

# Gascoyne Resources Limited

## Precious Metals - Producer

18 December 2020

Rating  
**BUY**

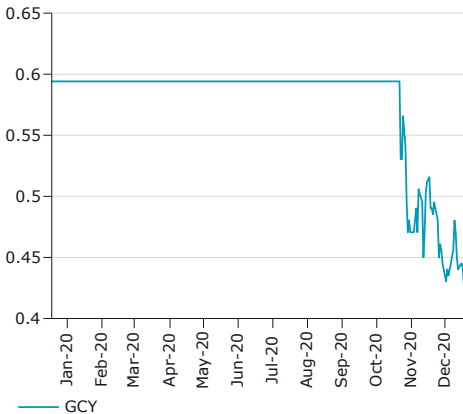
Price Target  
**A\$1.05**

GCY-ASX

Price  
**A\$0.45**

### Market Data

52-Week Range (A\$) :	0.42 - 0.68
Avg Daily Vol (000s) :	489.51
Shares Out. (M) :	250.9
Market Cap (A\$M) :	112.9
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0



Priced as of close of business 18 December 2020

Gascoyne Resources (GCY) is a gold producer with its main asset, the Dalgara Gold Project, located in the Murchison Province of WA.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Gascoyne Resources Limited Institutional Placement and Accelerated Non-Renounceable Entitlement offer announced 13 August 2020.

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## Updated Resource at Glenburgh; Sly Fox and Plymouth emerging

**A more robust Resource at Glenburgh.** GCY has released an updated Mineral Resource for its Glenburgh project, which is located 250km east of Carnarvon in WA. The updated Resource contains 16.3Mt at 1.0g/t for 510koz (85% Indicated) and consists of 11 deposits over a 13km trend. The Resource is constrained within optimised pit shells and underground shapes, and the LUC method of estimation (used at Dalgara) was incorporated where the interpretation included several broader mineralisation domains. Comparing to the previous Resource (21.3Mt at 1.5g/t for 1Moz), the M+I category has increased by 5% to 13.5Mt at 1.0g/t for 431koz. We consider the Resource estimate to be more robust given the method used, which provides us with increased confidence given it will be used to inform studies into potential development options for the project.

### Mt Egerton deposit, potential high grade sweetener to enhance project metrics.

The Mt Egerton project is located approximately 150km east of the Glenburgh and hosts a Resource of 116.4kt at 6.4g/t for 23.8koz (non 2012 JORC). Follow-up drilling is planned at the project in 2021, targeting both infill and extensions. We think conversion and/or extensions at this project could be critical in enhancing project economics for a potential Glenburgh development. Simplistically assuming a A\$0.20/tkm haulage rate, 95% metallurgical recovery and the 6.4g/t current Resource grade, the cost per ounce to transport ore to a Glenburgh plant would be ~A\$155. Exploration at Mt Egerton has been limited to date, and we suspect it will be a focus for GCY in this region in 2021.

**Drilling at Dalgara, Sly Fox and Plymouth shaping up.** Recent drilling at Dalgara has been encouraging with multiple intercepts outside the existing Resource pit shell. Headline results include:

- Sly Fox - 11m at 15.7g/t from 142m
- Sly Fox - 21m at 3.0g/t from 144m (inc. 15m at 3.9g/t).
- Plymouth - 12m at 3.0g/t from 141m (including 6m at 4.9m)
- Plymouth - 18m at 1.0g/t from 111m

In the current LOM plan (and our model assumptions), there is no production from Plymouth and only a small amount of production at the end of the mining sequence from the Sly Fox deposit. Based on the drilling, we think there is potential for inclusion of this material, which could have a material impact on the current LOM given its 4-year life. The grade of the material is what might also be significant, and we suspect a re-cut of the mine plan might result in higher grade material added earlier in the mine life. The deposits lie along strike from each other in a perpendicular (east-west) trend relative to the Gilbert's pit. We think there is potential for the pits to be mined together given the Plymouth east wall will overlap the Sly Fox west wall.

In our recent initiation, *Reset in improved circumstances*, we demonstrated an upside case showing the impact of an 18-month extension. Our analysis suggested a 27% increase to our valuation would result, which would be conservative if an 18-month extension is achieved with material at a higher grade.

### Valuation and recommendation

We think GCY is well positioned and are of the view that during 2021 Dalgara will emerge as an asset with a longer mine life, and the company will have assessed development options at the Glenburgh asset. Our price target of A\$1.05/sh is unchanged, and we note that GCY is one of the cheapest of our gold coverage with a P/NAV of 0.43x vs the sector average of 0.70x. We maintain our BUY recommendation.

Figure 1: GCY Financial Summary

**FINANCIAL SUMMARY**

**Gascoyne Resources Limited**

ASX:GCY

Analyst : Henry Renshaw  
Date: 18/12/2020  
Year End: June

Rating:  
Target Price:

**BUY**  
**A\$1.05**

**Market Information**

Share Price	A\$	0.45
Market Capitalisation	A\$m	111.6
12 Month Hi	A\$	0.68
12 Month Lo	A\$	0.42
Issued Capital	m	250.9
Options	m	0.0
Fully Diluted	m	250.9

**Valuation**

	A\$m	A\$/sh
Dalgaranga NPV @ 5%	292	1.16
Corporate	(39)	-0.16
Exploration	20	0.08
Forwards	(1)	0.00
Cash & Bullion	30	0.12
Debt	(40)	-0.16
<b>TOTAL NAV</b>	<b>262</b>	<b>1.05</b>

Price:NAV 0.43 x  
NAV @ Spot Spot US\$1,883/oz 0.81

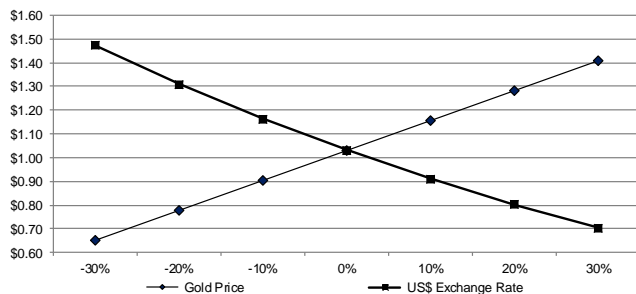
**TARGET PRICE**

**1.05**

**Assumptions**

	2020a	2021e	2022e	2023e
Gold Price (US\$/oz)	1,563	1,906	1,934	1,956
AUD:USD	0.67	0.72	0.72	0.72
Gold Price (A\$/oz)	2,328	2,661	2,700	2,733

**Sensitivity**



**Production Metrics**

	2020a	2021e	2022e	2023e
Dalgaranga				
Prod'n (koz)	73	77	76	73
AISC (A\$/oz)	1,576	1,279	1,373	1,742
AIC (A\$/oz)	2,232	2,270	1,902	1,810

**Reserves & Resources**

	Mt	Grade	Moz
<b>Reserves</b>			
Dalgaranga	16.30	0.81	0.43
<b>Reserves TOTAL</b>	<b>16.30</b>	<b>0.81</b>	<b>0.43</b>
<b>Resources</b>			
Dalgaranga	29.63	0.84	0.80
Glenbrugh	16.30	1.0	0.51
<b>Resources TOTAL</b>	<b>45.93</b>	<b>0.89</b>	<b>1.31</b>

**Company Description**

Gascoyne Resources Limited is an Australian gold producer operating the Dalgaranga project in Western Australia. The project entails a seven-year LOM comprising of four years of open pit mining and a subsequent three years of stockpile processing.

**Profit & Loss (A\$m)**

	2020a	2021e	2022e	2023e
Revenue	171.5	205.3	203.4	200.7
Operating Costs	108.0	89.5	97.1	121.1
Corporate & O'heads	12.9	14.1	10.0	10.0
Exploration (Expensed)	0.0	2.1	2.1	2.1
<b>EBITDA</b>	<b>50.7</b>	<b>99.6</b>	<b>94.1</b>	<b>67.4</b>
Dep'n	42.0	40.6	39.7	38.5
Net Interest	-6.5	-2.9	-1.2	0.3
Other	0.0	0.0	0.0	0.0
Tax	0.1	0.0	0.0	0.0
<b>NPAT (statutory)</b>	<b>2.0</b>	<b>56.0</b>	<b>53.2</b>	<b>29.2</b>
Abnormals	0.0	0.0	0.0	0.0
NPAT	2.0	56.0	53.2	29.2

**EBITDA Margin**

	2020a	2021e	2022e	2023e
EBITDA Margin	30%	49%	46%	34%
<b>EV/EBITDA</b>	<b>3.9x</b>	<b>1.1x</b>	<b>0.6x</b>	<b>-0.1x</b>
EPS	\$0.00	\$0.22	\$0.21	\$0.12
EPS Growth	nm	nm	-5%	-45%
PER	nm	1.99	2.10	3.82
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%

**Cash Flow (A\$m)**

	2020a	2021e	2022e	2023e
Cash Receipts	171.5	205.3	203.4	200.7
Cash paid to suppliers & employee	-119.7	-103.6	-107.1	-131.1
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-0.8	-2.9	-1.2	0.3
Other	0.0	-1.6	0.0	0.0
<b>Operating Cash Flow</b>	<b>50.9</b>	<b>97.1</b>	<b>95.1</b>	<b>69.9</b>
Exploration and Evaluation	-1.1	-3.0	-3.0	-3.0
Capex	-44.8	-80.0	-40.3	-5.3
Other	0.0	0.1	0.0	0.0
<b>Investing Cash Flow</b>	<b>-45.9</b>	<b>-82.9</b>	<b>-43.3</b>	<b>-8.3</b>
Debt Drawdown (repayment)	-15.6	-64.0	-14.0	-14.0
Share capital	0.0	85.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.5	-7.6	0.0	0.0
<b>Financing Cash Flow</b>	<b>-16.1</b>	<b>13.4</b>	<b>-14.0</b>	<b>-14.0</b>
Opening Cash	16.7	5.6	33.3	71.1
Increase / (Decrease) in cash	-11.1	27.7	37.8	47.6
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>5.6</b>	<b>33.3</b>	<b>71.1</b>	<b>118.7</b>

	2020a	2021e	2022e	2023e
Op. Cashflow/Share	\$0.05	\$0.39	\$0.38	\$0.28
P/CF	8.78	1.15	1.17	1.60
<b>FCF</b>	<b>5.0</b>	<b>14.2</b>	<b>51.8</b>	<b>61.6</b>
<b>EV/FCF</b>	<b>39.8x</b>	<b>7.6x</b>	<b>1.1x</b>	<b>-0.1x</b>
<b>FCF Yield</b>	<b>4%</b>	<b>13%</b>	<b>46%</b>	<b>55%</b>

**Balance Sheet (A\$m)**

	2020a	2021e	2022e	2023e
Cash + S/Term Deposits	5.6	33.3	71.1	118.7
Other current assets	21.5	22.6	22.4	22.2
<b>Current Assets</b>	<b>27.1</b>	<b>55.9</b>	<b>93.5</b>	<b>140.9</b>
Property, Plant & Equip.	179.7	187.6	187.7	181.1
Exploration & Develop.	30.1	31.0	31.9	32.8
Other Non-current Assets	0.4	56.2	56.4	29.5
Payables	43.6	8.2	8.2	8.1
Short Term Debt	71.5	5.9	3.1	0.3
Long Term Debt	10.7	23.6	12.4	1.2
Other Liabilities	54.2	87.6	87.3	86.8
<b>Net Assets</b>	<b>57.4</b>	<b>205.4</b>	<b>258.7</b>	<b>287.9</b>
Shareholders Funds	171.6	263.6	263.6	263.6
Reserves	0.9	0.9	0.9	0.9
Retained Earnings	-116.2	-60.2	-6.9	22.3
<b>Total Equity</b>	<b>57.4</b>	<b>205.4</b>	<b>258.7</b>	<b>287.9</b>

	2020a	2021e	2022e	2023e
Debt/Equity	19%	11%	5%	0%
Net Debt/EBITDA	1.5x	0.0x	-0.6x	-1.7x
Net Interest Cover	5.4x	12.1x	23.2x	72.0x
ROE	3%	27%	21%	10%
ROIC	1%	18%	17%	11%
Book Value/share	\$0.23	\$0.82	\$1.03	\$1.15

Source: Company reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### **Investment Recommendation**

Date and time of first dissemination: December 18, 2020, 01:45 ET

Date and time of production: December 18, 2020, 01:45 ET

### **Target Price / Valuation Methodology:**

Gascoyne Resources Limited - GCY

Our valuation is derived using DCF analysis (1.0x forward curve NPV<sub>5%</sub>) of the Dalgaranga gold project and is adjusted for corporate costs, net debt, hedge book and a nominal exploration value.

### **Risks to achieving Target Price / Valuation:**

Gascoyne Resources Limited - GCY

### **Financing risks**

As a company in production with income influenced by operating performance, commodity prices and exchange rates, GCY may be reliant on equity and debt markets to fund feasibility studies, expansions and development of new projects. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

### **Exploration risks**

Exploration is subject to a number of risks and can require a high rate of expenditure. Risks can also be associated with conversion of inferred Resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate Mineral Resources nor that the company will be able to convert the any Mineral Resource into Ore Reserves.

### **Operating risks**

The company is subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

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As with any mining company, GCY is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

**Distribution of Ratings:**

**Global Stock Ratings (as of 12/18/20)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	564	63.09%	58.16%
Hold	168	18.79%	41.67%
Sell	9	1.01%	33.33%
Speculative Buy	134	14.99%	79.85%
	894*	100.0%	

\*Total includes stocks that are Under Review

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**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

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**Gascoyne Resources Limited Rating History as of 12/17/2020**



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