



## Medusa Mining Limited (MML)

### Strategy

<b>First Recommendation</b>	29/03/2009
<b>Share Price</b>	\$1.82
<b>12 mth Price Target</b>	\$2.70
<b>Suggested Stop Loss</b>	\$1.23
<b>Recommendation</b>	<b>Spec Buy</b>
<b>Risk Rating</b>	<b>High</b>

### Market Information

<b>Sector</b>	Materials
<b>Index</b>	
<b>Market Cap</b>	\$249.5m

### How Many Shares do I buy?

$$\text{Trade Size} = \frac{\text{Amount (\$) you're prepared to risk}}{\text{Market Price} - \$1.225}$$

**Note.** Amount (\$) you are prepared to risk is typically 2-3% of the TOTAL amount you have to invest

[Calculate here](#)

## Recommendation Summary





## **MEDUSA** MINING LIMITED

### Company Background

Medusa is a Philippines focused gold producer aiming to expand production over the next few years. The company's primary asset is the Co-O gold mine in the Philippines, hosting resources of 1.2m ounces. Medusa holds tenement area of over 800 square kilometres along the richly endowed East Mindanao ridge where substantial copper deposits and numerous other gold targets are in the company's sights.

### Investment Summary

Medusa is well positioned to benefit from elevated gold prices. Production at its Co-O Mine in the Philippines is on track to reach an annualised rate of 60,000oz by Q309 and 100,000oz by early 2010. With cash costs below \$250/oz, the company is producing strong cash flows, and following a recent \$24.5m capital raising is well funded to pursue its expansion plans and continue exploration.

To meet its expansion goals, the company aims to expand the Co-O mine's current resource base from 1.2m oz to 1.5m oz by August. As the current resource is open along strike and at depth, achieving this goal shouldn't be too challenging. We see value in the potential cash flows which this expansion could yield, with additional upside coming from the company's strong exploration potential. Medusa's tenements surrounding the Co-O mine cover a 70km strike length. Initial exploration efforts within the existing mine area have been very encouraging. For example, management believe they are onto a very large mineralised copper system with the Lingig Porphyry Copper Discovery. It is still early days but highlights from recent drilling include 224m @ 0.77% Cu. Could it evolve into another billion tonne 'Tampakan style' deposit which we recently saw with Indophil Resources (IRN)? Key risks facing this stock are political (being in the Philippines) and operational. The Co-O mine involves narrow vein mining, which can be challenging. The company has established a solid production record to date, however being located 100km east of a volcanic region, there isn't much they could do in the event of a natural disaster. The gold price also poses an 'X-factor' (both up and down), however for now we see the balance of risks facing this stock as favouring the upside, and therefore rate it a 'speculative buy'.

### wise-owl checklist

- ✓ Medusa's managing director, Geoff Davis, has considerable experience in conducting business in the Philippines.
- ✓ The company recently completed a share placement for \$24.6m which ensures sufficient funding for its intended expansion programs.
- ✓ The company is targeting even lower cash costs of US\$200/oz by 2010.
- ✓ Major shareholders include: Gazmetall Holdings (Cyprus) 10.50%; Advance Concept Holdings 8.76%; Yandal Investments 4.75%.
- ✓ One of the few gold stocks to break new highs despite the recent retracement in the gold price - a bullish sign.



## Fundamental & Quantitative Analysis

### Management

#### Geoffrey Davis - Managing Director



Mr Geoff Davis worked initially with BHP for 10 years following his graduation in 1972. Mr Davis first started work in the Philippines in 1980 until late 1981 as the Regional Manager for BHP based in Manila, focused on exploring for epithermal gold deposits under the guidance of a consultant who specialised in epithermal gold deposits. Subsequently he has worked as a consultant to numerous mining and exploration companies in Australia, Asia and South America. This included the Philippines, where he has accrued 28 years of experience, which from 1999-2000 involved managing the restructure and financial recovery of a group of companies which included the sale of the Co-O Gold Project to Philsaga Mining Corporation in August 2000.

#### Samuel Afdal - Philippines Manager, Local Affairs

Mr Afdal is responsible for all administration matters, and local affairs and relationships in the Philippines. He is a retired army colonel who has been in charge of the Co-O mine since 1991.

### Financial Performance

Medusa interim results for the 6 months to 31 Dec 2008 showed a healthy \$12m net profit, higher gold production and steady progress on its output expansion plans. The Co-O Gold Mine continues to produce high quality grades allowing the company to continue to drive down operating costs.

Medusa produced 19,144 ounces of gold in the December 2008 half at an average grade of 12.7g/t gold and an average cash cost of US\$225/oz. This is a low cash cost comparable to any of the company's peers and with no hedging book in place, current gold prices of over US\$900/oz are producing very healthy margins. Upon the completion of expansion to 100,000oz capacity in 2010, Medusa believes that its operating cash costs will be in the vicinity of US\$200 per ounce – remarkably cheap levels. To meet its expansion plans the company raised \$24.5m in February via a placement at \$1.21/sh. The company is debt free.

### Growth Story

The company has recently increased its JORC resource at Co-O to 1.2m ounces at an average grade of 13.3g/t. Drilling continues in an effort to further identify and expand the resource base. In particular the Great Hamish vein, primarily responsible for the increase to resources, remains open at depth and along strike, and is the heightened focus of the six surface and three underground drill rigs.

Medusa has a number of other exploration projects in the Philippines with Lingig, the Tampis-Barobo area and Anoling the most advanced. The Lingig copper discovery obtained an initial drill result of 83.9m at 0.3% copper and while ground conditions have been reported as difficult, the drilling program is progressing. Tambis-Barobo is made up of Bananghilig and Kamarangan with the former having its drilling results analysed and the latter having its drill results compiled into a comprehensive report of its copper, molybdenum, copper and gold findings. Lastly, diamond drilling at Anoling is continuing and may be increased this year if drill rigs are made available.



Historic & Forecast Financials					Current Peer Comparison	
	FY09(F)	FY08	FY07	FY06	MML	Sector Average
<b>Value Factors</b>						
PE	#N/A N/A	#N/A N/A	13.37	#N/A N/A	20.00	20.00
Price/Sales	-	10.10	11.12	6.54	7.75	9.51
Dividend Yield (%)	-	0.00	0.00	0.00	0.00	0.00
Price/NTA	-	2.63	2.64	2.91	3.61	2.81
<b>Profitability Factors</b>						
EPS (\$)	#N/A N/A	-0.01	0.10	-0.05	-0.01	-0.11
Profit Margin (%)	#N/A N/A	-7.64	83.28	-47.79	-7.64	-155.11
ROA (%)	-	-1.64	18.25	-25.87	-1.64	-12.65
ROE (%)	-	-1.94	21.54	-28.68	-1.94	-14.06
<b>Debt Factors</b>						
Debt/EBITDA	-	#N/A N/A	0.00	#N/A N/A	0.00	0.00
Interest Coverage	-	3.71	#N/A N/A	#N/A N/A	3.71	-19.25
Debt to Equity (%)	-	0.00	0.00	0.24	0.00	5.66
Debt to Assets (%)	-	0.00	0.00	0.21	0.00	9.35
<b>Liquidity</b>						
Cash (\$m)	-	5	20	3	5	14
Free Cash Flow (\$m)	-	5	-1	-3	5	-28
Funding (Yrs)	-	-	-20.58	-1.36	-	-0.51

## Technical Analysis

Trend Horizon	Trend
Daily	▲
Weekly	▲
Monthly	▲

### Technical Overview

The share price rocketed at the beginning of this year following a reverse head and shoulders pattern in the share price. A steep uptrend has formed since the beginning of this year. The mild resistance at \$1.55 will now function as support. If this doesn't hold the next support level is \$1.25. The stock recently reached all-time high at \$1.835 which is the next resistance level.





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