

# Lion Selection Limited (LST)

## Opinion Data

<b>Recommendation</b>	<b>Restricted</b>
<b>Risk Rating</b>	<b>High</b>
<b>Current share price</b>	<b>\$1.44</b>
<b>Price range – high/low</b>	<b>\$1.95 - \$1.21</b>
<b>Market capitalisation</b>	<b>\$268m</b>

## Company Background

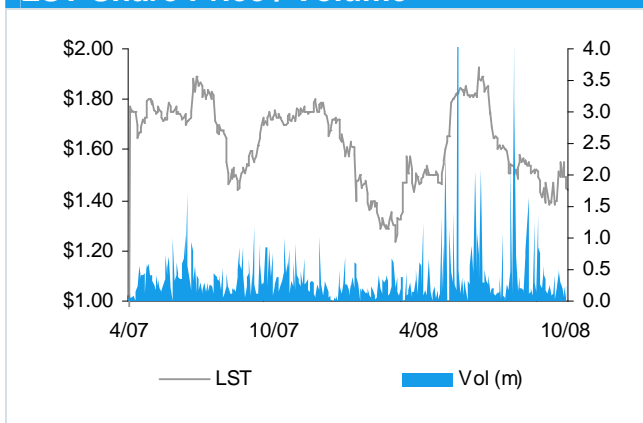
Lion Selection Limited (LST) is a resource investment company created from the merger of Lion Selection Group (LSG) and Auselect (AUS) in April 2007. The original Lion Selection Group listed on the ASX in 1997 and provided “patient capital” to small resource companies to progress them along the development curve, divesting them as they became producers.

LST targeted a portfolio of ~30 investments, within in gold, other metals, bulk commodities, uranium and energy. The primary criterion considered when investing in a company is the quality of the people involved.

Following the shareholder approval in June 2008, LST still intends to sell its 30% interest Cracow, reversing its earlier strategy of transitioning from a fund to a miner. In September 2008, LST sold the majority of its key shareholding, Indophil Resources (IRN), to Xstrata and intends to return approximately \$0.80/share through an off market buy-back, subject to shareholder approval.

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

## LST Share Price / Volume



## Highlights

LST’s \$80m sale of its Cracow interest to Beadell Resources (BDR) fell through, with BDR unable to raise the required equity. NCM has an option (expires 31 October) to acquire LST’s interest but it appears unlikely to exercise this option.

The African Lion Fund also retains its holding in Albidon, having failed to secure an acceptable offer for the holding. ALB has since fallen sharply with LST’s stake now valued at ~\$7m (2% of NTA), from as high as \$45m (including a 30% takeover premium).

In September, LST sold 70.1m IRN shares, raising ~\$82m in cash. The sale was undertaken below the bid price offered by the Stanhill Group, but reflected LST’s concern that the Stanhill bid (and bid funding) was conditional on 90% acceptance and a belief that Xstrata intended to build a blocking stake in IRN. LST retains 26.8m share in IRN, and IRN has now received a proposal to acquire IRN’s JV interest in Tampakan at a price equivalent to \$1.28/share. IRN is currently trading at \$0.65/share, and represents 5% of LST’s NTA.

## Outlook / Investment View

In early July, LST announced an on-market buy-back, with the Board setting a conservative \$10m limit, representing ~3% of issued capital. As at 26 September LST had bought back 4.7m shares at an average price of \$1.49/share.

LST now proposes an off-market share buyback (subject to shareholder approval) for up to 143m shares, or 75% of issued ordinary shares at a discount of no more than 5% to NTA. The buyback is expected to be implemented in November.

LST has traded at an average discount to NTA of 16% over the last six months, making the 5% discount offered in the off-market buyback attractive. The recent market rout and return to an accounting value for Cracow, has seen the NTA fall, although with cash representing ~52% of NTA and Cracow valued on an accounting basis, only a quarter of LST’s NTA is exposed to market movements.

Post the buyback, and assuming current market prices and accounting value for Cracow, we estimate that LST’s NTA would be \$1.68/share, distributed across cash (18%), Cracow (44%), and market investments (38%).

*(Note: Austock Securities is undertaking the on-market buyback for LST).*

**Analyst: Colin McLelland +612 9233 9635**

## Directory

### Equities Research Team

#### Melbourne

<b>Craig Stranger</b>	<b>613 8601 2010</b>	<b>Head of Research, Emerging Companies</b>
Paul Jensz	613 8601 2068	Research Strategy, Agribusiness & Chemicals Analyst
Heath Andrews	613 8601 2644	Diversified Financial Services Analyst
John Buonaccorsi	613 8601 2661	Infrastructure Analyst
Andrew Chambers	613 8601 2605	Quantitative Data Analyst
Andrew Cleeland	613 8601 2065	Analyst
David Grossman	613 8601 2616	Analyst
Thomas Hodson	613 8601 2628	Oil & Gas Analyst
Simon Oaten	613 8601 2671	Assistant Analyst
Scott Pullan	613 8601 2640	Assistant Analyst
Maribel Quiza	613 8601 2085	

#### Sydney

Tim Gerrard	612 9233 9603	Resources Analyst
Hunter Hillcoat	612 9233 9604	Resources Analyst
Colin McLelland	612 9233 9635	Assistant Resources Analyst
Rohan Sundram	612 9233 9638	Analyst

### Institutional Sales

#### Melbourne

<b>Tony Smith</b>	<b>613 8601 2041</b>	<b>Head of Institutional Research Sales</b>
Lawry Bugeja	613 8601 2635	Institutional Research Sales
Peter Hollick	613 8601 2011	Institutional Research Sales
Stuart Low	613 8601 2022	Institutional Research Sales
Enzo Salvatore	613 8601 2014	Institutional Research Sales
Wayne Shand	613 8601 2642	Institutional Research Sales
Chris Walker	613 8601 2038	Institutional Research Sales
Peter Ward	613 8601 2099	Institutional Research Sales
Matthew White	613 8601 2624	Institutional Research Sales
Robert Wood	613 8601 2031	Institutional Sales Trading

#### Sydney

Leo Borovilas	612 9233 9606	Institutional Sales Trading
Roderick Clarkson	612 9233 9608	Institutional Research Sales
David Gulson	612 9233 9637	Institutional Sales Trading
Desiree Hemberger	612 9233 9652	Institutional Research Sales
Jock McLean	612 9233 9602	Dealers Assistant
Gavin Todd	612 9233 9639	Institutional Research Sales
James Wilson	612 9233 9607	Institutional Research Sales

#### Asia

Chris Chia	612 9233 9605	Head of Asian Sales
------------	---------------	---------------------

#### UK

Roderick Clarkson	612 9233 9608	Head of UK Sales
-------------------	---------------	------------------

### Private Clients

#### Melbourne

<b>Scott Young</b>	<b>613 8601 2674</b>	<b>Head of Private Clients</b>
Peter Atkinson	613 8601 2652	Client Advisor
John Axsentieff	613 8601 2042	Senior Client Advisor
Alan Crute	613 8601 2621	Senior Client Advisor
Nick Fitzsimmons	613 8601 2029	Client Advisor
Kate Hanrahan	613 8601 2058	Client Advisor
Michael Heffernan	613 8601 2053	Senior Client Advisor
Peter King	613 8601 2002	Client Advisor
Peter Mason	613 8601 2015	Client Advisor
Daniel McFarlane	613 8601 2639	Client Advisor
Simon Taylor	613 8601 2069	Client Advisor
Patrick Trindade	613 8601 2669	Client Advisor

#### Sydney

<b>Alan Birkenleigh</b>	<b>612 9233 9625</b>	<b>Head of Private Clients - Sydney</b>
David Dwyer	612 9233 9643	Client Advisor - Options
Josh Graham	612 9233 9645	Client Advisor - Options
Ian Schlipalius	612 9233 9621	Senior Client Advisor
Mark Schwarz	612 9233 9642	Client Advisor - Options

## 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

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.

### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of each author described in this publication about the subject issuer and its securities. In the situation where multiple analysts are responsible for the research, no part of the relevant analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

Austock and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication.

However, neither Austock, an associate of Austock within the meaning of the Corporations Act nor any author and/or immediate family of the authors described in this report have any interests in the companies referred to in this publication which are considered to be material.

### Disclaimer/Disclosure

This publication has been prepared solely for the information of the particular person to whom it was supplied by Austock Securities Limited ("Austock") AFSL 244410. This publication contains general financial product advice. In preparing the advice, Austock has not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a financial product adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation.

An associate of Austock, Austock Property Investments Ltd (APIL), has a relevant interest in 880 shares (55%) of the responsible entity of Australian Education Trust (AEU), Austock Property Management Ltd (APML). The cost of that interest was \$1.5 million. The current directors of APML are all associates of Austock. Those associations between Austock and AEU might reasonably be expected to be capable of influencing Austock in providing the general advice in this publication.

The directors of APML receive remuneration and benefits from APML in their capacities as directors of APML. The directors of APML may from time to time have relevant interests in units in AEU and receive benefits from AEU in their capacity as unitholders of AEU. However, Austock does not believe that those interests might reasonably be expected to be capable of influencing Austock in providing the general advice in this publication.

### Disclosure of Corporate Involvement

Austock has provided corporate advisory, investment banking and dealing services and has also been involved in publicly-announced transactions in the past twelve months involving the payment of fees to Austock from the following companies referred to in this publication: ABB, AEU, AVE, BEC, DKN, GRY, JMB, KAM, LST, LYC, OGC, QGC, RFG, RSG, SAE, SGH, SGX, SRL, TIM, TZN, WCB.

## OFFICE LOCATIONS

### Melbourne

Level 1, 350 Collins Street  
Melbourne VIC 3000

Phone: 613 8601 2000

Fax: 613 9600 1138

### Sydney

Level 9, 56 Pitt Street  
Sydney NSW 2000

Phone: 612 9233 9600

Fax: 612 9251 9368

### Brisbane

Level 3, 100 Eagle Street  
Brisbane QLD 4000

Phone: 617 3361 3303

Fax: 617 3229 4305