

Oxus Gold Plc

(LSE: OXS)

Outperform Speculative Risk

Oxus has a silver lining & a review of current operations

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Price:	\$0.88	Price Target:	\$2.02
52-Wk High:	\$0.90	52-Wk Low:	\$0.07
Float (MM):	148.2	Debt-to-Cap:	0.23
Shs O/S (MM):	221.2	Mkt Cap (MM):	\$194.7
Dividend:	\$0.00	Yield:	0.0%
Tr. 12 ROE:	0.00%		

Shareholders: MAED-18%; Capital-6%; Invesco-5%;
Directors-4%

(FY Dec)	2003A*	2004E	2005E	2006E
EPS*	\$0.00	\$0.07	\$0.15	\$0.30
P/E	n.m.	12.6	5.9	2.9
CFPS	\$0.01	\$0.09	\$0.19	\$0.33
P/CFPS	88.0	9.8	4.6	2.7
Rev (MM)	\$0.8	\$36.5	\$70.0	\$116.5
EPS		H1		H2
2003A*		\$0.00		
2004E		\$0.02		\$0.05
2005E		\$0.04		\$0.11
Cash Flow				
2003A*		\$0.01		
2004E		\$0.03		\$0.06
2005E		\$0.07		\$0.12
Production (oz)				
2003A*		0		
2004E		38,693		61,980
2005E		60,874		119,118

All values in US\$ unless otherwise noted.

*18 months to June 30 2003

Event

Oxus plan to accelerate the development of its Vysokovoltnoye Silver (minor gold) Project at Amantaytau in Uzbekistan, due to the rise in the silver price.

Investment Opinion

- The project is an oxide silver-gold deposit, located 12Km south west of the Amantaytau deposit, with JORC Resources of 14.01Moz silver and 0.49Moz of gold (oxide ore only) – additional sulphide ore exists at depth, but is not reported in these resources. Life of mine (LOM) is 7 years, starting production in 1Q05, for an average annual production of 2 mn ozs of silver.
- The company has calculated an NPV on the project of **US\$54.8M (100%)** at a 10% discount rate, using a spot silver price of US\$6.50/oz and a spot gold price of US\$400/oz. Using the company's own value on the project, we estimate it is worth **US\$0.12 or £0.07/share to Oxus**, if we use US\$6.50/oz silver for 100% of the production
- Valuation:** Our NAV estimate of US\$2.02/share (£1.14/share) is based on a US\$425/oz gold price and discounted by 5%. We have included US\$89 million for 'blue-sky' resource ounce potential. If we exclude this 'blue sky potential' for the conservative investor, we generate a NAV estimate of US\$1.61/share or £0.92, which also excludes the £0.07 value for the Vysokovoltnoye Silver project. To highlight the potential value we attribute to the stock, if you use a 10% discount rate and exclude any valuation for the 14.37 million ounces of attributable resources not yet included in our bankable feasibility life-of-mine plan, we arrive at a NAV estimate of £0.62/share, 24% above current levels (£0.49).

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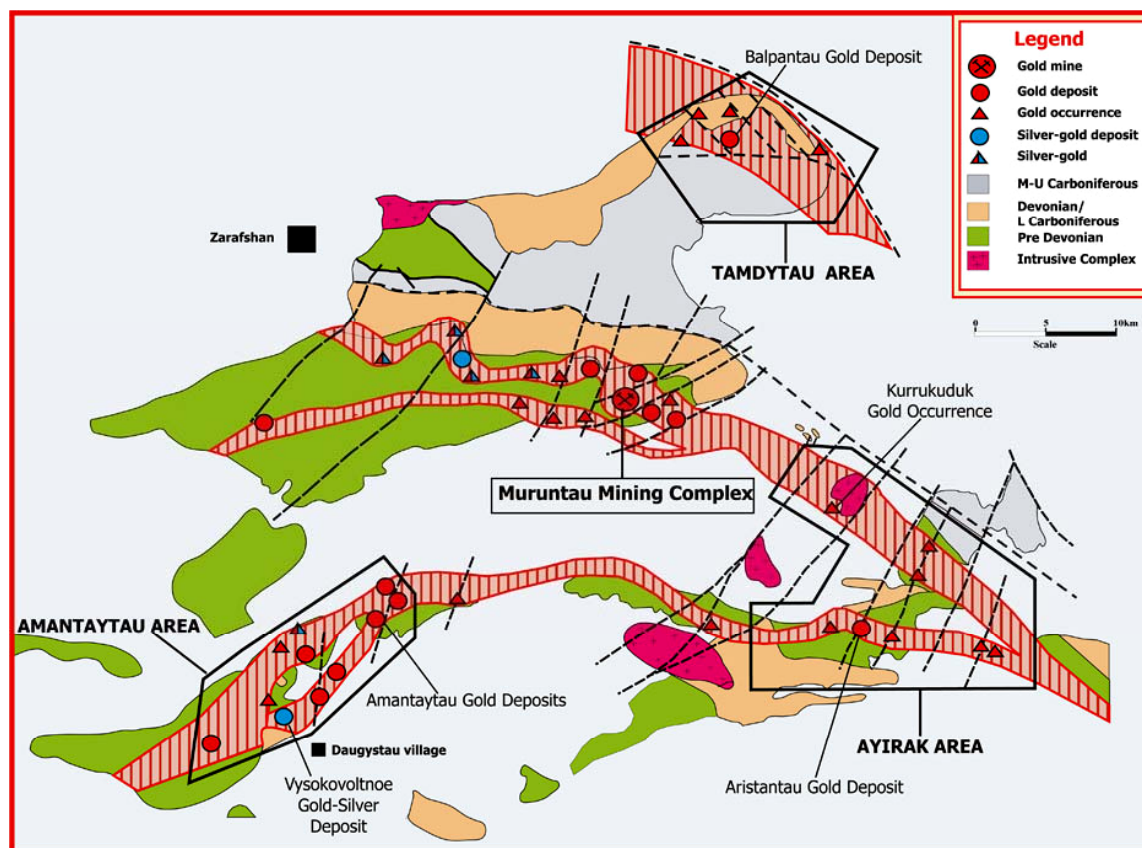
Details

The Vysokovoltnoye Silver project is an oxide silver-gold deposit, located 12Km south west of the Amantaytau deposit, with JORC Resources of 14.01Moz silver and 0.49Moz of gold (oxide ore only) - additional sulphide ore exists at depth, but this is not reported in these resources. LOM is 7 years, starting production in 1Q05, for an average annual production of 2 million ounces of silver. There are a series of 10 ore bodies that could be extracted by a series of open pits, however, only three orebodies are used in the company's valuation and life-of-mine plan - two at Vysok and one at Sarabatyr. We therefore consider the other seven satellite orebodies as implying upside potential. The gold is free milling and the silver is associated with chlorargyite (AgCl).

The plan is to extract the silver by heap leach and then the leachate will be passed to a small CIL plant. We believe Oxus will acquire a second-hand plant in keeping with the corporate strategy of capital minimization. We have estimated the capital cost of setting up the plant could be around US\$5-10 million that will be funded from Amantaytau cash flows.

Exhibit 1 shows the location of Vysokovoltnoye Silver project in the Amantaytau Area.

Exhibit 1 – A Plan of the Regional Geology, Licenses and Mine Locations



Source: Company reports

Project Valuation

The company has calculated an NPV on the project of US\$54.8M (100%) at a 10% discount rate, using a spot silver price of US\$6.50/oz and a gold price US\$400/oz. It is the intention of Oxus to lock in at least 50-60% of silver production at these current silver prices and discussions with the banks are ongoing. The project capital (US\$5-10 million) will be funded from Amantaytau cash flows. Using company valuations attributable to Oxus, the project valuation equates to US\$0.12 or £0.07/share, if we use US\$6.50 silver for 100% of the production.

At this stage, we are not updating our NAV estimate as we have captured these projects in 'Blue-sky potential'. Our NAV estimate remains at US\$2.02 or £1.14/share (@5%). Once we have a scoping study or pre-feasibility to work off, we will be bringing this project into our cash flow and NAV numbers. We believe this announcement demonstrates Oxus' commitment to the region and focus on unlocking additional value in the Amantaytau region. See Exhibit 2 for a breakdown of our NAV estimate (@5%); we apply a 1.0x multiple to our NAV estimate to derive our price target of US\$2.02 (£1.14).

Exhibit 2 – Net Asset Value Breakdown (@5%) for Oxus Gold Plc

Projects		% Ownership	US\$MM	US\$/Shr	GBP/Shr
Amantaytau (NPV @5%)		50%	231.3	1.05	0.59
Jerooy (NPV @ 5%)		67%	110.0	0.50	0.28
Khandiza (Market Value)		49%	44.6	0.20	0.11
Net Operating Assets			385.9	1.75	0.99
Blue Sky Resource Ozs	US\$15/oz	100%	26.2	0.12	0.07
Blue Sky Exploration/Russian Ozs	US\$5/oz	100%	63.1	0.29	0.16
Hedge		50%	-9.0	-0.04	-0.02
Corporate UK Tax			-32.5	-0.15	-0.08
Working Capital			22.2	0.10	0.06
Debt			-22.0	-0.10	-0.06
Management Fees		100%	34.3	0.15	0.09
Corporate G&A		100%	-22.5	-0.10	-0.06
Net Asset Value (@5%)			445.6	2.02	1.14

Source: RBC Capital Markets estimates

Operational Update

We have taken this opportunity to outline the operational achievements Oxus has made to date. The mine was successfully commissioned and the first gold poured in early January 2004. The plant is running 25% above design capacity at 3,500tpd, at a head-grade of 6g/t and a recovery of 92%. Although the throughput is high, it is not unusual to exceed capacity during a ramp-up phase, and the productivity should return to a steady state of 2,800tpd. We fully anticipate Oxus to produce over 100,000oz (attributable) of gold in FY2004 at a cash cost of US\$122/oz (see Exhibit 4).

Oxus has now gained the permission from the Uzbekistan government agencies (Goscom, National Bank of Uzbekistan, Customs) to export the gold, and it is our understanding that Oxus has made enough gold exports to adequately satisfy its forward hedge positions for the March quarter. Under Uzbekistan law, a gold miner can only apply for a gold export licence once the gold has actually been produced. Under the original feasibility study, Oxus intended to export Q104 gold at the end of April 2004. However, because of a quicker than expected production ramp-up, Oxus had US\$10 million gold sitting in Zarafshan, while the correct documentation was obtained. This gold has now been exported. The gold produced by Oxus is in Dore form and is sent to the Muruntau refinery that is registered and good for London delivery. Newmont, who produces 500,000oz gold annually from processing the tailings from the State-owned Muruntau Mine, exports gold on a weekly basis, and have had no problems with exporting the gold.

It is our belief that the delay encountered by Oxus was purely an administrative delay and not a ploy by the government to exert control. In terms of company news flow, we are expecting a trading and production update for the period ending March 2004, by the end of April, or early May.

Company Valuations

Our NAV of US\$2.02/share (£1.14/share) is based on a US\$425/oz gold price and discounted by 5%. We have included in our valuation US\$89 million for 'blue-sky' resource ounce potential. **If we exclude this blue sky potential for the conservative investor, we generate a NAV of US\$1.61/share (£0.92), which excludes the £0.07 for the Vysokovoltnoye Silver project.** Exhibit 3 outlines a NAV sensitivity analysis (excluding the 'blue-sky' resource potential) at various gold prices and discount rates. We have used a gold price forecast from Q2/04 onwards.

To highlight the potential value we attribute to the stock, if you use a 10% discount rate and exclude any valuation for the 14.37 million ounces of attributable resources not yet included in our life-of-mine plan, we arrive at a NAV estimate of £0.62/share, 24% above the current share price of Oxus Gold Plc.

We reiterate our 1-year price target of US\$2.20 (£1.14), with an Outperform, Speculative Risk ranking, as we feel fair value ought to be attributed to Oxus' resource ounces, and Oxus' ability to develop a mine on time, on budget and stick to the feasibility production profile.

Exhibit 3 – Net Asset Valuations (GBP) at Various Gold Price and Discount Rates

Discount Rate	Gold Price (US\$/oz)					
	350	375	400	425	450	475
0%	0.95	1.07	1.19	1.31	1.43	1.55
5%	0.65	0.73	0.81	0.89	0.97	1.05
10%	0.46	0.51	0.56	0.62	0.67	0.73
15%	0.33	0.37	0.4	0.44	0.48	0.52
20%	0.25	0.27	0.3	0.32	0.35	0.37

Gold price is flat lined from Q2/04. Our base case long-term gold price of US\$425/oz is from 2006

Source: RBC Capital Markets estimates

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) of 5.08 million ounces and reserves of 2.18 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 the polymetallic (Zn-Cu-Pb-Ag) Khandiza project in the south-eastern corner of Uzbekistan.

Amantaytau involves a 2-phase approach. **Amantaytau Phase 1 oxide** – an open-pit mine with a 0.69 million ounce mineable reserve, excluding the sulphides at the bottom of the pit shell. The mine will initially produce 200,000 ounces of gold per year at an average cash costs of \$132/oz. **Amantaytau Phase 2 sulphide** – an underground mine with 2.03 million ounce mineable reserves. Initial production rate of 163,000oz/yr expected ramping up to 277,000oz/yr at a throughput of 850,000t/yr.

A final feasibility study is currently being completed on the **Jerooy gold deposit**, which has a gold reserve base of 1.1Moz. The Jerooy deposit is expected to produce an average of 183,000oz/yr from open pit and underground operations at an estimated cash cost of US\$169/oz, commencing in mid 2005. Oxus holds an effective 49% interest (fully diluted) in the **Khandiza project** through its subsidiary Marakand Minerals Limited. Khandiza is a polymetallic project with 0.85Mt of contained zinc, 80 million ounces silver, 0.42Mt lead and 0.10Mt copper. Production is expected to start in 2005.

Exhibit 4 – Group Attributable Gold Production (50%)

For Years Ended Dec 31	Ownership	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E
UZBEKISTAN GOLD:									
AGF Oxides Open Pit	Production (000ozs)	50%	-	100.7	121.7	96.6	-	-	-
	Cash Costs (US\$/oz)		-	122	126	159	-	-	-
	Capex (US\$MM)		14.8	0.5	-	-	-	-	-
Balpantau Oxides	Production (000ozs)	50%	-	-	-	14.8	22.1	19.5	19.5
	Cash Costs (US\$/oz)		-	-	-	189	191	216	215
	Capex (US\$MM)		-	-	-	3.5	-	-	-
AGF Sulphides Open Pit	Production (000ozs)	50%	-	-	-	39.6	47.0	52.0	59.4
	Cash Costs (US\$/oz)		-	-	-	116	99	109	78
	Capex (US\$MM)		-	-	-	-	-	-	-
AGF Sulphides Under Gr.	Production (000ozs)	50%	-	-	-	59.9	81.3	81.3	81.3
	Cash Costs (US\$/oz)		-	-	-	119	116	117	119
	Capex (US\$MM)		-	-	-	-	-	-	-
KYRGYZSTAN GOLD:									
Jerooy Open Pit	Production (000ozs)	66.67%	-	-	58.2	87.2	85.4	84.3	81.2
	Cash Costs (US\$/oz)		-	-	219	241	195	185	140
	Capex (US\$MM)		-	18.7	9.0	-	-	-	-
Jerooy Under Ground	Production (000ozs)	66.67%	-	-	-	29.1	58.7	48.8	67.1
	Cash Costs (US\$/oz)		-	-	-	152	136	158	167
	Capex (US\$MM)		-	0.0	3.3	1.8	1.6	2.3	0.7
Group Total	Production (000ozs)		-	100.7	180.0	272.8	279.8	283.6	301.1
	Cash Costs (US\$/oz)		-	122.0	150.4	170.2	144.7	143.5	138.2
	Capex (US\$MM)		14.8	19.2	12.3	5.3	1.6	2.3	0.7

Source: RBC Capital Markets estimates

Price Target Impediments

Commodity prices, production risk, political and fiscal risk, mineral right ownership, and environmental regulations all imply risks to our price target.

We have applied a Speculative Risk ranking to our valuation on Oxus Gold Plc. The most prevalent risk is 'production risk'. The Amantaytau mine currently under ramp-up and is the company's first project. Oxus' credibility as a serious gold producer with the Uzbekistan and Kyrgyzstan governments, as well in the market place, is dependant on its ability to successfully operate the Amantaytau mine on a sustainable basis. Although the company's first hurdle, the gold-pour was overcome, we believe that the market will only give full value to the company's suite of assets, as well as the blue-sky potential, after two to three quarters of sustainable operational performance. Clearly, if Oxus fails to successfully develop and operate the Amantaytau Gold mine on time and within budget, then we believe the Oxus shares could come under some negative pressure in the short-term.

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Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

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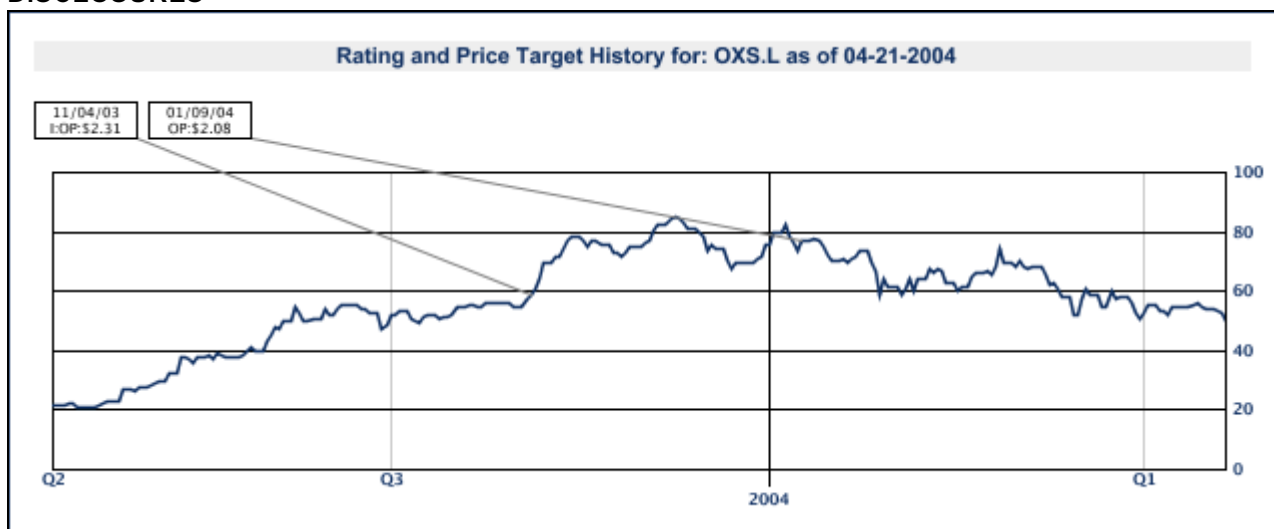
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HOLD [SP]	283	39.47	98	34.63
SELL [U]	96	13.39	14	14.58

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