



# fatPROPHETS™

## Portfolio News 28 Sep 11

GOR

AUD \$0.41



**B**

PDN



**H**

### Buy GOR, Hold PDN

#### Gold Road – Buy GOR



Gold Road is a very exciting exploration company, primarily because it is sitting on a very exciting asset base. Gold Road’s tenements cover the entire Yamarna gold belt, which lies to the northeast of West Australia’s established gold belts that have produced many millions of ounces. The company managed to secure the belt from under the noses of every other gold company because it was previously thought to be low grade.

Gold Road’s drilling campaign subsequently demonstrated that the low-grade assumption was wrong. With a total resource of 1.067 million ounces of gold, there is at this stage little doubt the explorer has a commercial quantity of gold. The real question is how much gold the company may be sitting on. With 106,000 metres drilled through to August this year

and the continuation of positive results, the answer could well be quite substantial.

The company's stock price has been hammered recently, in part because as an explorer it is not currently generating any earnings. In current market conditions, exploration companies rank pretty low on the list of desirable holdings, with defensive dividend stocks at the other end of the scale. Gold Road is also suffering as investors second guess the timing of its capital raising, which will need to occur sometime this year.

Nevertheless, the bottom line is that Gold Road's drilling activities this year will likely serve to expand its JORC resource. Not only will the company have more gold in the ground officially recognised, but each ounce of that gold is now more valuable than the last time Gold Road's stock traded at \$0.30 in February 2011. The Aussie dollar price of gold was at that time around \$300 *lower* than it is today.

Gold Road has the potential to become a significant gold producer in the years ahead. Investors that buy the stock at current levels could well look back in disbelief that the stock could ever have been so cheap.

**We recommend Gold Road as a buy to all Members that are comfortable with the speculative nature of an exploration company.**

**Paladin – Hold PDN**



Paladin sits firmly in the disappointing category as far as the timing of our initial buy

recommendation is concerned. The uranium producer suffered from operational issues at both its projects, which in turn reduced production last year and reduced the outlook for this year. Given the weight of negative investor sentiment towards the uranium sector since Fukushima, the company specific issues have taken a much greater toll on Paladin's valuation than would otherwise be the case.

Nevertheless, we remain resolute in our view that the uranium sector's attractive fundamentals have not been significantly impacted by the Fukushima fallout. The winding back of nuclear capacity in countries such as Japan and Germany will be more than offset by an onslaught of nuclear developments elsewhere around the world. China is of course at the vanguard, but developments are also planned in the US, Europe and Asia.

The outlook for tight global uranium supply should see spot prices move comfortably back into the US\$60s over the next 12-18mths. The slide in uranium spot prices may already have bottomed out, with the commodity pushing back up to US\$54 recently.

With production having recently restarted at Kayelekera on schedule, and the plant running at 90% capacity within 4 days, Paladin's operational issues may well be behind it. It's still early days and the market will need to see at least a couple of decent quarters before regaining confidence in the stock.

Paladin this morning announced a \$70 million capital raising, through an institutional placement. The capital raising is somewhat of a surprise, given the company's balance sheet is in good health and there is no pressing need for additional cash.

Management's explanation for the raising is fairly vague, simply citing balance sheet strengthening, meeting future commitments and pursuing growth initiatives. The latter is probably the most telling explanation, implying that Paladin is looking at acquisition opportunities.

We suspect that Paladin's stock price slide may now be bottoming out. The company's valuation is certainly well below any fundamentally justifiable level. As such, we will monitor developments once the stock exits its trading halt with a view to recommending Paladin once we have confidence that it has broken its downtrend.

### **Paladin will remain held in the Fat Prophets Portfolio.**

#### **Snapshot GOR**

##### **Gold Road**

Gold Road (Formerly Eleckra Mines) was listed on the ASX on 4 July 2006. The Company owns 100% of the Yamarna Gold Project, a sizeable tenement package totalling approximately 3,200km<sup>2</sup>, covering the majority of the Yamarna greenstone belt. Eleckra's prospective uranium tenement portfolio around the Yamarna region covers an additional area of approximately 900km<sup>2</sup>. Yamarna is located on the eastern margin of the Archaean Yilgarn Craton in WA, 900km north-east of Perth and 140km east of Laverton. The Yilgarn Craton hosts numerous world class gold ore bodies and accounts for more than half of Australia's 8 million oz annual gold production.

<b>Market Capitalisation</b>	<b>\$96.7m</b>
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#### **Snapshot PDN**

##### **Paladin Energy**

Paladin has a focus on uranium exploration and production in Australia and Africa. The company's first mine, Langer Heinrich in Namibia, was commissioned in 2007 and was the first conventional new uranium mine in the world for a decade. The mine is now ramping up to full capacity, with a planned Stage II expansion during early 2009. The company has recently announced a 55% increase in the resource base and a 75% increase in the reserve base at Langer Heinrich, boosting mine-life out to at least 11 years. The company's second mine, Kayelekera in Malawi, is also on track for production during 2009. Paladin is based in Australia, but has listings on the Australian, Toronto and Namibian Stock Exchanges. It also trades on the Munich, Berlin, Stuttgart and Frankfurt exchanges.

<b>Market Capitalisation</b>	<b>\$1.1bn</b>
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