16 March 2010

Angel Mining

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
02/08	0.0	(4.0)	(2.9)	0.0	N/A	N/A
02/09	0.0	(4.4)	(2.5)	0.0	N/A	N/A
02/10e	0.0	(5.1)	(2.0)	0.0	N/A	N/A
02/11e	15.6	(2.6)	(0.8)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: First gold

Earlier this month, Angel Mining announced that gold has been poured for the first time from its Nalunaq gold mine in Greenland. The pour, which actually occurred on 28 February, was slightly behind the initial timetable set out by the company after it acquired the mine in July 2009, with the result that the resulting revenue will fall in FY11, rather than FY10. Nevertheless, it remains well within reasonable tolerance levels, given the nature and scale of the undertaking, which involved being granted a mining licence, designing a process plant, sourcing its components, building an in-mine chamber, constructing foundations and installing and commissioning the plant.

Future developments at Nalunaq

First gold at Nalunaq was achieved using a gravity circuit, which recovers approximately 50% of the gold passed through it. The company is also progressing a permit application to use a cyanide circuit, which is under construction and should increase recoveries to over 90%. This is now anticipated to be operational by April (again, two months behind initial hopes, but still well within a reasonable timeframe).

Beyond Nalunaq and into the Black Angel mine

Initial costs and revenues at Nalunaq are likely to be capitalised, at least until the CIP cyanide circuit is operational. Thereafter, cash flow from Nalunaq will be directed to part fund the development of the (considerably larger) Black Angel lead/zinc mine, also in Greenland.

Valuation: Revised up to 13.2p per share

Adjusting our financial model to account for a slower production ramp up at Nalunaq and assuming the successful implementation of the mining plans for both Black Angel Phase I and Black Angel Phase II (at zinc and lead prices of US$2,000/t and a cable rate of US$1.50/£), we calculate that Angel Mining can pay dividends to investors over the life of its mines' operations worth 13.2p per share (at a discount rate of 10% to reflect general equity risk). Note that this calculation assumes that Cyrus Capital Partners enforces conversion of its loan to the company into 577m shares.

Price	7.25p
Market Cap	£22m

Share price graph

Share details

Code	ANGM
Listing	AIM
Sector	Metals and Mining
Shares in issue	297.5m

Price

	High	Low
52 week	8.75p	1.875p

Balance Sheet as at 31 August 2009

Debt/Equity (%)	73.8
NAV per share (p)	3.0
Net cash (£m)	5.2

Business

Formerly known as Angus & Ross, Angel Mining owns 100% of two mines in Greenland, namely the Nalunaq gold mine and the Black Angel lead/zinc mine. The company has now restarted production at Nalunaq and plans to restart production at Black Angel in 2011.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

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Angel Mining is a research client of Edison Investment Research Limited

First gold

On 1 March, Angel Mining announced that gold had been poured for the first time from its Nalunaq gold mine in Greenland. A photograph of the event is shown below.

Exhibit 1: Nalunaq first gold pour

Source: Angel Mining

A stockpile of ore has now been built up for processing and the mine is anticipated to reach a production rate of 15,000oz of gold per year (1,250oz Au per month) by the end of 2010, increasing to 27,500oz (±2,500oz) per year thereafter.

Earnings revision

Previously we had expected production at Nalunaq to increase to a rate of 2,338oz Au per month by the end of FY11 (cf the 1,250oz now anticipated). The slower ramp up in production has caused us to revise our output forecast for FY11 from 25,330oz Au to 15,099oz, with the result that our earnings forecast is also lower. This has been partially offset by our assumption of a higher long-term gold price than at the time of our last note (US$1,100/oz vs US$825/oz). Moreover, it has made little difference to our overall appreciation of the company, given Nalunaq's small scale compared to the much larger Black Angel mine, Phase I of the development of which will begin in earnest this year.

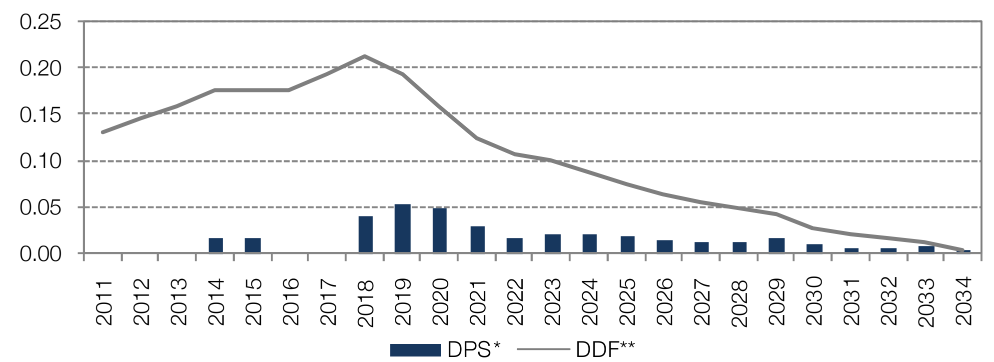
Valuation

On current expectations, production from Nalunaq is expected to last until FY14. Given current price and cost expectations, this should allow it to generate of the order of £10m in gross profits per year (the equivalent of around 3.4p per share). Considered alone on this basis, Nalunaq is capable of paying off the company's debt and generating a dividend of approximately 1p in the final two years of its life – although, in reality, we would expect any cash generated to be retained within the company at a time when it will be focusing on developing Phase I of operations at the Black Angel mine. Like Nalunaq, Phase I of operations at Black Angel are only forecast to last until FY15. Considered together and accepting current price and cost expectations (in particular lead and zinc prices of US$2,000/t each and a cable rate of US$1.50/£), both mines have the ability to pay off the company's debt and also to pay a dividend (by our estimation) of c 3p per share in the last two years of the operations' lives. Discounting at a rate of 10% (to account for general equity risk) generates a value to investors for the entire dividend stream of 3.8p per share in current money terms.

From this, it can be readily appreciated that most value in Angel Mining's shares can be accounted for by Phase II of the Black Angel mine, which is scheduled to run from FY16 to FY34. Considered together, we estimate that Angel Mining plc, comprising Nalunaq, Black Angel I and Black Angel II, and on its current shareholder base, has the ability to generate a dividend stream to investors worth 33p in current money terms, with a maximum dividend of 13.8p per share payable in FY19 and a maximum funding requirement of £52.2m at the end of FY11. Alternatively, however, it is possible that Cyrus will enforce conversion of its loan into equity in FY13, which will add an additional 577m shares to Angel's share register. In this event, we estimate that the value of Angel's (diluted) dividend stream to investors is 13.2p per share, with a maximum payout of 5.3p per share in FY19. This value will rise with time, as the onset of a consistent dividend stream draws nearer, to reach a peak of 21.3p per share in FY18, as shown in the graph below.

Exhibit 2: Angel Mining dividend forecast and value profile, 2011-2034 (£)

Note: * Dividend per share; ** Discounted dividend flow (at a discount rate of 10%).



Source: Edison Investment Research

Alternatively, Angel's current share price could instead be interpreted as the market applying a 17% discount rate to the same dividend stream.

Rather than paying such a variable dividend stream however, Angel is much more likely to adopt a flat or progressive dividend policy. While no dividend policy is yet in place, the same result, whereby all of the company's excess cash is paid out as dividends to shareholders over the lives of its mines' operations, may be achieved by the company instead paying a flat dividend of 1.9p per share from FY14 to FY34. If this were to be achieved and the market had reasonable confidence in the company extending its life indefinitely by pursuing a successful exploration programme, then applying a (fairly conservative) 5% dividend yield to such a dividend would imply a potential future share price for Angel as high as 38p.

Sensitivities

Our fully diluted valuation of 13.2p per Angel Mining share – based on Nalunaq and Black Angel (Phases I and II) – compares to one of 9.5p/share reported in our note of January 2010. Angel Mining has a Standby Equity Distribution Agreement for £5m with Yorkville Advisors, of which it has used £337,305, with the remaining funds as yet undrawn. At the time that the SEDA was put in place, Angel had a share price of approximately 2p; it is now 7.25p. Much of the appreciation in our valuation can be put down to the fact that the remaining funds will now be drawn at a higher share price than was previously the case, thus entailing significantly less dilution for shareholders. Note that for the purposes of our financial modelling (overleaf), we have assumed the remaining SEDA facility will be drawn in FY11. In addition, Angel has benefitted from the recent strength of the US dollar compared to sterling. Whereas we had previously conducted our valuation at a cable rate of US$1.60/£, the valuation is this report has instead been conducted at a rate of US$1.50/£.

Exhibit 3: Financials

£'000s	2007	2008	2009	2010e	2011e
Year end February	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	0	0	0	0	15,612
Cost of Sales	0	0	0	0	(16,759)
Gross Profit	0	0	0	0	(1,147)
EBITDA	(3,473)	(3,400)	(1,165)	(1,425)	2,085
Operating Profit (before GW and except.)	(3,708)	(3,610)	(1,230)	(3,419)	(2,572)
Intangible Amortisation	(856)	(27)	3,137	0	0
Exceptionals	0	0	0	0	0
Other	(28)	(191)	(221)	0	0
Operating Profit	(4,592)	(3,828)	1,686	(3,419)	(2,572)
Net Interest	227	(342)	(3,197)	(1,665)	0
Profit Before Tax (norm)	(3,481)	(3,952)	(4,427)	(5,084)	(2,572)
Profit Before Tax (FRS 3)	(4,365)	(4,170)	(1,510)	(5,084)	(2,572)
Tax	0	0	0	0	0
Profit After Tax (norm)	(3,509)	(4,143)	(4,647)	(5,084)	(2,572)
Profit After Tax (FRS 3)	(4,365)	(4,170)	(1,510)	(5,084)	(2,572)
Average Number of Shares Outstanding (m)	131.9	140.4	189.2	254.8	329.6
EPS - normalised (p)	(2.5)	(2.9)	(2.5)	(2.0)	(0.8)
EPS - FRS 3 (p)	(3.2)	(3.0)	(0.8)	(2.0)	(0.8)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets	597	5,688	11,861	21,523	56,698
Intangible Assets	0	0	946	946	946
Tangible Assets	52	5,334	10,782	19,544	54,719
Investments	545	354	133	1,033	1,033
Current Assets	4,353	2,558	753	0	4,023
Stocks	0	126	41	0	173
Debtors	396	199	38	0	3,849
Cash	3,958	2,233	674	0	0
Current Liabilities	(468)	(1,024)	(8,575)	(19,203)	(56,309)
Creditors	(468)	(1,024)	(379)	0	(4,132)
Short term borrowings	0	0	(8,197)	(19,203)	(52,177)
Long Term Liabilities	(87)	(6,277)	(1,110)	(3,110)	(3,110)
Long term borrowings	0	(5,670)	0	0	0
Other long term liabilities	(87)	(606)	(1,110)	(3,110)	(3,110)
Net Assets	4,395	945	2,928	(790)	1,301
CASH FLOW					
Operating Cash Flow	(3,666)	(171)	(1,834)	(1,724)	2,194
Net Interest	227	(203)	(696)	(1,665)	0
Tax	0	0	0	0	0
Capex	(24)	(8,156)	(1,850)	(10,757)	(39,831)
Acquisitions/disposals	0	0	0	(900)	0
Financing	6,412	1,334	2,810	3,365	4,663
Dividends	0	0	0	0	0
Net Cash Flow	2,949	(7,195)	(1,569)	(11,680)	(32,974)
Opening net debt/(cash)	(1,008)	(3,958)	3,437	7,523	19,203
HP finance leases initiated	0	0	0	0	0
Other	0	(199)	(2,517)	0	0
Closing net debt/(cash)	(3,957)	3,436	7,523	19,203	52,177

Source: Edison Investment Research, company accounts