



Silver Lake BUY

Current Price: **\$3.58**
Target Price: **\$3.99**

Ticker: SLR
Sector: Materials

Shares on Issue (m): 206.3
Market Cap (\$m): 738.5
Net Cash (\$m): 92.4
Enterprise Value (\$m): 646.1

52 wk High/Low: \$3.67 \$1.57
12m Av Daily Vol (m): 0.56

Key Metrics

	11A	12F	13F
P/E (x)	46.8	15.8	6.7
EV/EBITDA (x)	19.0	8.4	3.6

Financials:

	11A	12F	13F
Revenue (\$m)	90.0	158.3	374.6
EBIT (\$m)	22.9	66.9	156.6
NPAT (\$m)	15.8	46.8	109.6
Net Assets (\$m)	91.4	162.9	307.4
Op CF (\$m)	33.3	91.0	194.3

Per Share Data:

	11A	12F	13F
EPS (cps)	7.8	20.9	49.0
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	16.4	40.7	86.9

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

1 December 2011

Mt Monger site visit

Site visit:

Argonaut recently visited Silver Lake's (SLR) Mt Monger mine, 50km south east of Kalgoorlie.

SLR aims to expand Mt Monger to 200kozpa by FY14 (FY11A 63koz) via the "Three Daisy Milano Strategy" i.e. three independent underground mines producing ~60kozpa each, plus ~20kozpa from open pits.

Impact:

Positive

Substantial progress has been made towards this goal over the 6 months since Argonaut's last site visit:

- Ventilation bottleneck removed with a \$5m system installed
- Underground ore production increased to current >30ktpm and building (now running 5 trucks)
- Development continues, opening up more working areas
- Multiple access drives into Haoma (current Resource 235koz @ 31g/t), long hole opportunities, long strike length
- Drilling to west, identification of further lodest likely
- Identified new mineralisation on the other side of a 20m wide waste dyke
- Open pit mining underway at Wombola Dam, drilling to add to open pit inventory

Full year guidance remains unchanged at 100-110koz v Argonaut 100koz @ \$655/oz. Cash costs (September Q \$739/oz) are expected to decrease over the next 3 quarters as volumes increase over the same fixed cost base.

View:

Positive

The stock will be supported by:

- Growth - Targeting 300kozpa from 2014 and 5Moz Resources in 2012
- Catalysts - Continued ramp-up in production, results west of Haoma, Magic mining study, Murchison development, ongoing Eelya Complex copper results, maiden copper Resource, aggressive exploration (\$18m p.a. gold, \$20m base metals)

Recommendation:

Buy

Argonaut's target price increases to \$3.99 (was \$3.22) after increasing the Mt Monger mine life to eight years (was seven years) and adding \$0.17 (\$36m) for the early stage copper results. At flat spot gold and fx the target price is \$4.92.



Silver Lake Resources

Equities Research

Analyst: Troy Irvin

Recommendation BUY
Current Price \$3.58
Target Price (1.2x NAV) \$3.99

Sector Materials
Issued Capital (m) 206.3
Market Cap (m) \$738.5
Updated 30-November-2011

Profit & Loss (\$m) 30 June	2011A	2012E	2013E	2014E
Sales Revenue	90.0	158.3	374.6	454.4
Other income	1.0	3.4	6.9	15.6
Operating costs	53.0	64.7	180.3	223.9
Exploration expense	0.8	15.1	15.3	0.0
Corporate / administration	3.1	5.0	5.1	5.2
EBITDA	34.1	76.9	180.7	240.9
D & A	11.1	10.0	24.2	29.3
EBIT	22.9	66.9	156.6	211.5
Finance expenses	0.2	0.0	0.0	0.0
Impairment of assets	0.0	0.0	0.0	0.0
Profit Before Tax	22.8	66.9	156.5	211.5
Tax expense	7.0	20.1	47.0	63.5
Minorities	0.0	0.0	0.0	0.0
NPAT	15.8	46.8	109.6	148.1
Normalised NPAT	15.8	46.8	109.6	148.1

Cash Flow (\$m)	2011A	2012E	2013E	2014E
Operating Cashflow	33.3	91.0	194.3	214.9
- Capex	28.1	61.5	34.4	15.6
- Exploration & evaluation	15.3	15.1	15.3	15.6
- Asset purchases (+ asset sales)	3.1	0.0	0.0	0.0
Free Cashflow	-13.1	14.5	144.6	183.6
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	0.0	57.0	0.0	0.0
+ Debt drawdown (- repaid)	-0.3	0.0	0.0	0.0
Net Change in Cash	-13.4	71.5	144.6	183.6
Cash at end period	16.1	87.6	232.2	415.7

Balance Sheet (\$m)	2011A	2012E	2013E	2014E
Total Assets	128.0	274.8	473.9	660.2
Total Debt	0.4	0.4	0.4	0.4
Total Liabilities	36.6	111.9	166.5	169.2
Shareholders Funds	91.4	162.9	307.4	491.0

Gold Production Summary	2011A	2012E	2013E	2014E
Mount Monger (koz)	63	100	200	200
Murchison (koz)	0	0	42	94
Total Gold	63	100	242	293
Gold Cash Cost (A\$/oz)	677	655	745	764
Gold Price Realised (A\$/oz)	1390	1550	1550	1550

Reserves & Resources (December 2010)	Mt	g/t	Au (koz)
Resources			
Mount Monger	5.1	8.9	1467
Murchison	18.4	2.8	1650
Rothsay	0.6	7.0	133
Total	24.1	4.2	3250

EV / Resource (\$/oz) \$225

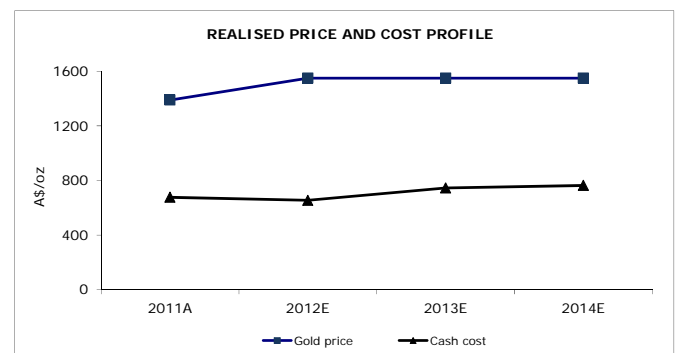
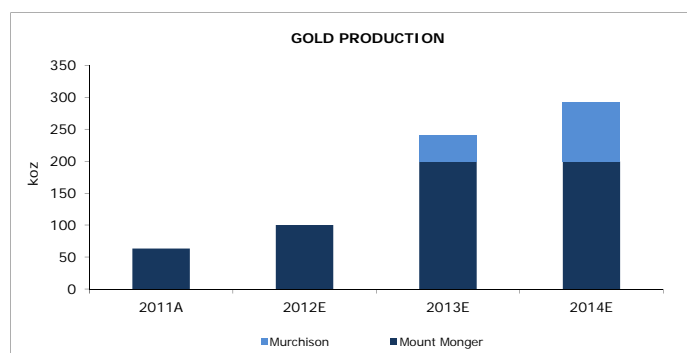
Financial Summary	2011A	2012E	2013E	2014E
Reported Earnings				
Net Profit (\$m)	15.8	46.8	109.6	148.1
EPS (cents)	7.8	20.9	49.0	66.2
PER (x)	46.8	15.8	6.7	5.0
Normalised Earnings				
Net Profit (\$m)	15.8	46.8	109.6	148.1
EPS (cents)	7.8	20.9	49.0	66.2
EPS Growth (%)				
PER (x)	46.8	15.8	6.7	5.0
Cashflow				
Operating Cashflow (\$m)	33.3	91.0	194.3	214.9
GCFPS (cents)	16.4	40.7	86.9	96.0
PCF (x)	21.8	8.8	4.1	3.7
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	2011A	2012E	2013E	2014E
Balance Sheet Ratios				
Total Debt / Equity (%)	0.4	0.2	0.1	0.1
Interest Cover (x)	-	-	-	-
Acid test ratio (x)	1.0	2.7	2.8	3.8
Profitability Ratios				
Net Profit Margin (%)	17.6	29.6	29.2	32.6
Return on Assets (%)	20.5	35.7	64.8	86.5
Return on Equity (%)	17.3	28.7	35.6	30.2

Valuation Summary	A\$m	A\$/sh
Mount Monger	457.2	2.22
Murchison	57.6	0.28
Eelya Complex	35.9	0.17
Exploration	50.0	0.24
Forwards	0.0	0.00
Corporate	-14.8	-0.07
Unpaid Capital	7.3	0.04
Cash and bullion estimate	92.4	0.45
Debt	0.0	0.00
Total @ 7.7% discount rate	686	3.32

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%
Macquarie Group	6.1%





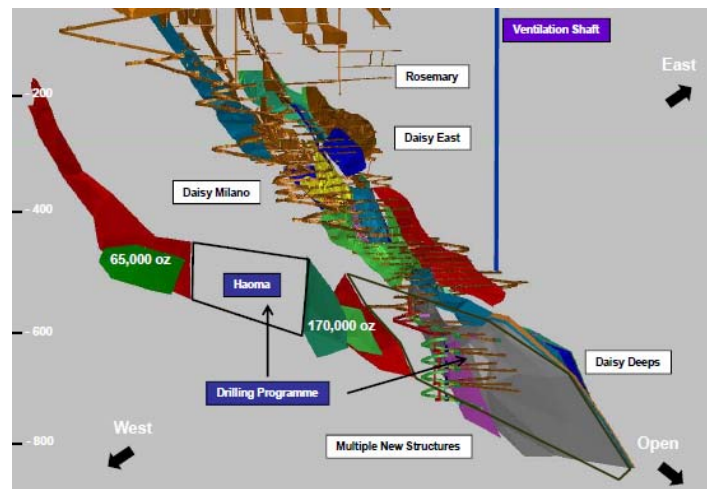
Growth credentials reaffirmed

Recent Mt Monger site visit...

Argonaut's recent Mt Monger site visit reaffirms SLR's growth credentials:

- Production - FY12F 100-110koz, 300kozpa target by 2014
- Resources - August 2011 3.3Moz, 5.0Moz target by June 2012
- Mine life - Expansion of Haoma over next 12 months to drive +10 year mine life at Mount Monger, plus other parallel structures

Figure 1: Haoma – The next Daisy Milano?



...reaffirms SLR's growth credentials

Source: SLR

Following the site visit, Argonaut increases the assumed Mt Monger mine life to eight years (was seven years).

De-risking the business

Management is prudently de-risking the business...

Management is de-risking the business with a fifth ore source (Wombola Dam – starter pit ~13koz, conceptual "big pit" 420m long x 250m wide), two-stage plant expansion, and a second production centre at Murchison.

Figure 2: Wombola Dam – Mining underway



...with a fifth ore source, plant expansion, and a second production centre

Source: Argonaut



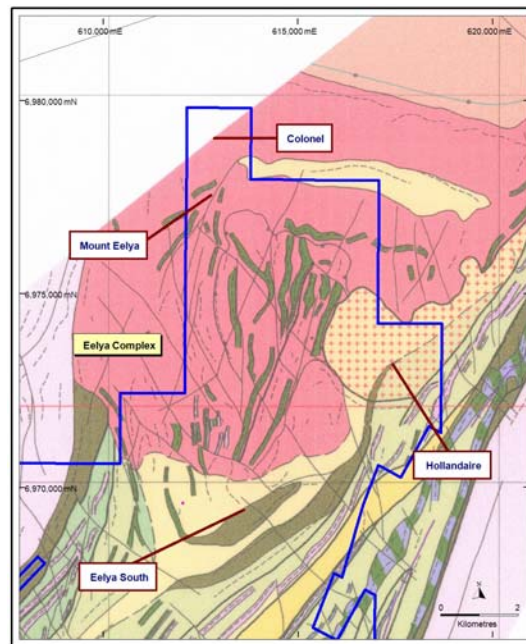
Promising copper discovery

Recently announced a high grade copper discovery at Hollandaire...

SLR recently announced a high grade copper discovery at Hollandaire, part of the Eelya Complex, located immediately north of the planned Murchison gold mill. Assay results from seven holes out of a nine hole program were reported, with grades up to 45% Cu, 5.5g/t Ag and 256g/t Ag.

Surface geophysics has located nine electromagnetic conductors at Hollandaire, Colonel, Mount Eelya, and Eelya South. Drill testing continues.

Figure 3: Eelya Complex – Area containing EM conductors



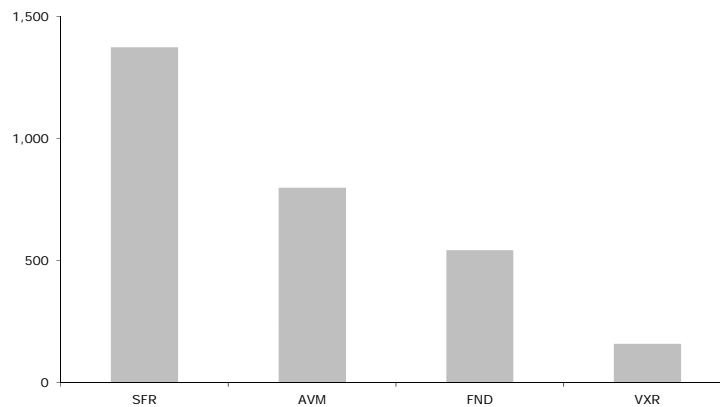
Source: SLR

...located immediately north of the planned Murchison gold mill

High grade Cu stocks are trading at \$840/t Resource...

High grade (+2% Cu) stocks are trading at an average of \$718/t Resource.

Figure 4: High grade copper peers - \$/t Resource



Source: Argonaut

...resulting in an early stage Hollandaire valuation of \$0.20ps

Based on the seven released holes, Argonaut estimates an inventory of 1Mt @ 5% for 50kt contained Cu, resulting in a valuation of \$36m or \$0.17ps.

**Contact Details****Research:**

Ian Christie
Director, Research
+61 8 9224 6872

Troy Irvin
Director, Research
+61 8 9224 6871

Tim Serjeant
Associate Director, Research
+61 8 9224 6806

Patrick Chang
Analyst
+61 8 9224 6835

Institutional Sales - Perth:

Paul Carter
Executive Director
+61 8 9224 6864

Chris Wippl
Executive Director
Head of Sales & Research
+61 8 9224 6875

John Santul
Consultant, Sales & Research
+61 8 9224 6859

Damian Rooney
Senior Institutional Dealer
+61 8 9224 6862

Ben Willoughby
Institutional Dealer
+61 8 9224 6876

Bryan Johnson
Institutional Dealer
+61 8 9224 6834

Tim Mellor
Institutional Dealer
+61 8 9224 6884

Institutional Sales – Hong Kong:

Travis Smithson
Managing Director
Argonaut Securities (Asia) Ltd
+852 9832 0852

Rachel Chan
Institutional Research Sales
+852 9756 9705

Angus McGeogh
Institutional Research Sales
+852 6623 8935

Corporate and Private Client Sales:

Kevin Johnson
Executive Director
+61 8 9224 6880

Glen Colgan
Executive Director
+61 8 9224 6874

James McGlew
Director, Corporate Stockbroking
+61 8 9224 6866

Simon Lyons
Director, Private Clients
+61 8 9224 6881

Geoff Barnesby-Johnson
Senior Dealer, Corporate Stockbroking
+61 8 9224 6854

Andrew Venn
Senior Dealer, Corporate Stockbroking
+61 8 9224 6865

Melaney Brans
Dealer, Private Clients
+61 8 9224 6873

Cameron Fraser
Dealer, Private Clients
+61 8 9224 6851

Ben Rattigan
Dealer, Private Clients
+61 8 9224 6824

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