

Caledonia Mining

Production on track, 14th dividend declared

Production update

Metals & mining

5 October 2016

Price **132p**

Market cap **£69m**

US\$1.28:£

Net cash (£m) at 30 June 2016 10.6

Shares in issue 52.2m

Free float N/A

Code CMCL

Primary exchange AIM

Secondary exchange N/A

Production at the Blanket gold mine continues to perform in line with expectations and remains on track to achieve 50koz of gold for 2016. Alongside gold production, Caledonia is also steadily progressing Blanket's ramp up to c 80koz by 2021 by implementing a series of planned mine expansions. To this end, a new ball mill has been installed, which will lift throughput capacity at Blanket by 20%, from 1,500tpd to 1,800tpd. Based on this announcement, we retain our 2016 forecasts published August.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	53.5	11.0	10.4	6.9	12.7	5.2
12/15	49.0	5.1	8.1	4.8	16.3	3.6
12/16e	60.4	16.0	23.5	5.5	5.6	4.2
12/17e	87.2	36.7	46.8	5.5	2.8	4.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, share-based payments

On 4 October Caledonia declared its 14th quarterly dividend, paying US\$0.01375 per ordinary share (5.5c annualised). Based on our end year EPS forecast of 23.5c, the annualised dividend cover is 4.3x, and is 3.7x covered by its cash position at end June 2016 (US\$10.6m). A notable effect on the dividend payment for UK-based shareholders is a continued weakening of the cable rate, which has decreased a further 2% since our [last note](#) in August, and could extend its weakness as the prospects for a hard Brexit continue to firm. A weakened cable rate increases, in sterling terms, the value of the dividend.

Our underlying valuation is unchanged and we adjust it only for a US\$/£ exchange rate of 1.28 (vs 1.30 in our last note). On this basis, our base case valuation for Caledonia increases a modest 2%, from £1.74 to £1.77 per share (using a 10% discount rate to reflect general equity risk).

Share price performance



Business description

Caledonia Mining mines gold at, and maintains management control over, its main operating asset the 49%-owned Blanket gold mine in southern Zimbabwe. It is also progressing its understanding of a number of promising satellite projects close to Blanket.

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