

BUY: Centamin Egypt - CEE, CEY September 3, 2011

Assets:

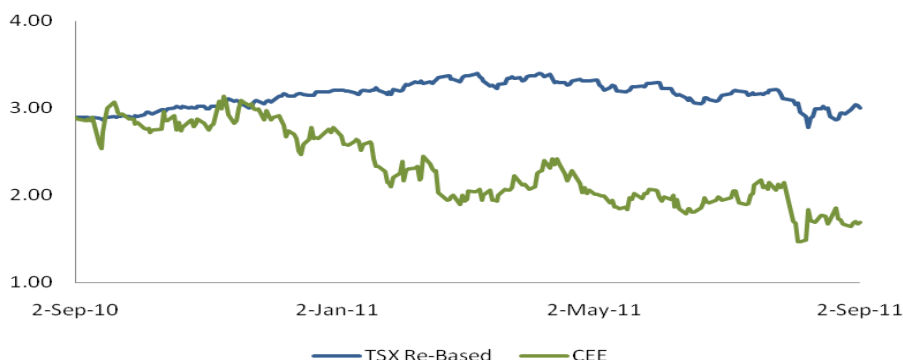
- ✓ **SUKARI (EGYPT)** -50% owned: The Sukari gold mine is 50% owned by Pharaoh Gold Mines, a wholly owned subsidiary of Centamin Egypt (the remaining 50% is owned by the Egyptian Mineral Resources Authority (EMRA). Centamin is entitled to recover their operating and capital costs from sales revenue however. The mine is located about 700 km south of Cairo and 30 km south-west of the Red Sea coastal resort town of Marsa Alam. Sukari has been mined since the time of the Pharaohs, the Romans and more recently the British. Centamin has been active in the trend since being granted an exploration licence in 1995. The mine began production in January 2010, with a total of 150,000 oz produced over the year. With a resource in excess of 14 mio. lbs. and an open pit reserve of 9 mio. lbs, Centamin is currently the largest current gold producer which is still independent with a reserve size that large. The life of mine may be as high as 15+ years. 942MIO 23,590,000
- ✓ **OTHER (EGYPT, ETHIOPIA)** – Centamin has identified some targets bordering the Sukari mine. Quartz Ridge and V-Shear (both within 2 km of Sukari) showed some promising new intercepts. A total of 30,000 meters of RC drilling is planned for those two zones. Additionally, Centamin recently acquired Sheba Exploration, a company that owns 3gold and base metals exploration permits in Ethiopia, on the same Nubian Shield as Sukari. 10,000 meters of RC drilling is planned for Ethiopia this year. The acquisition price was USD \$12 mio.

Conclusion :

Though pretty much a one asset gold miner, Sukari has such a large resource base that a current plant expansion to 5 mio. tons per year will be further expanded to 10 mio by 2013. Costs are expected to hover around \$500 per oz from 2013-2015) as ore processed increases, as do recoveries and head grades (just under 3g/t for underground).

Centamin is trading at a massive discount to NAV and will likely remain in the penalty box for some time longer, partly due to the ongoing political instability following the Egyptian uprising of February 2011. Additionally, (and more recently) the discount is due to disappointing 2Q2011 numbers and guidance announced a few weeks ago. That said, we apply a 0.8x NAV multiple, which still yields substantial upside from current pricing.

1 Year Stock Performance vs. Rebased TSX Index



Corporate Summary

Sector	Metals & Mining: Gold
Ticker	CEE:TSX CEY: LSE
Closing Price (\$CAD)	\$1.69
NAV@6%	\$2.96
12 Mth Target	\$2.37
Shares O/S Basic (mio)	1,092.0
Shares O/S FD (mio)	1,094.0
Mkt Cap, Basic (C\$mio)	\$1,845.5
Mkt Cap, FD (C\$mio)	\$1,848.9
2011 EV/Reserves	\$103.5
2011 EV/Resources	\$65.1
P/NAV	0.57x
YTD Performance	-41%

Corporate Description

Centamin Egypt is an emerging mid tier gold producer with assets exclusively in Egypt's east desert. Production from the flagship Sukari mine began in January 2010, and is expected to ramp to over 500,000 oz by 2014. Centamin Egypt has some of the lowest production costs per oz, with management projecting \$500 over the next few years. The company is debt free and unhedged. They are listed in Toronto under the CEE ticker and on the London Stock Exchange under CEY.

Reserves & Resources

Sukari:

P&P: 9,100,000 oz
M&I: 10,990,000 oz
Inferred: 3,500,000 oz

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NAV Derivation Summary

	\$ Millions	Per Share			
Sukari	2,948,191,119	2.70	FD Shares	Discount Rate	LT Gold Price \$
Exploration	130,000,000	0.12	1,092,000,000	0.06	1350
Unadjusted NAV	3,078,191,119	2.82	Gold Price Assumptions \$/oz	Total Production oz	
Working Capital	150,000,000	0.14	2011	1,360	215,000
ITM Instruments	2,500,000	0.00	2012	1,400	300,000
LT Debt	0	0.00	2013	1,420	445,000
			2014	1,400	510,000
			2015	1,400	550,000
NAV @ 6%	3,230,691,119	2.96	LT	1,350	500,000
Target Multiple		0.8x			
Target Price \$		2.37			

NAV Sensitivities

Discount Rate	Gold Price Deck Change (\$/oz)				
	1150	1250	1350	1450	1550
8%	2.24	2.46	2.67	2.89	3.10
7%	2.35	2.58	2.81	3.04	3.27
6%	2.46	2.71	2.96	3.21	3.46
5%	2.58	2.85	3.12	3.39	3.67
4%	2.71	3.00	3.30	3.60	3.89

Production Rate	Gold Price Deck Change (\$/oz)				
	1150	1250	1350	1450	1550
+20%	3.00	3.30	3.60	3.90	4.20
+10%	2.73	3.00	3.28	3.56	3.83
0%	2.46	2.71	2.96	3.21	3.46
-10%	2.19	2.41	2.64	2.86	3.09
-20%	1.91	2.11	2.31	2.51	2.72

Q2 was characterized by missed guidance and higher per oz production costs. Quarterly production came in at 47,991 oz, at an operating cost of \$606 per oz (from \$525 the previous quarter). The lower than expected production was attributed to reduced blasting activities due to irregular issues of blast products from the blast inspectors. CEE is confident issuing practices will be back to normal for Q3.

Operationally, good news regarding the phase 4 expansion was achieved as the expansion was approved by the Board, and orders for long lead items have been placed. This phase 4 expansion will expand plant capacity from the current 5 mio. tons per year to 10. This expansion is expected to cost USD \$255 mio., with commissioning expected to take place for 1Q2013.

Given the current political instability of the “transitional” Egyptian government, coupled with the disappointing quarter, we are giving CEE a NAV multiple of 0.8x. NAV. Our target of \$2.37 implies upside of 40% to the current close.

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