



Silver Lake BUY

Current Price: **\$2.40**
Target Price: **\$2.81**

Ticker: **SLR**
Sector: **Materials**

Shares on Issue (m): **178.8**
Market Cap (\$m): **429.0**
Net Cash (\$m): **31.4**
Enterprise Value (\$m): **397.6**

52 wk High/Low: **\$2.69** **\$0.74**
12m Av Daily Vol (m): **0.65**

Key Metrics

	10A	11F	12F
P/E (x)	36.5	13.0	7.7
EV/EBITDA (x)	16.2	7.0	4.0

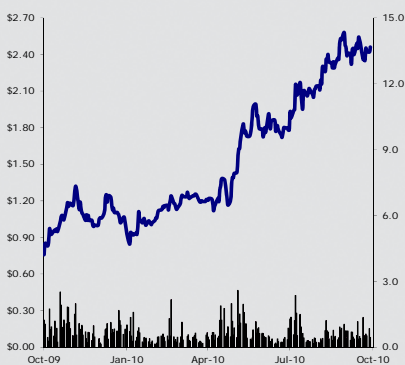
Financials:

	2009	2010	2011
Revenue (\$m)	69.1	127.3	243.4
EBIT (\$m)	16.8	47.2	79.5
NPAT (\$m)	11.7	33.0	55.6
Net Assets (\$m)	75.5	88.9	166.2
Op CF (\$m)	19.8	64.8	111.0

Per Share Data:

	2009	2010	2011
EPS (cps)	5.8	16.2	27.4
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	9.7	31.9	54.6

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

27 October 2010

September Q Report

September Q Report:

In the September Q Silver Lake (SLR) reported production of 14.0koz at cash costs of \$712/oz (including royalties) from the Mount Monger gold project. Operating cash flow was \$8.8m and free cash flow was -\$2.5m (after exploration, capital expenditure, and asset purchases).

Open pit operations are underway at the 25koz Costello deposit with first gold expected in November 2010. The resource grade is 3.2g/t.

One diamond and one RC rig are drilling continuously at Magic. The latest results intersected significant mineralisation including 6.4m @ 28.7 g/t Au and 1.3m @ 23.5 g/t Au outside of the current 152koz resource.

During the Q SLR paid \$3m for a 2.5Mtpa milling circuit for the Murchison project. The base case production plan is 1.2Mtpa @ 3.0g/t from multiple open pits with a study anticipated in late 2010.

Impact:

Neutral

FY11 production guidance is unchanged at 90-105koz. Argonaut's forecast is 90koz.

Near term production growth stems from ramping up Daisy East (40m to the east of DM) and the addition of open pit ore from deposits such as Costello and Mount Monger (80koz @ 2.9g/t, mining study underway).

View:

Positive

Quality people impart tangibility to SLR's aggressive conceptual growth target of 300koz pa by FY14 (~200koz pa from Mount Monger and ~100koz pa from Murchison). With grade (underground ~7-10g/t, open pit ~3.0g/t), low cash costs (\$650-700/oz) and exploration success on its side, SLR is hard to beat among the new Eastern Goldfields producers.

Over the past 12 months the Company has delivered a West African-like resource build, adding 1Moz at a discovery cost of <\$10/oz.

Recommendation:

Buy

The stock is trading at a 15% discount to Argonaut's target price of \$2.81 (1.2x NAV). At spot gold and fx the target price rises to \$3.17.



Silver Lake Resources

Equities Research

Analyst: Troy Irvin

Recommendation	BUY
Current Price	\$2.40
Target Price (1.2x NAV)	\$2.81
All Ords (XAO)	4,767

Sector	Materials
Issued Capital (m)	178.8
Market Cap (m)	\$429.0
Updated	27-October-2010

Profit & Loss (\$m) 30 June	2010A	2011E	2012E	2013E
Sales Revenue	69.1	127.3	243.4	300.6
Other Income	0.9	2.0	2.8	7.5
Operating Costs	43.0	62.5	132.5	172.3
Exploration Expense	0.1	5.0	10.2	10.4
Corporate/Admin	2.2	5.0	5.1	5.2
EBITDA	24.6	56.8	98.4	120.2
D & A	7.7	9.6	18.9	23.9
EBIT	16.8	47.2	79.5	96.2
Finance expenses	0.2	0.0	0.0	0.0
Impairment of assets	0.0	0.0	0.0	0.0
Operating Profit	16.6	47.1	79.5	96.2
Tax expense	4.9	14.1	23.8	28.9
Minorities	0.0	0.0	0.0	0.0
NPAT	11.7	33.0	55.6	67.3
Normalised NPAT	11.7	33.0	55.6	67.3

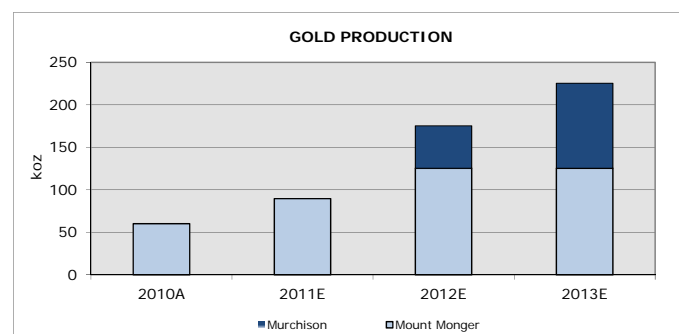
Cash Flow (\$m)	2010A	2011E	2012E	2013E
Operating Cashflow	19.8	64.8	111.0	128.3
- Capex	7.7	46.4	23.5	14.6
- Exploration & Evaluation	17.8	5.0	10.2	10.4
- Asset purchases (+ asset sales)	-0.8	0.0	0.0	0.0
Free Cashflow	-4.9	13.4	77.3	103.3
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	17.9	0.0	0.0	0.0
+ Debt drawdown (- repaid)	-0.1	-0.3	-0.3	0.0
Net Change in Cash	12.9	13.1	77.0	103.3
Cash at End Period	29.5	42.6	119.6	222.8

Balance Sheet (\$m)	2010A	2011E	2012E	2013E
Total Assets	97.2	152.6	257.9	363.6
Total Debt	0.6	0.4	0.1	0.0
Total Liabilities	21.7	63.7	91.8	94.2
Shareholders Funds	75.5	88.9	166.2	269.4

Gold Production Summary	2010A	2011E	2012E	2013E
Mount Monger (koz)	60	90	125	125
Murchison (koz)	0	0	50	100
Total Gold	60	90	175	225
Gold Cash Cost (A\$/oz)	636	700	752	764
Gold Price Realised (A\$/oz)	1257	1406	1389	1333

Reserves & Resources (30 June 2010)	Mt	g/t	Au (koz)
Resources			
Mount Monger	3.6	9.4	1081
Murchison	13.7	3.0	1322
Rothsay	0.6	7.0	133
Total	17.8	4.4	2536

EV / Resource (\$/oz) \$169



Financial Summary	2010A	2011E	2012E	2013E
Reported Earnings				
Net Profit (\$m)	11.7	33.0	55.6	67.3
EPS (cents)	5.8	16.2	27.4	33.2
PER (x)	36.5	13.0	7.7	6.4
Normalised Earnings				
Net Profit (\$m)	11.7	33.0	55.6	67.3
EPS (cents)	5.8	16.2	27.4	33.2
EPS Growth (%)				
PER (x)	36.5	13.0	7.7	6.4
Cashflow				
Operating Cashflow (\$m)	19.8	64.8	111.0	128.3
GCFPS (cents)	9.7	31.9	54.6	63.2
PCF (x)	24.6	7.5	4.4	3.8
Dividend				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking %	100	100	100	100

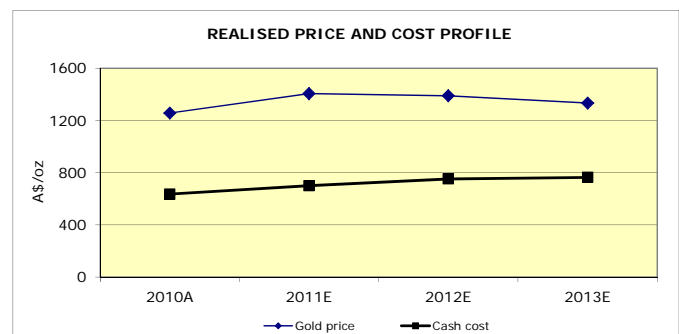
Financial Ratios	2010A	2011E	2012E	2013E
Balance Sheet Ratios				
Total Debt / Equity (%)	0.8	0.4	0.1	0.0
Interest Cover (x)	-	-	-	-
Acid test ratio (x)	2.6	1.6	2.2	3.0

Profitability Ratios	2010A	2011E	2012E	2013E
Net Profit Margin (%)	17.0	25.9	22.8	22.4
Return on Assets (%)	24.9	42.9	57.4	68.4
Return on Equity (%)	15.5	37.1	33.5	25.0

Valuation Summary	A\$m	A\$/sh
Mount Monger	250.4	1.40
Murchison	103.0	0.58
Exploration	35.0	0.20
Forwards	0.0	0.00
Corporate	-7.9	-0.04
Unpaid Capital	7.3	0.04
Cash at 30 June 2010	31.9	0.18
Debt	-0.5	0.00
Total @ 7.7% discount rate	419	2.35

Directors	
Paul Chapman	Non-Executive Chairman
Les Davis	Managing Director
Chris Banasik	Executive Director - Exploration and Geology
Brian Kennedy	Non-Executive Director
Peter Johnston	Non-Executive Director
David Griffiths	Non-Executive Director

Substantial Shareholders	%
Sprott Asset Management	9.5%
Baker Steel	7.1%
Eye Investment Fund	6.8%



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