

Purring along

Investment Highlights

* Emerging diversified drilling contractor CGM recently posted EBITDA of \$5.9m for the year to June 2011 and is in the process of expanding its rig fleet to take advantage of growing demand from clients in Brazil and Uruguay. With new rigs being put to work and based on conservative utilisation we believe CGM is well placed to grow the drilling business again in FY12. Preceding a number of short-term catalysts we highlight that CGM is currently trading at a 26% discount to the global drilling peer group excluding the company's gold assets. We maintain the SPECULATIVE BUY rating.

* Strategy. CGM is currently engaged in two competing capital intensive activities. After having grown the drilling business to a respectable size we believe CGM will pursue a divestment either via an IPO or trade-sale to focus capital on its exploration and development pursuits. In the meantime relatively small-scale production is generating gold sales of circa \$1.0m per quarter.

* Free option on gold assets. CGM's current fully diluted market cap. of \$24.4m implies a forward EV/EBIT multiple of 4.8x on our forecast. Meanwhile we estimate the average for an international peer group of drilling companies currently at circa 6.5x. On this basis we believe that negligible value is being attributed to the company's gold assets in the current share price.

* Gold assets. The mineral assets of CGM are based in Mato Grosso State in western central Brazil. CGM has commenced trial mining of the Ze Vemelho underground mine and is yielding very high grade ore of +60g/t average. The company recorded gold sales of \$US2.2m for FY2011, which is funding ongoing exploration of the region.

* Catalysts. 1) New contracts; 2) Positive drilling results; 3) Quarterly cashflow reports; 4) Divestment of drilling business.

* Key risks. 1) Client concentration (approximately 67% of drilling revenue exposed to Zamin Ferrous); 2) Commodity price weakness.

Disclosure: Patersons Securities Ltd acted as lead manager and underwriter to CGM's November 2009 placement and rights issue which raised \$5.5m. It received fees for this service.