

# Lion Selection Limited (LST)

## Opinion Data

<b>Recommendation</b>	<b>Buy (from Hold)</b>
<b>Risk Rating</b>	<b>High</b>
<b>Current share price</b>	<b>\$1.48</b>
<b>Price range – high/low</b>	<b>\$1.90 - \$1.34</b>
<b>Market capitalisation</b>	<b>\$279m</b>

## 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. The original Lion Selection Group listed on the ASX in 1997 and provided “patient capital” to small resource companies to progress them along the development curve, divesting them as they became producers.

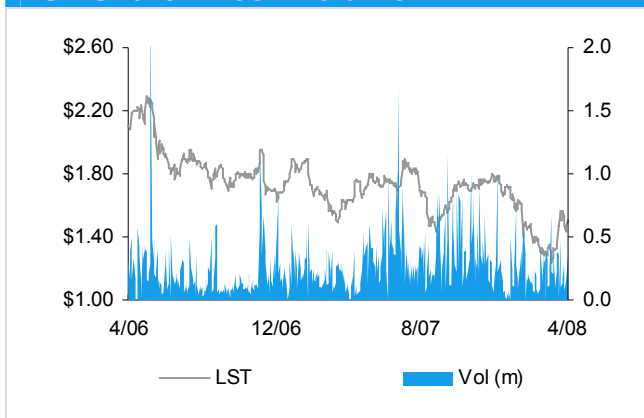
LST makes direct investments, but also has an interest in the African Lion and Asian Lion funds.

LST is targeting a portfolio of ~30 investments, with investment capital allocated in gold, other metals, bulk commodities, uranium and energy. Approximately 50% of investments are in Australia. The primary criterion considered when investing in a company is the quality of the people involved.

In addition to investment management, LST intends to develop an operations arm, which will be populated through opportunistic acquisitions, and the continued holding of investments deemed “too good to sell” as they become producers.

LST owns 30% of the Cracow gold mine and has a pre-emptive right to purchase the remaining 70%, owned by NCM. This would be the first step in transforming LST from an investment manager to a mining company with investments.

## LST Share Price / Volume



## Highlights

LST received a hostile takeover bid from its largest investee company, Indophil Resources (IRN) during the quarter. IRN represents LST’s largest individual investment holding, with some ~97m shares (~25%), currently worth ~\$78m. IRN’s two tier scrip-based bid of 2.5-2.7 IRN shares per LST share implies a value of between \$2.00-\$2.16/share. LST has not approached this level, reflecting the market’s scepticism regarding the likely success of the bid.

NCM announced the conditional sale of its 70% share of Cracow to Beadell Resources (BDR) for \$200m. LST, through its pre-emptive right, now has 50 business days to decide whether to match the offer for Cracow. Cracow represents the desired cornerstone asset in LST’s strategy to transform into a mining company, but LST could also choose to on-sell 100% of the mine. Cracow is a high grade, low cost operation, but it is a short life operation and will depend on exploration success. We consider \$200m to represent a full price, being 1.6x our spot valuation.

## Outlook / Investment View

LST realised \$48.5m for its Allegiance holding during the quarter, and now has net cash of ~\$106m. LST’s core remaining holdings are in IRN (\$77m, 25% voting interest), Albidon (\$36m, but controls ~21% voting interest) which is about to begin production and Havilah (\$19m, 19% voting interest). All of these could be considered strategic stakes in a market experiencing increasing consolidation. Xstrata, particularly acquisitive of late, holds the majority JV interest in IRN’s Tampakan project.

Our Hold recommendation was based on the long term value in LST’s portfolio. We now see a realistic prospect of investors benefitting from the underlying value of LST’s core investment holdings in the near term, and the optionality their pre-emptive right on Cracow provides, now that the price has been established.

We estimate LST’s NTA to be \$1.87/unit, but this would increase to \$2.12/unit if we assume that reasonable (~30%) premiums are achieved for LST’s three core holdings, before considering the option value of Cracow. With IRN’s bid implying a value of \$2.00-\$2.16/share there seems little downside risk to LST at these levels.

Upgrade to Buy.

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## DISCLOSURE

### 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

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