

Caledonia Mining

Interim results

Production up, costs down, cash building

Metals & mining

Caledonia's interim results demonstrate improved financials due not only to the higher gold price, but also the effects of successfully implementing its Revised Investment Plan (RIP), including a higher gold grade from below the 750m level. Cash is starting to build again after a period of reduction due to RIP implementation and a weak H116 gold price.

15 August 2016

Price **97.50p**
Market cap **£51m**

US\$/£:1.30

Net cash (US\$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

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	12.2	5.4
12/15	49.0	5.1	8.1	4.8	15.6	3.8
12/16e	60.4	16.0	23.5	5.5	5.4	4.3
12/17e	87.2	36.7	46.8	5.5	2.7	4.3

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

Production: Ore below 750m yielding higher grade

Probably the most significant outcome from H116 was the first indication of higher gold grades below the 750m level – a watermark for the company's future growth prospects. The average gold grade improved 9.8% q-o-q (Q116: 3.16g/t Au vs Q216: 3.47g/t Au) and while the average grade is within range for the past two years of quarterly grade data, 19.5% of Q216 production came from Eroica (between 750m and 630m RL), where the trammed grade was 5.32g/t Au; a result of completing the 22 haulage level to this orebody. Furthermore, production occurred below the 750m level at the AR South ore body which resulted in a trammed grade of 4.76g/t Au. This confirms current expectations of higher than mine-average (historically 3.84g/t Au) gold grades below 750m RL. Further, as more ore comes from below the 750m level, so the mined grade is expected to increase to a sustainable long-term average of c 4.0g/t Au by 2018.

Cash and AISC unit costs down due mainly to grade

On-mine cash costs were down 8.7% q-o-q (Q116: US\$689/oz vs Q216: US\$629/oz), while all-in sustaining costs reduced 1.5% (Q116: US\$950/oz vs Q216: US\$936/oz). Reduced costs resulted from Blanket's high fixed cost base spread across more ounces produced – a result of the higher grades and tonnages mined.

Valuation: Sterling weakness has greatest effect

We have adjusted our valuation for the H116 results, including one-off items such as the sale of US\$3.2m in Blanket Mine Treasury Bills held by Caledonia in lieu of historical production in 2008 when the prevailing economic situation limited cash payments between the government and industry. All other major cost items (production and capital items) remain in line with our full-year forecasts. The main effect on our previous £1.59 valuation is the US\$/£ forex rate, which post Brexit has weakened by 8% to 1.30 vs 1.41 in our last note. This improves our valuation by 10% to £1.74p. Cash at end Q116 was \$8.8m and has increased 20% to US\$10.6m; we forecast that after all cash outflows, this rises to US\$12.4m by end 2016. H116 adjusted EPS was 8.6c. With gold production weighted to H216, we retain our FY16e adj. EPS of 23.5c.

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.

Next event

Q3 results October 2016

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Exhibit 1: Financial summary

	US\$'000s	2014	2015	2016e	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		53,513	48,977	60,350	87,208	93,082
Cost of Sales		(34,970)	(35,796)	(38,530)	(44,415)	(47,734)
Gross Profit		18,543	13,181	21,820	42,793	45,349
EBITDA		14,721	8,967	19,541	40,291	42,613
Operating Profit (before amort. and except.)		11,181	5,645	15,730	36,480	38,802
Intangible Amortisation		0	0	0	0	0
Exceptionals		887	2,850	2,340	0	0
Operating Profit		12,068	8,495	18,070	36,480	38,802
Net Interest		(140)	(535)	251	248	514
Profit Before Tax (norm)		11,041	5,110	15,982	36,728	39,316
Profit Before Tax (FRS 3)		11,928	7,960	18,322	36,728	39,316
Tax		(5,982)	(2,370)	(1,366)	(7,531)	(10,516)
Profit After Tax (norm)		5,059	2,740	14,615	29,196	28,799
Profit After Tax (FRS 3)		5,946	5,590	16,955	29,196	28,799
Minority interests		(1,511)	(811)	(2,367)	(4,814)	(5,204)
Net income (norm)		5,420	4,220	12,248	24,383	23,596
Net income (FRS3)		4,435	4,779	14,588	24,383	23,596
Average Number of Shares Outstanding (m)		52.1	52.1	52.1	52.1	52.1
EPS - normalised (c)		10.4	8.1	23.5	46.8	45.3
EPS - normalised and fully diluted (c)		10.4	8.1	23.5	46.8	45.3
EPS - (IFRS) (c)		8.4	8.9	28.0	46.8	45.3
Dividend per share (c)		6.9	4.8	5.5	5.5	0.0
Gross Margin (%)		34.7	26.9	36.2	49.1	48.7
EBITDA Margin (%)		27.5	18.3	32.4	46.2	45.8
Operating Margin (before GW and except.) (%)		20.9	11.5	26.1	41.8	41.7
BALANCE SHEET						
Fixed Assets		34,736	49,276	59,265	69,953	74,342
Intangible Assets		0	0	0	0	0
Tangible Assets		34,736	49,276	59,265	69,953	74,342
Investments		0	0	0	0	0
Indigenisation receivable		0	0	0	0	0
Current Assets		31,743	23,562	21,887	37,837	62,455
Stocks		6,512	6,091	3,853	4,316	4,627
Debtors		1,850	4,236	4,960	7,168	7,651
Cash		23,082	12,568	12,406	25,686	49,510
Other		299	667	667	667	667
Current Liabilities		(4,972)	(8,397)	(2,622)	(5,383)	(9,448)
Creditors		(4,972)	(6,709)	(2,622)	(5,383)	(9,448)
Short term borrowings		0	(1,688)	0	0	0
Long Term Liabilities		(11,164)	(14,080)	(14,080)	(14,080)	(14,080)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(11,164)	(14,080)	(14,080)	(14,080)	(14,080)
Net Assets		50,343	50,361	64,450	88,327	113,269
Minority interests		(693)	(1,504)	(3,407)	(7,756)	(12,960)
Shareholder equity		49,650	48,857	61,043	80,571	100,309
CASH FLOW						
Operating Cash Flow		15,477	8,331	19,308	37,929	42,027
Net Interest		0	0	251	248	514
Tax		(4,526)	(1,462)	(1,366)	(7,531)	(10,516)
Capex		(6,150)	(16,567)	(13,800)	(14,500)	(8,200)
Acquisitions/disposals		0	0	0	0	0
Management Fees		0	0	0	0	0
Dividends		(3,620)	(2,504)	(2,866)	(2,866)	0
Net Cash Flow		1,181	(12,202)	1,526	13,280	23,824
Opening net debt/(cash)		(21,892)	(23,082)	(10,880)	(12,406)	(25,686)
HP finance leases initiated		0	0	0	0	0
Other		9	0	0	0	0
Closing net debt/(cash)		(23,082)	(10,880)	(12,406)	(25,686)	(49,510)

Source: Company accounts and Edison Investment Research

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