Update

Edison investment research

29 May 2012

Allied Gold Mining

Year End	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/10	N/A	N/A	N/A	N/A	N/A	N/A
12/11	146.4	(5.7)	(3.0)	0.0	N/A	N/A
12/12e	314.7	117.2	46.3	0.0	5.6	N/A
12/13e	374.1	129.4	51.0	0.0	5.1	N/A

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

Investment summary: 2012 production outlook

Allied's Q112 production results are a positive step towards realising 2012's 180koz gold production target. In general, production was up (9.4% q-o-q) and gross cash costs were down (11% q-o-q). The completion of the works to expand the oxide plant to a 3.5Mtpa throughput (due Q312) and conversion from diesel to heavy fuel oil power (due mid-2012) should help bring production up and unit costs down further. We forecast ALD's 2012 EPS potential at 46.3c (28.2p).

Group level Q112 results reaffirm 180koz for 2012

Allied stated in Q112 a 9.4% increase in q-o-q gold production to 34,107oz at gross cash costs of US$1,099/oz (11% down on Q411). This recovery in production reaffirms the 2012 total group production target of 180koz, with Allied expecting a gross cash-cost run rate of US$850/oz by year end.

Simberi production – going the right direction

In Q112 Simberi demonstrated improved operational performance, with a 21.5% gold production increase over Q411 of 15,051oz. Simberi gross cash costs were down 4% q-o-q to US$1,067/oz. It is expected to produce c 75koz Au in 2012.

Gold Ridge – Kupers and Dawson coming online

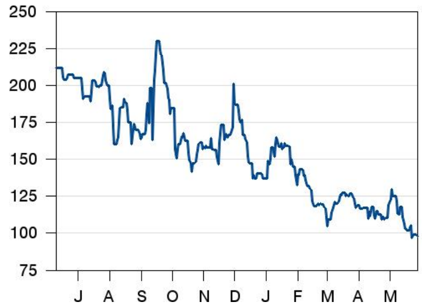
Gold Ridge, ALD's second mine in the Solomon Islands, produced 19,056oz Au at gross cash costs of US$1,124oz. Gold production was 1.4% higher and cash costs 14.8% lower than the preceding quarter. As the Kupers and Dawson pits start producing, grade and plant recoveries should improve this assets cash margins.

Valuation: Moving strongly into cash by end 2012

Even though FY11 gold production at Simberi was adversely affected, we still forecast ALD moving strongly into profit in 2012 as the benefit of increased throughput capacity at Simberi takes effect in Q412 and commissioning of Gold Ridge completes and starts to operate at LOM production levels (including higher recoveries and all three pits producing simultaneously therefore allowing for greater grade control and ore blending). Based on Allied achieving these objectives we forecast FY12 earnings of 46.3c (29.5p) per share and PAT of S$90.5m (£57.6m). This places it on a P/E of 5.6x – a significant discount to the NYSE Arca Gold BUGS index.

Price	98p
Market Cap	£200m

Share price graph



Share details

Code	ALD
Listing	AIM
Sector	Metals & mining
Shares in issue	204.3m

Price

	High	Low
52 week	230.0p	98.0p

Balance Sheet as at 31 March 2011

Debt/Equity (%)	N/A
NAV per share (c)	187
Net cash (US$m)	28.2

Business

Allied Gold Mining is a gold explorer-producer. Its main assets are the Simberi oxide (and potentially sulphide) gold mine in Papua New Guinea and the Gold Ridge gold mine in the Solomon Islands.

Valuation

	2011	2012e	2013e
P/E relative	N/A	53%	54%
P/CF	20.8	4.7	3.9
EV/Sales	3.5	1.6	1.1
ROE	N/A	16%	15%

Geography based on revenues (2011)

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

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180koz ounces by end 2012 feasible

Following from Simberi in 2008, and even with Gold Ridge coming online in March 2011, the company reached its first milestone of over 100koz gold produced in one year in 2011. However, the company has widely stated its expansion plans (at Simberi) and ramp up (at Gold Ridge), along with numerous satellite initiatives to push down cash costs (ie conversion to heavy fuel oil power generation – due mid 2012). The question really is how Allied's stated production target of 180koz in 2012 will materialise from these operations, and what are the risks that may hamper it achieving this significant rise in production.

Simberi production capability 100koz by end 2012

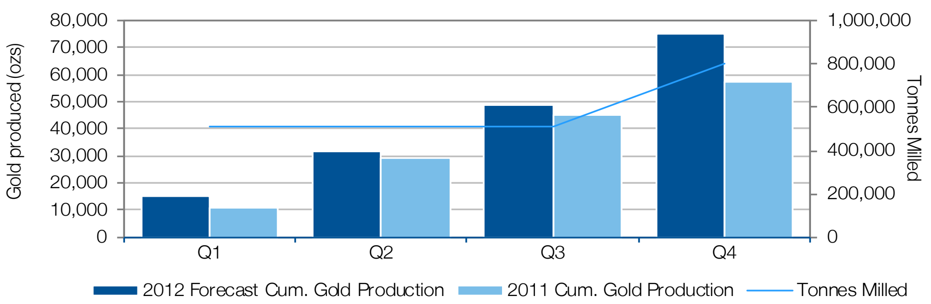
Oxide gold production to date has been largely constrained by Simberi's process plant, which has already had a programme of debottlenecking initiatives (ie modifying aspects of the plant that would allow for greater production) lifting throughput from 2.0Mtpa in 2008 to 2.4Mtpa in 2010 (production was 69koz Au). Since 2011 Allied has sunk around A$32m into expanding its process plant from the 2.4Mtpa to 3.5Mtpa, and with it an annual gold production capability of 100koz. This expansion programme is now due to finish mid-2012 and Allied forecasts gold production from Simberi in 2012 of c 75koz.

Additional production capacity coming online Q412

Allied states that its programme to increase process throughput from 2.4Mtpa to 3.5Mtpa at Simberi is due for completion in the September quarter of 2012, and we expect this extra process capacity to then become available in the final quarter of 2012. Under our assumptions, for Simberi to reach its 2012 gold production target of 75koz Au, we have forecast quarterly milled tonnages flat at Q112 levels of c 510,000t ore at an increased average grade of 1.20g/t and gold recovery factor of 86% for Q212 and Q312. This equates to gold production in each quarter of 16,895oz. Then in Q412 we assume that 73% of the additional 275kt (3.5Mt annualised) of extra quarterly process capacity comes on line (at the same gold recovery and recovery factor used in Q212 and Q312), equating to 26,544oz gold. We believe these assumptions concerning the use of the additional process capacity due online Q412 are conservative and achievable given Allied's current production rates. Our 2012 forecast cumulative gold production forecast for Simberi is given in Exhibit 1.

Exhibit 1: Simberi cumulative gold production forecast for 2012

Note: Based on Allied Gold's 2012 gold production target of 75koz at Q112 operating parameters for gold grade (1.06g/t) and gold recovery (86.0%). Expansion of processing plant to 3.5Mtpa completed by mid-2012.

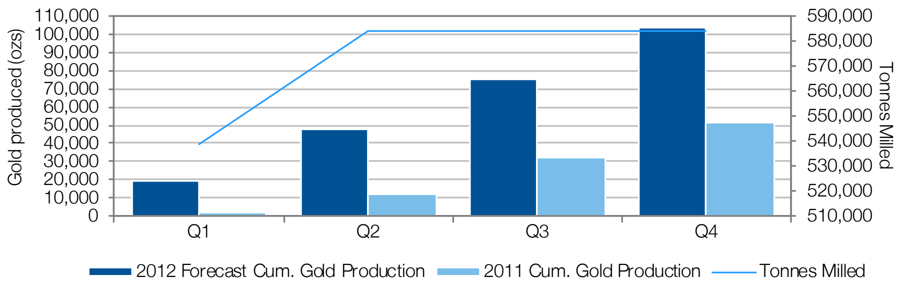


Source: Edison Investment Research

Gold Ridge – reaching life of mine operating parameters Q212

Gold Ridge, though only entering production in March 2011, was only 10.9% off Simberi's actual gold production for the year of 57,284oz. Further, Gold Ridge was operating at below life of mine operating levels concerning both gold grade and gold recovery. This was expected as the mine processed a low-grade stockpile accumulated prior to start-up in March 2011. As a result, the gold recovery factor in Q112 was 72%. Gold recovery, however, should improve to around a life of mine average of 82.5% during H212, as ore from two additional pits, Kuper and Dawson, allow for greater control over the ore feed to the mill. In essence Dawson and Kuper will allow for higher grade, softer rock to be blended with the harder ore currently being extracted from the established Valahaichichi and Namachamata pits. Our forecast cumulative gold production forecast for Gold Ridge for 2012 is given in the following exhibit:

Exhibit 2: Gold Ridge cumulative gold production forecast for 2012



Source: Edison Investment Research

Though Exhibit 2 shows a significant (106%) forecast increase in 2012 gold production over that achieved in 2011, we believe this is realistic for the following reasons:

- The average gold grade achieved to date (Q211 to Q112) is 1.57g/t, primarily due to low grade stockpiles being processed. However, these are now being exhausted. The forecast gold grade for 2012 is c 1.83g/t, which should be achieved as ore from the Kuper and Dawson pits blends into that of ore from the established Valehaichichi and Namachamata pits.
- Gold recoveries to date (Q211 to Q112) average 69.8%, 15.4% below the forecast life of mine average for Gold Ridge of 82.5%. The low recoveries observed so far have been constrained by the processing of low-grade stockpiles. Recoveries will again recover as better ore blending is achieved as the Kuper and Dawson pits come online.

Conclusion – 180koz is feasible, though operational risk is always present

The completion of the oxide expansion in mid-2012 at Simberi to lift throughput from 2.4Mtpa of ore to 3.5Mtpa (with first use of the increased process capacity due Q412), as well as the ability at Gold Ridge to blend ores from numerous pits means that Allied's production target of 180koz gold production in 2012 appears feasible. However, operational risk is always present concerning mining companies and it is Allied's responsibility that there are no reoccurrences of plant failure, such as the breakdown of the ball mill at Simberi in Q411, which led to 25 days' lost production (this has now been fully repaired). Also, the tropical weather and torrential rainfall that occurs periodically in Papua New Guinea and the Solomon Islands can, and has, hampered production efforts. However, Allied does operate an expanded haulage fleet at its mines to help mitigate the impact of periods of heavy rainfall by putting on more trucks to counter lost hours of production. Further, heavy rainfall will also cause mill throughputs to slow as wet ore can clog up machinery and adversely impact gold recoveries, mainly due to gold remaining bound within clay like materials.

The effect of increasing production on lowering cash costs

The countering effect of increasing the gold grade (primarily regarding Gold Ridge), recovery and throughput capacity (Simberi), is that cash costs per ounce should decrease as economies of scale are better realised. Due to the relatively low grade at Simberi, it was the appreciation of economies of scale that has driven to company to aggressively expand production capacity to 3.5Mtpa. Allied forecasts that by end 2012 its gross cash cost run rate should be in the order of US$850/oz. This will be a marked (-25%) improvement on Q112 its stated group cash costs of US$1,099/oz.

Valuation

Based on Allied achieving 180koz in 2012, and the production profiles as set out in its June 2011 NI43-101 Technical Reports (which we used to form our long-term valuation as set out in our September 2011 Outlook, *220,000oz in sight*), we forecast FY12 earnings of 46.3c (29.4p) per share and PAT of US$90.5m (£57.6m). On this basis Allied's future price/earnings (FY12) ratio of 5x is at a significant c 80% discount to the historic multiple for the NYSE Arca Gold BUGS index of 27.5x. Further, Allied's enterprise value of US$35 per total JORC compliant resource ounce is at a 68% discount to the average of a broad range of gold stocks of US$109/oz, as presented in the following exhibit:

Exhibit 3: Allied Gold peer comparison

Note: priced as at 28 May 2012

	Share price (US$)	Market cap (US$m)	EV (US$m)	EV/EBITDA 2011	EV/EBITDA 2012e	EV/EBITDA 2013e	P/E 2011	P/E 2012e	P/E 2013e	EV/Res	EV/Prod
Centerra Gold	11.0	2,576	2,072	4.3	6.4	2.7	6.9	17.8	4.9	110	3,226
African Barrick	5.4	2,195	1,649	3.0	3.0	2.6	8.0	8.1	6.6	61	2,357
Nordgold	5.3	1,884	2,304	3.6	3.1	2.6	11.2	5.9	4.4	102	3,055
Petropavlovsk	1.1	1,137	2,205	4.1	3.8	3.2	4.9	4.0	3.5	90	3,262
Nevsun	3.4	674	447	1.0	1.3	2.0	4.6	6.2	8.3	401	1,179
Aurizon	4.7	769	556	4.5	4.2	4.3	17.5	13.8	12.7	86	3,393
Allied Gold	1.5	314	342	11.5	11.6	3.7	-	-	4.8	40	3,152
Pan African Resources	0.2	341	333	7.4	4.0	2.7	12.7	6.8	4.7	97	3,507
Cluff Gold	1.1	170	145	3.5	4.0	2.7	-	12.6	8.9	37	2,023
Weighted average		**10,060**		**4.0**	**4.3**	**2.8**	**8.4**	**10.1**	**5.9**	**109**	**2,871**

Source: Based on Bloomberg Data

Exhibit 4: Financials

US$'000s	2010	2011	2012e	2013e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	0	146,404	314,961	374,127
Cost of sales	0	(130,096)	(151,829)	(190,563)
Gross profit	0	16,308	163,131	183,565
EBITDA	0	29,204	84,157	94,005
Operating profit (before GW and except)	0	1,407	119,352	131,561
Intangible amortisation	0	0	0	0
Exceptionals	0	(189)	0	0
Other/share-based remuneration	0	(52)	(4,000)	(4,000)
Operating profit	0	1,166	115,352	127,561
Net Interest	0	(7,140)	(2,200)	(2,200)
Profit before tax (norm)	0	(5,733)	117,152	129,361
Profit before tax (FRS 3)	0	(5,974)	113,152	125,361
Tax	0	0	(22,630)	(25,072)
Profit after tax (norm)	0	(5,733)	94,521	104,289
Profit after tax (FRS 3)	0	(5,974)	90,521	100,289
Average number of shares outstanding (m)	0.0	188.8	204.3	204.3
EPS - normalised (c)	0.0	(3.0)	46.3	51.0
EPS - normalised fully diluted (c)	0.0	(2.9)	44.6	49.8
EPS – FRS 3 (c)	0.0	(3.2)	44.3	49.1
Dividend per share (c)	0.0	0.0	0.0	0.0
Gross margin (%)	0.0	11.1	51.8	49.1
EBITDA margin (%)	0.0	19.9	26.7	25.1
Operating margin (before GW and except) (%)	0.0	N/A	37.9	35.2
BALANCE SHEET				
Fixed assets	432,009	512,756	543,327	529,389
Intangible assets	27,307	36,997	36,997	36,997
Tangible assets	403,555	473,267	503,838	489,900
Investments	1,147	2,492	2,492	2,492
Current assets	68,111	108,633	226,546	348,352
Stocks	22,911	80,335	52,493	62,355
Debtors	4,403	2,160	25,887	30,750
Cash	39,194	21,531	143,559	250,641
Other	1,603	4,607	4,607	4,607
Current liabilities	(29,075)	(82,580)	(56,343)	(59,721)
Creditors	(15,446)	(40,609)	(15,372)	(18,750)
Short-term borrowings	(12,372)	(40,404)	(39,404)	(39,404)
Other	(1,257)	(1,567)	(1,567)	(1,567)
Long-term liabilities	(56,574)	(32,119)	(112,319)	(112,519)
Long-term borrowings	(46,047)	(9,393)	(89,393)	(89,393)
Other long-term liabilities	(10,527)	(22,726)	(22,926)	(23,126)
Net assets	414,471	506,690	601,211	705,501
CASH FLOW				
Operating cash flow	0	23,562	112,993	134,900
Net interest	0	(1,565)	(2,200)	(2,200)
Tax	0	0	0	0
Capex	0	(116,703)	(65,766)	(23,618)
Acquisitions/disposals	0	(1,436)	0	0
Financing	0	101,899	0	0
Dividends	0	0	0	0
Net cash flow	0	5,757	45,028	109,082
Opening net debt/(cash)	0	19,225	28,266	(14,762)
finance leases initiated	0	(10,524)	(2,000)	(2,000)
Other	0	(4,274)	0	0
Closing net debt/(cash)	0	28,266	(14,762)	(121,844)

Source: Edison Investment Research, company accounts