



STRATEX INTERNATIONAL

BUY*

FY13 Results

3.9p#

Year-end Dec	2012A	2013A	2014E	2015E
Revenue (£m)	-	-	-	-
EBITDA (£m)	(2.8)	(3.8)	(3.2)	(3.4)
Pre-tax Profit (£m)	9.6	(3.6)	(3.5)	(1.5)
EPS (p)	2.2	(0.8)	(0.7)	(0.3)
DPS (p)	-	-	-	-
Net Cash/(Debt) (£m)	2.4	9.4	4.6	1.0
P/E (x)	1.8	(4.9)	(5.4)	(12.9)
Dividend yield (%)	-	-	-	-
EV/EBITDA (x)	(5.3)	(3.8)	(4.4)	(5.2)

Key Data	
Rating (12 month)	BUY*
Price Target	10.9p
Risk	High
Sentiment	Positive
Ticker	STI.L
Shares in issue	467m
Market cap	£18m
12-mth price range	5.5p-3.6p
Net cash (FY13E)	£9.4m
Next event	H114 Results - August

SOURCE: Northland Capital Partners Limited estimates

#Priced at market close, 12/03/2014

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

Stratex International's FY13 results follow hot on the heels of last week's operations update that saw Stratex re-align its portfolio to focus on the most prospective projects and relinquishing projects that failed to contain significant exploration targets. The LBITDA of £3.8m was greater than our expectations of £2.6m. This was largely due to an £0.8m loss associated with the change in the value of the deferred consideration payable to Silvrex shareholders, as well as administrative expenses being £0.5m above our expectations. LBT of £3.8m was behind our forecast of £0.5m, largely due the non-cash impairment charge of £2.7m associated with projects relinquished by Stratex. Net cash of £9.4m remained in line with our expectations. Following the FY13 results, we have made minor downgrades to our forecast, reflecting the higher administrative expenses.

COMPANY DESCRIPTION

Stratex International Plc is a gold and base metals exploration and development company with key assets in Turkey, East Africa and West Africa. The company has discovered more than 2.2moz of gold and is actively exploring all three territories through several JV partnerships with major operators.

- FY14 Developments:** In FY14, we forecast Stratex to make LBT of £3.5m but expect the company to achieve a number of major milestones including; the award of the Forestry Permit (H114), commencement of mine development (H114), and commencement of mining at the Altintepe Project (Q414), completion of the feasibility study at the Muratdere Project (H114), as well as drill results from the Dalafin Gold Project (H114) and the Tembo Gold Project (H114).
- FY15 Developments:** In FY15, we forecast that Stratex will receive around £2.1m from production at the Altintepe project and forecast a LBT of £1.5m.
- FY16 Developments:** In FY16, we anticipate that Stratex will receive £4.8m from production at Altintepe as well as £0.3m from the Öksüt royalty and as a result we forecast a PBT of £1.3m.
- Valuation:** We maintain our price target of 10.9p per share.

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INVESTMENT APPRAISAL

Stratex International's FY13 LBT was behind our expectations with higher than expected administrative expenses, and one-off costs associated with the change in the value of the deferred consideration due to Silvrex shareholders (associated with an increase in Stratex's estimate of the likelihood of this payment to 30% from 10%) and a £2.7m impairment charge associated with the projects relinquished by Stratex. This all resulted in a LBT of £3.8m ahead of our expectations of £0.5m. We have incorporated the higher administrative expenses to our forecasts which results in a minor downgrade.

Minor Downgrade to forecasts

Despite making a loss last year, we continue to favour Stratex over other explorers with the company's track record of making discoveries (2.2 million ounces of gold and 7.9 million ounces of silver) and generating cash (£16.7m over two years) separating it from the pack.

Discoveries turned in to cash

Industry confidence in Stratex's ability is demonstrated by a share register that includes major miners AngloGold Ashanti, Teck Resources, Antofagasta and specialist mining funds such as Thani Emirates Resources Holdings Ltd., BlackRock Investment Management and Exploration Capital Partners (Sprott). Stratex's joint venture partnerships with majors such as Centerra Exploration, Antofagasta and Thani, further serve to highlight industry confidence.

Major backers

Looking forward to FY14, we expect a number of major milestones at Stratex's development projects including the award of the Forestry Permit (H114), commencement of mine development (H114), and commencement of mining (Q414) at the Altintepe Gold Project, as well as completion of the feasibility study (H214) at the Muratdere Copper-Gold Project.

Significant news flow

We also expect significant news flow from the Company's exploration projects, including further drill results from the Dalafin Gold Project (H114) and the Tembo Gold Project (H114), and initial sampling results from the Sinoe Gold Project (H214).

Stratex is continuing to be active in its assessment of potential new projects, with the Company already applying for two new licences in the Rift Valley, and we would expect further corporate developments as the Company continues to deliver on its strategy of using its significant cash balance to acquire quality projects, rapidly add value and generate returns.

Significant news flow

VALUATION

We maintain our valuation of 10.9p per share for Stratex with the bulk of the valuation (c. 70%) coming from the development projects, where the Company has little or no financial risk exposure. The significant cash balance is also a large contributor (c. 18%), whilst the exploration projects and interest in Tembo, make up a relatively small part of the valuation (c. 12%).

Price target of 10.9p per share

Our valuation does not fully reflect the blue sky potential of Stratex's exploration projects and we believe that with Stratex's track record of making discoveries, with over 2.2moz discovered to date, there is plenty of upside to our updated price target.



SUMMARY OF OUR VALUATION

Project	Valuation (\$m)	Valuation (£m)	Valuation per share (p)
Altintepe	38.8	23.2	5.0
Muratdere	13.2	8.0	1.7
Öksüt NSR	7.7	4.6	1.0
Turkey - other	0.3	0.2	0.1
East Africa inc. Afar	3.4	2.3	0.5
Tembo (Stratex interest)	2.0	1.2	0.3
West Africa	3.9	2.4	0.5
Net Cash (debt)	15.6	9.4	2.0
Total	85.4	51.4	10.9

SOURCE: Northland Capital Partners

TURKEY

Stratex continues its focus on its Turkish development projects while seeking Turkish partners to farm in or purchase its exploration projects. At the Altintepe Project, where Stratex has a free carried-to-production interest, we forecast first gold production in FY15. In yesterday's announcement, Stratex has reiterated its joint venture partner, Bahar's, expectation that the forestry permit will be in place imminently with construction to commence immediately after it's received and taking an estimated six months. At the Muratdere Project, joint venture partner Lodos is expected to complete the feasibility study in H214 at which point Stratex will retain a 30% interest in the project. At Centerra Gold's (CG.TSX) Öksüt project, where Stratex has a 1% net smelter return royalty up to \$20m, production is expected to start in FY16.

WEST AFRICA

In West Africa, Stratex's focus is on its latest discovery, the Dalafin Project (Stratex-75%), where the Company is currently undertaking a programme of step-out and deeper drilling at the Faré Prospect to build on the exciting results to date that defined a 75m wide zone of reasonable grade gold mineralisation that remains open to the north. At the Madina Bafé Prospect, drilling is expected to begin shortly, following up on the positive RAB drilling results. Drilling at the Baytilaye and Saroudia target areas also defined interesting grades that could be indicative of deeper concealed higher grade gold mineralisation as weathering may have leached gold from the upper levels and is expected to be depth tested later in the year.

At Stratex's latest addition to its portfolio, the Sinoe Project (Stratex-option for 100%), it has commenced an infill soil sampling programme over the eastern portion of the licence where there is a 10km by 7km zone of gold-in-soil anomalies. Stratex will also undertake initial soil sampling on the central portion of the licence where stream sediment sampling defined a significant anomaly.

EAST AFRICA

At the Oklila Project (Stratex-49%), Djibouti, Stratex is in discussions with its Dubai-based joint venture partner Thani Emirates Resources Holdings Ltd. on the logistics of the next drill programme. At the Blackrock Project (Stratex-95%), Stratex has submitted a licence extension application for another year and further drilling is planned, following a review of all the data collected to date. Stratex is also awaiting the award of two new licences in the Rift Valley where remote sensing has indicated significant potential. At Stratex's latest East African interest, Tembo Gold Corporation (Stratex-13%; TEM.TSX-V), two diamond drill rigs are operating at the Tembo Project, Tanzania.

FORECASTS

Income statement								
Year to 31st December (£m)	2010A	2011A	2012A	2013A	2013E	2014E	2015E	2016E
Revenue	-	-	-	-	0.2	-	-	-
Cost of Sales	-	-	-	-	(0.2)	-	-	-
Administration expenses	(1.7)	(2.0)	(2.9)	(3.2)	(2.7)	(3.3)	(3.5)	(3.7)
Other profit/(loss)	0.1	0.9	(0.0)	(0.8)	-	-	-	-
Issue of shares other than for cash	-	-	-	-	-	-	-	-
EBIT	(1.6)	(1.1)	(2.9)	(3.9)	(2.7)	(3.3)	(3.5)	(3.7)
Financial income	0.0	0.0	0.1	0.1	(0.1)	(0.0)	(0.0)	(0.0)
Financial expense	-	-	-	-	-	-	-	-
Post tax associate income from Altintepe	-	-	-	-	-	-	2.1	4.8
Öksüt royalty	-	-	-	-	-	-	-	0.3
Share of profit/(loss) of associate	(0.1)	(0.1)	(0.2)	0.6	(0.1)	(0.1)	(0.1)	(0.1)
Gain/(loss) on acquisition/sale	(1.1)	0.8	12.9	2.1	2.8	-	-	-
Impairment charges	(0.1)	(0.1)	(0.1)	(2.7)	(0.4)	-	-	-
Profit/(loss) before tax	(2.9)	(0.5)	9.7	(3.8)	(0.5)	(3.5)	(1.5)	1.3
Taxation credit/(expense)	(0.0)	0.1	(0.1)	0.2	0.2	-	-	-
Profit/(loss) for the year	(2.9)	(0.4)	9.6	(3.6)	(0.3)	(3.5)	(1.5)	1.3
Exchange differences on translating foreign operations	(0.3)	(0.7)	0.2	(0.2)	-	-	-	-
Profit/(loss) for the year	(3.1)	(1.2)	9.8	(3.9)	(0.3)	(3.5)	(1.5)	1.3
Profit/(loss) for the year attributable to:								
Equity holders of the parent company	(3.1)	(1.2)	9.8	(3.9)	(0.3)	(3.5)	(1.5)	1.3
Non-controlling interest (minorities)	-	(0.0)	(0.0)	-	-	-	-	-
Basic EPS/(LPS) (p)	(1.1)	(0.4)	2.2	(0.8)	(0.1)	(0.7)	(0.3)	0.3
Diluted EPS/(LPS) (p)	(1.0)	(0.3)	2.2	(0.8)	(0.1)	(0.7)	(0.3)	0.3
Taxation Rate %	0.3	(14.1)	(1.4)	(5.3)	(39.0)	-	-	-
Group Pre-tax Margin (%)	178.7	46.1	(331.3)	97.6	17.1	104.4	41.9	(36.4)
Operating Profit (EBIT) Margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividends per share (p)	-	-	-	-	-	-	-	-
Dividend Cover (x)	-	-	-	-	-	-	-	-
Number of shares (m) (Ave weighted)	284.1	321.5	437.3	467.3	467.3	467.3	467.3	467.3
Number of shares (m) (Ave weighted fully dil.)	305.2	342.5	445.4	486.1	486.1	479.6	479.6	479.6
EBITDA (£m)	(1.5)	(1.0)	(2.8)	(3.8)	(2.6)	(3.2)	(3.4)	(3.6)
Enterprise Value (£m)	12.6	13.1	15.4	14.9	10.0	14.6	18.1	19.0
EBITDA Interest Cover (x)	(69.4)	(43.5)	(46.9)	(27.6)	27.2	70.3	325.1	1,868.3
Depreciation & Amortisation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cash Earnings Per Share (p)	(0.5)	(0.3)	(0.6)	(0.8)	(0.5)	(0.7)	(0.7)	(0.7)
Price (p)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Price Earnings Ratio	(3.9)	(11.7)	1.8	(5.0)	(70.2)	(5.5)	(13.1)	14.4
Net yield %	-	-	-	-	-	-	-	-
NAV per share (c)	0.7	0.9	4.2	1.7	2.8	1.7	1.0	0.9
EV/EBITDA	(8.3)	(12.8)	(5.4)	(3.9)	(3.9)	(4.5)	(5.4)	(5.3)

SOURCE: Northland Capital Partners Limited estimates



Cash flow								
Year to 31st December (£m)	2010A	2011A	2012A	2013A	2013E	2014E	2015E	2016E
Operating profit (EBIT)	(1.6)	(1.1)	(2.9)	(3.9)	(2.7)	(3.3)	(3.5)	(3.7)
Net interest (cash paid)	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Depreciation and Amortisation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Post tax associate income from Altintepe	-	-	-	-	-	-	2.1	4.8
Öksüt royalty	-	-	-	-	-	-	-	0.3
Other	(0.0)	(0.1)	0.0	0.8	-	-	-	-
Cash in	(1.5)	(1.1)	(2.7)	(2.9)	(2.6)	(3.2)	(1.2)	1.5
Debtors less creditors	(0.4)	0.6	(0.2)	(0.7)	-	-	-	-
Tax paid	-	-	-	-	-	-	-	-
Cash out	(0.4)	0.6	(0.2)	(0.7)	-	-	-	-
Gross trading cash flow	(2.0)	(0.5)	(2.9)	(3.6)	(2.6)	(3.2)	(1.2)	1.5
Capital expenditure	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Intangibles	(1.7)	(4.5)	(5.2)	(5.5)	(6.0)	(3.0)	(3.0)	(3.0)
Net trading cash flow	(3.8)	(5.0)	(8.3)	(9.2)	(8.7)	(6.3)	(4.3)	(1.6)
Acquisitions & investments	(0.0)	(1.0)	(0.2)	(1.2)	(1.1)	(1.1)	(0.1)	-
Sale of fixed assets & investments (net)	0.7	0.8	1.3	15.5	14.6	-	-	-
Issue of share options	0.0	0.1	0.1	0.0	-	-	-	-
Issue of shares (net)	1.3	4.5	7.6	-	-	-	-	-
Funds from JV partner	1.4	2.8	1.2	0.8	1.2	1.5	1.0	1.0
Gain/(loss) from non-controlling interest in subsidiary	-	0.3	(0.2)	-	-	-	-	-
Exchange Rate Movements	(0.2)	(0.5)	0.2	0.0	-	-	-	-
Change in net cash and cash equivalents	(0.7)	2.0	1.7	5.9	6.1	(5.9)	(3.4)	(0.6)
Gross cash and cash equivalents	1.0	3.0	4.7	10.6	10.8	4.7	1.2	0.7

SOURCE: Northland Capital Partners Limited estimates



Balance sheet								
Year to 31st December (£m)	2010A	2011A	2012A	2013A	2013E	2014E	2015E	2016E
Share capital	2.9	3.5	4.7	4.7	4.7	4.7	4.7	4.7
Share premium account	9.3	13.2	20.4	20.4	20.4	20.4	20.4	20.4
Retained earnings/losses	(7.7)	(8.1)	1.6	(2.1)	1.3	(5.5)	(7.0)	(5.7)
Other Reserves (incl. Foreign currency reserve)	0.0	(0.6)	(0.4)	(0.6)	(0.6)	(1.0)	(1.0)	(1.0)
Non-controlling interest (minorities)	-	0.1	-	-	0.1	-	-	-
Deferred tax, provisions & retirement benefit obligations	-	-	-	0.1	-	0.1	0.1	0.1
Long term debt	1.4	0.5	0.5	-	0.3	-	-	-
Short term debt	0.1	2.0	1.8	1.1	1.1	0.3	0.4	0.4
Capital employed	6.0	10.7	28.5	23.7	27.3	19.0	17.6	18.9
Intangibles and goodwill	2.5	5.2	8.0	8.9	12.8	10.4	12.4	14.4
Fixed assets	0.3	0.2	0.2	0.2	0.3	0.5	0.5	0.5
Investments/assets held for sale	0.6	0.3	0.5	0.4	-	0.4	-	-
Investments in subsidiaries	0.1	0.3	1.1	-	1.1	-	-	-
Equity investments	-	-	-	2.5	-	2.5	2.5	2.5
Stocks	-	-	-	-	-	-	-	-
Debtors less creditors (incl. Loans receivable)	1.4	1.4	13.8	0.8	2.1	-	0.5	0.6
Deferred tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Cash & Equivalent (unrestricted)	1.0	3.0	4.7	10.6	10.8	4.9	1.4	0.6
Cash (restricted)	-	-	-	-	-	-	-	-
Capital employed	6.0	10.7	28.5	23.7	27.3	19.0	17.6	18.9
Net assets per share net of goodwill & intangibles (p)	0.7	0.9	4.2	2.9	2.8	1.7	1.0	0.9
Net assets per share inc. goodwill & intangibles (p)	1.6	2.5	6.0	4.8	5.5	4.0	3.7	3.9
Net cash (debt) (£m)	(0.4)	0.6	2.4	9.4	9.4	4.6	1.0	0.2
Free cash flow per share (p)	(0.6)	(0.1)	(0.7)	(0.7)	(0.5)	(0.7)	(0.3)	0.3
Gearing (%)	(9.2)	7.4	9.3	42.1	36.5	24.7	6.1	1.0
Shares in issue (m)	284.1	321.5	437.3	467.3	467.3	467.3	467.3	467.3
Post tax RoCE (%)	(0.3)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
RoE (%)	(0.7)	(0.1)	0.4	(0.2)	(0.0)	(0.2)	(0.1)	0.1
Shareholders' funds (£m)	4.6	8.1	26.2	22.4	25.8	18.6	17.1	18.4
Shareholders' funds net of intangibles (£m)	2.0	2.9	18.3	13.5	13.0	8.1	4.7	4.0

SOURCE: Northland Capital Partners Limited estimates



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