

Oxus Gold Plc (LSE: OXS)

Outperform Speculative Risk Closer to Clarity

Georges Lequime (Analyst)
+44 207 653-4600
georges.lequime@rbccm.com

Mark Smith (Associate)
+44 207 653-4603
mark.smith@rbccm.com

Miles Staude, CFA (Associate)
+44 207 029-7556
miles.staude@rbccm.com

Price:	£0.53	Price Target:	£0.70
52-Wk High:	£0.71	52-Wk Low:	£0.40
Float (MM):	317.5	Debt-to-Cap:	0.0
Shs O/S (MM):	317.5	Mkt Cap (MM):	£168.3
Dividend:	\$0.00	Yield:	0.0%
Tr. 12 ROE:	14.80%		
Strategic Shareholders:		RBCCapital-	14.8

(FY June)	2004A	2005A	2006E	2007E
EPS	\$0.05	\$0.01	\$0.11	\$0.15
P/E	10.6	53.0	4.8	3.5
CFPS	\$0.00	(\$0.02)	\$0.12	\$0.18
P/CFPS	n.m	n.m	4.4	2.9
Rev (MM)	\$0.0	\$0.0	\$0.0	\$0.0
EPS		H1		H2
2004A		(\$0.01)		\$0.06
2005E		\$0.01		\$0.00
2006E		\$0.04		\$0.07
Cash Flow				
2004A		(\$0.01)		\$0.00
2005E		\$0.01		(\$0.02)
2006E		\$0.05		\$0.08
Prodn ('000oz)				
2004A		0		29,845
2005E		44,466		38,693
2006E		51,988		62,728

All values in U.S. unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise stated). For Required Disclosures, please see page 4.

Event

Oxus yesterday released the 2005 annual results. We have used this opportunity to update our model and to incorporate the recently released revised feasibility study for the Amantaytau sulphide project.

Investment Opinion

- Oxus reported a 2005 annual profit of US\$2.3M (US\$0.01/shr), substantially below our forecast US\$10.9M (US\$0.04/shr). The key variance between our forecast and the results related to a poor operating performance in the June half at the Amantaytau open-pit mine, specifically a much lower than anticipated gold grade.
- In line with earlier expectations, we continue to forecast falling production from the mine as a result of the depletion of the high-grade zone at Centralny and are forecasting the grade to fall to just over 5 g/t, in line with the remaining estimated Centralny proven and probable reserves of 1.6 mt @ 5.29 g/t.
- The company also recently released a revised feasibility study for the **Amantaytau sulphide project**, significantly revising down both the expected recovered gold over the project's life as well as the forecast average gold grade as a consequence of applying the consultant's conservative project parameters. **We believe that this study has provided us with a base-case value, leaving potential upside from a resource expansion and expansion of the life-of-mine.**
- In our opinion, the current share price is excluding the value of the Jerooj project and blue-sky exploration potential. We previously stated that Oxus suffered a 'credibility crunch' on the back of delays in securing the Jerooj licence and delays in releasing the AGF sulphide feasibility study. Although the Jerooj licence issue drags on, we now have a base case valuation for the sulphide project, and if Oxus can bring the underground project on-line as efficiently as they did with the AGF oxide project, we believe that it will be accretive to the stock.

Valuation. We have updated our model for the revised production and cost profile at Amantaytau. Our NAV (@6.8%) changes from £1.08 to £0.90. We continue to use a 1.0x P/NAV multiple for the assets, excluding Jerooj, where we have applied a conservative 50% discount to capture project title uncertainty. Our 12-month target falls to £0.70, down from £0.80. To be conservative, we have not given any value to the attributable gold inferred resource ounces of the prognostic resources of 29.6Moz, nor the recent resources from the Kosmananachi silver/gold deposit (20Moz Ag, 0.135Moz Au attributable). We reiterate our Outperform, Speculative risk rating.

Details

Oxus today reported a 2005 annual profit of US\$2.3m (US\$0.01/shr), substantially below our forecast US\$10.9m (US\$0.04/shr). The key variance between our forecast and today's results related to a poor operating performance in the June half at the Amantaytau open-pit mine, specifically a much lower than anticipated gold grade.

Our estimates assumed that the high grade ore from the Centralny pit (14-15 g/t) was being blended with stockpiled low grade ore in order to maintain an optimum feed grade to the mill of 6.5 g/t. Clearly, this stopped earlier than June'05. We continue to forecast falling production from the mine as a result of the depletion of the high-grade zone at Centralny and are forecasting the grade to fall to just over 5 g/t, in line with the remaining estimated Centralny proven and probable reserves of 1.6 mt @ 5.29 g/t. The Centralny pit is now expected to be depleted in late 2006/early 2007, approximately six months earlier than we had anticipated.

A Growth Profile Remains Intact

AGF Sulphide Project – The long awaited feasibility study by Wardell Armstrong of the Amantaytau Phase 2 sulphide project has been released. The project parameters are outlined in Exhibit 1, but the principal changes to the scoping study details are:

- A 12% lower run-of mine throughput, down to 750Kt per annum at an average grade of 7.01g/t (down from 11g/t) and average annual gold production falls from 276,000oz, to 150,000oz.
- Associated unit cash costs per ounce (ex.royalties) have increased to US\$194/oz LOM up from US\$135/oz (however costs per tonne milled are still inline, around US\$40/t).
- Capital estimates have increased from US\$70 million to US\$88 million.

Exhibit 1 – Feasibility Project Parameters: AGF Sulphide Project

Mining Strategy:	Underground Mining in two phases, using mechanised cut & fill methods	
Phase 1 -	Exploit Severny deposit using a twin decline with connections made to existing no.10 shaft Production will be built up to 750Ktpa with LOM of 8.5yrs at av.7.7g/t	
Phase 2 -	Exploit the smaller, lower grade Centralny deposit with twin declines from surface Production will be 750Ktpa with LOM of 4.5yrs at 5.6g/t	
Plant & Proc:	Gold is refractory and direct cyanidation gives low recoveries so BIOX has been selected over a roaster. Process will involve a standard comminution circuit, BIOX, and CIL leach plant	
Gold Production:	750kt pa milled throughput at 7g/t for 150,000oz per year for 13 years	
LOM Capex:	Direct capital costs - US\$83M; Sustaining capex - US\$31M and Contingency costs - US\$6M	
Cash Costs:	US\$40/t or US\$194 LOM	
Reserves:	Using a 3.5g/t cut-off	Severny: 6.43Mt at 7.71g/t for 1.592Moz Centralny: 3.12Mt at 5.63g/t for 0.564Moz
Resources:	M,I,I	Severny: 9.94Mt at 7.68g/t for 2.45Moz Centralny: 7.80Mt at 5.77g/t for 1.45Moz

Source: Company Reports

It is important to realize that Wardell Armstrong has used a conservative 3.5g/t cut-off grade in determining the mineable reserves. If 1.5-2g/t cut-off is applied, then the life of the project could extend beyond 13 years. In addition, there is a potential to extend the resource and reserves. Earlier Soviet drilling at AGF intersected mineralization 500m below the current limit of the resource (51.6g/t over 8m). Oxus intends to undertake a major underground and surface drilling campaign within the next 12 months.

Vysokovoltnoye – Mining of the gold and silver heap leach project started two weeks ago and ore will be stockpiled, while the plant construction continues. Production is expected to start in October 2005 with full production scheduled a month later at 21,035oz gold and 2.5Moz of silver per annum.

Jerooy – The re-instatement of the mining licence and project is still under negotiations with the Kyrgyz government, and the company has not given any timetable regarding a resolution; however, the company continues to develop the project. To date Oxus has spent US\$27 million, including US\$17 million out of the US\$59 million raised last December. Oxus re-iterates that production will commence end Q1-2006. As such, we have included the production profile in our financial model.

Other Projects – With the acquisition of Eurogold in July 2005 (see *Morning Comment* – 26th July, 2005), Oxus gained exposure to 50% of Transgold, 99.9% of the Saulyak gold project in the Ukraine containing 0.6oz gold (C1,C2) and 0.65Moz of JORC inferred ounces. Oxus intends to proceed with a feasibility study on this project, while adding to the resource. We

believe this acquisition by Oxus is positive, as it offers upside exploration potential and permits Oxus to leverage off its position in the region.

Investment Advice

We are not concerned with the H2-2005 financial results as we had already modeled a drop in grade and production at AGF oxide mine going forward. We previously stated that Oxus suffered a 'credibility crunch' on the back of delays in securing the Jerooy licence and delays in releasing the AGF sulphide feasibility study. Although the Jerooy licence issue drags on, we now have a base case valuation for the sulphide project, and if Oxus can bring the underground project on-line as efficiently as they did with the AGF oxide project, we believe it will be accretive to the stock.

Our valuation for the AGF sulphide project has been revised to US\$142 million, down from US\$247.8, based on a conservative study by Wardell Armstrong. We believe that this study provides a base case for the value of the project, with considerable exploration upside remaining, that we have not included in our valuation.

The 'base case-value' for Oxus, in our opinion, can be viewed at US\$276M or US\$0.89/£0.50, which excludes the Jerooy project in absolute terms and the additional 29.6Moz of attributable gold exploration resources (Soviet-Uzbek 'P' and 'C' category and the JORC inferred ounces), which the market is not paying for, until they see development progress with AGF sulphides and Jerooy.

Valuation

We have updated our model for the revised production and cost profile at Amantaytau. Our NAV (@6.8%) changes from £1.08 to £0.90. We continue to use a 1.0x P/NAV multiple for the assets, excluding Jerooy, where we have applied a conservative 50% discount to capture project title uncertainty. Our 12-month target falls to £0.70 down from £0.80r. To be conservative, we have not given any value to the attributable gold inferred resource ounces of the prognostic resources of 29.6Moz, nor the recent resources from the Kosmananachi silver/gold deposit (20Moz Ag, 0.135Moz Au attributable). Our FY2006 EPS and CFPS remain unchanged at US\$0.11 and US\$0.12/shr, respectively. We reiterate our Outperform, Speculative risk rating on the stock.

Price Target Impediments

Commodity prices, production risk, political and fiscal risk, mineral right ownership, environmental regulations. We have applied a Speculative Risk ranking to our valuation on Oxus Gold Plc. The most prevalent risks are mineral right ownership and production risks as it progresses with the development of an underground mine at Amantaytau.

Company Description

The Oxus group was established in 1996 and quoted on the Alternative Investment Market (AIM) in London in July 2001. Oxus Gold (OXS.L – AIM Listed) is a holding company for a group of companies whose main focus are the exploration, development and mining of precious metals in Central Asia. Oxus currently has attributable gold resources (JORC; M,I,I) of 5.391 million ounces and reserves of 2.984 million ounces. The company owns interests in three principal assets; the Amantaytau gold mine in central Uzbekistan, the Jerooy gold project in north-central Kyrgyzstan, and a 57% holding in Marakand Minerals (MKD.L – AIM Listed), owner of the polymetallic (Zn-Cu-Pb-Ag) Khandiza project in the south-eastern corner of Uzbekistan.

OXUS											
LSE: OXS	Share Price:	\$0.95	£0.53	Stock Rating:	Outperform	1 Yr Target:	\$1.25	£0.70			
	Market Cap: (US\$MM)	\$2425	£135.9	Risk Qualifier:	Speculative						
Fiscal Year Ended Jun 30											
RATIO ANALYSIS					BALANCE SHEET						
		FY2004A	FY2005A	FY2006E	FY2007E		FY2004A	FY2005A	FY2006E	FY2007E	
Gold Price	US\$/oz	389	423	466	494	Cash & equivalents	US\$MM	5.5	34.8	42.3	75.4
Shares outstanding-FD	MM	220.3	256.3	317.5	317.5	Other current assets		7.1	6.0	6.0	6.0
Net profit	US\$MM	10.9	2.3	34.3	49.1	Net fixed assets		79.2	103.5	130.4	146.5
EPS	US\$	0.05	0.01	0.11	0.15	Total assets		91.8	144.3	178.7	227.8
P/E	x	19.14x	106.22x	8.75x	6.11x	Current liabilities		0.7	2.6	2.6	2.6
CFPS	US\$	0.00	-0.02	0.12	0.18	Long-term debt		17.6	6.1	6.1	6.1
P/CF	x	n.m.	-59.17x	7.77x	5.19x	Other non-current liabilities		0.0	0.0	0.0	0.0
Dividend per share	US\$	0.00	0.00	0.00	0.00	Total Liabilities		18.4	8.7	8.7	8.7
Dividend yield	%	0.00%	0.00%	0.00%	0.00%	Total shareholder's equity		73.4	135.6	169.9	219.1
Book value per share	US\$	0.42	0.56	0.56	0.72	Total liabilities & equity		91.8	144.3	178.7	227.8
P/Book value	x	2.27x	1.68x	1.68x	1.32x	ATTRIB. MINE STATS					
R.O.E	%	15%	2%	20%	22%	Attributable Gold Production	000oz	29.84	83.16	114.72	260.02
R.O.A	%	12%	2%	19%	22%	Cash Costs	US\$/oz	0	189	172	185
EBITDA	US\$MM	0.0	0.0	0.0	0.0	Reserves	MMoz	3.0	2.9	2.8	2.5
EBITDA per share	US\$	0.00	0.00	0.00	0.00	Adj. Market Cap/Reserve oz	US\$		84		
PROFIT & LOSS						Resources	MMoz	6.4	6.4	6.4	6.4
Mining revenue	US\$MM	5.7	27.8	61.2	106.6	Adj. Market Cap/JORC Resource oz	US\$		38		
Gold production costs		0.0	17.7	22.1	56.1	Adj. Market Cap/Total Resource oz	US\$		14		
Mine Operating Profit		5.7	10.1	39.0	50.5	Hedge Committed Oz-50%	000oz	0.0	0.0	20.9	0.0
DD&A		0.0	2.8	4.3	8.7	% of Annual Production		0.0	0.0%	9.1%	0.0%
Other Expenses		6.5	2.6	2.4	2.4	Total Committed Ozs	000oz		20.9		
Investment Income		0.8	2.1	3.3	6.3	PRODUCTION PROFILE					
Interest expense		0.0	0.5	0.0	0.0						
Exceptional Gain(loss)		11.5	-0.1	0.0	0.0						
Taxation		0.0	0.0	0.1	-4.6						
Minority interests		0.5	1.2	1.2	1.2						
Net Profit After Tax		10.9	5.0	34.3	49.1						
Dividends		0.0	0.0	0.0	0.0						
EPS	US\$	0.05	0.02	0.11	0.15	ESTIMATED SHARE VALUATION					
DPS	US\$	0.00	0.00	0.00	0.00	Projects	% Ownership	US\$MM	US\$/Shr	GBP/Shr	
CASH FLOWS						Amantlaytau O/P (NPV @6.8%)	50%	42.2	0.13	0.07	
Net Cash From Operations		-11.0	3.3	38.7	57.8	Amantlaytau U/G (NPV @6.8%)	50%	142.0	0.45	0.25	
Capital expenditure	US\$MM	-3.3	-28.1	-31.2	-24.7	Vysokovollnoye (NPV @6.8%)	50%	19.0	0.06	0.03	
Changes in other non-cash items		4.8	-6.8	0.0	0.0	Jerooy O/P (NPV @ 6.8%)	67%	68.9	0.22	0.12	
Net cash in investments		1.5	-34.9	-31.2	-24.7	Jerooy U/G (NPV @ 6.8%)	67%	157.4	0.50	0.28	
Debt issued (repaid)		1.8	0.0	0.0	0.0	Marakand Minerals (Market)	57%	10.1	0.03	0.02	
Dividends		0.0	0.0	0.0	0.0	Net Operating Assets		439.6	1.38	0.78	
Shares issued		9.4	60.9	0.0	0.0	Exploration Assets	50-100%	45.3	0.14	0.08	
Other non-current liabilities		0.0	0.0	0.0	0.0	Hedge	50%	-1.1	0.00	0.00	
Net cash from financing		11.2	60.9	0.0	0.0	Corporate UK Tax		-10.8	-0.03	-0.02	
Net change in cash		1.7	29.3	7.4	33.1	Working Capital		38.2	0.12	0.07	
Beginning cash		3.9	5.5	34.8	42.3	Debt		-15.9	-0.05	-0.03	
Ending cash		5.5	34.8	42.3	75.4	Management Fees	100%	31.2	0.10	0.06	
CFPS	US\$	0.00	-0.02	0.12	0.18	Corporate G&A	100%	-18.5	-0.06	-0.03	
Net Asset Value (@5%)								508.0	1.60	0.90	
*JORC M1 oz not mined = Measured & Indicated Resources not mined											

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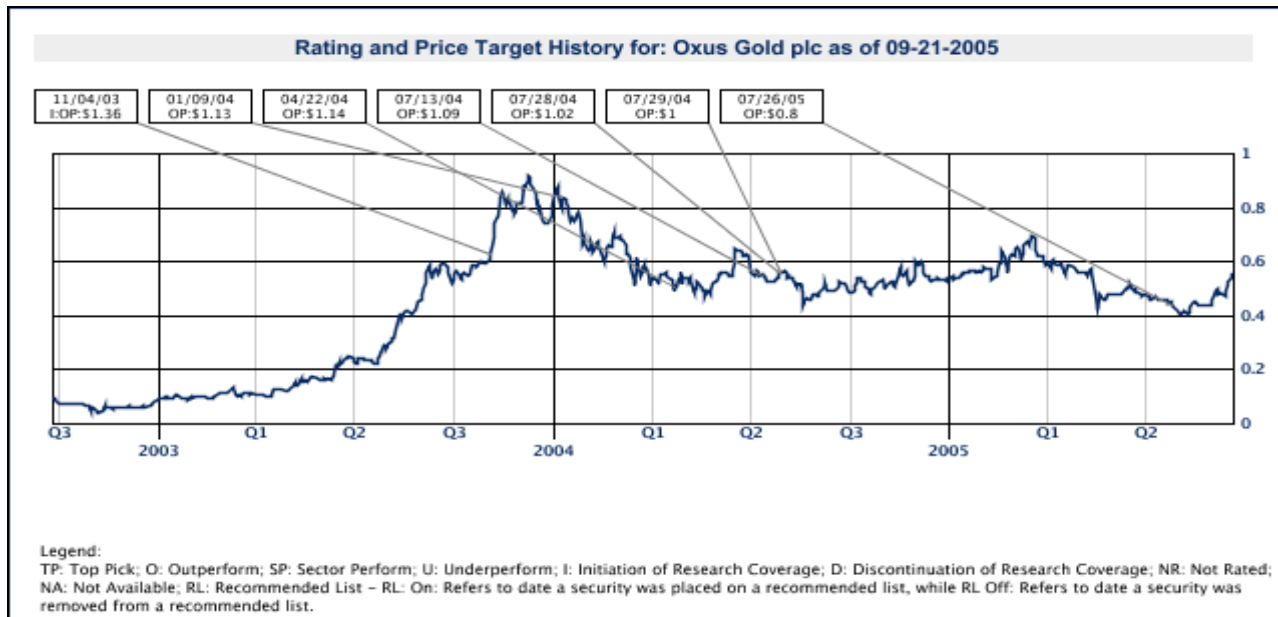
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