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Equities

## Medusa Mining - MML AU

Australia

Neutral

Resets reserves and resources

### Event

- MML has released its long awaited reserve and resource update under the new JORC code for its Co-O mine.

### Impact

- **Reserves at Co-O cut by 22%:** MML has reduced the reserve estimate for the Co-O mine from 1.6mt @ 10.7g/t (570koz) to 1.9mt @ 7.2g/t (450koz). The decline in reserves was somewhat anticipated, with the 33% reduction in the reserve grade smaller than we had anticipated.
- **Resources at Co-O fall 36%:** The updated resource statement for the Co-O mine has translated to a 36% cut in total resource tonnes and contained ounces with the average grade remaining broadly unchanged. We were surprised that the resource grade did not fall similar to the reserve grade.
- **A better outcome than we had expected:** Our base case development scenario for Co-O assumed a mineable inventory of 3.4mt @ 6.3g/t (688koz) with an expectation that incorporating the new JORC code would translate to a material reduction in grade and ounces.
- **No surprises expected for the September quarter:** In an operational update released earlier this month, MML indicated it was on track to deliver gold production above 20koz for the September quarter. We note that our forecast for the quarter sits at 21.8koz at an AISC of US\$1,135/oz.

### Earnings and target price revision

- We have left our earnings forecasts largely unchanged for FY15-FY17 but increase our FY18 forecast due to a change in grade. However a reduction in resource option value post the downgrade has translated to a 10% cut in our price target to \$0.90.

### Price catalyst

- 12-month price target: A\$0.90 based on a DCF methodology.
- Catalyst: The release of the reserve and resource statement was the major catalyst for MML, however the share price decline suggested it had been largely factored in. Delivering on its production targets presents the next major catalyst for the stock.

### Action and recommendation

- **Upgrading from Underperform to Neutral:** The release of the reserve and resource update for MML has removed a major negative catalyst for the stock, and with the share price down 57% since 1 July, the downgrade appeared to be factored in. Achieving its reduced production targets is critical in the near-term and we look to see further guidance provided for the 2HFY15 with the September quarter result. After the significant fall in the share price and the removal of the major negative catalyst we upgrade from Underperform to Neutral.

Read more »

[PDF \(454 KB, 8 pages\)](#)

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25 September 2014

## MML AU

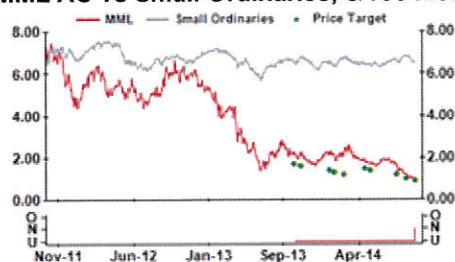
Price (at 08:51, 25 Sep 2014 GMT)

<b>Valuation</b>	<b>A\$</b>	<b>Neutral</b>
- DCF (WACC 5.0%)		<b>A\$0.81</b>
<b>12-month target</b>	<b>A\$</b>	<b>1.06</b>
<b>12-month TSR</b>	<b>%</b>	<b>0.90</b>
<b>Volatility Index</b>		<b>+10.4</b>
<b>GICS sector</b>		<b>High</b>
<b>Market cap</b>	<b>A\$m</b>	<b>Materials</b>
<b>30-day avg turnover</b>	<b>A\$m</b>	<b>169</b>
<b>Number shares on issue</b>	<b>m</b>	<b>2.2</b>
		<b>207.8</b>

### Investment fundamentals

Year end 30 Jun		2014A	2015E	2016E	2017E
Revenue	m	83.9	135.2	184.0	212.3
EBIT	m	30.8	-0.9	-0.8	25.0
Reported profit	m	30.9	-1.7	-1.0	26.6
Adjusted profit	m	31.4	-1.7	-1.0	26.6
Gross cashflow	m	49.1	68.3	111.5	139.1
CFPS	¢	24.3	32.9	53.7	66.9
CFPS growth	%	-27.5	35.5	63.2	24.7
PGCFPS	x	3.0	2.2	1.3	1.1
PGCFPS rel	x	0.30	0.24	0.16	0.14
EPS adj	¢	15.5	-0.8	-0.5	12.8
EPS adj growth	%	-41.7	nmf	43.2	nmf
PER adj	x	4.7	nmf	nmf	5.7
PER rel	x	0.24	nmf	nmf	0.47
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	7.5	-0.2	-0.2	5.0
ROE	%	8.2	-0.4	-0.2	6.3
EV/EBITDA	x	2.9	2.1	1.3	1.1
Net debt/equity	%	-0.9	1.8	-7.6	-22.1
P/BV	x	0.4	0.4	0.4	0.3

### MML AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, September 2014

(all figures in USD unless noted, TP in AUD)

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