



MINING

31st July 2015

STRATEX INTERNATIONAL

BUY*

Öksüt royalty update

1.35p[#]

Year-end Dec	2013A	2014A	2015E	2016E	Key data
Revenue (£m)	-	-	-	-	Rating (12 month) BUY*
EBITDA (£m)	(3.8)	(2.4)	(2.6)	(2.7)	Price Target 7.8p (from 6.8p)
Pre-tax Profit (£m)	(3.6)	(2.4)	(2.4)	(0.7)	Risk High
EPS (p)	(0.8)	(0.5)	(0.5)	(0.1)	Sentiment Positive
DPS (p)	-	-	-	-	Ticker STI.L
Net Cash/(Debt) (£m)	(1.1)	3.6	0.8	(1.3)	Shares in issue 467m
P/E (x)	(1.6)	(2.7)	(2.6)	(9.1)	Market cap £6.3m
Dividend yield (%)	-	-	-	-	12-mth price range 1.1p-3.3p
EV/EBITDA (x)	(2.0)	(1.1)	(2.2)	(2.8)	Net cash (Dec 14) £3.6m
					Next event Q315 – Altintepe production

SOURCE: Northland Capital Partners Limited estimates

[#]Priced at market close, 30/07/2015

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

Centerra Gold's positive feasibility for the Öksüt Gold Project has had a positive impact on our valuation of Stratex International by increasing our valuation of Stratex's 1% royalty over the project to US\$7.8m from US\$5m. The feasibility study will result in total production over the life of mine of 895,000 ounces of gold, in-line with our previous forecast. However, this production will occur at higher average annual rate of 127,000oz Au over the principal seven years of mine life (average of 155,000oz Au in first four years) compared to our previous assumptions of c. 75,000oz Au over twelve years of mine life. The timing of first production has been pushed back by around one year compared to our previous forecasts but increased returns expected from the higher annual volumes in the near/medium-term outweigh any negative effect. We also consider the completion of the feasibility study to be an important de-risking event for the project and as a result we have reduced our development risk discount for the project to 25% from 50%.

- **Forecasts:** We have updated our forecasts for Stratex based on the feasibility study for the Öksüt project with the higher levels of expected production having a positive effect on our forecasts of the Company's cash position from 2017 onwards.
- **Altintepe Production:** We are still expecting production to commence at Altintepe in Q315. Based on our estimates of the cash flow from Altintepe combined with the cash generated from the 1% Öksüt royalty, we forecast that the Company does not need to raise additional funding in the near to medium term.
- **Valuation:** The Öksüt feasibility study combined with minor other changes based on market valuation movements of Stratex's other listed investments has resulted in an increase to our price target to 7.8p per share from 6.8p per share.

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 discovered more than 2.2moz of gold and is actively exploring all three territories through several JV partnerships with major operators.

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Öksüt NSR DCF

Öksüt NSR	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Year to 31st December	0	1	2	3	4	5	6	7	8	9	Total
Gold price (\$/oz)	-	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	
Volume extracted (oz)	-		90,000	179,000	199,000	151,000	93,000	106,000	70,000	7,000	895,000
Revenues (\$m)	-	-	112.5	223.8	248.8	188.8	116.3	132.5	87.5	8.8	-
1% NSR undiscounted (\$m)	-	-	1.1	2.2	2.5	1.9	1.2	1.3	0.9	0.1	11.2
Discount factor timing (x)	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	-
Discount factor (x)	0.48	0.87	0.79	0.72	0.65	0.59	0.54	0.49	0.44	0.40	-
NPV10% (\$m)	-	-	88.6	160.3	162.0	111.7	62.6	64.8	38.9	3.5	692.5
RISK (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	-
Valuation of 1% NSR (\$m)	-	-	0.8	1.6	1.7	1.3	0.8	0.9	0.6	0.1	7.8

SOURCE: Northland Capital Partners Limited estimates

Valuation Summary

Project/Investment	Valuation (\$m)	Valuation (£m)	Valuation per share (p)	Percentage of valuation (%)
Altintepe (Stratex's 45% interest)	23.8	15.3	3.3	41.7
Muratdere (Stratex's 30% interest)	8.0	5.1	1.1	14.0
Öksüt 1% NSR	7.8	5.0	1.1	13.7
Antofagasta JV	0.3	0.2	0.0	0.5
Turkey total	39.9	25.6	5.5	69.8
Thani Stratex Resources (Stratex's 40% interest)	6.1	3.9	0.8	10.6
Tembo Gold Corporation (Stratex's 13% interest)	0.4	0.2	0.0	0.6
Goldstone Resources (Stratex's 33% interest)	0.6	0.4	0.1	1.1
West Africa projects	4.6	2.9	0.6	8.0
Net Cash (debt)	5.6	3.6	0.8	9.9
Total	57.1	36.6	7.8	-

SOURCE: Northland Capital Partners Limited estimates



FORECASTS

Income statement

Year to 31st December (£m)	2012A	2013A	2014A	2015E	2016E	2017E
Revenue	-	-	-	-	-	-
Cost of Sales	-	-	-	-	-	-
Administration expenses	(2.9)	(3.2)	(2.7)	(2.7)	(2.8)	(3.0)
Other profit/(loss)	(0.0)	(0.8)	0.2	-	-	-
Issue of shares other than for cash	-	-	-	-	-	-
EBIT	(2.9)	(3.9)	(2.5)	(2.7)	(2.8)	(3.0)
Financial income	0.1	0.1	0.0	0.0	(0.0)	(0.0)
Financial expense	-	-	(0.1)	-	-	-
Post tax associate income from Altintepe	-	-	-	0.3	2.2	4.4
Öksüt royalty	-	-	-	-	-	0.7
Share of profit/(loss) of associate	(0.2)	0.6	0.1	-	-	-
Gain/(loss) on acquisition/sale	12.9	2.1	0.2	-	-	-
Impairment charges	(0.1)	(2.7)	(0.3)	-	-	-
Profit/(loss) before tax	9.7	(3.8)	(2.5)	(2.4)	(0.7)	2.2
Taxation credit/(expense)	(0.1)	0.2	0.0	-	-	-
Profit/(loss) for the year	9.6	(3.6)	(2.4)	(2.4)	(0.7)	2.2
Exchange differences on translating foreign operations	0.2	(0.2)	0.0	-	-	-
Profit/(loss) for the year	9.8	(3.9)	(2.4)	(2.4)	(0.7)	2.2
Profit/(loss) for the year attributable to:						
Equity holders of the parent company	9.8	(3.9)	(2.4)	(2.4)	(0.7)	2.2
Non-controlling interest (minorities)	(0.0)		(0.0)	-	-	-
Basic EPS/(LPS) (p)	2.2	(0.8)	(0.5)	(0.5)	(0.1)	0.5
Diluted EPS/(LPS) (p)	2.2	(0.8)	(0.5)	(0.5)	(0.1)	0.4
Taxation Rate %	(1.4)	(5.3)	(1.5)	-	-	-
Group Pre-tax Margin (%)	(331.3)	97.6	100.0	89.0	24.4	(72.5)
Operating Profit (EBIT) Margin (%)	-	-	-	-	-	-
Dividends per share (p)	-	-	-	-	-	-
Dividend Cover (x)	-	-	-	-	-	-
Number of shares (m) (Ave weighted)	437.3	467.3	468.3	468.3	468.3	468.3
Number of shares (m) (Ave weighted fully dil.)	445.4	486.1	468.3	480.6	480.6	480.6
EBITDA (£m)	(2.8)	(3.8)	(2.4)	(2.6)	(2.7)	(2.9)
Enterprise Value (£m)	3.6	7.7	2.7	5.7	7.8	7.1
EBITDA Interest Cover (x)	(46.9)	(27.5)	58.1	(324.2)	216.3	473.3
Depreciation & Amortisation	0.1	0.1	0.1	0.1	0.1	0.1
Cash Earnings Per Share (p)	(0.6)	(0.8)	(0.5)	(0.5)	(0.6)	(0.6)
Price (p)	1.4	1.4	1.4	1.4	1.4	1.4
Price Earnings Ratio	0.6	(1.6)	(2.7)	(2.6)	(9.1)	2.9
Net yield %	-	-	-	-	-	-
NAV per share (c)	4.2	2.9	2.7	2.4	2.1	2.3
EV/EBITDA	(1.3)	(2.0)	(1.1)	(2.2)	(2.8)	(2.5)

SOURCE: Northland Capital Partners Limited estimates



Cash flow

Year to 31st December (£m)	2012A	2013A	2014A	2015E	2016E	2017E
Operating profit (EBIT)	(2.9)	(3.9)	(2.5)	(2.7)	(2.8)	(3.0)
Net interest (cash paid)	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
Post tax associate income from Altintepe	-	-	-	0.3	2.2	4.4
Öksüt royalty	-	-	-	-	-	0.7
Other	0.0	0.8	-	-	-	-
Cash in	(2.7)	(2.9)	(3.1)	(2.3)	(0.6)	2.3
Debtors less creditors	(0.2)	(0.7)	-	0.7	(0.4)	-
Tax paid	-	-	-	-	-	-
Cash out	(0.2)	(0.7)	-	0.7	(0.4)	-
Gross trading cash flow	(2.9)	(3.6)	(3.1)	(1.6)	(1.0)	2.3
Capital expenditure	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Intangibles	(5.2)	(5.5)	(2.5)	(1.0)	(0.5)	(1.5)
Net trading cash flow	(8.3)	(9.2)	(5.6)	(2.7)	(1.6)	0.7
Acquisitions & investments	(0.2)	(1.2)	(0.6)	(0.1)	-	-
Sale of fixed assets & investments (net)	1.3	15.5	-	-	-	-
Issue of share options	0.1	0.0	-	-	-	-
Issue of shares (net)	7.6	-	-	-	-	-
Funds from JV partner	1.2	0.8	0.3	-	-	-
Gain/(loss) from non-controlling interest in subsidiary	(0.2)	-	0.0	-	-	-
Exchange Rate Movements	0.2	0.0	-	-	-	-
Change in net cash and cash equivalents	1.7	5.9	(5.9)	(2.8)	(1.6)	0.7
Gross cash and cash equivalents	4.7	10.6	4.7	1.9	0.2	0.9

SOURCE: Northland Capital Partners Limited estimates



Balance sheet

Year to 31st December (£m)	2012A	2013A	2014A	2015E	2016E	2017E
Share capital	4.7	4.7	4.7	4.7	4.7	4.7
Share premium account	20.4	20.4	20.4	20.4	20.4	20.4
Retained earnings/losses	1.6	(2.1)	(4.4)	(6.8)	(7.5)	(5.4)
Other Reserves (incl. Foreign currency reserve)	(0.4)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)
Non-controlling interest (minorities)	-	-	2.4	2.4	2.4	2.4
Deferred tax, provisions & retirement benefit obligations	-	0.1	0.0	0.0	0.0	0.0
Long term liabilities	0.5	-	0.0	-	-	-
Short term liabilities	1.8	1.1	1.1	1.1	1.5	1.5
Capital employed	28.5	23.7	23.6	21.3	21.0	23.2
Intangibles and goodwill	8.0	8.9	7.6	6.6	7.1	8.6
Fixed assets	0.2	0.2	0.1	0.5	0.5	0.5
Investments/assets held for sale	0.5	0.4	0.2	-	-	-
Investments in subsidiaries	1.1	-	-	-	-	-
Equity investments	-	2.5	8.8	10.8	11.7	11.7
Stocks	-	-	-	-	-	-
Debtors less creditors (incl. Loans receivable)	13.8	0.8	2.0	1.3	1.3	1.3
Deferred tax	0.2	0.2	0.2	0.2	0.2	0.2
Cash & Equivalent (unrestricted)	4.7	-	4.7	1.9	0.2	0.9
Cash (restricted)	-	-	-	-	-	-
Capital employed	28.5	13.1	23.6	21.3	21.0	23.2
Net assets per share net of goodwill & intangibles (p)	4.2	2.9	2.7	2.4	2.1	2.3
Net assets per share inc. goodwill & intangibles (p)	6.0	4.8	4.3	3.8	3.6	4.1
Net cash (debt) (£m)	2.4	(1.1)	3.6	0.8	(1.3)	(0.6)
Free cash flow per share (p)	(0.7)	(0.7)	(0.7)	(0.3)	(0.2)	0.5
Gearing (%)	9.3	(5.1)	18.0	4.5	(7.4)	(3.2)
Shares in issue (m)	437.3	467.3	468.3	468.3	468.3	468.3
Post tax RoCE (%)	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
RoE (%)	0.4	(0.2)	(0.1)	(0.1)	(0.0)	0.1
Shareholders' funds (£m)	26.2	22.4	20.0	17.8	17.1	19.2
Shareholders' funds net of intangibles (£m)	18.3	13.5	12.4	11.2	10.0	10.6

SOURCE: Northland Capital Partners Limited estimates



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<u>Company</u>	<u>Ticker</u>	<u>Applicable disclosures</u>
Stratex International	STI.L	1,5
Centerra Gold	CG.TSX	-

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