

# Lion Selection Limited (LST)

## Opinion Data

<b>Recommendation</b>	<b>Speculative Buy</b>
<b>Risk Rating</b>	<b>High</b>
<b>Current share price</b>	<b>\$0.93</b>
<b>Market capitalisation</b>	<b>\$82m</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.

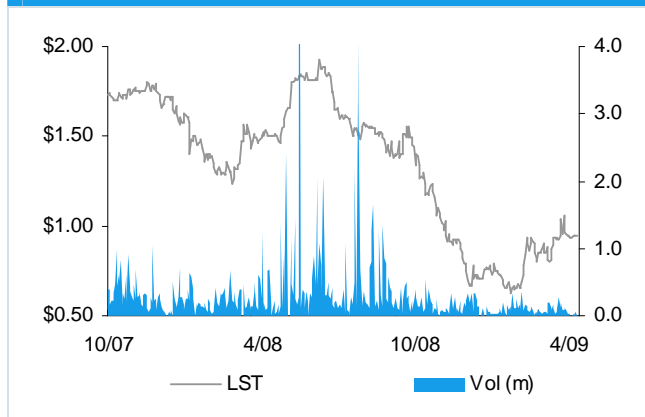
LST decisively ended a year of uncertainty in December 2008, with a \$160m capital return through both on and off-market buybacks. Post the capital return the fund has ~82m shares on issue, with a primary focus on gold operations.

LST retains its interest in the African Lion and Asian Lion funds, having recently committed to the third, substantially larger, African Lion fund.

However, LST's focus is now on gold operations. LST owns 30% of the producing Cracow mine, and retains a pre-emptive right over Newcrest's 70% interest in the mine. LST currently owns 51.3% of Catalpa Resources (CAH) and subscribed to an additional \$15m as part of CAH's \$31.4m raising in March 2009.

With the Company's principal activity now the Cracow goldmine, LST no longer reports monthly NTA details. LST intends to pay annual dividends from Cracow cash flow.

## LST Share Price / Volume



## Highlights

Following December's \$160m capital return, LST is now focussed on investments in gold operations. During 1H'09 LST received operating cashflow (after capex & exploration) of \$5.9m from its 30% share of Cracow production. LST's share of production was 13,554oz with an average cash cost of A\$570/oz and an average received price of A\$981/oz.

LST's sub-underwriting of CAH's December \$3.5m rights issue saw its stake increase to 51.3%. In March, LST committed a further \$15m as part of a \$31.4m capital raising for CAH (managed by Austock Corporate Finance). In conjunction with debt financing, CAH is now fully funded and intends to immediately development the Edna May gold project.

CAH is targeting first production mid-2010 and will become LST's second producing gold asset, in the absence of any further acquisitions. CAH is partially hedged at the exceptional A\$ price of \$1,544/oz with the Edna May feasibility study anticipating a ~7 year mine life at an average production rate of 100kozpa.

## Outlook / Investment View

In addition to Cracow and CAH, LST's other investments offer substantial upside should commodity markets recover, but also represent a potential source of further funding should an interesting opportunity arise in the gold sector. LST's strategy is to establish a 200koz attributable production base, and to divest these assets within a 2-5 year time frame, into what the Company anticipates will be a "gold bubble".

We estimate that LST's NTA is \$1.93/share, suggesting a 52% discount to NTA, using market prices and accounting value for Cracow. However, we value LST's 30% interest in Cracow at \$64.5m (\$0.73/LST share) and value LST's CAH holding at \$75.6m (\$0.86/LST share). LST is therefore trading at a 41% discount to our \$1.59/share valuation for its two key gold assets, ignoring ~\$40m of investments and ~\$18m in cash. While a holding discount may be appropriate, this seems excessive.

Following a confusing 2008, LST once again presents a clear and coherent strategy, backed with existing operating cashflow, zero debt and a cash balance of ~\$18m. LST is well placed to exploit strength in the gold market and retains its pre-emptive right over NCM's 70% interest in Cracow. Maintain Speculative Buy.

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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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