This is a slight q-o-q decrease of 1.8% (Q215: US$1,030/oz), and on a y-o-y basis increased 6.1%, due to higher sustaining capital. Q315 sustaining capital was US$1.5m (Q314: US$0.5m), which reflects investment in two machine drills, employee housing and a rope for the No. 4 Shaft.

C$ accounts distorted by currency movements

Depreciation of the C$ vs US$ has on a l-f-l basis, heavily distorted Caledonia's C$-denominated accounts, with revenue and costs up 17% and 41% respectively (cf stable US$ costs shown above). Caledonia operates in a dollarized-Zimbabwe economy and its present reporting currency does not accurately reflect underlying performance. Caledonia is looking to transfer to US$ accounting during H116.

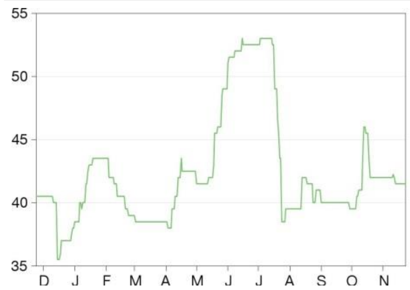
Valuation: Forecasts essentially unchanged

We adjust our valuation for Q315 results and our 2015e average gold price from US$1,164/oz down to US$1,151/oz. We also adjust our C$/£ exchange rate from 2.04 to 2.01. Gold production and capex ytd are in line with guidance. We also adjust for Q315 G&A costs totalling C$2.2m and a ytd forex gain of C$2.6m. On this basis, our previous £1.36 valuation becomes £1.38. At a flat gold price of US$1,100/oz over life-of-mine, our valuation becomes £0.68 per share. All valuations use a 10% discount rate to reflect general equity risk. Our end-FY15 cash position is now C$18.3m (cf C$16.9m previously). We also factor into our FY16 forecasts Caledonia's intention to inject US$5m of its own cash into the Blanket mine to support implementation of the RIP. This is a direct result of a decrease in the gold price from US$1,200/oz; the price used when the RIP was finalised in 2014. FY16e end year cash is now C$9.5m cf C$11.8m previously.

24 November 2015

Price	**41.50p**
Market cap	**£22m**
	C$2.01/£,C$1.30/US$
Net cash (C$m) at 30 September 2015	19.7
Shares in issue	52.1m
Free float	N/A
Code	CMCL
Primary exchange	TSE
Secondary exchange	AIM

Share price performance



%	1m	3m	12m
Abs	(1.2)	0.0	2.5
Rel (local)	0.7	(1.7)	6.6
52-week high/low		53.00p	35.50p

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

2015 production update and 2016 outlook	January 2016
Annual results	March 2016

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First effects of investment come through

Added production flexibility has allowed Caledonia to haul 117kt of ore to surface in a single quarter, 20% more than has ever been achieved before at Blanket. This is due to the first element of its RIP, the Tramming Loop, being completed in June. Increased tonnes hauled to surface have offset the still weak gold grade, currently 3.14g/t, which is expected to rise steadily to 4.0g/t by 2020 via mining identified higher grade pods. This increasing grade progression is factored into our production model. With 31.3koz of gold produced ytd in FY15, production guidance remains intact at 42koz. With better haulage flexibility now available, increased underground capital development has started to occur with all other elements of the RIP progressing as planned. Providing a further incentive to invest, Caledonia will pay a similar (to FY15) quarterly dividend through FY16.

Lower gold price causes Caledonia to aid RIP funding in FY16

As a result of the persistently low gold price Caledonia has advised that it will inject US$5m into the Blanket mine from its own treasury. It states that its cash reserves have been maintained at a high level for just this reason. We have therefore included this cash injection as a capex item bringing FY16 cash down from C$11.8m to C$9.5m.

Foreign exchange movements distort accounts

The following sections explain Caledonia operating cost performance in US dollar terms only. In summary, on-mine costs in US dollar terms remained stable, however translated into Canadian dollar terms, they rose by a misleading 41%.

Cash costs stable on a l-f-l basis, down 8.4% q-o-q

Q315 on-mine cash costs were US$668/oz, level with Q314 (US$669/oz) and an 8.4% decrease q o q. The q-o-q decrease in on-mine unit costs reflects a decrease in the cost of mining due mainly to lower consumable costs.

All-in sustaining cost of production steady

Blankets Q315 gold production was achieved at an all-in sustaining cost of production of US$1,011/oz. This is a slight q-o-q decrease of 1.8% (Q215: US$1,030/oz), and on a y-o-y basis, increased by 6.1% due to higher sustaining capital. Q315 sustaining capital was US$1.5m (Q314: US$0.5m), which reflects purchases of two machine drills and a rope for the No. 4 Shaft. Additional housing for the increased employee headcount to implement the RIP was also required.

All-in costs up, reflects RIP investment

Q315 all-in cost of production was US$1,412/oz. All-in costs include those not related to current production; effectively this cost measure is driven by the significant capital investment associated with implementing the RIP. The drain on cash resources caused by the RIP and the lower realised gold price achieved for ounces sold has led Caledonia to invest US$5m of its own treasury into the Blanket mine. We factor this into our FY16 forecasts.

Capital projects summary

The following sections provide a brief update on the progress of implementing specific aspects of the RIP, namely the No. 6 Winze development, Central Shaft sinking and extension of the 22 Level haulage drive.

No. 6 Winze, production due to start Q116

Due to a slight delay equipping this shaft, ore production will now start mid Q116, compared with January 2016 previously. The equipping of shafts is a relatively straightforward exercise. In our view this slight revision to the start-up date, which will see ore production occurring for the first time below the 750m level, should not affect the production of 50,000ozs in FY16.

Central Shaft sinking

The successful completion of the RIP is intimately linked to the sinking of a new 1,080m Central Shaft, which will allow a significant increase in underground haulage capacity. Work on the Central Shaft commenced with a pre-sink phase down to an eventual pre-sink depth of 90m. The depth of development is 24m below surface. Once the pre-sink is completed, expected by year end, a continual phase of shaft sinking will take place. This main phase of the Central Shafts development will take until 2018, at which point the end depth of 1,080m should have been achieved. First production out of the Central Shaft is planned to occur mid-2018.

22 Level haulage extension

The 22 Level haulage extension will link up all Blankets' orebodies over a distance of 2.5km on the 750m level. With the Tramming Loop now completed, Blanket's workforce will complete the remaining 300m of development. For illustrative purposes only, based on a 2m advance per blast, and two blasts achieved per day implies completion of this development project in mid-Q116.

Financials

Revenue and profit forecasts maintained

Blanket's Q316 revenue was C$15.8m, from the sale of 10,927ozs gold at an average realised gold price of US$1,106/oz (C$1,437/oz at a US$/C$ forex rate of 1.30). Production costs of C$10.2m, royalty payments of C$0.8m and depreciation of C$1.2m resulted in gross profit for the quarter of C$3.6m. Administrative costs were C$2.2m and a large 141% increase q-o-q in foreign exchange gains (C$1.8m) resulted in a Q315 operating profit of C$3.4m. We estimate a FY15 tax charge of C$1.0m compared with C$0.3m previously. Third quarter profit after tax was C$2.0m. At the nine-month stage, Caledonia's revenue of C$46.8m, operating profit of C$8.5m and PAT of C$4.6m, are sufficiently in line to maintain our end FY15 revenue forecast of C$64.5m (other than for a slight reduction in our Q415 gold price assumption – see below), and operating profit of C$8.3m. However, largely due to the moderate increase in tax paid, this drives down our PAT from C$8.7m previously to C$7.4m. Stability at the operating profit line is mainly driven by the Blanket mines consistent operational performance, coupled with slightly reduced revenue due to our modest downward revision in the average FY15e gold price from US$1,164/oz to US$1,151/oz.

Quarterly dividend assumption maintained through 2016

We record a 6c quarterly dividend totalling C$3.1m in our model for FY16e. At Caledonia's current share price equivalent to C$0.83, the 6c dividend indicates a yield of 7.19% compared with the FTSE Mining Index average of 7.96% as of 24 November 2015. Caledonia's management states that it currently envisages the FY16 dividend will be paid, however it remains "attentive to further changes in market conditions".

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	64,475	78,785	113,848
Cost of Sales	(35,232)	(38,609)	(48,457)	(50,300)	(58,104)
Gross Profit	29,881	20,473	16,018	28,485	55,743
EBITDA	25,317	16,252	13,324	25,511	52,476
Operating Profit (before amort. and except.)	22,041	12,344	8,349	20,535	47,501
Intangible Amortisation	0	0	0	0	0
Exceptionals	(12,526)	980	1,888	0	0
Operating Profit	9,515	13,324	10,237	20,535	47,501
Net Interest	(108)	(155)	134	91	47
Profit Before Tax (norm)	21,933	12,189	8,483	20,627	47,548
Profit Before Tax (FRS 3)	9,407	13,169	10,371	20,627	47,548
Tax	(9,897)	(6,604)	(1,044)	(1,783)	(9,832)
Profit After Tax (norm)	12,036	5,585	7,438	18,843	37,716
Profit After Tax (FRS 3)	(490)	6,565	9,327	18,843	37,716
Minority interests	(2,565)	(1,668)	(1,677)	(3,090)	(6,284)
Net income (norm)	9,471	3,917	5,762	15,753	31,432
Net income (FRS3)	(3,055)	4,897	7,650	15,753	31,432
Average Number of Shares Outstanding (m)	52.0	52.1	52.1	52.1	52.1
EPS - normalised (c)	18.2	7.5	11.1	30.2	60.3
EPS - normalised and fully diluted (c)	18.2	7.5	11.1	30.2	60.3
EPS - (IFRS) (c)	(5.9)	9.3	14.7	30.2	60.3
Dividend per share (c)	11.4	7.6	6.0	6.0	0.0
Gross Margin (%)	45.9	34.7	24.8	36.2	49.0
EBITDA Margin (%)	38.9	27.5	20.7	32.4	46.1
Operating Margin (before GW and except.) (%)	33.9	20.9	12.9	26.1	41.7
BALANCE SHEET					
Fixed Assets	33,448	40,388	54,157	77,466	92,540
Intangible Assets	0	0	0	0	0
Tangible Assets	33,448	40,388	54,157	77,466	92,540
Investments	0	0	0	0	0
Indigenisation receivable	0	0	0	0	0
Current Assets	36,154	36,908	28,755	21,308	44,353
Stocks	6,866	7,571	4,810	5,030	5,634
Debtors	3,889	2,151	5,299	6,476	9,357
Cash	25,222	26,838	18,298	9,454	29,014
Other	177	348	348	348	348
Current Liabilities	(7,534)	(5,781)	(5,197)	(6,264)	(11,451)
Creditors	(5,738)	(5,781)	(5,197)	(6,264)	(11,451)
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	64,735	79,531	112,462
Minority interests	(51)	(804)	(2,481)	(5,064)	(11,348)
Shareholder equity	51,923	57,731	62,254	74,466	101,113
CASH FLOW					
Operating Cash Flow	22,768	18,859	14,241	24,261	49,393
Net Interest	(108)	(155)	134	91	47
Tax	(7,974)	(4,999)	(1,044)	(1,783)	(9,832)
Capex	(11,738)	(6,786)	(18,744)	(28,285)	(20,049)
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)	2,945	(8,540)	(8,843)	19,559
Opening net debt/(cash)	(27,942)	(23,426)	(26,838)	(18,298)	(9,454)
HP finance leases initiated	0	0	0	0	0
Other	0	467	0	0	0
Closing net debt/(cash)	(23,426)	(26,838)	(18,298)	(9,454)	(29,014)

Source: Company accounts and Edison Investment Research

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