

Kingsgate Consolidated

Mining

13 August 2013

Investment summary: Record gold production

Kingsgate's (KCN) gold production in Q413 experienced a strong recovery from recent quarters and reached a record quarterly level of 61,973oz. This was all attributable to the Chatree operation, which achieved its second highest quarterly gold production of 46,093oz. Chatree ore reserves also increased by 13% to 1.82Moz of gold. In response to lower gold prices and to position the company for the future, cost savings initiatives across the group will reduce annual costs by A\$25m.

Chatree plant optimisation

Optimisation of both plants has continued to maximise throughputs and recoveries and lower operating costs. Completion is expected in late July. Gold recovery of 84.1% was higher than the previous quarter's recovery of 76.5%.

Challenger: New mine plan and new mine contractor

After a strategic review, a new mine plan will focus on the higher grade Challenger West ore body so that the mine is cash flow positive. A hedging programme for 50,000oz gold at a delivery price of A\$1,435 is also in place. The existing 'cost plus' mining contract has been replaced by a 'schedule of rates' contract from a new mining contractor to lower mining costs. Reflecting current challenges, a non-cash impairment charge against Challenger's carrying value of A\$320m is likely to result.

Silver projects: Nueva Esperanza EIA approved

In Chile, the Environmental Impact Assessment (EIA) submission has been approved by the Chilean government. Metallurgical test work has shown heap leach can be used with silver recoveries of 70-78%, reducing capital and operating costs. Production could start by early-2015 at 120,000oz gold equivalent a year. At Bowdens, NSW, additional planning requests may delay the Environmental Impact Statement and the definitive feasibility study (DFS) to mid-2014.

Valuation: At the lower end of the market cap/oz range

KCN is trading at a market cap/reserve oz of A\$136 (compared with our Australasian gold producer sample range of A\$78 to A\$579) and a market cap/resource oz of A\$61 (range A\$21-172). While KCN is trading towards the lower end of our ranges, the discount in the share price for the Thai location of its main operating mine, reflecting country risk, appears to be small. Therefore, KCN's share price ought to recover in line with Australian gold companies if the gold price improves.

Consensus estimates

Year End	Revenue (A\$m)	PBT (A\$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	172.4	17.8	18.7	15.0	8.6	9.4
06/12	357.4	91.0	52.5	20.0	3.0	12.5
06/13e	332.0	17.6	15.7	7.0	10.2	4.4
06/14e	309.9	20.4	16.1	9.6	9.9	6.0

Source: Thomson

Price A\$1.60
Market cap A\$244m
 US\$0.90/A\$

Share price graph



Share details

Code KCN
 Listing ASX
 Shares in issue 152.2m

Business description

Kingsgate Consolidated is an ASX-listed gold producer with the Chatree mine in Thailand and Challenger mine in Australia. As part of a growth and diversification programme, the company also has silver projects in Chile and New South Wales, Australia.

Bull

- Cost savings increase gold recovery leverage.
- Production flexibility during gold downturn.
- Exploration upside, long mine life expectancy.

Bear

- No near-term production from silver projects.
- Challenger mine difficult at current prices.
- Country risk in Thailand.

Analysts

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