

Mining Afternoon Thoughts

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Chaarat Gold – placing to fund study of early production (CGH LN, 40p, Mkt Cap. £49.0m – Buy, valuation 84.2p)

Chaarat Gold Holdings (CGH) has placed 9.63m new shares at 40p each to raise £3.85m (gross). The placing represents 7.9% of the enlarged share capital, and is thus mildly dilutive to our valuation, all other factors notwithstanding (see below). The net proceeds will be used to step up work on the Tulkubash zone at CGH's 100%-owned Chaarat project, in western Kyrgyzstan.

CGH intends to give notice (as it is required) to its major shareholder, China Nonferrous Metals International with 19.9%, after which the latter will have 15 business days to decide to subscribe for additional new shares in CGH on the same terms in order to maintain its holding. China Nonferrous subscribed £5.62m in the middle of last year, at 25p per share, for its 19.9% holding, with the proceeds designed to fund the main project through full feasibility study to early 2011.

As we highlighted in our last comment (18 March 2010), whereas the bulk of the Chaarat deposit hosts predominantly refractory ore, which would require pre-oxidation in order to treat the ore by conventional cyanidation to produce gold doré at site, Tulkubash is believed to host significant quantities of oxide mineralisation. Moreover, whereas the bulk of Chaarat's 4.01Moz resource (see p3 for full details) is likely to be mined by underground methods, a portion of Tulkubash is amenable to mining by open pit.

This offers the possibility of a modest-sized, early-stage, starter operation at Tulkubash, using open-pit mining and basic cyanidation processing. **This project would have much lower capex than the likely main project, and would be simpler to execute. It would therefore offer early cash flow plus other advantages (eg better understanding of the project prior to full-scale exploitation).** However, as we indicated in March, this scenario is impossible to quantify in terms of its impact on valuation or earnings without data on likely costs, capex, production etc.

A key use of the placing proceeds will be to increase and upgrade the resource at Tulkubash, to which end drilling commenced in May of this year. The current Tulkubash resource (forming part of the overall 4.01Moz) is 2.5Mt at 4.18g/t (336,000oz contained), all of which is inferred.

Valuation

As the main project is still only at the scoping-study stage, our valuation remains based on a multiple of the overall number of contained ounces and the median rate the London market is paying for resource ounces on an enterprise-value basis. We use the current market median for London-quoted gold equities of US\$37.0/oz (see full table on pp4-5), and US\$0.55/oz (based on the current ratio of the gold and silver prices) for the silver resources.

CGH – summary valuation using current London market per-ounce multiples

	US\$m	£m	p
Value of gold in situ (@ US\$37/oz)	163.5	99.6	75.2
Value of silver in situ (@ US\$0.55/oz)*	2.7	2.1	1.6
NPV of options exercise (DCF @ 10%)	3.1	2.1	1.5
Net cash (at 01 March 2010 plus placing)	11.6	7.8	5.9
Total	180.9	111.5	84.2
Premium			110.5%

Source: Mirabaud Securities estimates

*Silver valued from April 2008 resource; £1 = US\$1.49

We adjust the valuation for CGH's latest net cash position of US\$11.6m (US\$5.9m at 01 March 2010 plus the proceeds of the recent placing) and the NPV (US\$3.1m) of assumed future option receipts (the options strike at prices well below our valuation with expiry dates from 2015 onwards). Current shares out now total 122.55m, to which we add the ~9.89m options outstanding for 132.4m fully diluted. **These changes result in a valuation of 84.2p per share, a 110.5% premium to the current share price. We reiterate our Buy recommendation.**

This compares with our previous valuation (18 March 2010) of 82.1p. Apart from marginally higher gold-equity market multiples, the weakness in sterling since our previous valuation had a positive impact. Had sterling remained unchanged, the new valuation would have been 81.6p.

If China Nonferrous decides to maintain its holding at 19.9%, we calculate a further 2.39m shares would be issued, at the same price of 40p. Cash would rise to US\$13.1m and our valuation would adjust to 83.4p.

The share price has been volatile since our last comment, rising from 55p on 18 March to over 60p but then traded down to its current level. The weakness since late March must be ascribable, at least in part, to the political violence in parts of Kyrgyzstan. Although this has not had a direct impact on CGH's operations in the country (the Chaarat project lies in a remote valley), and despite a de facto endorsement of the project by the new regime in the form of the renewal of CGH's exploration licence over the Chaarat project at the start of June, the turmoil obviously has been affecting Western investor sentiment.

Peer comparison

Notwithstanding the particular political turmoil in Kyrgyzstan, we believe that our valuation is confirmed by comparison of CGH's current market value with the company's London-traded peers that have operations/projects in the former Soviet Union (see table below). Our valuation of 84.2p would put CGH – with, we believe, a world-class deposit – on an EV of US\$34.8/oz, above the median for FSU-based companies but at the top of the range for the developers rather than among the established major producers.

AIM-quoted/London-listed gold equities operating in the FSU at 01 July (gold at US\$1,241/oz)

Company	Country of operations	Price (p)	Shares (m)	Mkt. Cap. (US\$m)	Net cash (US\$m)	Attrib. Au only (Moz)	Attrib Au equiv* (Moz)	EV/oz (US\$/oz)
Petropavlovsk	Russia	1,166.00	187.86	3,270.6	82.2	11.8	11.8	270.9
Polymetal	Russia	US\$12.48	357.92	4,466.9	-420.1	21.4	32.5	150.4
Highland Gold Mining	Russia	132.75	325.20	644.6	86.7	10.0	10.0	55.6
Polyus Gold	Russia	US\$26.90	359.70	9,676.0	-0.1	183.6	184.7	52.4
Trans-Siberian Gold	Russia	23.50	99.67	35.0	0.3	0.9	1.0	34.4
Anglo Asian	Azerbaijan	17.50	109.62	28.6	-42.2	1.3	2.4	29.2
Hambledon Mining	Kazakhstan	7.38	516.09	56.9	2.2	2.1	2.1	25.6
Chaarat Gold	Kyrgyzstan	40.00	122.55	73.2	11.6	4.0	4.1	15.0
KazakhGold	Kazakhstan	US\$5.80	119.61	693.7	-175.1	59.6	61.8	14.1
Kryso Resources	Tajikistan	14.25	171.51	36.5	2.8	3.0	3.0	11.1
Oxus Gold	Uzbekistan	6.22	396.19	36.8	-23.4	8.4	11.5	5.2
Ovoca Gold	Russia	24.00	88.46	31.7	11.4	1.6	5.4	3.7
Orsu Metals	Kyrgyz./Kazakh.	12.50	157.70	29.4	22.1	6.2	9.6	0.8
Aurum Mining	Kyrgyzstan	13.25	48.19	9.5	14.2	0.1	0.1	-46.8
Average								44.4
Median								20.3

Source: Company data, Mirabaud Securities estimates *Attributable gold includes other main metals – ratios: Au:Ag = 67.0, Au:Cu = 6,237, Au:Zn = 22,601
 £1:US\$1.49, US\$1:A\$1.19, US\$1:C\$1.07, US\$1:R7.73, €1:US\$1.23

Charat JORC-compliant resources – all 100% attributable to CGH (at February 2010, using 2.0g/t cut-off)

Zone	Category	Tonnage (Mt)	Au (g/t)	Au (Moz)	Category	Tonnage (Mt)	Au (g/t)	Au (Moz)	Totals (Mt)	Au (g/t)	Au (Moz)	Ag*
M2400	Indicated	2.90	4.11	0.38	Inferred	0.80	3.96	0.10	3.70	4.08	0.49	-
M3000	Indicated	3.80	4.11	0.50	Inferred	1.50	4.57	0.22	5.30	4.24	0.72	-
M3400	Indicated	-	-	0.00	Inferred	1.00	4.17	0.13	1.00	4.17	0.13	-
M3900	Indicated	1.50	3.76	0.18	Inferred	0.70	3.86	0.09	2.20	3.79	0.27	-
M4400	Indicated	-	-	0.00	Inferred	0.30	3.86	0.04	0.30	3.86	0.04	-
M5000	Indicated	0.10	5.81	0.02	Inferred	0.40	5.20	0.07	0.50	5.32	0.09	-
M6000	Indicated	0.30	3.88	0.04	Inferred	0.60	4.33	0.08	0.90	4.18	0.12	-
C4000	Indicated	0.40	3.33	0.04	Inferred	0.50	3.33	0.05	0.90	3.33	0.10	-
C4600	Indicated	0.90	3.97	0.11	Inferred	1.90	4.16	0.25	2.80	4.10	0.37	-
C5300	Indicated	6.70	4.19	0.90	Inferred	3.20	4.24	0.44	9.90	4.21	1.35	-
T0700	Indicated	-	-	0.00	Inferred	2.50	4.18	0.34	2.50	4.18	0.34	-
Total		16.60	4.09	2.18		13.50	4.20	1.82	30.10	4.14	4.01	-

Source: Charat Gold

*Silver values not yet available

Proposed Kyrex transaction

Prior to today's placing, on 21 June CGH announced plans to acquire Kyrex Ltd, a privately-owned company with four, mainly early-stage, exploration licences in Kyrgyzstan. The licences are variously prospective for principally gold, silver, copper and molybdenum. The most advanced of these is Chontash, where a JORC-compliant inferred resource of 3.2Mt at a grade of 0.223% molybdenum was established in 2008.

CGH will offer 54 shares for each share in Kyrex, which would result in CGH issuing 11.93m new shares if Kyrex is acquired in full. These shares would represent 9.7% of CGH's share capital post today's placing. The offer is open until about 13 July.

Three of CGH's directors – Christopher Palmer-Tomkinson (chairman), Dekel Golan (chief executive) and Alexander Novak – collectively own 58.5% in Kyrex, and the deal thus constitutes a related-party transaction. The two directors deemed independent in this respect, Linda Naylor (finance director) and Oliver Greene, have taken advice from CGH's nominated adviser and have determined the terms to be fair.

China Nonferrous again has the right to maintain its 19.9% holding in respect of this transaction. These shares would be issued for cash, at 40.5p (the CGH closing price on 18 June).

Given the early stage of the Kyrex assets, with the possible exception of Chontash, we would have difficulty in ascribing a value to the transaction. In the short/medium term, we would argue completion of the deal is likely to be dilutive to our valuation until such time as one or more of the Kyrex projects can be moved to a more advanced stage.

Gold valuations – (AIM-quoted/London-listed gold resources on 1 July 2010, gold price US\$1,241/oz)

Rank (28 Jun)	Company	Country of operations	Price (p)	Shares (m)	Mkt. Cap. (US\$m)	Net cash (US\$m)	Attrib. Au only (Moz)	Attrib Au equiv*(Moz)	EV/oz (US\$/oz)
1 (1)	Medusa Mining	Philippines	223.50	187.58	626.0	48.3	1.9	1.9	305.7
2 (2)	Randgold Resources	Mali/DRC	6,390.00	90.61	8,645.1	510.8	27.3	27.3	297.6
3 (3)	Fresnillo	Mexico	987.00	717.16	10,568.7	312.2	13.9	34.7	295.8
4 (4)	Petropavlovsk	Russia	1,166.00	187.86	3,270.6	82.2	11.8	11.8	270.9
5 (5)	Hochschild Mining	Peru	300.00	338.09	1,514.4	-259.6	2.5	6.6	269.3
6 (6)	Newmont Mining‡	Various	US\$61.74‡	491.30	30,333.1	-1,210.0	128.9	159.7	197.6‡
7 (8)	Centamin Egypt†	Egypt	160.50	1,027.21	2,461.6	35.1	14.5	14.5	167.5
8 (7)	Archipelago Resources	Indonesia	40.00	493.02	294.5	58.2	1.4	1.4	163.5
9 (9)	Polymetal	Russia	US\$12.48	357.92	4,466.9	-420.1	21.4	32.5	150.4
10 (10)	Kirkland Lake Gold	Canada	530.00	67.73	536.0	60.5	3.3	3.3	145.1
11 (11)	Barrick Gold‡	Various	US\$45.41‡	984.52	44,707.0	-2,876.0	235.0	340.0	139.9‡
12 (12)	Patagonia Gold	Argentina	13.50	675.10	136.1	23.7	0.6	0.8	137.0
13 (13)	African Barrick	Tanzania	630.00	410.09	3,857.5	297.0	26.4	28.1	126.9
14 (14)	Goldplat	Kenya	9.25	112.12	15.5	0.2	0.1	0.1	118.1
15 (15)	Yamana Gold	Brazil/Chile	685.50	740.56	7,579.8	-282.9	40.7	93.8	83.9
16 (16)	Avocet Mining	Indonesia/Malay/B. Faso	119.75	196.49	351.3	-40.7	4.8	4.8	81.8
17 (17)	Solomon Gold	Solomon Islands	6.38	193.27	18.4	3.3	0.2	0.2	74.7
18 (18)	CGA Mining‡	Philippines	C\$2.00‡	331.19	621.6	8.4	8.3	8.3	74.2‡
19 (19)	AngloGold Ashanti	Various	US\$43.18	365.91	15,800.0	-899.0	226.7	226.7	73.7
20 (21)	European Goldfields	Greece	428.00	182.33	1,165.2	101.8	9.1	16.7	63.7
21 (20)	Peninsular Gold	Malaysia	46.00	66.32	45.5	-14.6	0.9	0.9	63.5
22 (22)	Persian Gold‡	Iran	6.75±	75.17	7.6	0.1	0.1	0.1	61.3‡
23 (24)	Caledonia Mining Corp	Zimbabwe	4.38	500.17	32.7	1.9	0.5	0.5	57.9
24 (23)	Highland Gold Mining	Russia	132.75	325.20	644.6	86.7	10.0	10.0	55.6
25 (28)	Polyus Gold	Russia	US\$26.90	359.70	9,676.0	-0.1	183.6	184.7	52.4
26 (27)	Scotgold Resources	United Kingdom	5.38	117.31	9.4	0.5	0.2	0.2	51.8
27 (25)	Nyota Minerals	Ethiopia	17.25	316.49	81.5	13.0	1.4	1.4	49.6
28 (26)	African Aura Mining	Liberia	82.00	70.28	86.1	15.8	1.4	1.4	48.7
29 (29)	African Cons Resources	Zimbabwe	8.50	358.10	45.4	7.9	0.8	0.8	46.2
30 (30)	Finders Resources	Indonesia	18.50	194.01	53.6	3.0	0.1	1.1	45.8
31 (32)	Greystar Resources	Colombia	297.50	84.01	373.2	115.1	5.0	6.2	41.6
32 (31)	Central China Goldfields	China	4.22	197.41	12.4	3.5	0.2	0.2	41.3
33 (33)	Gold Fields‡	Various	US\$13.37‡	705.73	9,435.7	-828.8	258.8	261.8	39.2‡

Source: Company data, Mirabaud Securities estimates *Attributable gold includes other main metals – ratios: Au:Ag = 67.0, Au:Cu = 6,237, Au:Zn = 22,601
 £1:US\$1.49, US\$1:A\$1.19, US\$1:C\$1.07, US\$1:R7.73, €1:US\$1.23.

‡Excluded from average and mean calculations. †Includes 100% of resource (Egyptian govt. shares profit (50:50) but CEY has zero tax base).

±Price at suspension on 22 June 2010.

Continued from table on preceding page

Rank (28 Jun)	Company	Country of operations	Price (p)	Shares (m)	Mkt. Cap. (US\$m)	Net cash (US\$m)	Attrib. Au only (Moz)	Attrib Au equiv*(Moz)	EV/oz (US\$/oz)
34 (34)	Cluff Gold	Cote d'Ivoire/B. Faso	73.50	122.77	134.7	-0.2	3.5	3.5	38.2
35 (35)	Minera IRL	Peru	58.50	86.79	75.8	8.4	1.8	1.8	37.0
36 (37)	Metals Exploration	Philippines	11.00	269.72	44.3	2.1	1.2	1.2	35.0
37 (38)	Trans-Siberian Gold	Russia	23.50	99.67	35.0	0.3	0.9	1.0	34.4
38 (36)	Norseman Gold	Australia	51.00	172.61	131.4	5.9	3.8	3.8	33.4
39 (39)	Allied Gold	PNG/Solomon Islands	20.25	1,040.03	314.5	81.7	7.8	7.9	29.3
40 (40)	Anglo Asian	Azerbaijan	17.50	109.62	28.6	-42.2	1.3	2.4	29.2
41 (42)	GMA Resources	Algeria	1.17	469.00	8.2	-22.1	1.2	1.2	26.0
42 (43)	Hambledon Mining	Kazakhstan	7.38	516.09	56.9	2.2	2.1	2.1	25.6
43 (41)	Pan African Resources	SA/Mozambique	6.25	1,409.54	131.5	13.4	4.9	4.9	23.9
44 (44)	Vatukoula Gold	Fiji	1.95	3,681.14	107.2	11.4	4.3	4.3	22.1
45 (46)	Galantas Gold	United Kingdom	2.25	240.10	8.1	0.1	0.4	0.4	19.9
46 (45)	Goldstone Resources	Ghana	3.35	222.38	11.1	7.1	0.2	0.2	16.7
47 (49)	Chaarat Gold	Kyrgyzstan	40.00	122.55	73.2	11.6	4.0	4.1	15.0
48 (47)	Orosur Mining	Uruguay	25.25	64.80	24.4	7.2	1.1	1.1	15.0
49 (55)	KazakhGold	Kazakhstan	US\$5.80	119.61	693.7	-175.1	59.6	61.8	14.1
50 (48)	Ariana Resources	Turkey	2.50	221.73	8.3	2.9	0.3	0.4	14.0
51 (51)	Central African Gold	Ghana	0.88	1,004.09	13.2	-4.7	1.6	1.6	11.2
52 (50)	Kryso Resources	Tajikistan	14.25	171.51	36.5	2.8	3.0	3.0	11.1
53 (53)	Shanta Gold	Tanzania	17.25	115.49	29.7	5.3	2.6	2.6	9.4
54 (54)	Conroy Diamonds & Gold	Ireland	4.50	190.46	12.8	3.2	1.0	1.0	9.3
55 (52)	Arian Silver Corp	Mexico	7.63	236.36	26.9	2.2	1.2	2.9	8.5
56 (57)	Stratex International	Turkey	3.40	286.78	14.6	4.6	1.2	1.2	8.2
57 (56)	Ormonde Mining	Spain	4.00	249.30	14.9	1.6	0.5	1.7	7.8
58 (58)	Sumatra Copper & Gold‡	Indonesia	A\$0.20‡	127.49	21.4	4.4	2.0	2.3	7.3‡
59 (59)	Serabi Mining	Brazil	2.05	447.74	13.7	9.2	0.7	0.7	6.5
60 (60)	Oxus Gold	Uzbekistan	6.22	396.19	36.8	-23.4	8.4	11.5	5.2
61 (61)	Ovoca Gold	Russia	24.00	88.46	31.7	11.4	1.6	5.4	3.7
62 (62)	Condor Resources	El Salvador	0.47	471.71	3.3	1.0	0.8	1.1	2.1
63 (65)	Mercator Gold	Australia	0.80	331.76	4.0	-2.2	2.3	4.4	1.4
64 (64)	Orsu Metals	Kyrgyzstan/Kazakhstan	12.50	157.70	29.4	22.1	6.2	9.6	0.8
65 (63)	Central Rand Gold	South Africa	2.46	1,599.68	58.8	43.0	27.2	27.2	0.6
66 (66)	Aurum Mining	Kyrgyzstan	13.25	48.19	9.5	14.2	0.1	0.1	-46.8
	Average								64.1
	Median								37.0

Source: Company data, Mirabaud Securities estimates *Attributable gold includes other main metals – ratios: Au:Ag = 67.0, Au:Cu = 6,237, Au:Zn = 22,601
 £1:US\$1.49, US\$1:A\$1.19, US\$1:C\$1.07, US\$1:R7.73, €1:US\$1.23.

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±Price at suspension on 22 June 2010.

RECOMMENDATIONS HISTORY

Market index: FTSE AIM Basic Resources

Date	Market Index	Stock Price (p)	Valuation (p)	Opinion
15-Dec-2008	1,730	9.00	22.1	Buy
08-Apr-2009	2,395	18.00	39.8	Buy
16-Jul-2009	3,574	19.25	42.2	Buy
14-Jan-2010	5,737	42.00	72.9	Buy
18-Mar-2010	6,009	55.00	82.1	Buy
01-Jul-2010	5,520	40.00	84.2	Buy

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