

Lion Selection Group

AGM - Looking To Move From An Investor To Producer

Materials | Metals & Mining | Australia

Event:

- AGM presentation.

Key Points:

- LST is looking to move from a Mining Investment Company to a Mining Company through acquiring an operating mine.
- LST see this as the best way to remove the discount to NAV that LST trades at.
- LST see an opportunity to acquire the remaining 70% of Cracow that is potentially being sold by Newcrest, provided that it is value enhancing.
 - LST has a pre-emptive right to acquire the 70% and a fairly long exercise period to achieve this
 - if NCM do sell Cracow and LST exercises its pre-emptive, LST will need to raise additional finance with options including:
 - further sale of investments
 - bank debt
 - 3rd party finance
 - equity issue (to date LST has not issued any equity)
- Once LST operates as a mining company, LST sees opportunity to maintain an Investment Division with ~30 main investments and multiple operations.

Investment View:

- We are of the view that increasing the relative size of the operating division has the potential to eliminate the discount to NAV that LST trades at.
- We still see a number of the investments as being too small to make a meaningful contribution to LST and would see the current rationalisation, indeed an acceleration of the disposal strategy positively.
- No change to our BUY recommendation, which mainly reflects the investment opportunity to partake in a diverse portfolio of projects across commodities, countries and various stages of development.

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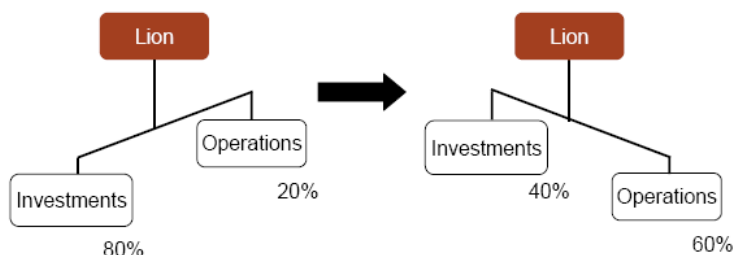
Moving to Producer Status

LST is looking to move from having the majority of the value reflected in relatively passive investments to having the majority of the value driven from an operating asset which should provide a steady and stable cash flow stream:

Lion Vision



Transform from *mining investment company* to *mining company*



Source: Company data

Cracow

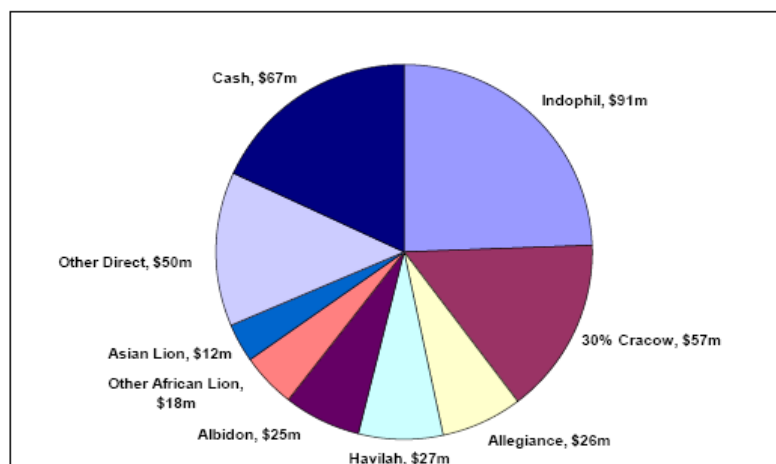
Cracow is a JV between Newcrest 70% and LST 30%.

We estimate the value of NCM's 70% shareholding at ~\$200m pre-tax based on our profile for Cracow as shown below. Given that gold companies trade at a premium to NPV, we would expect that NCM should be able to and the purchaser of Cracow will need to pay a premium to this valuation.

CRACOW JV	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13
Total Production : mt.	387,143	377,143	360,000	360,000	360,000	360,000	360,000
Grade : g/t	10.1	9.7	11.0	11.0	11.0	11.0	11.0
Gold Production : oz	117	110	121	121	121	121	121
Cash costs \$/t	103.15	116.59	100.00	95.00	95.00	95.00	95.00
Cash cost \$/oz	342	398	298	283	283	283	1131
Mine Capex \$m 100%	13	12	12	2	2	2	0
Depreciation \$m	17	19	18	18	18	18	18

Source: Company data, IRESS, GSJBW Research estimates

Major investments dominate the current NAV



Source: Company data

Of the investments shown in the figure above, LST has a dominant position in Havilah Resources and Indohil. In addition, it has a dominant position in a number of smaller listed entities and in our view small positions in operations that have only limited upside potential and could/should form part of any funding to acquire operating assets.

GSJBW View

We believe this is an appropriate strategy for the firm. Further, we would see this as an opportunity to divest a number of immaterial equity investments that are currently held by LST. We understand that NCM has had significant interest and thus a premium to our after tax valuation of ~\$140m may be required to secure this holding.

We estimate LST has net cash of ~\$75m. No change to our BUY recommendation.

Lion Selection Investment Summary Table

Share Price: (LST)	\$1.78	07-December-2007	LION INVESTMENTS		
Monthly Turnover (\$m)	\$11				
Market Cap (\$m)	\$334				
INVESTMENT		Activity	LST Holding (%)	Amount Invested (A\$m)	LST SHARE Live Valuation (A\$m)
SUM AFL Investment					
Total AFL - Africa			27.3	8.9	45.2
Asian Lion Investments					
Asian Lion				3.4	3.0
Cash Committed				4.7	4.7
Total AFL - Asia			32.4	8.1	7.7
Total Lion Investments					
				17.0	52.9
ASX Listed Investments					
Allegiance Mining	AGM	Australia - nickel	5.7%	5.2	25.7
Austindo Resources	ARX	Indonesia - gold	6.7%	12.4	3.2
De Grey Mining	DEG	Australia - gold	6.7%	3.6	1.7
Exco	EXS	Australia - copper/gold	10.4%	5.4	8.5
Havilah Resources	HAV	Australia - copper/gold	19.0%	4.2	24.7
Indophil Resources	IRN	Philippines - copper/gold	25.7%	22.6	96.0
Intrepid	IAU	Australia/Argentinian - gold	5.4%	8.8	2.4
Lafayette Mining	LAF	Philippines - polymetallic	17.0%	15.2	2.5
View Resources	VRE	Australia - gold/nickel	9.0%	8.7	11.5
Westonia	WEZ	Australia - gold	44.4%	14.6	16.4
Other				5.2	5.2
Sum ASX Listed Investments				105.9	197.8
TOTAL INVESTMENTS (pre Tax)				122.9	250.7
Net Cash					72.9
Total Assets					323.6
Cracow (GSJBW value pre Tax)				65.0	83.6
Total Investments					462.6
NAV (pre Tax)					407.2
NAV per share (pre Tax)					2.14
Total shares					190.7
Premium/Discount to NAV					-17%

Source: Company data, Iress, GSJBW Research estimates

Source: Company data; GSJBW Research estimates

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Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 months

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Industry Structure:	Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.
EVA™ Trend: ¹	EVA™ trend forecast for coming 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts that the analyst believes should be considered and possibly recognised by the market.
Price:Base Case DCF:	The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

¹ EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

For Insurers

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Balance Sheet:	Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

For REITs

Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
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Yield:	Yield relative to the REIT sector average. Used instead of Earnings revision.

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Sell	12%	14%
Hold	54%	55%
Buy	34%	31%

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