



STRATEX INTERNATIONAL

News flow, will be flowing this year

BUY*

4.4p[#]

Year-end Dec	2011A	2012A	2013E	2014E
Revenue (£m)	-	-	-	-
EBITDA (£m)	(1.1)	(2.9)	(2.5)	(2.9)
Adj. Pre-tax Profit (£m)	(0.4)	9.6	0.3	(1.4)
Adj. EPS (p)	(0.1)	2.2	0.1	(0.3)
DPS (p)	-	-	-	-
Net Cash/(Debt) (£m)	0.6	2.4	10.8	7.6
P/E (x)	(34.3)	2.0	75.7	(14.9)
Dividend yield (%)	-	-	-	-
EV/EBITDA (x)	(13.0)	(5.8)	(4.1)	(4.7)

Key Data	
Rating (12 month)	BUY
Price Target	12.8p
Risk	High
Sentiment	Positive
Ticker	STI.L
Shares in issue	467.3m
Market cap	£20m
12-mth price range	8.1p-4p
Net cash (post Inlice)	£18.1m
Next event	FS Altintepe

SOURCE: Northland Capital Partners Limited estimates

[#]Priced at market close, 21/03/2013

*Northland Capital Partners Limited is Broker to Stratex International and therefore this information should be viewed as Marketing Material.

The sale of Stratex's 45% stake in the Inlice deposit for \$3.7m (net to Stratex) is positive news for shareholders as the asset is non-core and the funds generated can be re-deployed on the potentially higher impact exploration projects. The \$3.7m generated from the sale is in line with our \$3.8m valuation of the project and brings forward the realisation of value from Inlice by two years. The FY12 final results from Stratex were ahead of our expectations with PBT of £9.7m. The sale of Öksüt for \$20m, Inlice for \$3.7m (cash not yet received) and a 51% interest in the Muratdere project for \$1.7m combined with the healthy existing net cash position of £2.4m separates Stratex from the majority of other junior explorers. We estimate that Stratex's post sales cash position will be £18.1m or 3.9p per share once the cash from the sale of Inlice is received, we highlight that with the current share price of 4.4p per share Stratex looks remarkably cheap. Stratex intends to use its robust cash balance to accelerate exploration at existing projects and also pursue an aggressive acquisition strategy, this will lead to a large volume of news flow in FY13.

COMPANY DESCRIPTION

Stratex International is a gold and base metals exploration and development company with key assets in Turkey, East Africa and West Africa. The company has a gross resource of 2.3moz Au before JV interests/options (net 1.1moz Au) and is actively exploring through several JV partnerships with major operators.

- **East Africa:** Drilling is expected to begin later in the year at the Megenta prospect, Ethiopia, and the Oklila prospect, Djibouti, with assay results to follow. Both of these prospects are part of the JV with, and fully funded by, Thani Ashanti. At the 95% owned Blackrock prospect, drilling is underway with results expected shortly. Soil sampling results from the Tigray prospect are also expected soon.
- **West Africa:** We anticipate assay results from drilling at the Dalafin prospect, Senegal, mapping and soil sampling at the Azrag and Adham licences (Mauritania) in H1, as well as soil and stream sampling results from the North Suehn prospect, Liberia.
- **In Turkey:** Results of the feasibility study and EIA from the Altintepe project are pending with the potential for production by the end of the year or early 2014. We also anticipate results from work currently being undertaken at the Muratdere project by JV partner Lodos.
- **Valuation:** Our valuation is maintained at 12.8p per share with the sale of Inlice, changes to gold price and exchange rates, and an increased resource at Centerra's Öksüt project (1% NSR to Stratex) not significantly affecting the price target of 12.8p.

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FY12 RESULTS

LBIT of £3m for FY12 was slightly up on our forecasts of £2m due to an increase in corporate expenditure associated with the large volume of corporate activities including acquisitions and sale of assets in FY12.

LBIT slight up on forecasts

We were anticipating that the sale of Stratex's stake in the Öksüt project for \$20m would be included in the FY13 figures as the deal was completed on 24/01/13. However, it has been included in the FY12 Income Statement as the deal was signed off on 12/12/12 and was only subject to the conversion of the exploration licences to operating licences, considered a matter of routine by the company. As the cash from the sale had not been received until after the year end (31/12/12) the cash is not included in the Cash Flow Statement and is shown as a debtor in the Balance Sheet. This results in a substantial difference between the FY12 PBT of £9.7m and out forecasts of a LBT of £1m for FY12.

\$20m from Öksüt sale

Cash and cash equivalents for FY12 was slightly lower than forecast due to the increased costs associated with the larger volume of corporate activities. However, the cash from the sale of Öksüt and a 51% interest in Muratdere has now been received, and with the cash from the sale of Stratex's 45% interest in Inlice (yet to be received) we forecast Stratex's net cash position to be £18.1m.

Net cash £18.1m (post Inlice)

FY13 AND FY14 FORECASTS

In FY13, we now forecast a LBIT of around £2.5m and a PBT of around £0.3m with the sale of the Inlice deposit generating around £2.44m. We also assume that Lodos continues to increase its stake in the Muratdere project by paying an additional \$0.5m.

FY13 PBT £0.3m

We expect Stratex to finish FY13 with a robust net cash position of £10.8m even with the substantial amount of exploration being undertaken during the course of the year costing around £8m.

FY13 net cash £10.8m

In FY14, we are expecting production to begin at Altintepe at the latest, and we are conservatively assuming less than 7,000oz of gold are produced during the first year generating around £1.5m in post-tax associate income. Once the feasibility study results are announced (expected shortly), we will have a better idea on timing and initial production levels and will look to update our forecasts and valuation.

FY14 Altintepe production

We expect a LBIT of £2.9m in FY14 and a LBT of £1.4m, taking into account the £1.5m of associate income from Altintepe. Net cash at the end of FY14 is also expected to remain robust at around £7.6m.

FY14 LBT £1.4m

VALUATION

Our valuation has been updated to take into account the sale of Inlice in line with our expectations. We had assigned a value of £2.5m to the project compared with the £2.44m Stratex will receive. Also taken into account in the valuation is a decrease in the three month average gold price to \$1,482/oz Au from the \$1,518/oz Au used previously as well as the weakened GBP to USD exchange rate of £1.51/\$ from the previously used £1.63/\$. Centerra (CG.TSX) recently (07/02/13) increased the total resource (M, I & I) at the Öksüt project to 1.159moz Au from 1.048moz Au previously established slightly increasing the value of Stratex's 1% NSR at the project. To be conservative we also pushed out production from the Altintepe project to FY14 (previously FY13) but this has no significant effect on our valuation.

Inlice sale price in line with our expectations

The net effect of these changes is minimal and we maintain our price target of 12.8p per share.

PT 12.8p

VALUATION BREAKDOWN

Project	Valuation (\$m)	Valuation (£m)	Valuation per share (p)
Altintepe	27.6	18.2	3.9
Öksüt NSR	7.0	4.6	1.0
Muratdere - copper	14.2	9.4	2.0
Muratdere - gold	9.9	6.5	1.4
Other projects	4.1	2.7	0.6
Cash	27.4	18.1	3.9
Total	90.2	59.6	12.8

SOURCE: Northland Capital Partners Limited estimates

FORECASTS

Income statement							
Year to 31st December (£m)	2009A	2010A	2011A	2012A	2012E	2013E	2014E
Revenue	-	-	-	-	-	-	-
Other income/(loss)	(0.0)	0.1	0.9	(0.0)	-	-	-
Total income	(0.0)	0.1	0.9	(0.0)	-	-	-
Issue of shares other than for cash	(0.4)	-	-	-	-	-	-
Corporate expenditure	(1.3)	(1.7)	(2.0)	(2.9)	(2.0)	(2.5)	(2.9)
Impairment charges	(0.5)	(0.1)	(0.1)	(0.1)	-	-	-
Total costs	(2.2)	(1.8)	(2.1)	(3.0)	(2.0)	(2.5)	(2.9)
EBIT	(2.2)	(1.7)	(1.2)	(3.0)	(2.0)	(2.5)	(2.9)
Financial income	0.0	0.0	0.0	0.1	0.0	0.1	0.1
Financial expense	-	-	-	-	-	-	-
Net financing income	0.0	0.0	0.0	0.1	0.0	0.1	0.1
Post tax associate income from Altintepe	-	-	-	-	-	-	1.5
Gain/(loss) of associate	-	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Gain/(loss) on acquisition/sale	-	(1.1)	0.8	12.9	1.1	2.8	-
Profit/(loss) before tax	(2.1)	(2.9)	(0.5)	9.7	(1.0)	0.3	(1.4)
Taxation credit/(expense)	(0.0)	(0.0)	0.1	(0.1)	-	-	-
Profit/(loss) for the year	(2.1)	(2.9)	(0.4)	9.6	(1.0)	0.3	(1.4)
Exchange differences on translating foreign operations	(0.4)	(0.3)	(0.7)	0.2	-	-	-
Profit/(loss) for the year	(2.6)	(3.1)	(1.2)	9.8	(1.0)	0.3	(1.4)
Profit/(loss) for the year attributable to:							
Equity holders of the parent company	(2.1)	(2.9)	(0.4)	9.6	(1.0)	0.3	(1.4)
Non-controlling interest (minorities)	-	-	(0.0)	(0.0)	-	-	-
EPS analysis:							
Basic profit/(loss) (p)	(0.9)	(1.0)	(0.1)	2.2	(0.2)	0.1	(0.3)
Diluted profit/(loss) (p)	(0.8)	(0.9)	(0.1)	2.2	(0.2)	0.1	(0.3)
Taxation Rate %	0.2	0.3	(14.1)	(1.4)	-	-	-
Group Pre-tax Margin (%)	93,501.6	(2,299.7)	(57.3)	(22,614.8)	#DIV/0!	#DIV/0!	#DIV/0!
Operating Profit (EBIT) Margin (%)	95,374.5	(1,333.5)	(133.7)	7,093.1	#DIV/0!	#DIV/0!	#DIV/0!
Dividends per share (p)	-	-	-	-	-	-	-
Dividend Cover (x)	-	-	-	-	-	-	-
Number of shares (m) (Ave weighted)	239.5	284.1	321.5	437.3	437.0	466.8	466.8
Number of shares (m) (Ave weighted fully dil.)	258.1	305.2	342.5	445.4	449.2	479.0	479.0
EBITDA (£m)	(2.1)	(1.6)	(1.1)	(2.9)	(2.0)	(2.5)	(2.9)
Enterprise Value (£m)	10.3	13.8	14.4	17.0	15.7	10.2	13.4
EBITDA Interest Cover (x)	(49.5)	(72.1)	(47.1)	(48.8)	(99.5)	(23.1)	(37.7)
Depreciation & Amortisation	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Cash Earnings Per Share (p)	(0.8)	(0.5)	(0.3)	(0.7)	(0.4)	(0.5)	(0.6)
Price (p)	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Price Earnings Ratio	(5.3)	(4.6)	(34.3)	2.0	(20.5)	75.7	(14.9)
Net yield %	-	-	-	-	-	-	-
Price to CEPS	(5.3)	(8.4)	(13.6)	(6.6)	(9.9)	(8.4)	(7.3)
NAV per share (c)	3.3	0.7	0.9	4.1	1.4	2.6	1.9
EV/EBITDA	(4.8)	(8.7)	(13.0)	(5.8)	(7.9)	(4.1)	(4.7)

SOURCE: Northland Capital Partners Limited estimates

Cash flow							
Year to 31st December (£m)	2009A	2010A	2011A	2012A	2012E	2013E	2014E
Operating profit (EBIT)	(2.2)	(1.7)	(1.2)	(3.0)	(2.0)	(2.5)	(2.9)
Net interest (cash paid)	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Depreciation and Amortisation	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Impairments	0.5	0.1	0.1	0.1	0.0	-	-
Post tax associate income from Altintepe	-	-	-	-	-	-	1.5
Other	(0.0)	(0.0)	(0.1)	(0.0)	-	-	-
Cash in	(1.6)	(1.5)	(1.1)	(2.7)	(2.0)	(2.5)	(1.3)
Debtors less creditors	0.0	(0.4)	0.6	(0.2)	-	-	-
Tax paid	-	-	-	-	-	-	-
Cash out	0.0	(0.4)	0.6	(0.2)	-	-	-
Gross trading cash flow*	(1.6)	(1.9)	(0.5)	(2.9)	(2.0)	(2.5)	(1.3)
Capital expenditure	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Exploration costs	(1.0)	(1.7)	(4.5)	(5.2)	(6.4)	(8.0)	(3.1)
Net trading cash flow	(2.6)	(3.8)	(5.0)	(8.3)	(8.5)	(10.6)	(4.5)
Acquisitions & investments	(0.0)	(0.0)	(1.0)	(0.2)	(0.1)	(0.1)	(0.1)
Sale of fixed assets & investments (net)	-	0.7	0.8	1.3	1.0	15.6	-
Issue of share options	0.2	0.0	0.1	0.1	-	-	-
Issue of shares (net)	0.4	1.3	4.5	7.6	7.6	-	-
Funds from JV partner	0.5	1.4	2.8	1.2	2.4	2.0	1.5
Gain/(loss) from non-controlling interest in subsidiary	-	-	0.3	(0.2)	-	-	-
Exchange Rate Movements	(0.0)	(0.2)	(0.5)	0.2	-	-	-
Change in net cash and cash equivalents	(1.6)	(0.7)	2.0	1.7	2.5	7.0	(3.1)
Net cash and cash equivalents	1.7	1.0	3.0	4.7	5.5	11.7	8.5

SOURCE: Northland Capital Partners Limited estimates

Balance sheet							
Year to 31st December (£m)	2009A	2010A	2011A	2012A	2012E	2013E	2014E
Share capital	2.5	2.9	3.5	4.7	4.7	4.7	4.7
Share premium account	8.4	9.3	13.2	20.4	20.4	20.4	20.4
Retained earnings/losses	(3.0)	(7.7)	(8.1)	1.6	(9.1)	1.8	0.4
Other Reserves (incl. Foreign currency reserve)	0.6	0.0	(0.6)	(0.4)	(0.4)	(0.6)	(0.8)
Non-controlling interest (minorities)	-	-	0.1	-	0.1	0.1	0.1
Deferred tax, provisions & retirement benefit obligations	-	-	-	-	-	-	-
Long term debt	0.5	1.4	0.5	0.5	0.5	-	-
Short term debt	0.1	0.1	2.0	1.8	1.0	0.9	0.9
Capital employed	9.2	6.0	10.7	28.5	17.2	27.3	25.7
Intangibles and goodwill	0.1	2.5	5.2	8.0	9.2	14.0	15.6
Fixed assets	0.0	0.3	0.2	0.2	0.2	0.3	0.4
Investments/assets held for sale	0.0	0.6	0.3	0.5	-	-	-
Investments in subsidiaries	4.9	0.1	0.3	1.1	1.4	1.1	1.0
Stocks	-	-	-	-	-	-	-
Debtors less creditors (incl. Loans receivable)	2.4	1.4	1.4	13.8	0.7	-	-
Deferred tax	-	0.2	0.2	0.2	0.2	0.2	0.2
Cash & Equivalent (unrestricted)	1.7	1.0	3.0	4.7	5.5	11.7	8.5
Cash (restricted)	-	-	-	-	-	-	-
Capital employed	9.2	6.0	10.7	28.5	17.2	27.3	25.7
Net assets per share net of goodwill & intangibles (p)	3.3	0.7	0.9	4.1	1.4	2.6	1.9
Net assets per share inc. goodwill & intangibles (p)	3.3	1.5	2.4	5.9	3.5	5.5	5.2
Net debt (cash) (£m)	(1.0)	0.4	(0.6)	(2.4)	(4.0)	(10.8)	(7.6)
Free cash flow per share (p)	(0.6)	(0.6)	(0.1)	(0.7)	(0.4)	(0.5)	(0.3)
Gearing (%)	(12.0)	9.2	(7.4)	(9.3)	(25.6)	(41.0)	(30.8)
Shares in issue (m)	258.1	305.2	342.5	445.4	449.2	479.0	479.0
Post tax RoCE (%)	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
RoE (%)	(0.3)	(0.7)	(0.1)	0.4	(0.1)	0.0	(0.1)
Shareholders' funds (£m)	8.5	4.6	8.1	26.2	15.6	26.3	24.7
Shareholders' funds net of intangibles (£m)	8.4	2.0	2.9	18.3	6.4	12.3	9.1

SOURCE: Northland Capital Partners Limited estimates

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