

Lion Selection Limited (LST)

Opinion Data

Recommendation	Buy (From Hold) <i>Ceasing coverage</i>
Risk Rating	High
Current share price	\$1.87
Market capitalisation	\$153m

Company Background

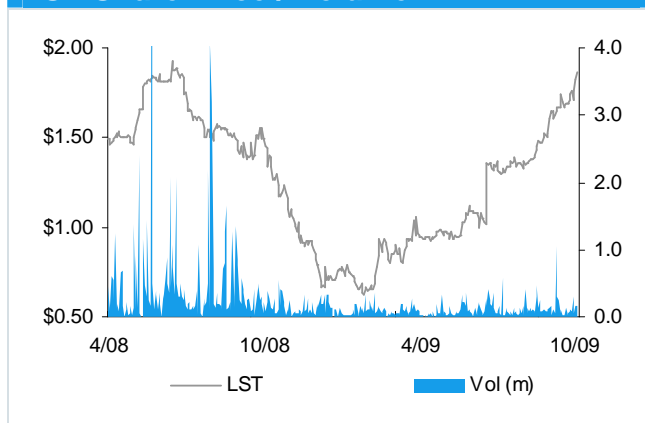
Lion Selection Limited (LST) is a resource investment company created from the merger of Lion Selection Group (LSG) and Auselect (AUS) in April 2007.

LST decisively ended a year of uncertainty in December 2008, with a \$160m capital return through both on and off-market buybacks. Post the capital return the fund had ~82m shares on issue, with a primary focus on gold operations.

In June 2009 LST proposed a merger with Catalpa Resources (CAH). CAH will gain LST's gold assets and the remaining investments will be listed on the National Stock Exchange. LST shareholders will receive 1 CAH share for each LST share held (post a 1 for 11 share consolidation by CAH)

LSG.NSX will retain LST's interest in the African Lion (AFL) and Asian Lion (ASL) funds, having recently committed to contribute US\$18.75 to the third, substantially larger, African Lion fund. Key direct investments are Indophil Resources (IRN), Havilah Resources (HAV) and Exco Resources (EXS) – market value ~\$60m, plus retained cash of ~\$15m.

LST Share Price / Volume



Highlights

The merger with CAH has taken longer than we had expected in our last quarterly, with Scheme documents released in early October. The matching facility closes on 1 December, with LSG.NSX shares expected to trade on the NSX on 16 December 2009, subject to approvals.

Under the Scheme LST shareholders will receive:

- 1 CAH (post 1 for 11 consolidation by CAH) share;
- a capital return of \$0.10/share; and
- 1 LSG share to be listed on the NSX.

A matching facility will be offered with the price to be set via a bookbuild, but to be between \$0.40 - \$0.55/share. We value these LSG.NSX residual assets at \$0.86/share, so the matching facility will be at a likely discount of 36-50% of NTA.

Outlook / Investment View

At this stage, an investment in LST requires a positive view on CAH. While CAH has enjoyed a strong share price rally, we see further upside as it brings the Edna May project online (see CAH research note in this quarterly). After the capital return and matching facility, LST effectively offers a discounted entry into CAH, with an effective price of \$1.39/share (post consolidation) versus a market price of \$1.76/share (i.e., a 21% discount).

Alternatively, LST offers a 20-28% return, assuming the sale of the full LSG holding via the matching facility at the indicated \$0.40-\$0.55/share price and no change in the CAH price.

There is long term value in the residual investments, ~\$75m, (\$0.86/share) - including IRN \$23.1m, HAV \$10.6m, EXS \$6.9m, Copperbelt \$4.4m, set to be listed on the NSX. There is clear corporate upside in IRN. Our initial modeling suggests a valuation range of US\$35-US\$70/share for Copperbelt Minerals (unlisted), albeit on an unrisks and unfinanced basis (US\$500m capex). LST's NTA currently applies a US\$10/share price for Copperbelt Minerals.

In our view LSG.NSX is likely to trade at a greater discount to NTA than LST.ASX has done. LSG will be responsible for further substantial cash calls against AFL3 and ASL, and may direct cash from successful divestments into funding these draw downs, rather than returning funds to shareholders. This would delay access to the underlying value of the remaining investments, but should underwrite greater returns in the long term.

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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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