

Lion Selection Limited (LST)

Opinion Data

Recommendation	Hold (<i>Ceasing coverage</i>)
Risk Rating	High
Current share price	\$1.31
Market capitalisation	\$115m

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)

LST.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).

Highlights

In our previous quarterly we recommended buying LST on the basis of the underlying value pfn its two key gold holdings (30% of Cracow and ~50% of CAH), ignoring the value of its other investments (~\$40m) and cash (~\$18m). In June, LST announced a merger with CAH aimed at realising that value for investors.

Under the scheme:

- LST will vend its 30% interest in Cracow (and its pre-emptive right) to CAH and cancel the shares and options LST holds in CAH.
- LST shareholders will receive 1 CAH (post 1 for 11 consolidation by CAH) share per LST share held and a capital return of \$0.10/share.
- LST's remaining investments and interests in AFL and ASL will be listed on the National Stock Exchange (NSX) and LST shareholders will receive an LST.NSX share in place of their ASX holding. LST hope to offer investors a matching facility to enable investors to sell their interest in the remaining investment holding, although this will be on a best endeavours basis.

The termination of the Lion Manager will result in dilution to LST shareholders of approximately 7%, with 5.9m shares issued to the Lion Manager.

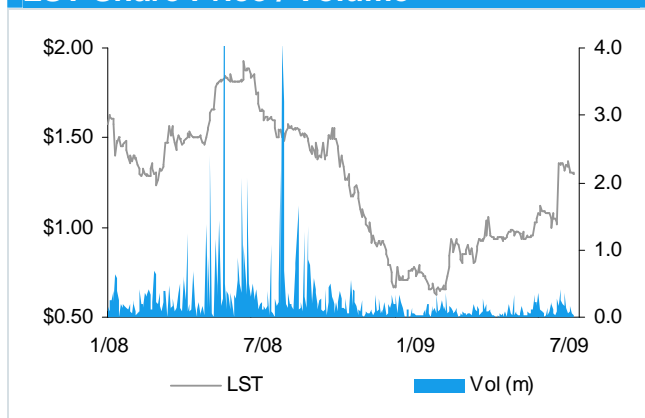
Outlook / Investment View

We view the deal positively, with CAH offering deep value against our NPV of \$1.75/share post merger, but would look to exit the residual investment holding through the matching facility, if it is provided.

There is value in the residual investments (~\$45m, \$0.51/share (including IRN \$11.0m, HAV \$6.9m & EXS \$6.0m). LST may at times offer an apparent discounted entry into CAH but, in the short-medium term, we believe the mooted matching facility will offer the best opportunity to crystallise value from the remaining LST investment portfolio.

LST has traded at close to a 50% discount to NTA on the ASX for some time and in our view this is likely to get worse rather than better under the new NSX entity. LST.NSX will be responsible for further substantial cash calls against AFL3 and ASL, and without the cashflow from Cracow, LST may legitimately direct cash from successful divestments into funding contributions to AFL and ASL, rather than returning funds to shareholders. This would delay access to the underlying value of the remaining investments, but would hopefully underwrite greater future returns.

LST Share Price / Volume



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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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