

Lion Selection Limited (LST)

Opinion Data

Recommendation	Speculative Buy
Risk Rating	High
Current share price	\$0.74
Market capitalisation	\$62m

Company Background

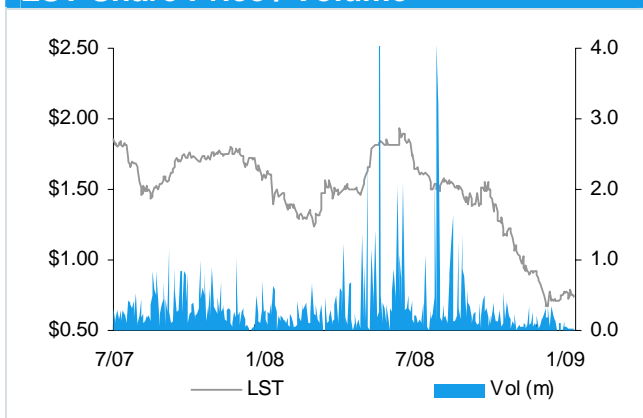
Lion Selection Limited (LST) is a resource investment company created from the merger of Lion Selection Group (LSG) and Auselect (AUS) in April 2007. The original Lion Selection Group listed on the ASX in 1997 and provided "patient capital" to small resource companies to progress them along the development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

2008 was a year of uncertainty for LST, including a hostile bid from Indophill Resources (at the time LST's largest investment); the potential purchase (through a pre-emptive right) of Newcrest's 70% interest in Cracow, and the collapse of the subsequent sale agreement for LST's 30% Cracow interest to Beadell Resources (BDR) due to deteriorating financial conditions.

In December 2008, LST completed a \$160m capital return through on and off-market buybacks. Post the capital return the fund has ~82m shares on issue.

LST will retain its interest in the African Lion and Asian Lion funds, having recently committed to a third, substantially larger, African Lion fund. However, the company's principal activity is now the Cracow goldmine and LST will no longer be publishing monthly NTA details.

LST Share Price / Volume



Highlights

LST successfully completed its capital return program during December. LST acquired 102m shares at \$1.47/share through its off-market buyback and 6.96m (at an average price of \$1.43/share) through its on-market buyback, returning ~\$160m in total. Following cancellation of these shares there are now ~82m shares on issue.

LST also increased its holding in Catalpa Resources (formerly Westonia Mines – WEZ) from 44.4% to 51.3% through sub-underwriting CAH's recent \$3.5m rights issue. Catalpa has just released a positive feasibility study on its Edna May gold project.

Outlook / Investment View

LST continues to trade at a substantial discount to NTA (our estimate 52% discount), and activist shareholders Carrousell and Laxey retain interests of 11.5% and 8.2% respectively post the sale of approximately two thirds of their positions into buyback. LST is no longer required to report monthly NTA details, which is likely to make life more complicated for activist holders to exert pressure.

Cracow now represents LST's largest investment, and is a low cost gold mine providing LST with unhedged exposure to the gold price. However, it is a short life operation on current reserves and will need considerable exploration and development expenditure to prolong its life. LST expects to receive free cash flow of \$8-10m per annum after development costs (\$4-5mpa). In FY'08 Cracow generated a gross profit of ~\$17.0m for LST, pre D&A charges of \$14.7m.

Assuming current market prices and accounting value for Cracow, we estimate that LST's NTA is \$1.57/share, distributed across cash (22%, \$28m), Cracow (46%, \$59m), and market investments (39%, \$51m). LST's top 5 investments and their current value are Cracow (\$59m), Catalpa Resources (\$10m), Indophil Resources (\$8m), Havilah Resources (\$5m), and Exco Resources (\$3m).

Notwithstanding the pain experienced on an NTA basis, the current market weakness and funding crisis represent a golden opportunity for LST to secure its next generation of investments. At current prices, LST is ~45% cash backed. Speculative Buy.

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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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