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Kingsrose Mining (KRM)

Maiden resource at Talang Santo

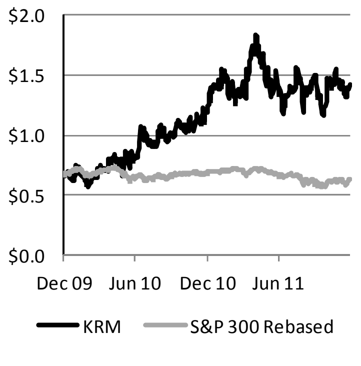
Recommendation
Buy (Buy)
Price
$1.50
Target (12 months)
$2.00 ($2.20)

Expected Return	
Capital growth	33%
Dividend yield	3 %
Total expected return	36%
Company Data & Ratios	
Enterprise value	$415m
Market cap	$448m
Issued capital	299m
Free float	70%
Avg. daily vol. (52wk)	326,379
12 month price range	$1.05-$1.965
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.54	1.40	1.13
Absolute (%)	-7.47	1.79	26.11
Rel market (%)	-9.55	0.71	32.12

Absolute Price



SOURCE: IRESS

Total project resources now stand at 396koz Au, 3.5Moz Ag

Drilling has advanced far enough at KRM's Talang Santo prospect (7km's north of KRM's Way Linggo mine and plant) to enable a maiden Mineral Resource estimate of 879kt at 5.89 g/t gold and 14.63 g/t silver for 166.4koz Au and 413koz Ag. Talang Santo is shaping up as a similar size to Way Linggo (85% KRM) and remains open along strike and at depth. Six rigs continue to drill test the system. Trial mining will begin to feed ore to the Way Linggo plant from Talang Santo.

Model adjusted, Target Price $2.00

We have remodelled KRM and reduced our exploration value to take account of the maiden resource at Talang Santo. We have increased our modelled mine life to 10 years. This is over and above the life of mine afforded by the current resource (6 years); a result of confidence that KRM will prove up and discover more high grade systems. KRM is undertaking aggressive exploration with 12 drill rigs and a $14m exploration budget over the next 12 months.

Investment View – Potential dividend on its way next year

KRM is a specialist high grade, narrow vein underground gold miner and explorer, operating the Way Linggo Mine and conducting an aggressive exploration drilling program in the Lampung Province of Southern Sumatra, Indonesia. Although it is a relatively small producer at c.50koz gold equivalent per annum, growth is likely to come ultimately from discovery of new underground ore sources. This remains a very low cost operation (~US$150/oz) due to the high gold grade and substantial silver credits. We continue to recommend Buy and a $2.00 Target Price based on 1.3x NPV assuming ongoing exploration success. We believe it is likely that a maiden dividend will be paid in the 2012 financial year as a result of strong cash flow generation and the completion of major capital expenditures. We have, for the first time, included a 5c full year dividend in our forecasts for FY12 and feel that this could set KRM apart from other similar sized gold producers.

Earnings Forecast

Year end	2011a	2012f	2013f	2014f
Sales (A$m)	45	81	112	102
EBITDA (A$m)	16	66	94	80
NPAT (reported) (A$m)	9.7	42.0	58.6	50.0
NPAT (adjusted) (A$m)	14.9	42.0	58.6	50.0
EPS (adjusted) (¢ps)	3.7	15.7	19.9	16.8
EPS growth (%)	N/A	327	27	-16
PER (x)	40.7	9.6	7.5	8.9
Price/CF	11.2	10.1	6.0	6.3
EV/EBITDA (x)	26.1	6.3	4.0	4.3
Dividend (¢ps)	0	5.0	5.0	5.0
Yield (%)	0	3.3	3.3	3.3
Franking (%)	0	0	0	0
ROE (%)	19	49	43	30

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation

Remodelled using a DCF model

We have valued KRM using gold pricing and currency assumptions in Figure 2 and outline our production assumptions in Figure 3.

Our valuation assumes a lift in plant production rates from 400 tonnes per day (140kTpa) to 600 tonnes per day (200kTpa) from FY13. This is an increase in throughput to the mills nameplate capacity that could occur with minor additional plant modifications. We model a ten year mine life; over and above the current resource life of mine that currently allows for six years production.

We have included a maiden dividend in FY12 of 5cps, resulting in dividend payments of $13.5m to shareholders for the 2012 financial year. Such a payment would not compromise KRM's exploration programs or Way Linggo plant expansion.

We assign KRM a further exploration value of $20m. This is on the basis of the potential to discover an additional 1Moz assigned at a rate of $20/oz.

Figure 1 – KRM valuation

	Current		+12Mths	+24Mths
	A$m	$ps	$ps	$ps
Way Linggo (85%)	390	1.31	1.25	1.10
Sarinc (85%)	10	0.03	0.03	0.03
Corporate	-18	-0.06	-0.05	-0.04
Exploration	20	0.07	0.07	0.07
Options	16	0.05	0.05	0.05
Net Cash	33	0.11	0.09	0.24
Total	451	1.51	1.44	1.45

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 2 – KRM valuation assumptions (June year end)

	2011a	2012f	2013f	2014f
Gold Price (US$/oz)	1374	1670	1500	1325
Silver Price (US$/oz)	29.00	37.11	31.72	26.50
A$	0.99	1.02	0.98	0.94
Gold Price (A$/oz)	1390	1645	1538	1416

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 3 – Production assumptions

Way Linggo - 100%	**2011a**	**2012f**	**2013f**	**2014f**
Throughput (kt)	66	131	200	200
Gold Grade (g/t)	14.1	11.8	12.0	12.0
Gold Recovery	91%	90%	90%	90%
Gold (koz)	25	45	69	69
Gold (koz) KRM share (85%)	**21**	**38**	**59**	**59**
Silver (koz)	287	591	773	773
Gold Equivalent (koz)	32	58	86	85
Gold Equiv (koz) KRM share (85%)	**27**	**49**	**73**	**72**
Cash costs pre credit (US$/oz)	464	591	485	475
Cash Costs (US$/oz)	142	113	132	180
Cash Costs (A$/oz)	**144**	**111**	**135**	**192**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Sensitivity to the gold price

We run a sensitivity analysis on the KRM NPV and Target Price based on a range of spot gold prices and spot AUD/USD of 1.00 for the life of mine. Our range of target prices is based on 1.3 times month NPV.

Figure 4 – Sensitivity analysis at a range of gold prices using spot AUD/USD of 1.00

Gold price (US$/oz)	NPV	Target Price
1000	$1.23	$1.60
1250	$1.38	$1.80
1500	$1.57	$2.00
1750	$1.76	$2.30
2000	$1.95	$2.50

SOURCE: BELL POTTER SECURITIES ESTIMATES

Mineral Resource Increase

Resource increase will feed ore to Way Linggo

Drilling at KRM's newly discovered Talang Santo Prospect (85% KRM) has advanced enough to enable a maiden Mineral Resource estimate to be completed. The maiden mineral resource estimate totals 879kt at 5.89 g/t gold and 14.63 g/t silver for 166.4koz Au and 413koz Ag.

The total Mineral Resource for the Way Linggo Gold Project (85% KRM) increases to 1,589kt at 7.89g/t Au and 68.66g/t Ag containing 396,430 oz Au and 3.49Moz Ag.

Figure 5 – Mineral Resource Estimate – Talang Santo Prospect

Classification	Tonnes	Au g/t	Ag g/t	Au Eq g/t	Au Eq Oz
Measured	0	0	0	0	0
Indicated	0	0	0	0	0
Inferred	879,000	5.89	14.63	6.22	175,735
Total	879,000	5.89	14.63	6.22	175,735

SOURCE: COMPANY PRESENTATION

Figure 6 – Way Linggo Project (KRM 85%) – Total Mineral Resource Estimate Summary

Classification	Vein ID	Tonnes	Au g/t	Ag g/t	Gold ounces	Silver ounces
Measured	Way Linggo	467,400	12.44	166.8	186,940	2,506,500
Indicated	Way Linggo	182,800	6.09	84.5	35,790	496,600
Inferred	Way Linggo	60,200	3.77	38.1	7,300	73,700
	Way Linggo sub total	**710,000**	**10.24**	**135.6**	**230,030**	**3,076,800**
Inferred	Talang Santo	879,000	5.89	14.63	166,400	413,000
GRAND TOTAL		**1,589,000**	**7.89**	**68.66**	**396,430**	**3,489,800**

SOURCE: COMPANY PRESENTATION

Kingsrose Mining

Company Description

Kingsrose Mining (KRM) is a specialist high grade, narrow vein underground gold miner and explorer. The company operates the Way Linggo gold mine in the Lampung Province of southern Sumatra, Indonesia and is evaluating base metals tailings deposits in Sardinia, Italy. KRM listed on the Australian Stock Exchange in December 2007.

Way Linggo (KRM 85%) is a narrow vein, high grade gold and silver underground mine with rated production of 140kt ore at present and a current mine life of six years with the new Talang Santo resource. The epithermal setting provides excellent potential for discovery of similar mineralised structures. A new treatment plant has been built on site featuring leach and Merrill Crowe processes that is expected to yield gold at a rate of 45-65kozpa, depending on head grades. Under the contract of work there are certain divestment requirements, which are to be done at fair value.

The SARINC project on the Mediterranean island of Sardinia (KRM 85%) consists of vast low grade tailings dumps of predominantly lead, zinc and silver. Progress has been slow in dealing with authorities.

Cash at the end of September was $33m with no corporate debt.

Investment Strategy

We recommend to Buy KRM as a growing gold asset. We expect to see growth of production and reserves/resources through discovery and facilities expansion.

Valuation

We have derived a value of $451m for KRM and a target price of $2.00, a multiple of 1.3 times NPV.

Directors

John Morris (Non-Executive Chairman), Chris Start (Managing Director); Peter Cook (Non-Executive), Bill Phillips (Non-Executive), Tim Spencer (Finance Director).

Shareholders

Citicorp Noms (17.6%), Advanced Concept Holdings (13.2%), KRM WA (8.2%).

Risks

Ore reserves are low, this is by nature of the high grade epithermal deposit and the strategy of containing exploration and reserve drilling until it can be funded by internal cashflow.

Minerals exploration is an inherently risky activity with no guarantee of success. Drilling risk has been mitigated by preliminary exploration work including: review of all previous exploration data by specialists; helicopter aeromagnetics/radiometrics geophysical survey, geological mapping, geochemical sediment sampling, ground geophysics and trenching.

Commodity price volatility. As no hedging is in place, gold and silver prices received will be determined by the market.

Kingsrose Mining
as at 6 December 2011

Recommendation	Buy
Price	$1.50
Target (12 months)	$2.00

Table 1 - Financial summary

Kingsrose Mining Ltd (KRM)		**Share price: A$**	$ 1.50
As at	6-Dec-11	**Market Cap: A$m diluted**	$ 448

PROFIT AND LOSS (A$)				
Y/e June 30	**2011a**	**2012f**	**2013f**	**2014f**
Sales revenue	45	81	112	102
EBITDA	16	66	94	80
Depreciation	0	-8	-12	-13
Amortisation	0	0	0	0
EBIT	16	59	82	67
Other income (expenses)	0	0	0	0
Net Interest Expense	0	1	2	5
Pre-tax profit	16	60	84	72
Tax	-2	-18	-25	-22
Net Profit	15	42	59	51
Adjustments	0	0	0	0
BPS adj profit	14.9	42.0	58.8	50.7
One-off items	-5.2	0.0	0.0	0.0
Reported net profit	9.7	42.0	58.8	50.7

CASHFLOW (A$)	2011a	2012f	2013f	2014f
Receipts from customers	58	77	111	103
Payments to suppliers	-22	-18	-11	-16
Net interest	-1	1	2	5
Tax paid	0	-18	-25	-22
Other	0	-2	-3	1
Operating cashflow	35	40	74	71
Capex	-8	-5	-1	-1
Investments	0	0	0	0
Asset sales	2	0	0	0
Other	-8	-14	-14	-14
Investing cashflow	-15	-19	-15	-16
Change in borrowings	-9	0	0	0
Equity raised	5	1	14	1
Dividends paid	0	-14	-14	-14
Other	0	0	0	0
Financing cashflow	-4	-13	0	-12
Net change in cash	16	7	59	43
Cash at end of period	24	31	90	134

BALANCE SHEET (A$)	2011a	2012f	2013f	2014f
Cash	24	31	90	134
Receivables	3	7	8	8
Inventories	5	6	9	8
Investments	0	0	0	0
Other	0	0	0	0
Current assets	31	44	108	150
PPE	37	34	24	12
Investments	0	0	0	0
Intangibles	0	14	28	43
Other	0	0	0	0
Non-current assets	37	49	52	55
Total assets	68	93	160	204
Payables	11	1	2	3
Debt	4	4	4	4
Provisions	1	1	1	1
Other	2	2	2	2
Total liabilities	18	8	9	10
Shareholders' equity	50	85	150	195
Minorities	0	0	0	0
Total shareholders funds	50	85	150	195
Total funds employed	30	58	64	65
W/A diluted shares on iss	265	267	294	298

* Production and Earnings based on 85% Way Linggo over the forecast period

VALUATION DATA (A$)	2011a	2012f	2013f	2014f
Net profit adj ($m)	15	42	59	51
EPS (c)	3.7	15.7	20.0	17.1
EPS growth (%)	-777	327	27	-15
P/E ratio (x)	40.7	9.6	7.5	8.8
CFPS (c)	13	15	25	24
Price/CF (x)	11.2	10.1	5.9	6.3
DPS (c)	0.00	0.05	0.05	0.05
Yield (%)	0.00	0.03	0.03	0.03
Franking (%)	0	0	0	0
EV/EBITDA	26.1	6.3	3.9	4.0
EBITDA margin (%)	36	82	84	78
Recommendation:				**Buy**
Valuation per share:				**1.51**
Target price (12 mth):				**2.00**
Total Return (including yield)				**33%**

PROFITABILITY RATIOS	2011a	2012f	2013f	2014f
EBITDA/sales (%)	36	82	84	78
EBIT/sales (%)	36	73	73	66
Return on assets (%)	14	45	37	25
Return on equity (%)	19	49	39	26
Return on funds empl'd (%)	32	73	92	78
Dividend cover (x)	0	0	0	0
Effective tax rate (%)	9	30	30	30

LIQUIDITY AND LEVERAGE	2011a	2012f	2013f	2014f
Net debt/(cash) ($m)	-20	-27	-86	-130
Net debt/equity (%)	-40	-32	-58	-67
Net interest cover (x)	0	60	34	13
Current ratio (x)	2	18	28	35
Inventory turnover	4	1	1	2
Inventory/sales	9	7	8	8

INTERIMS (A$)	2011a	2012f	2013f	2014f
Sales revenue	9	36	57	102
EBITDA	-1	27	49	80
BPS adj profit	-1	17	31	51
One-off items	-5	0	0	0
Reported net profit	-6	17	31	51

VALUATION	Current		+12Mths	+24Mths
	A$m	$ps	$ps	$ps
Way Linggo (85%)	390	1.31	1.25	1.10
Sarinc (85%)	10	0.03	0.03	0.03
Corporate	-18	-0.06	-0.05	-0.04
Exploration	20	0.07	0.07	0.07
Options	16	0.05	0.05	0.05
Net Cash	33	0.11	0.09	0.29
Total	**451**	**1.51**	**1.44**	**1.50**

Production Assumptions				
Way Linggo - 100%	**2011a**	**2012f**	**2013f**	**2014f**
Throughput (kt)	66	131	200	200
Gold Grade (g/t)	14.1	11.8	12.0	12.0
Gold Recovery	91%	90%	90%	90%
Gold (koz)	**25**	**45**	**69**	**69**
Gold (koz) KRM share (85%)	**21**	**38**	**59**	**59**
Silver (koz)	287	591	773	773
Gold Equivalent (koz)	**32**	**58**	**86**	**85**
Gold Equiv (koz) KRM share	**27**	**49**	**73**	**72**
Cash costs pre credit (US$/oz)	464	591	485	475
Cash Costs (US$/oz)	**142**	**113**	**132**	**180**
Cash Costs (A$/oz)	**144**	**111**	**135**	**192**

ASSUMPTIONS	2011a	2012f	2013f	2014f
Gold Price (US$/oz)	1374	1670	1500	1325
Silver Price (US$/oz)	29.00	37.11	31.72	26.50
A$	0.99	1.02	0.98	0.94
Gold Price (A$/oz)	1390	1645	1538	1416

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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