



## Northern Star BUY

Current Price: **\$0.58**  
Valuation: **\$0.80**

Ticker: **NST**  
Sector: **Materials**

Shares on Issue (m): **349.1**  
Market Cap (\$m): **202.5**  
Net Cash (\$m): **25.9**  
Enterprise Value (\$m): **176.6**

52 wk High/Low: **\$0.63** **\$0.18**  
12m Av Daily Vol (m): **1.30**

### Key Metrics

	11A	12F	12F
P/E (x)	12.5	6.0	5.6
EV/EBITDA (x)	3.9	2.5	2.3

### Financials:

	11A	12F	12F
Revenue (\$m)	114.9	131.9	143.4
EBIT (\$m)	20.9	48.4	52.0
NPAT (\$m)	16.3	33.6	36.2

Net Assets (\$m) 26.1 59.1 85.2

Op CF (\$m) 77.5 65.7 69.8

### Per Share Data:

	11A	12F	12F
EPS (cps)	4.3	8.9	9.6
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	20.6	17.5	18.5

### Share Price Graph



Analysts:  
Troy Irvin  
Tim Serjeant  
Patrick Chang

17 October 2011

## Bon voyageur

### Project best drilling results:

Better recent drill results from Northern Star's (NST) Voyager 1 lode at the Paulsens gold mine include (uncut):

- 18.8m @ 62.7g/t (true width 3.5m), including 7.0m @ 140.7g/t
- 6.4m @ 120.2g/t (true width 1.5m), including 2.0m @ 345.4g/t
- 13.3m @ 12.2g/t (true width 3.0m)
- 7.3m @ 11.6g/t (true width 5.0m)

Further assays are pending.

### Impact:

Positive

The results confirm high grade mineralisation ~150m down plunge and ~50m east of the March 2011 Resource envelope, and suggest a potential mergence of the Voyager 1 and Voyager 2 lodes at depth.

This bodes well for the next Resource upgrade and the Company's planned two stage journey from 75 to 200kozpa. Stage One will see the Paulsens plant upgraded from 350ktpa to 450ktpa, lifting production to ~100kozpa from December 2012 (~\$10m capex). Stage Two will involve a potential stand-alone, 100kozpa operation at the Ashburton Sulphide Project.

Argonaut's valuation increases to 80c (was 75c) assuming 100kozpa production from 2013 and a 5 year mine life (was flat 85kozpa for 5 years). Each additional year of mine life adds ~12c to the valuation.

The current stock price implies US\$1,110/oz gold (fx assumptions 1.00 FY12-14, 0.80 long term).

### View:

Positive

NST's high grade gold Paulsens ore body (low cost / high margin production), ~\$30m cash balance and absence of bank debt offers relative safety in an uncertain macro-dominated market.

### Recommendation:

Buy

The stock should command a re-rating as ongoing drilling adds to the mine life and the Company executes its growth strategy.



Northern Star Resources

Equities Research

Analyst: Troy Irvin

Recommendation **BUY**  
Current Price **\$0.58**  
Valuation **\$0.80**

Sector **Materials**  
Issued Capital (m) **349.1**  
Market Cap (m) **\$202.5**  
Updated **17-October-2011**

Profit & Loss (\$m) 30 June	2011E	2012E	2013E	2014E
<b>Sales Revenue</b>	<b>114.9</b>	<b>131.9</b>	<b>143.4</b>	<b>154.9</b>
Other income	0.3	1.5	2.8	5.0
Operating costs	45.0	51.1	58.2	62.5
Exploration expense / written off	0.8	7.6	7.7	3.5
Corporate / administration	2.1	5.0	5.1	5.2
Acquisition related royalties	22.1	0.0	0.0	0.0
<b>EBITDA</b>	<b>45.3</b>	<b>69.7</b>	<b>75.2</b>	<b>88.7</b>
D & A	24.4	21.3	23.1	25.0
<b>EBIT</b>	<b>20.9</b>	<b>48.4</b>	<b>52.0</b>	<b>63.7</b>
Finance expenses	0.9	0.4	0.4	0.4
<b>Operating Profit</b>	<b>20.0</b>	<b>48.0</b>	<b>51.7</b>	<b>63.3</b>
Tax expense	3.7	14.4	15.5	19.0
Impairment of assets	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>16.3</b>	<b>33.6</b>	<b>36.2</b>	<b>44.3</b>
Normalised NPAT	16.3	33.6	36.2	44.3

Financial Summary	2011E	2012E	2013E	2014E
<b>Reported Earnings</b>				
Net Profit (\$m)	16.3	33.6	36.2	44.3
EPS (cents)	4.3	8.9	9.6	11.8
PER (x)	12.5	6.0	5.6	4.6
<b>Normalised Earnings</b>				
Net Profit (\$m)	16.3	33.6	36.2	44.3
EPS (cents)	4.3	8.9	9.6	11.8
EPS Growth (%)				
PER (x)	12.5	6.0	5.6	4.6
<b>Cashflow</b>				
Operating Cashflow (\$m)	77.5	65.7	69.8	85.4
GCFPS (cents)	20.6	17.5	18.5	22.7
PCF (x)	2.8	3.3	3.1	2.6
<b>Dividend</b>				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking %	100	100	100	100

Cash Flow (\$m)	2011E	2012E	2013E	2014E
<b>Operating Cashflow</b>	<b>77.5</b>	<b>65.7</b>	<b>69.8</b>	<b>85.4</b>
- Capex	10.0	10.1	20.5	10.5
- Exploration & Evaluation	4.5	22.7	23.1	10.5
- Asset purchases (+ asset sales)	56.2	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>6.8</b>	<b>33.0</b>	<b>26.1</b>	<b>64.5</b>
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	4.6	0.0	0.0	0.0
+ Debt drawdown (- repaid)	4.1	0.0	0.0	0.0
<b>Net Change in Cash</b>	<b>15.5</b>	<b>33.0</b>	<b>26.1</b>	<b>64.5</b>
Cash at End Period	16.6	49.5	75.7	140.1

Financial Ratios	2011E	2012E	2013E	2014E
<b>Balance Sheet Ratios</b>				
Total Debt / Equity (%)	15.7	6.9	4.8	2.7
Interest Cover (x)	-	-	-	-
Acid test ratio (x)	1.4	1.8	2.3	3.4
<b>Profitability Ratios</b>				
Net Profit Margin (%)	14.2	25.5	25.2	28.6
Return on Assets (%)	65.0	92.7	100.1	160.0
Return on Equity (%)	62.2	56.9	42.4	29.6

Balance Sheet (\$m)	2011E	2012E	2013E	2014E
Total Assets	48.8	101.8	127.6	179.9
Total Debt	4.1	4.1	4.1	4.1
Total Liabilities	22.6	42.7	42.4	30.3
Shareholders Funds	26.1	59.1	85.2	149.7

Valuation Summary	A\$m	A\$/sh
Paulsens	210.1	0.60
Ashburton	30.1	0.09
Exploration	20.0	0.06
Forwards	0.0	0.00
Corporate	-7.9	-0.02
Unpaid Capital	1.6	0.00
Cash Estimate	30.0	0.09
Debt	-4.1	-0.01
<b>Total @ 7.7% discount rate</b>	<b>280</b>	<b>0.80</b>

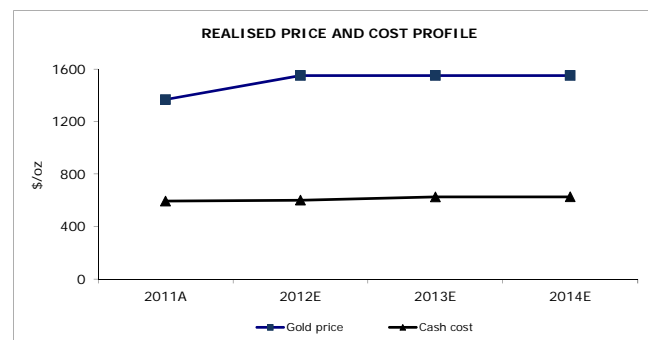
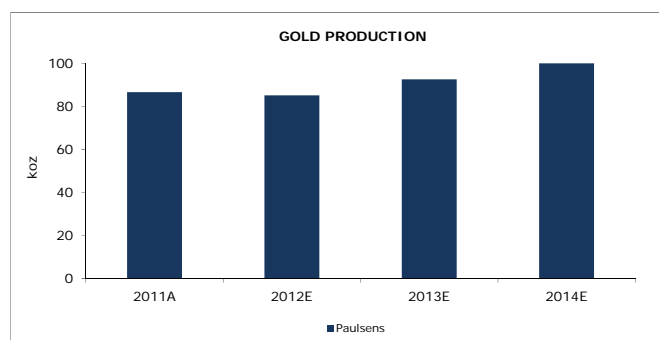
Gold Production Summary	2011A	2012E	2013E	2014E
Paulsens (koz)	87	85	93	100
<b>Total Gold</b>	<b>87</b>	<b>85</b>	<b>93</b>	<b>100</b>
Gold Cash Cost (A\$/oz)	593	600	625	625
Gold Price Realised (A\$/oz)	1367	1550	1550	1550

Directors	
Christopher Rowe	Non-Executive Chairman
Bill Beament	Managing Director
Michael Fotios	Non-Executive Director
Peter Farris	Non-Executive Director

Reserves & Resources		Mt	g/t	Au (koz)
<b>Resources</b>				
Paulsens		1.3	5.3	226
Murchison		7.1	2.9	668
Mt Clement		0.2	1.8	13
Golden Crown		0.3	3.2	34
<b>Total</b>		<b>9.0</b>	<b>3.3</b>	<b>940</b>

Substantial Shareholders	%
Investmet	18.9%
Paradise	7.6%
Michael Fotios	5.5%

EV / Resource (\$/oz) \$179



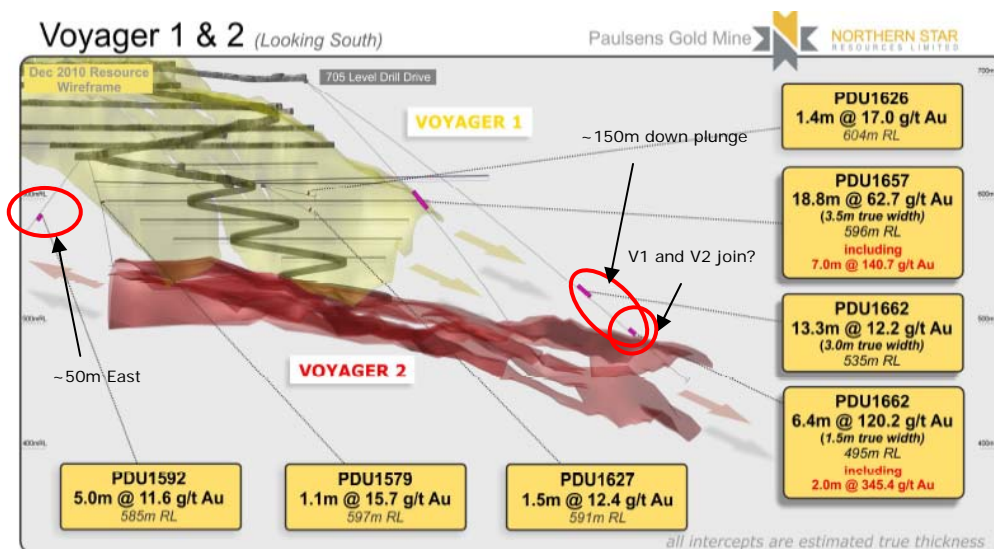


### Drilling underpins growth plans

Recent high grade extensional drill results...

Recent drill results at NST's Paulsens gold mine confirm high grade mineralisation ~150m down plunge and ~50m east of the March 2011 Resource envelope, and suggest a potential merge of the Voyager 1 and Voyager 2 lodges at depth.

Figure 1: Significant drill results for Voyager One lode



Source: NST, Argonaut

...bode well for the next Resource upgrade and production growth plans

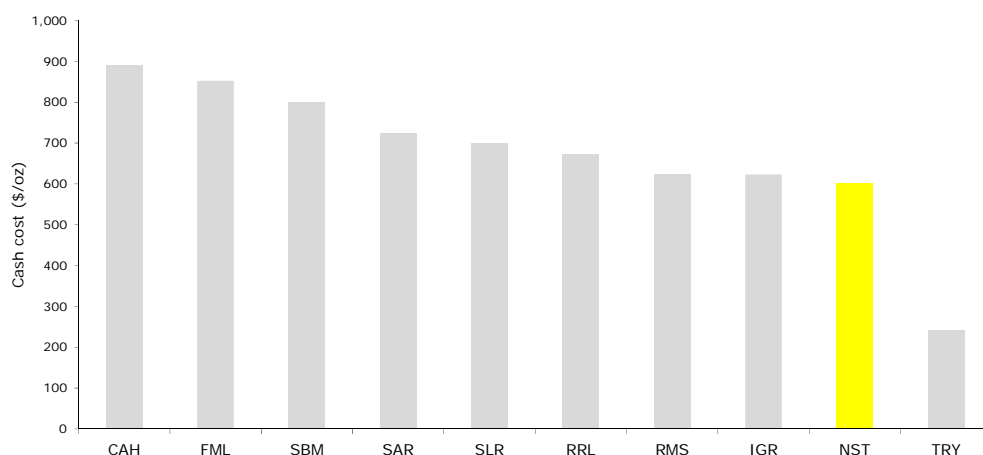
This bodes well for the next Resource upgrade and the Company's planned two stage journey from 75 to 200kozpa. Stage One will see the Paulsens plant upgraded from 350ktpa to 450ktpa, lifting production to ~100kozpa from December 2012 (~\$10m capex). Stage Two will involve a potential stand-alone, 100kozpa operation at the Ashburton Sulphide Project.

### High grade low cost

The high grade Paulsens ore body...

NST's high grade Paulsens ore body (low cost / high margin production), ~\$30m cash balance and absence of debt offers relative safety in an uncertain macro-dominated market.

Figure 2: Peer comparison – Cash costs (\$/oz)



Source: Argonaut

...offers the second lowest cash operating costs in Argonaut's peer group

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