

RECOMMENDATIONS

Rating	Buy ▲
Risk	Very High
Price Target	\$1.52
Share Price	\$0.99

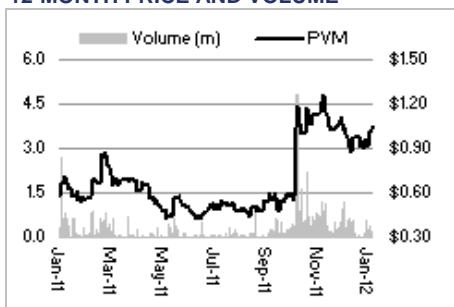
SNAPSHOT

Market Cap	\$236.93mn
Shares Issued	221.0mn
52-Week High	\$1.30
52-Week Low	\$0.42
Sector	Materials

BUSINESS DESCRIPTION

PMI Gold Corporation (PVM) is a Canadian and Australian-based gold mining company with a focus on West Africa. With Ghana being the largest gold producer in West Africa, the company controls four previous operating mines on 85 kilometres of Ghana's major

12-MONTH PRICE AND VOLUME



RESEARCH ANALYST

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Disclosure

The author owns shares in PVM.

Recommendations

Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of ±10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

PMI Gold Corp (PVM)

COMPANY REPORT

A rocket preparing to launch

- PMI Gold (PVM)** today released the findings of its Pre-Feasibility Study (PFS) on the sizeable Nkran Deposit at its Obotan Gold Project in Southern Ghana, Africa. The independent (NI 43-101 compliant) PFS has significantly increased confidence levels in our valuation of the business – and suggests the stock has another 50 percent upside to come. The PFS focused on the most advanced of PMI's assets: the Nkran Deposit, which itself has a delineated resource of 3.52 million ounces at 2.54 grams per tonne (gpt).
- Maiden reserve:** In conjunction with the PFS, PMI also declared a significant maiden reserve of 2.26 million ounces at 2.32 gpt across four deposits.
- PFS findings:** The PFS concluded that the delineated ore body was capable of supporting a 205,600 ounce per annum operation for a minimum of 11 years based on the maiden reserve declared at an average C1 cash cost of US\$690 per ounce and development capital expenditure of \$183.5 million (or \$205 million including the pre-strip and working capital).
- Firepower:** Through detailed analysis of historical data and fresh drilling, the company has been able to amass a large gold resource of 4.86 million ounces at an impressive average grade of 2.6 gpt between its two projects: Obotan and Kubi. This makes PMI Gold the largest and highest grade gold explorer amongst its West African peers that we hold under coverage.
- Ideally placed:** We are confident that PMI Gold will be able to source the necessary debt financing to support its capital management strategy, and expect the development to be funded with an approximate split of 40-60 debt-to-equity. This would follow the same path taken by fellow West African producers: Perseus Mining (PRU) and Resolute Gold (RSG).
- Ghana:** PMI's operations are located in Southern Ghana - a region responsible for roughly 90 percent of the total gold production emanating from West Africa. While some changes to mining taxes have recently occurred, we view these developments as being reasonably based and view Ghana as a key desirable investment destination for resources relative to other comparatively less stable African countries.
- Rating:** Simply put, PMI is one of our most preferred exposures in the precious metals sector; predominantly on the back of it having a lot of gold in the ground and having a small market capitalisation (for now). Following the PFS, our 12-month price target remains unchanged at \$1.52 per share with a strong Buy rating on the stock.

INVESTMENT SUMMARY

Year End: 30 June		2010 (A)	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Revenue	\$mn	0	0	0	0	145
EBITDA	\$mn	-2.7	-5.6	-1.5	-1.5	73.0
EBIT	\$mn	-2.7	-5.6	-3.2	-5.5	60.7
Reported Profit	\$mn	-2.8	-4.9	-1.8	-13.6	56.9
Adjusted Profit	\$mn	-3.0	-5.7	-1.8	-13.6	56.9
EPS (Reported)	¢	-1.3	-1.8	-0.6	-4.4	18.4
EPS (Adjusted)	¢	-1.4	-2.0	-0.6	-4.4	18.4
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	N/A	N/A	N/A	N/A	5.7
PER (Adjusted)	x	N/A	N/A	N/A	N/A	5.7
Dividend	¢					
Franking	%	0	0	0	0	0

Financial summary

Analyst:	Adrian Prendergast
Date:	01 Feb 2012
Share Price (A\$):	\$1.05

FINANCIAL PERFORMANCE (\$ mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
EBITDA	-5.6	-1.5	-1.5	73.0
EBIT	-5.6	-3.2	-5.5	60.7
Net Interest	0.5	1.3	-8.2	-3.8
Pre-Tax Profit	-5.0	-1.8	-13.6	56.9
Tax	-0.1	0.0	0.0	0.0
Reported NPAT	-4.9	-1.8	-13.6	56.9
Adjusted Profit	-5.7	-1.8	-13.6	56.9

BALANCE SHEET (\$ mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Cash	28.7	34.1	93.7	79.0
Receivables	0.5	0.5	0.5	0.5
Other	0.2	0.2	0.2	0.2
Current Assets	29.4	34.9	94.4	79.7
Property, Plant & Equipment	34.1	66.8	189.1	245.7
Other	0.5	0.5	0.5	0.5
Non-Current Assets	34.6	67.3	189.6	246.2
Total Assets	64.0	102.2	284.1	326.0
Payables	1.5	1.5	1.5	1.5
Borrowings	0.0	0.0	117.3	102.3
Provisions & Other	2.2	2.2	2.2	2.2
Total Liabilities	3.7	3.7	121.0	106.0
Net Assets	60.3	98.5	163.0	220.0
Share Capital	76.7	116.7	194.9	194.9
Reserves	6.4	6.4	6.4	6.4
Retained Profits	-22.8	-24.6	-38.3	18.6
Total Equity	60.3	98.5	163.0	220.0
Total Funds Employed	60.3	98.5	280.4	322.3
Net Debt / (Net Cash)	-28.7	-34.1	23.6	23.3

CASH FLOW (\$ mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Receipts from Customers	0.0	0.0	0.0	145.0
Payments to Suppliers	-5.6	-1.5	-1.5	-72.0
Other	4.5	1.3	-8.2	-3.8
Operating Cash Flow	-1.0	-0.1	-9.6	69.2
Capital Expenditure	-10.3	-34.4	-126.3	-68.9
Other	-0.3	0.0	0.0	0.0
Investing Cash Flow	-10.7	-34.4	-126.3	-68.9
Proceeds from Issues	41.7	40.0	78.2	0.0
Net Borrowings	0.0	0.0	117.3	-15.0
Other	-3.9	0.0	0.0	0.0
Financing Cash Flow	37.7	40.0	195.5	-15.0
Net Change in Cash	25.8	5.4	59.6	-14.7
Cash at End of Year	28.7	34.1	93.7	79.0

Rating:	Buy
Valuation:	\$1.52
Price Target:	\$1.52

KEY ASSUMPTIONS (\$ mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Exchange rate (A\$/US\$)	0.92	1.02	0.985	0.92
Gold – Spot (US\$/oz)	1,220.0	1,490.0	1,652.0	1,682

PRODUCTION PROFILE – 100% basis (Koz)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Obotan Project:				
Nkran deposit	0.0	0.0	0.0	98.7
Adubiaso deposit	0.0	0.0	0.0	0.0
Abore deposit	0.0	0.0	0.0	0.0
Asuadi deposit	0.0	0.0	0.0	0.0
Total Obotan output (koz):	0.0	0.0	0.0	98.7
Kubi Project (koz):				
	0.0	0.0	0.0	0.0
Total Gold Output	0.0	0.0	0.0	98.7

RESERVE & RESOURCE SUMMARY – 100% basis (Moz)

Deposit	P+P	M+I	M+I+I	gpt Au
Obotan Project:				
Nkran deposit	1.81	2.5	3.79	2.54
Adubiaso deposit	0.45	0.28	0.33	2.38
Abore deposit	0.0	0.38	0.56	1.80
Asuadi deposit	0.0	0.06	0.10	1.85
Total Obotan output (Moz):	2.26	3.22	4.78	2.40
Kubi Project (Moz):				
	0.0	0.23	0.35	5.42
Total	2.26	3.45	5.13	2.61

VALUATION SUMMARY – BASE CASE

P/NAV	A\$m	A\$/share
Obotan Project	454.2	1.53
Other Exploration Assets	0.77	0.03
Total value gold projects	455.0	1.56
Cash & equivalents		
	34.1	0.12
Working capital		
	1.26	0.0
Total financial assets	35.3	0.12
Equity funding (assumed)		
	78.2	0.27
Debt funding (assumed)		
	-117.3	-0.40
Total Net Asset Value (NAV)	451.3	1.52
P/NAV (x)		0.68x

EARNINGS RATIOS

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Basic EPS (¢)	-1.8	-0.6	-4.4	18.4
Adjusted EPS (¢)	-2.0	-0.6	-4.4	18.4
Net Debt to ND + Equity (%)	90.5	52.9	-12.7	-9.6
CFPS (¢)	-0.4	0.0	-3.1	22.3
P/E (x)	N/A	N/A	N/A	5.7
EV/EBIT (x)	-4.4	-6.0	-14.0	1.3
EV/EBITDA (x)	-4.4	-13.1	-52.6	1.0
Price to Book (X)	0.9	0.6	0.3	0.2
EBITDA Margin (%)				50.3
EBIT Margin (%)				41.9
NPAT Margin (%)				39.3

Pre-Feasibility Study run through

- **Operating scale:** The current life-of-mine (LOM) summary released in the PFS would see a 205,600 ounce operation located at the Nkran Deposit for a minimum of 11 years – refer to Figure 1. This deposit accounts for approximately 80 percent of the current delineated gold resource at the Obotan Project.
- **Obotan growth prospects:** We expect the delineated resource balance at Obotan to grow as the company progresses infill and greenfield exploration drilling on the other three deposits that are also the subject of the current PFS: Abore, Asuadai and Adubiaso. Success in this exploration will conceivably lead to the scale of the project being increased in additional stages of development – either giving more life to the mill near Nkran or even potentially justifying the construction of a second mill growing the company’s gold output.
- **Increasing confidence:** Given the size and relative depth of the ore body at the Nkran deposit, we remain confident that PMI would be capable of bringing on a sustainable mining operation at Obotan. The release of the PFS has reaffirmed this belief and sharpened the accuracy of our assumptions.
- Fortunately, an operation with throughput of three million tonne per annum for gold output of 205,600 ounces was approximately in line with our base case model. We await the findings of the full Bankable Feasibility Study (BFS) and further detailed guidance on the project’s expected operational metrics.

Success in this exploration will conceivably lead to the scale of the project being increased

FIG.1: PFS Overview

Key PFS data		
Fresh ore mined	Mt	29,710
Oxide ore mined	Mt	635
Waste mined	Mt	230,020
Total material mined	Mt	260,365
Total mill feed processed	Mt	30,270
Open pit mine life	Years	11.2
Contained gold ounces	koz Au	2,256
Recovered gold ounces	koz Au	2,097
Average strip ratio	w:o	7.60
Average grade	gpt	2.32
Average gold recovery	%	93.0
Average annual tonnes processed	Mtpa	2,957
Average annual production	koz/yr	205,637

Source: PVM

- **CAPEX:** The PFS has projected a capital expenditure requirement to develop initial production at Obotan of US\$183.5 million – including a 14.5 percent contingency. However, this does not include the pre-strip cost expected to be \$68.3 million which we included in our own forecasts.
- Adjusting the headline figure puts total development expenditure at \$251.8 million, above our estimated \$230 million which we arrived at using a combination of comparable (operating) mines such as Perseus’ Sissingué Gold Project, Newcrest’s Bonikro Gold Project and Regis’ Duketon Gold Project.
- **Mill design:** The company is progressing designs for a very typical process plant. It will include a jaw crusher; SAG and ball mill feeding into two hydro-cyclones; a pebble crusher; gravity circuit and CIL circuit (carbon-in-leach) – a typical process design for gold producers. Positive metallurgy (free gold) will see 40 percent recovery of gold just from the gravity circuit at the front end of the mill, with the rest recovered from leaching. This is expected to deliver overall gold recovery of 93 percent.
- **OPEX:** Simple metallurgy will help to deliver lower processing costs while good in situ grades and reasonable depths of the pit design will help to lower mining costs. Combined, this is expected to deliver a LOM operating cost of US\$690 per ounce of gold produced (refer Figure 3).

CAPEX came in above our preliminary forecast of \$230 million, at \$251.8 million including pre-strip

FIG.2: CAPEX budget breakdown

Cost Area	US\$m
Process plant direct	81.8
Infrastructure	47.5
Indirect costs	21.8
Spares and first fills	7.4
Owners costs	25.0
Initial capital	183.5
Deferred & sustaining capital	21.9
Total Capex budget	205.4

Source: PVM

FIG.3: OPEX summary

Cost	US\$/t Milled	US\$/oz Au
Mining	25.9	373.50
Processing	14.1	203.80
General & administration	1.1	16.51
Bullion and refining	0.4	5.34
Royalties	6.3	91.00
Total Opex	47.8	690.15

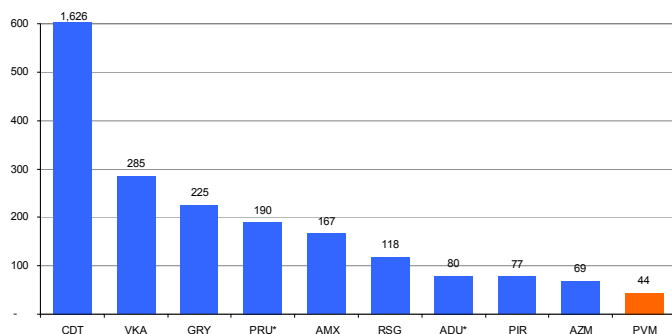
Source: PVM

- **Compelling multiples:** We like PMI for the strategic advantage it holds in terms of its resource base versus its competitors. This leaves PMI with the cheapest enterprise value to resource ounce multiple against any of the West African gold explorers we cover – carrying a sizeable discount due to its early stage of development.
- We identify some of PMI's more advanced peers that successfully reached production, such as Resolute Mining (RSG) and Perseus Mining (PRU), as supplying a blueprint for PMI to follow to production. We view these comparables as being indicative of the kind of multiple PMI might ultimately be capable of achieving should the company succeed in developing sustainable mining operations.
- While early stage in terms of mining development, the size of the resource PMI has developed at the Obotan project has already elevated PMI above its exploring peer group with exploration risk inherently high amongst greenfield explorers.
- **Catalysts:** With such a large amount of gold resources already delineated we identify key development milestones as being the catalyst needed to trigger a re-rating in PMI. Ultimately the largest of these in the near-term will be the completion of the current Bankable Feasibility Study (BFS) which is expected to be completed by June 2012. The results of the study are set to be released shortly afterwards. In the meantime we are likely to see resources increased and upgraded as BFS work is progressed and regional exploration is carried out on the company's other deposits.
- **Investment view:** PMI Gold remains one of our most preferred precious metal exposures. While Ghana is a comparatively higher risk operating environment than Australia, we identify substantial value in PMI that we believe is unjustifiably and temporarily being discounted by the market. We believe PMI's share price will re-rate strongly during the next twelve months as confidence in its developing operations increase. We maintain our Buy rating and \$1.52 per share 12-month price target.

RSG and PRU supply a blueprint for PMI to follow to reach production

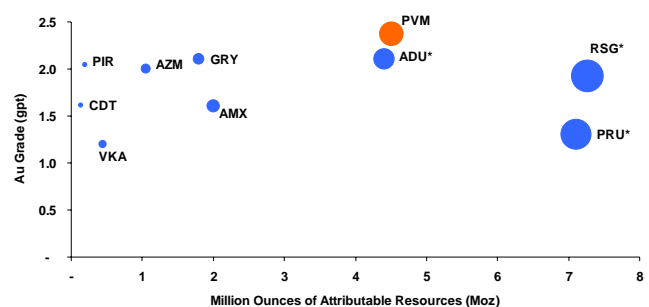
Development milestones are key catalysts to trigger a re-rating in PMI

FIG.4: EV per attributable resource ounce (A\$/oz)



Source: Company data

FIG.5: Attributable resource base comparison



Source: Company data

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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