

## Lion Selection (LST)

### Half-year pre-tax loss of A\$68.9m

**Gold mining generated EBIT of A\$1.2m for 1HFY08, more than offset by a loss on the sale of investments of A\$6.9m, with both overshadowed by a mark-to-market reduction of A\$92.3m in investments, taking the pre-tax result to a loss of A\$68.9m.**

#### Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	-2.57	-3.09	15.0	26.3▲	25.1▲
Reported net profit (A\$m)	43.7	72.7	0.70▼	8.99	8.11
Normalised net profit (A\$m) <sup>1</sup>	43.7	72.7	0.70▼	8.99	8.11
Normalised EPS (c) <sup>1</sup>	43.6	38.1	0.36▼	4.55	4.11
Normalised EPS growth (%)	35.7	-12.6	-99.0	1147.9	-9.83
Dividend per share (c)	10.0	10.0	10.0	10.0	10.0
Dividend yield (%)	6.80	6.80	6.80	6.80	6.80
Normalised PE (x)	3.37	3.86	402.9	32.3	35.8
EV/EBITDA (x)	n/m	n/m	16.7	9.40	9.74
Price/net oper. CF (x)	-34.6	-42.2	19.1▲	12.5	13.0
ROIC (%)	-2.06	-3.82	0.17	2.34	2.19

1. Pre non-recurring items and post preference dividends

Accounting Standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

year to Jul, fully diluted

#### Cracow - gold mine for sale and wanted

Gold sales revenue of A\$14.60m was reported for the half year to 31 January 2008 from LST's 30% interest in the Cracow gold mine. Operating profit from Cracow was A\$7.33m - an average cash cost of A\$448/oz. Non-cash charges of A\$413/oz reduced segment profit to A\$1.19m. The high non-cash charge reflects obligation to expense capital over the projected mineable resource, with attributable reserves of 90,000 ounces reported at 30 June 2007. We expect that much of the attributable resource of 250,000 oz of gold will be converted into reserves, and that exploration will discover further resources and reserves at Cracow. Lion holds a pre-emptive right to match any offer received by Newcrest for its 70% stake in Cracow, which is for sale, and has sufficient time and funds to exercise its pre-emptive right. Our valuation for Lion's 30% interest - including a notional value for exploration upside - is A\$83m, compared with book value of A\$57m.

#### Other investments - hit hard, but still extremely valuable

The two African Lion funds, and the Asian Lion fund in which LST is invested with a number of national commercial and development banks, had an attributable value of A\$53.3m at 31 January 2008. The major holdings are a 21.2% interest in Albidon (LST value A\$28m) and an 8.0% interest in Sphere (LST value A\$6.8m). Direct equity investments in ASX-listed companies include Indophil (25.7% - A\$67.9m), Havilah (19% - A\$20.8m), Exco (10.4% - A\$6m) and Westonia (44.4% - A\$12.6m). LST has removed Lafayette and View Resources from its NTA, and has appointed administrators to both companies. Lion reported net cash of A\$74.4m at 31 January, subsequently boosted by the sale of its interest in Allegiance Mining for A\$48.5m.

#### Hostile takeover bid by Indophil

Indophil Resources, which has LST as the largest shareholder with a 25.7% holding, has announced a takeover bid for LST offering 2.5 IRN shares for each LST share with a minimum acceptance of 50.1%, and 2.7 IRN share for each LST share should it achieve either LST board approval or over 90% acceptance.

#### 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.

Priced at close of business 1 April 2008. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

## 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 ADVISOR TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

## Low-Mod Volatility

#### Absolute performance

n/a

#### Short term (0-60 days)

#### Materials

#### Australia

#### Price

A\$1.47

#### Target price

A\$1.99 (from A\$2.05)

#### Market capitalisation

A\$281.84m (US\$257.09m)

#### Avg (12mth) daily turnover

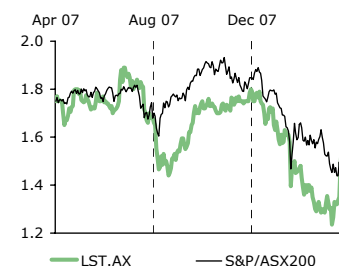
A\$0.55m (US\$0.48m)

#### Reuters

LST.AX LST80401

#### Price performance (1M) (3M) (12M)

Price (A\$)	1.3	1.7	n/a
Absolute %	14.0	-14.5	n/a
Rel market %	18.6	1.2	n/a
Rel sector %	36.7	3.0	n/a



Stock borrowing: Moderate onshore, Hard offshore

Volatility (30-day): 49.53%

Volatility (6-month trend): ↑

52-week range: 1.90-1.21

S&P/ASX200: 5355.70

BBG AP Mining: 416.29

Source: ABN AMRO, Bloomberg

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## Company overview

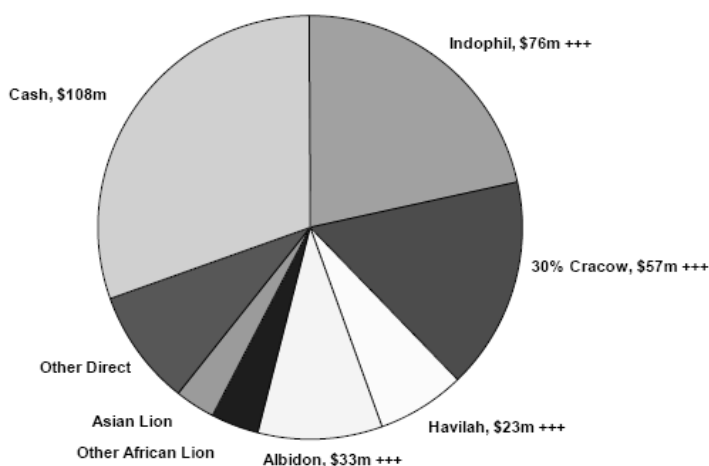
While Lion has a portfolio of investment interests valued at A\$185m at 11 March 2008 and cash of A\$108m after the sale of its interest in Allegiance Mining, it has stated its intention of becoming an operating mining company. Lion currently holds a 30% interest in the Cracow gold mine, in central Queensland, operated by 70% owner Newcrest Mining (NCM.AX). It is valued in Lion's books at A\$57m, as shown below. Newcrest has approached a number of parties about a possible sale of its 70% interest. Lion Selection holds a pre-emptive right which enables it to match any offer made for Newcrest's interest in Cracow. The company states, "Lion will have sufficient time to exercise its pre-emptive right should an offer be made that Newcrest will accept." Lion's current cash position places it in a strong position to match any reasonable offer.

Figure 1 : Lion valuation – as at 11 March 2008

Breakup Value > NTA > Price



NTA: \$350 million



Source: Lion Selection Limited

## The Cracow gold mine

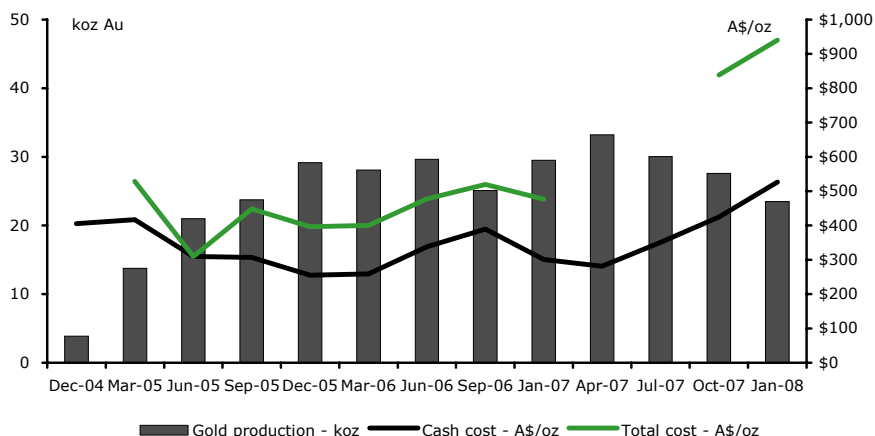
The Cracow mine was commissioned in the September 2004 quarter. In the half year to 31 January 2008 – LST's financial half-year end – Cracow produced 51,097 ounces of gold at a cash cost of A\$472 per ounce. This is higher than previously, with weaker production in the second quarter. The cash cost quoted includes royalties, which were higher with the higher gold price, and also reflected the broader industry-wide higher operating cost regime.

As at 30 June 2007, mineral reserves at Cracow (100%) were reported at 290,000 oz of gold, with resources of 850,000 oz. Additional resource potential exists within the known mineralised structures, and also from identifying extensions to and repeats of these structures.

We have valued 100% of Cracow in a number of ways, with a range from A\$197m, based on earnings using our revised (and significantly increased) gold price and exchange rate assumptions for the reserve base, to A\$270m, assuming conversion of resources to reserves and some exploration success with extension of mine life to 10

years. This latter number equates to A\$340 per resource ounce, reflecting the cash margin that we anticipate from future production.

**Chart 1: Cracow gold mine – 30% of quarterly production**



Source: Lion Selection Limited

In our assessment, acquisition of Cracow will confirm that Lion Selection is on the path to becoming a conventional mining company, with the value of production assets approaching the value of investments. We would expect that the market will move to value LST as such, rather than trade it at a discount to NTA.

**Valuation and risks**

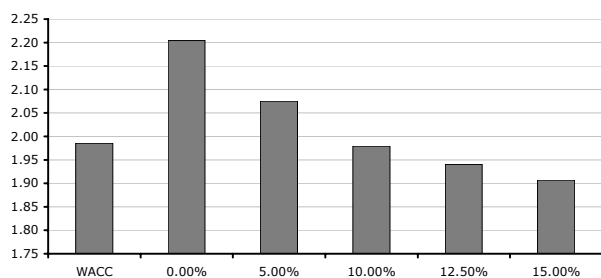
We use a combined DCF/SOTP valuation for LST. At 11 March 2008, LSG reported net tangible assets of A\$350m (down from A\$418m or A\$2.17/share at 31 July 2007), or A\$1.83 per share using the market value for all investments, its cash balance and the historic cost for its 30% interest in the Cracow gold mine. We derive our target price of A\$1.99 per LST share based on the market value of Lion’s listed assets, the unlisted assets at cost, and cash at face value, using our valuation for the Cracow mine and exploration potential.

LST is subject to risks associated with minerals exploration, development and production, however this is minimised through the diversification of companies and geographic regions. There are also the risks associated with the individual investee companies, as they move from development through to operations.

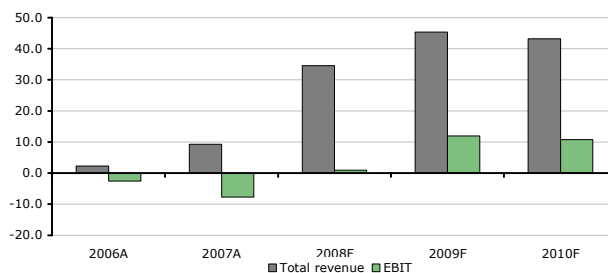
**LST – financial summary**

Year to 31 Jul (A\$m)	AIFRS 2006A	AIFRS 2007A	AIFRS 2008F	AIFRS 2009F	AIFRS 2010F	Closing price (A\$)	1.47	Price target (A\$)	1.99	
<b>Income statement</b>						Valuation methodology	DCF/SOTP	Val'n (A\$)	\$ 1.99	
Divisional sales	0.0	9.1	34.3	45.2	43.0	<b>Valuation summary</b>	<b>A\$m</b>	<b>A\$ps</b>	<b>DCF valuation inputs</b>	
Total revenue	2.3	9.3	34.5	45.4	43.2	Cracow Mine	68.4	0.36	Rf 6.25%	
EBITDA	-2.6	-3.1	15.0	26.3	25.1	Exploration	27.7	0.14	Rm-Rf 4.50%	
Depreciation & amortisation	0.0	-4.6	-14.1	-14.3	-14.3	Investments	138.3	0.72	Beta 1.19	
EBIT	-2.6	-7.7	0.9	12.0	10.8	Funds & Other	53.3	0.28	CAPM (Rf+I) 11.6%	
Net interest expense	0.0	3.2	0.0	0.0	0.0	Net cash	93.0	0.49	Tax rate (t) 30.0%	
Pre-tax profit	51.7	62.2	0.9	12.0	10.8	<b>Total valuation</b>	<b>380.7</b>	<b>1.99</b>	<b>WACC</b> 9.55%	
Income tax expense	-8.0	10.5	-0.2	-3.0	-2.7	Mark to Market	0.0	0.00	Shares 191.7	
After-tax profit	43.7	72.7	0.7	9.0	8.1	<b>Production (Mt)</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Minority interests	0.0	0.0	0.0	0.0	0.0	Gold production (koz)	33.91	35.15	35.72	35.72
NPAT	43.7	72.7	0.7	9.0	8.1	Silver production (moz)	0.00	0.00	0.00	0.00
Significant items	0.0	0.0	0.0	0.0	0.0	Cash costs (A\$/oz)	284.76	451.04	455.41	455.41
NPAT post abnormals	43.7	72.7	0.7	9.0	8.1	Total costs (A\$/oz)	424.76	851.04	855.41	855.41
<b>Growth ratios</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>Key assumptions</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Sales growth	n.m.	n.m.	277%	32%	-5%	USD / AUD exchange rate	0.79	0.89	0.90	0.86
Operating cost growth	n.m.	n.m.	58%	-2%	-5%	Gold price (US\$/oz)	638.42	852.35	1115.00	1018.75
						Silver price (US\$/oz)	12.73	16.23	22.25	20.38
<b>Cash flow statement</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>Per share data</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
EBITDA	-2.6	-3.1	15.0	26.3	25.1	No. shares	190.7	191.7	197.5	197.5
Cash flow from ops (1)	-4.3	-6.6	14.8	23.3	22.4	EPS (cps)	38.1	0.4	4.6	4.1
Capex (2)	0.0	-1.1	0.0	0.0	0.0	EPS (normalised) (c)	38.1	0.4	4.6	4.1
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	10.0	10.0	10.0	10.0
Cash flow from invest (3)	55.1	1.7	0.0	0.0	0.0	Dividend payout ratio (%)	27.5	2741.0	219.7	243.6
Incr/(decr) in equity	0.0	0.4	0.0	0.0	0.0	Dividend yield (%)	6.6	6.6	6.6	6.6
Incr/(decr) in debt	0.0	-2.2	0.0	0.0	0.0	<b>Operating performance</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Ordinary dividend paid	-10.0	-20.0	-19.2	-19.8	-19.8	EBIT growth	200%	90%	1186%	-10%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	NPAT growth	66%	-99%	1186%	-10%
Cash flow from fin (5)	-10.0	-21.8	-19.2	-19.8	-19.8	Normalised EPS growth	-13%	-99%	1148%	-10%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	0.7	2.1	2.8	2.8
Incr/(decr) cash (1+3+5+6)	40.8	-26.8	-4.4	3.5	2.6	EBITDA margin (%)	n.m.	-34.0	43.7	58.2
Equity FCF (1+2)	-4.3	-7.7	14.8	23.3	22.4	EBIT margin (%)	n.m.	-84.7	2.7	26.5
<b>Balance sheet</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	Net profit margin (%)	n.m.	799.2	2.0	19.9
Cash & deposits	73.4	46.7	42.3	45.8	48.4	Return on net assets (%)	-2.0	0.2	3.3	3.1
Trade debtors	0.6	4.0	4.0	4.0	4.0	Net debt (A\$m)	-33.5	-29.1	-32.6	-35.3
Inventory	0.0	1.6	1.6	1.6	1.6	Net debt/equity (%)	-8.5	-7.8	-9.0	-10.0
Investments	148.6	299.9	299.9	299.9	299.9	Net interest/EBIT cover (x)	2.4	#DIV/0!	#DIV/0!	#DIV/0!
Other intangible assets	0.0	0.0	0.0	0.0	0.0	ROIC (%)	-3.8	0.2	2.3	2.2
Fixed assets	0.0	66.9	52.9	38.6	24.3	<b>Comparable multiples (x)</b>		<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Other assets	0.1	6.6	6.6	6.6	6.6	Lion Selection	EV/EBITDA	17.4	9.8	10.2
Total assets	222.8	425.7	407.2	396.5	384.8	Year to 31 Jul	PE	418.0	33.5	37.1
Interest bearing debt	0.0	11.1	11.1	11.1	11.1	Heemskirk Consolidated	EV/EBITDA	7.0	3.7	2.9
Trade payables	2.5	3.0	3.0	3.0	3.0	Year to 30 Sep	PE	18.8	13.2	10.9
Long-term borrowings	0.0	2.1	2.1	2.1	2.1	Intrepid Mines	EV/EBITDA	2.6	0.8	0.4
Provisions	10.6	16.6	16.6	16.6	16.6	Year to 31 Dec	PE	-264.2	18.4	2.5
Other liabilities	5.4	-0.1	-0.1	-0.1	-0.1	<b>Earnings Sensitivity</b>	<b>NPV \$ps</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Total liabilities	18.6	32.6	32.6	32.6	32.6	Gold sensitivity (+10%)	0.08	2.48	3.27	3.11
Share capital	100.1	250.9	250.9	250.9	250.9	Gold sensitivity (+\$US10/oz)	0.01	0.29	0.29	0.31
Other reserves	0.0	0.0	0.0	0.0	0.0	AUD sensitivity (+10%)	-0.07	-2.29	-3.02	-2.87
Retained earnings	104.1	139.0	120.6	109.8	98.2	AUD sensitivity (+1c)	-0.01	-0.26	-0.34	-0.33
Total equity	204.2	393.1	374.6	363.8	352.2					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	204.2	393.1	374.6	363.8	352.2					
Total liabilities & SE	222.8	425.7	407.2	396.5	384.8					

Valuation sensitivity to discount rate (A\$/share)



Total revenues and EBIT (A\$m)



Source: Company data, ABN AMRO Morgans forecasts

## RESEARCH TEAM

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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

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A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

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Subject companies: LST.AX.

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