RBS Morgans

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report.
PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.

Low-Mod Volatility

TP A$2.14 (from A$2.02)

EVN120209

RBS Refiner

Price (close 08 Feb)	A$1.900
3M high/low	A$1.930/1.250
Market cap	A$1.33bn
Av (12M) turnover	A$1.52m
Freefloat	90%
Reuters	EVN.AX
Bloomberg	EVN AU
Net debt (cash) FY11	A$(26.37)m
3yr EPS CAGR 12-14F	227.9%
Income (2013F div yield)	(0.0)%

Source: Bloomberg, RBS Morgans forecasts

RBS vs consensus

NPAT A$m	RBS	Cons	% diff
2012F	153.4	122.97	-24.7%
2013F	134.8	204.8	34.2%
2014F	121.3	192.57	37.0%

Source: RBS Morgans forecasts, Bloomberg

Price performance

	(1M)	(3M)	(12M)
Price (A$)	1.65	1.68	1.58
Absolute (%)	15.2	13.1	20.1
Rel to mkt*(%)	10.3	13.2	36.9

*S&P/ASX200
Source: Bloomberg

Key events

Date	Event
Feb-12	1H Result
Apr-12	1Q12 Production report
July	2Q12 Production report

Source: Bloomberg

Analysts

Chris Brown
+61 7 3334 4885
chris.brown@rbsmorgans.com

James Wilson
+61 8 6462 1974
james.wilson@rbsmorgans.com

www.rbsmorgans.com

Evolution Mining

Quarterly production update

EVN delivered a mixed, but broadly positive quarterly update, with production in line with our forecasts. Successful completion of the merger and integration of the projects has been seamless, and we take the view that the forecast FY12 gold production of +335koz is achievable on the current production figures. Buy Maintained.

Event: Production in line, swings and roundabouts

Quarterly production of 89,812 was in line with our forecasts, while the cash cost of A$760/oz was 5% lower than our forecast of A$796/oz (before royalties). It was a mixed quarter, with production below our expectations at Edna May and Mount Rawdon due to lower throughput and feed grade, offset by higher-than-expected production at Cracow and Pajingo. We're happy with the performance over the quarter and look for improvement in efficiencies in 2HCY12.

Forecasts: Guidance is on the money

In 1H12 EVN produced 166koz at a cash cost of A$819/oz (ex royalty and silver credits), which looks like it will meet the lower end of the 335-375koz forecast. December-quarter production was on target, but cash costs were better than we expected at A$760 thanks to better-than-expected performance from Pajingo and Cracow. We remain at the lower end of production guidance at 340koz for FY12, but we remain cognisant of upside potential as production and grade improves at Edna May and Mt Rawdon over the next few months. We have made adjustments to our in-house gold, AUD and silver prices as per RBS's commodities update *Labyrinth*, published on 10 January.

Valuation: Operational scale and diversity

EVN has enjoyed a strong bounce on the rebound in gold prices recently. In tandem with effective cost reduction and efficiency initiatives, this has resulted in some decent cash cost reductions in the portfolio. The introduction of Mt Carlton ores later in the year plus a drive on exploration focussing on high-grade zones at Cracow (next to Kilkenny North) and Pajingo (adjacent to Sonia East) both bring the potential to add ounces in the next 12 months. We increase our valuation to A$2.14 (from A$2.02) as we flush through our higher commodity and currency price forecasts. EVN is in a unique position populated by few peers in +300kozpa production with operational and geographical diversity. We maintain our Buy recommendation.

Key forecasts

year to Jun	FY10A	FY11A	FY12F	FY13F	FY14F
Reported net profit (A$m)	-3.65	2.86	153.4 ▼	134.8	121.3 ▲
Normalised net profit (A$m)[1]	-3.65	2.86	153.4 ▼	134.8	121.3 ▲
Norm fully diluted EPS (c)[1]	-1.03	0.49	21.88 ▼	19.23	17.30 ▲
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE	-184	387.2	8.69	9.88	11.00
EV/EBITDA	-146	105.0	4.27	4.09	2.98

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
1. Pre non-recurring items and post preference dividends
Accounting standard: IFRS
Source: Company data, RBS Morgans forecasts

RBS Morgans Limited (A.B.N. 49 010 669 726) AFSL235410 A Participant of ASX Group
Sourced from RBS Equities (Australia) Limited, ABN 84 002 768 701,
AFS Licence 240530

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

RBS Equities Forecasts: Evolution Mining

Income statement

A$m, year to June	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	0.05	53.5	568.1	603.7	698.4
Cost of sales	0.00	-34.9	-298.5	-325.1	-361.9
Gross profit	**0.05**	**18.6**	**269.6**	**278.7**	**336.5**
Operating costs	-8.78	-6.12	-10.0	-10.0	-10.0
EBITDA	**-8.73**	**12.4**	**259.6**	**268.7**	**326.5**
DDA & Impairment (ex gw)	2.18	-20.0	-55.0	-89.0	-164.8
EBITA	**-6.55**	**-7.53**	**204.6**	**179.7**	**161.7**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**-6.55**	**-7.53**	**204.6**	**179.7**	**161.7**
Net interest	2.50	1.85	-0.09	0.00	0.00
Associates (pre-tax)	0.00	-0.38	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**-4.04**	**-6.06**	**204.5**	**179.7**	**161.7**
Taxation	0.40	8.93	-51.1	-44.9	-40.4
Minority interests	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	-0.00	0.00	0.00	0.00
Reported net profit	**-3.65**	**2.86**	**153.4**	**134.8**	**121.3**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	-8.73	12.4	259.6	268.7	326.5
Normalised EBIT	-6.55	-7.53	204.6	179.7	161.7
Normalised PTP	-4.04	-6.06	204.5	179.7	161.7
Normalised net profit	-3.65	2.86	153.4	134.8	121.3

Balance sheet

A$m, year ended June	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	56.1	26.4	223.8	231.7	359.2
Other current assets	1.65	17.4	17.4	17.4	17.4
Tangible fixed assets	0.52	97.6	198.5	320.4	309.2
Intang assets (incl gw)	0.00	58.5	58.5	58.5	58.5
Oth non-curr assets	35.6	40.1	45.1	50.1	55.1
Total assets	**93.8**	**239.9**	**543.3**	**678.1**	**799.3**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	1.58	21.5	21.5	21.5	21.5
Long term debt (3)	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	0.00	5.32	5.32	5.32	5.32
Total liabilities	**1.58**	**26.8**	**26.8**	**26.8**	**26.8**
Total equity (incl min)	92.3	213.1	516.5	651.3	772.5
Total liab & sh equity	**93.8**	**239.9**	**543.3**	**678.1**	**799.3**
Net debt	-56.1	-26.4	-223.8	-231.7	-359.2

Cash flow statement

A$m, year to June	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	-8.73	12.4	259.6	268.7	326.5
Change in working capital	5.48	-13.8	0.00	0.00	0.00
Net interest (pd) / rec	2.50	1.85	-0.09	0.00	0.00
Taxes paid	0.40	8.93	-51.1	-44.9	-40.4
Other oper cash items	-16.3	-13.2	-5.00	-5.00	-5.00
Cash flow from ops (1)	**-16.7**	**-3.80**	**203.4**	**218.8**	**281.1**
Capex (2)	0.00	-18.7	-100.0	-155.0	-155.0
Disposals/(acquisitions)	-0.08	-55.4	-55.4	-55.4	1.86
Other investing cash flow	0.00	-0.48	-0.48	-0.48	-0.48
Cash flow from invest (3)	**-0.08**	**-74.7**	**-155.9**	**-210.9**	**-153.6**
Incr / (decr) in equity	50.3	50.0	150.0	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-4.13	-1.28	0.00	0.00	0.00
Cash flow from fin (5)	**46.2**	**48.7**	**150.0**	**0.00**	**0.00**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**29.5**	**-29.7**	**197.5**	**7.85**	**127.5**
Equity FCF (1+2+4)	-16.7	-22.6	103.4	63.8	126.1

Source: Company data, RBS Morgans forecasts

Changes to forecasts

The application of higher long-term exchange rate assumptions is the key contributor to our earnings downgrades in FY12, while the impact on our valuation is offset by higher commodity prices. We have also made minor adjustments to our Edna May and Mt Rawdon FY12 head grades, in line with current production data. Our FY12 production forecast remains at 340koz, at the lower end of EVN's guidance; we believe this forecast is appropriately conservative.

Table 1 : Changes to our earnings and valuation

	2010A	2011A	2012F	2013F	NPV (A$ps)
NPAT normalised - previous	-3.6	2.9	177.8	129.3	101.7
NPAT normalised - revised	-3.6	2.9	153.4	134.8	121.3
Change A$m	0	0	-24.4	5.5	19.6
Change %	0	0	-14%	4%	19%

Source: Company data, RBS Morgans forecasts

Quarterly production and cash costs

We were pleased with EVN's ability to control costs in the December quarter, with most of the issues either because of unscheduled maintenance at Mt Rawdon or to lower feed grades at Edna May. As a result, EVN has deployed initiatives to improve performance at Edna May and Mount Rawdon, which are expected to improve performance. Operational scale and diversity remains a key attraction, in our view.

Key issues for EVN to manage through 2012 include:

- Managing efficiency initiatives at Edna May to improve production and plant performance;
- Commissioning of the Mount Carlton gold-silver-copper project in 4QCY12; and
- Resource/Reserve upgrades in the March quarter.

Valuation and risks

Our valuation is derived using a DCF methodology and equates to our target price. We believe normalisation in market risk appetite to better reflect the fundamental appeal for gold producers offers the best chance of EVN re-rating. Upside and downside risks are also linked to fluctuations in commodity and currency prices, operating performance and the ability to control costs.

Company description

Evolution Mining (ASX:EVN) was formed with the merger of Catalpa Resources (ASX:CAH) and Conquest Mining (ASX:CQT), and the acquisition of gold mine assets from Newcrest Mining (ASX:NCM), with production projected to rise from 350koz per year to 450koz per year over the next three-four years. Catalpa operated the 100%-owned Edna May gold project in the eastern wheat belt of WA, on the Westonia greenstone, mid way between Perth and Kalgoorlie, producing at about 100koz per year, and had a 30% interest in the Cracow underground gold mine, Central Queensland, in which the operator, Newcrest, held a 70% interest. Annual production from Cracow is about 100,000oz per year. With the formation of Evolution Mining the balance of Newcrest's holding in the Cracow mine was acquired from Newcrest, together with a 100% interest in the open pit Mt Rawdon gold mine, Central Queensland, also producing at a nominal 100koz per year.

EVN – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2010A**	**2011A**	**2012F**	**2013F**	**2014F**
Divisional sales	0.0	53.4	574.9	598.3	691.1
Total revenue	0.1	53.5	568.1	603.7	698.4
EBITDA	-8.7	12.4	259.6	268.7	326.5
Depreciation & amortisation	2.2	-20.0	-55.0	-89.0	-164.8
EBIT	-6.5	-7.5	204.6	179.7	161.7
Net interest expense	2.5	1.8	-0.1	0.0	0.0
Pre-tax profit	-4.0	-6.1	204.5	179.7	161.7
Income tax expense	0.4	8.9	-51.1	-44.9	-40.4
After-tax profit	-3.6	2.9	153.4	134.8	121.3
Minority interests					
NPAT	-3.6	2.9	153.4	134.8	121.3
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT post abnormals	-3.6	2.9	153.4	134.8	121.3

Growth ratios	2010A	2011A	2012F	2013F	2014F
Sales growth	nm	nm	977%	4%	16%
Operating cost growth		369%	670%	5%	11%

Cash flow statement	2010A	2011A	2012F	2013F	2014F
EBITDA	-8.7	12.4	259.6	268.7	326.5
Cash flow from ops (1)	-16.7	-3.8	203.4	218.8	281.1
Capex (2)	0.0	-18.7	-100.0	-155.0	-155.0
Disposals/(acquisitions)	-0.1	-55.4	-55.4	-55.4	1.9
Cash flow from invest (3)	-0.1	-74.7	-155.9	-210.9	-153.6
Incr/(decr) in equity	50.3	50.0	150.0	0.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	-4.1	-1.3	0.0	0.0	0.0
Cash flow from fin (5)	46.2	48.7	150.0	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	29.5	-29.7	197.5	7.9	127.5
Equity FCF (1+2)	-16.7	-22.6	103.4	63.8	126.1

Balance sheet	2010A	2011A	2012F	2013F	2014F
Cash & deposits	56.1	26.4	223.8	231.7	359.2
Trade debtors	1.2	8.2	8.2	8.2	8.2
Inventory	0.0	8.9	8.9	8.9	8.9
Investments	0.3	9.9	9.9	9.9	9.9
Other intangible assets	0.0	42.0	42.0	42.0	42.0
Fixed assets	0.5	97.6	198.5	320.4	309.2
Other assets	35.7	46.9	51.9	56.9	61.9
Total assets	93.8	239.9	543.3	678.1	799.3
Short-term debt	0.0	0.0	0.0	0.0	0.0
Trade payables	1.5	16.9	16.9	16.9	16.9
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	5.3	5.3	5.3	5.3
Other liabilities	0.0	4.6	4.6	4.6	4.6
Total liabilities	1.6	26.8	26.8	26.8	26.8
Share capital	121.1	231.9	381.9	381.9	381.9
Other reserves	0.0	0.0	0.0	0.0	0.0
Retained earnings	-31.5	-29.1	124.3	259.1	380.3
Total equity	92.3	213.1	516.5	651.3	772.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	92.3	213.1	516.5	651.3	772.5
Total liabilities & SE	93.8	239.9	543.3	678.1	799.3

Price target (A$)		**2.14**
Valuation	$	2.14

Valuation summary	A$m	A$ps	DCF valuation inputs	
Edna May Reserves	307.7	0.44	Rf	6.25%
Westonia Greenstone	78.2	0.11	Rm-Rf	4.50%
Cracow Reserves	249.6	0.36	Beta	1.62
Cracow Exploration	82.3	0.12	CAPM (Rf+Be	13.6%
Pajingo Reserves	73.2	0.10	Tax rate (t)	30.0%
Pajingo Exploration	59.2	0.08	**WACC**	10.83%
Mt Rawdon	294.0	0.42	Shares	701.0
Mt Carlton	227.8	0.32		
Net cash	167.0	0.24		
Corporate overheads	-40.0	-0.06		
Total valuation	**1499.0**	**2.14**		

Production (Mt)	2011A	2012F	2013F	2014F
Gold production (koz)	300.82	339.06	393.72	450.71
Cash costs (A$/oz)	818.66	795.72	739.48	670.55
Total costs (A$/oz)	1062.73	1039.78	1034.80	1092.26

Key assumptions	2011A	2012F	2013F	2014F
USD / AUD exchange rate	1.05	1.04	1.09	1.02
Gold price (US$/oz)	1649	1750	1625	1500

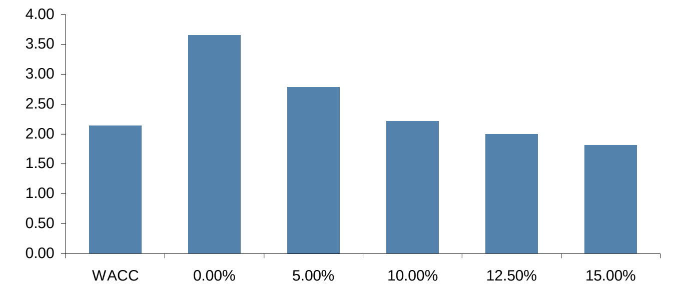
Per share data	2011A	2012F	2013F	2014F
No. shares	583.2	701.0	701.0	701.0
EPS (cps)	0.5	21.9	19.2	17.3
EPS (normalised) (c)	0.5	21.9	19.2	17.3
Dividend per share (c)	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0

Operating performance	2010A	2011F	2012F	2013F
EBIT growth	15%	n.m.	-12%	-10%
NPAT growth	50%	-3472%	-12%	-10%
Normalised EPS growth	n.m.	4358%	-12%	-10%
Asset turnover (%)	0.3	1.5	1.0	0.9
EBITDA margin (%)	23%	45%	45%	47%
EBIT margin (%)	-14%	36%	30%	23%
Net profit margin (%)	5%	27%	23%	18%
Return on net assets (%)	-4%	40%	28%	21%
Net debt / (cash) (A$m)	-26.4	-223.8	-231.7	-359.2
Net debt/equity (%)	n.m.	n.m.	n.m.	n.m.
Net interest/EBIT cover (x)	n.m	2229.0	n.m	n.m
ROIC (%)	-15%	77%	43%	27%

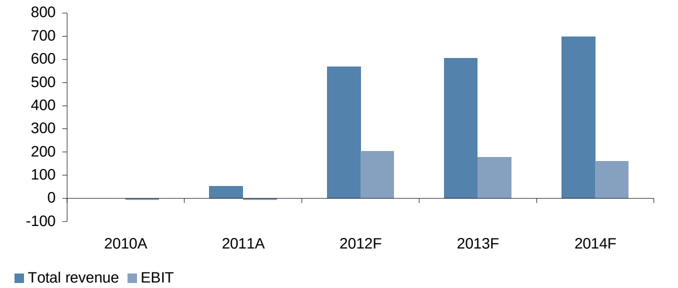
Comparable multiples (x)		2012A	2013A	2014A
Evolution Mining	EV/EBITDA	3.7	4.1	3.3
Year to 30 Jun	PE	7.5	10.3	13.1
Integra Mining	EV/EBITDA	4.9	5.6	8.3
Year to 30 Jun	PE	10.7	13.4	25.8
Regis Resources	EV/EBITDA	23.2	5.1	4.5
Year to 30 Jun	PE	35.0	8.0	7.3

Earnings Sensitivity	2012F	2013F	2014F
Gold sensitivity (+10%)	42.08	40.29	40.09
Gold sensitivity (+$US10/oz)	2.40	2.48	2.67
AUD sensitivity (+10%)	-31.39	-30.12	-29.58
AUD sensitivity (+1c)	-3.02	-2.76	-2.90

Valuation sensitivity to discount rate (A$/share)



Total revenues and EBIT (A$m)



Source: Company data, RBS Morgans forecasts

RBS Morgans

www.rbsmorgans.com

QUEENSLAND		PARRAMATTA	(02) 9615 4500
BRISBANE	(07) 3334 4888	PORT MACQUARIE	(02) 6583 1735
BUNDABERG	(07) 4153 1050	SCONE	(02) 6544 3144
BURLEIGH HEADS	(07) 5520 8788	SYDNEY – LEVEL 9	(02) 8215 5000
CAIRNS	(07) 4222 0555	SYDNEY – LEVEL 33	(02) 8216 5111
CALOUNDRA	(07) 5491 5422	SYDNEY – MACQUARIE STREET	(02) 9125 1788
CAPALABA	(07) 3245 5466	SYDNEY – REYNOLDS EQUITIES	(02) 9373 4452
CHERMSIDE	(07) 3350 9000	WOLLONGONG	(02) 4227 3022
EDWARD STREET	(07) 3121 5677		
EMERALD	(07) 4988 2777	**ACT**	
GLADSTONE	(07) 4972 8000	CANBERRA	(02) 6232 4999
GOLD COAST	(07) 5592 5777		
IPSWICH	(07) 3202 3995	**VICTORIA**	
MACKAY	(07) 4957 3033	MELBOURNE	(03) 9947 4111
MILTON	(07) 3114 8600	BERWICK	(03) 8762 1400
NOOSA	(07) 5449 9511	BRIGHTON	(03) 9519 3555
REDCLIFFE	(07) 3897 3999	CAMBERWELL	(03) 9813 2945
ROCKHAMPTON	(07) 4922 5855	CARLTON	(03) 9066 3200
SPRING HILL	(07) 3833 9333	FARRER HOUSE	(03) 8644 5488
SUNSHINE COAST	(07) 5479 2757	GEELONG	(03) 5222 5128
TOOWOOMBA	(07) 4639 1277	RICHMOND	(03) 9916 4000
TOWNSVILLE	(07) 4725 5787	SOUTH YARRA	(03) 9098 8511
YEPPOON	(07) 4939 3021	TRARALGON	(03) 5176 6055
		WARRNAMBOOL	(03) 5559 1500
NEW SOUTH WALES			
SYDNEY	(02) 8215 5050	**WESTERN AUSTRALIA**	
ARMIDALE	(02) 6770 3300	PERTH	(08) 6462 1999
BALLINA	(02) 6686 4144		
BALMAIN	(02) 8755 3333	**SOUTH AUSTRALIA**	
CHATSWOOD	(02) 8116 1700	ADELAIDE	(08) 8464 5000
COFFS HARBOUR	(02) 6651 5700	NORWOOD	(08) 8461 2800
GOSFORD	(02) 4325 0884		
HURSTVILLE	(02) 9570 5755	**NORTHERN TERRITORY**	
MERIMBULA	(02) 6495 2869	DARWIN	(08) 8981 9555
NEUTRAL BAY	(02) 8969 7500		
NEWCASTLE	(02) 4926 4044	**TASMANIA**	
NEWPORT	(02) 9998 4200	HOBART	(03) 6236 9000
ORANGE	(02) 5310 2111		