

# History repeating itself

CRITERION Tim Boreham | November 01, 2006

**Bendigo Gold (BDG) 98.5c** OUR patience with Bendigo Mining is wearing thin, although to be fair the overall Victorian goldfields theme has been to promise much and deliver little over the years. Bendigo three weeks ago dropped the news that its reserves were about one-third lower than the stated probable reserve figure of 191,000 ounces. Management yesterday was playing up the fact that the overall inferred resource figure of 11 million ounces was intact.

Of more concern, however, is the revised 2005-06 production figure from its (first) Kangaroo Flat shaft, which means Bendigo has lower than expected retained funds to finance exploration and planned expansion.

Already, development of the second (Eaglehawk) shaft - a key plank in the company's plans to become a 600,000 oz a year producer - has been delayed for 12 months.

Until 2010, Bendigo had hoped to finance mine development from its own cash flows from gold production and cash on hand of \$58 million. Then Bendigo could access debt funding, but now the company will have to raise equity before then.

"The quantum of further funding required before the company can rely on debt markets will depend on the performance of Kangaroo Flat, particularly future gold grades, future gold prices and future cost inflation," Bendigo said.

On October 9, Bendigo slashed forecast first-year production from 70,000-90,000oz to 50,000oz, at a grade of 7 grams a tonne. This is a conservative estimate given the company is still working on a long term assumption of 12 g/t.

The better news is that the Kangaroo Flat processing plant has been working better since its October 1 commissioning.

Criterion rated Bendigo a LONG-TERM BUY at \$1 on October 11, but we now say HOLD.

One view is that Bendigo's woes are teething problems experienced by any

start-up mine. Don't lose sight of the fact that Bendigo has one of the biggest deposits in Australia and is unhedged and ungeared.

The darker view is that this month's glitches are a prelude to more reserve and production downgrades, given the resource uncertainties. Bendigo's gold is in clumps, so it's hard to determine from a drill test whether there's gold nuggets or Chicken McNuggets below.

Bendigo still assumes low production costs of \$120/oz over the next two years, but yesterday mentioned "cost inflation" a few too many times for comfort.

### **Morning Star (MCO) 28c; Goldstar (GDR) 65.5c**

WITH Ballarat Goldfields under offer from Lihir Gold and Perseverance bidding for Leviathan Resources, Victorian gold aficionados might consider less developed gold plays.

Goldstar and Morning Star are creating excitement in the Walhalla-Woods Point precinct in eastern Victoria's hills, the state's richest gold zone behind Ballarat and Bendigo.

Morning Star is seeking to reopen the Morning Star mine at Woods Point, which produced 883,000 ounces between 1862 and 1963.

Goldstar, meanwhile, had set tongues a'wagging in historic Walhalla. The town long ago swapped shovels for tourists, but Goldstar's reports of high grades - one drill test was as high as 5604 g/t - and "visible gold" has piqued hopes of a golden revival.

One local gold tragic, whose old man mined between Jamieson and Woods Point for 45 years, reckons the Woods Point gold is more accessible than at Walhalla.

Our prospector informant mentions "mother of all mines" and "sleeping elephant" in the same breath as Morning Star, so we think he's trying to tell us something.

We last rated Goldstar a SPECULATIVE BUY at 19c in early September last year and peg the stock back to a HOLD. We rate Morning Star as a SPECULATIVE BUY. It looks the better-value punt of the two.

### **XRF Scientific (XRF) 21c; Nomad Building Solutions (NOD) \$1.40**

OR why bother digging at all? The bourse's latest two newcomers are the latter-day equivalent of the 1880s goldfields shopkeeper or publican, in that they hope to get rich by providing equipment and services to the miners.

As a purveyor of high falutin' equipment such as laser plasma spectrometers, fusion machines and chemical fluxes, XRF offers miners more effective ways to analyse what's been extracted.

Every shipment of iron ore has to be accurately checked for ferrous content, or else the unhappy Chinese/Japanese buyers at the other end will reject the cargo.

There are various ways of doing this, but XRF claims to have the better mousetrap.

XRF's core gig is patented fusion machines, which sound like a 25th century energy source, but in fact convert mineral samples into glass discs at high temperatures. X-ray analysis then determines the purity of the sample.

XRF's backers took their time to find the dough, but managed to raise \$4.56 million, higher than the minimum \$2 million but shy of the maximum \$5 million.

While there's plenty of work locally given the extent of mining expansion, XRF is eyeing offshore expansion. "We have big plans and the market will hear much more from XRF in the years ahead," promises chairman Paul Rengel.

XRF forecasts a profit of \$2.28 million in 2006-07 on revenues of \$12.6 million.

Criterion is easily blinded by science but rates XRF a solid BUY. The stock is trading on a PE of around seven times and directors are "committed" to paying a dividend next April.

Nomad, which makes and instals modular buildings for temporary and permanent applications, raised \$78 million at \$1 a throw.

Nomad last year made EBITDA of \$14.7 million on revenues of \$92 million. On prospectus forecasts Nomad expects this year's EBITDA to rise to \$22.5 million, with a net profit of \$13.5 million.

Nomad's clients include the mining who's who of BHP Billiton, Rio Tinto and Newcrest. On Monday the company won a \$32 million contract to build a village at Fortescue Metals' planned (fabled?) Cloudbreak mine in the Pilbara.

The Nomad listing results from a private equity assisted management buy-out, with the outside backers (ANZ Capital) wandering off. The managers involved remain holders of 32 per cent of the company.

The question is whether private equity left enough on the table. Given yesterday's healthy first-day premium the shares don't look a wild bargain, trading on a PE of around 12 times and a yield of 4 per cent.

Our initial instinct is to AVOID the stock.