

Northern Star Resources Limited NST (\$0.37)

Recommendation: BUY

Heading in the right direction

Analyst: Gary Watson

OUR VIEW

The acquisition of the Paulsens gold project in mid 2010 has proved to be a big win for NST, managing a payback period of 7 months and now operating unhedged and debt free. A small capital expenditure on the 705 exploration drive has proved to be a savvy investment too, already providing a resource upgrade and likely to deliver at least another 200koz. Paulsens is producing at cash costs of circa \$510/oz and has been consistently exceeding guidance of 70kozpa due to positive reconciliation of the ore grade. Management are very shrewd operators and have proven themselves by turning Paulsens, which was viewed as a marginal asset, into a highly profitable mine. The acquisition of the 961km² Ashburton tenements appears to be another good move by NST, picking up a further 668koz resource and exploration targets within trucking distance of the Paulsens plant. Our estimates see NST trading on very attractive multiples of 2.0x FY2011 EV/EBITDA and 1.7x FY2012 EBITDA. With NST's prolific cash generation they are well positioned to initiate their growth strategy in the near term. We rate NST a BUY with a price target of \$0.61/sh.

Investment Highlights

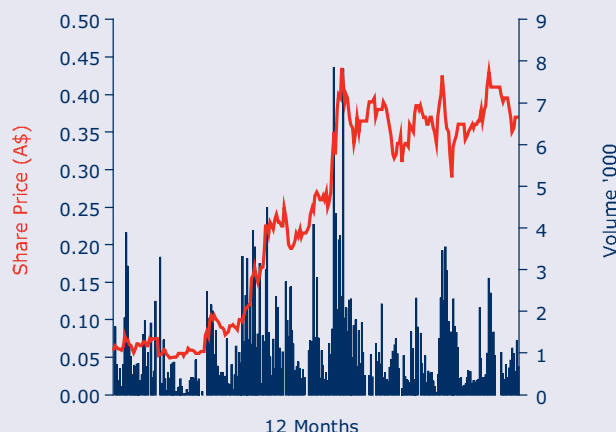
- Strong, low cost production at Paulsens.** Since acquiring Paulsens gold mine in July 2010 NST has produced >70koz of gold at cash costs of ~A\$510/oz. The nuggety nature of the ore body has resulted in positive reconciliation of the gold content of the ore, earning greater than expected ounces. We are conservatively forecasting 70kozpa production at cash cost of A\$560/oz with a mine life of 4 years, however there is good probability of NST producing higher than forecast ounces and extending the mine life with additional mill feed from the Ashburton project.
- Quick payback to remain debt free and unhedged.** NST acquired the Paulsens gold mine in July 2010 for \$40m consisting of \$23m in cash payments in addition to \$17m in royalty payments. NST achieved a payback period of only 7 months and is now debt free and unhedged with ~\$10m cash in the bank.
- Top notch management.** We rate highly rate NST's management and thus far they have proved themselves as efficient operators. Prior to becoming NST's Managing Director, Bill Beament, spent 3.5 years overseeing the mining contractor at Paulsens, while he was Operations Manager at Barminto.
- Ashburton project.** NST purchased the Ashburton mining tenements from Sipa Resources in February in exchange for replacing its environmental bonds at \$445k, plus royalty based payments on the first 250koz produced. The tenements contain a 668koz resource and multiple walk up drill targets all within trucking distance of the Paulsens plant.
- Exploration hitting the marks.** Over the last 9 months NST has developed the 705 drill drive to expand the shallow dipping Voyager 1 and Voyager 2 lodes. To date, drilling from the 705 level has added ~22koz to the resource inventory, however significant drilling has been completed outside of the current resource with encouraging results. NST is mining in excess of 1,000oz per vertical metre, and we estimate a 100koz resource upgrade to the Voyager 1 lode and a maiden resource of 100koz for the Voyager 2 lode. A 64.5koz resource has been delineated at Paulsens for an open pit to extract the near surface low grade ore.

Investment Summary

Year End June 30	2011F	2012F	2013F	2014F
Reported NPAT (\$m)	21.5	33.1	39.0	45.8
Recurrent NPAT (\$m)	21.5	33.1	39.0	45.8
Recurrent EPS (cents)	6.1	9.4	11.0	12.9
EPS Growth (%)	2,447.8	53.8	17.8	17.5
PER (x)	6.1	4.0	3.4	2.9
EBITDA (\$m)	49.7	59.5	67.9	77.7
EV/EBITDA (x)	2.6	2.1	1.9	1.6
Capex (\$m)	44.6	8.1	5.4	2.5
Free Cashflow	10.7	37.7	45.9	55.5
FCFPS (cents)	3.0	10.7	13.0	15.7
PFCF (x)	12.2	3.5	2.9	2.4
DPS (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0

Company Statistics & Performance

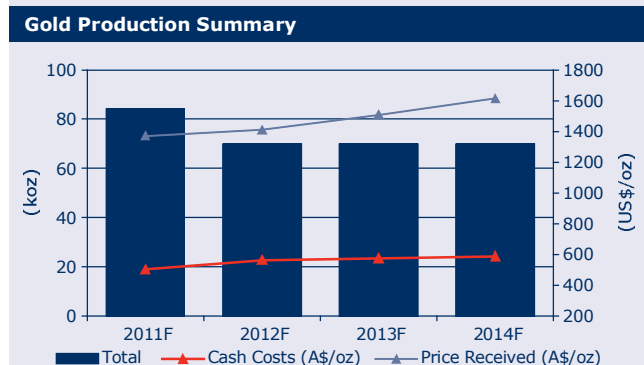
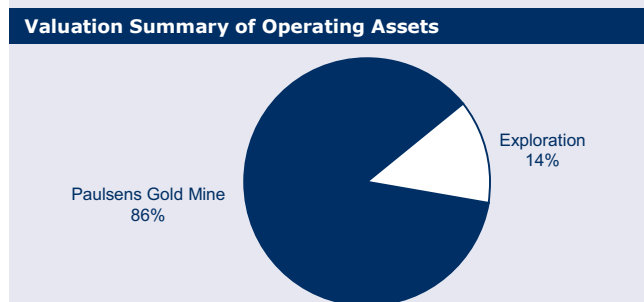
Shares on Issue (m)	353.5	3mth ADT (\$m)	0.38
Market Cap. (\$m)	130.8	Debt (\$m)	0.0
52 Week Range	\$0.05 - \$0.44	Cash (\$m)	3.8



Northern Star Resources Limited \$0.37

Valuation	A\$m	A\$/sh
Paulsens Gold Mine	141.5	0.40
Exploration	22.3	0.06
Unpaid capital	5.1	0.01
Corporate	(1.2)	(0.00)
Forwards	0.0	0.00
Cash (est.)	3.8	0.01
Debt	(0.0)	(0.00)
NPV (@ 8% discount rate)	171.5	0.49
Price Target		0.58

NPV Sensitivity		
NPV (nom) @ 5% disc.		0.52
NPV (nom) @ 0% disc.		0.59



Resources

	Mt	Au g/t	Au koz
Paulsens Gold Mine	1,268	5.5	226
Ashburton Gold Project	7,145	2.9	668
Total	8,413.0	0.8	894

Directors

Name	Position
Chris Rowe	Non-Executive Chairman
Bill Beament	Managing Director
Michael Fotios	Non-Executive Director
Peter Farris	Non-Executive Director

Substantial Shareholders

	%
Investmet	19.1

Year End June 30

Commodity Assumptions	2010A	2011F	2012F	2013F
A\$:US\$	0.89	0.99	1.05	1.00
Gold (US\$/oz)	1093	1356	1483	1507
Silver (US\$/oz)	17.28	29.77	42.63	42.53
Gold (A\$/oz)	1222	1368	1409	1507

Target Price Sensitivity	-10%	0%	+10%	% Chg
FX (A\$:US\$)	0.58	0.58	0.58	0
Gold Price	0.58	0.58	0.58	0
Gold Grade	0.58	0.58	0.58	0
Operating Costs	0.58	0.58	0.58	0
Recovery	0.00	0.58	0.00	(100)
EV:Reserve (A\$/oz)	185			
EV:Resource (A\$/oz)	95			

Production Summary	2010A	2011F	2012F	2013F
Production (koz)				
Paulsens Gold Mine	7	84	70	70
Total	7	84	70	70

Cost Summary				
Cash Costs (A\$/oz)		501	560	573
Total Costs (A\$/oz)		706	736	749
Price Received (A\$/oz)	1,289	1,369	1,410	1,508

Profit & Loss (A\$m)	2010A	2011F	2012F	2013F
Sales Revenue	8.5	104.3	98.4	105.2
Other Income	0.0	0.3	1.5	3.5
Operating Costs	5.3	53.5	39.1	40.0
Exploration Exp.	0.2	0.7	0.5	0.0
Corporate/Admin	0.7	0.6	0.7	0.8
EBITDA	2.3	49.7	59.5	67.9
Depn & Amort	1.2	20.8	12.3	12.3
EBIT	1.1	28.9	47.3	55.7
Interest	0.0	0.3	0.0	0.0
Abnormals (pre-tax)	0.0	0.0	0.0	0.0
Operating Profit	1.1	28.6	47.3	55.7
Tax expense	0.5	7.1	14.2	16.7
Abnormals (post-tax)	0.0	0.0	0.0	0.0
NPAT	0.6	21.5	33.1	39.0
Normalised NPAT	0.6	21.5	33.1	39.0

Cash Flow (A\$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	0.6	21.5	33.1	39.0
+ Interest/Tax/Expl Exp	0.7	8.1	14.7	16.7
- Interest/Tax/Expl Inc	1.6	8.1	14.7	16.7
+ Depn/Amort	1.2	20.8	12.3	12.3
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	1.0	42.3	45.4	51.2
- Capex (+asset sales)	(0.0)	44.6	8.1	5.4
- Working Capital Increase	(0.2)	(10.3)	0.0	0.0
Free Cashflow	1.2	8.1	37.2	45.9
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	2.5	4.3	0.0	0.0
+ Debt drawdown (repaid)	(0.1)	0.0	0.0	0.0
Net Change in Cash	3.6	12.4	37.2	45.9
Cash at End Period	3.8	16.1	53.4	99.2
Net Cash/(LT Debt)	3.8	16.1	53.4	99.2

Balance Sheet (A\$m)	2010A	2011F	2012F	2013F
Cash/Bullion	3.8	16.1	53.4	99.2
Total Assets	5.8	44.6	77.7	116.7
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	0.7	13.7	13.7	13.7
Shareholders Funds	5.1	30.9	64.0	103.0

Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	419.1	88.9	na	na
Return on Equity (%)	12.1	69.6	51.7	37.8