

Gascoyne Resources Limited

Precious Metals - Producer

1 March 2021

Rating
BUY
unchanged

Price Target
A\$1.00
unchanged

GCY-ASX

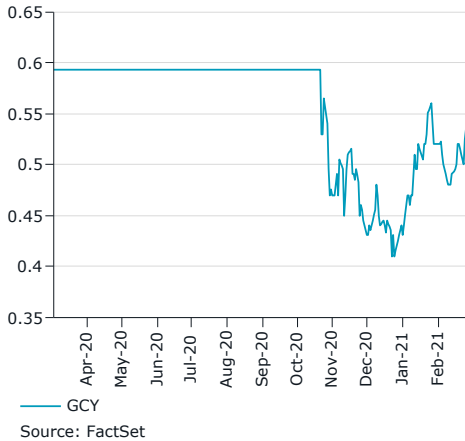
Price
A\$0.53

Market Data

52-Week Range (A\$) :	0.41 - 0.68
Avg Daily Vol (000s) :	1
Market Cap (A\$M) :	133.0
Shares Out. (M) :	250.9
Enterprise Value (A\$M) :	134
NAV /Shr (A\$) :	0.99
NAV /Shr (5%) (A\$) :	0.99
Net Cash (A\$M) :	0.8
P/NAV (x) (A\$) :	0.53

FYE Jun 2020A 2021E 2022E 2023E

Gold Production (000oz)	73	80	76	73
All in Sustaining Cost (Gold) (US\$ / oz)	1,058	980	956	1,341
EBITDA (A\$M)	50.7	104.2↑	98.5↑	59.0↑
Previous	-	99.7	96.4	56.9
EV/EBITDA (x)	4.1	1.2	0.8	0.6
Net Income (A\$M)	2.0	53.6↓	57.6↑	20.6↑
Previous	-	54.9	55.6	18.7
Free Cash Flow (A\$M)	5.0	11.0	42.6	49.2



Priced intraday 1 March 2021

Gascoyne Resources (GCY) is a gold producer with its main asset, the Dalgaranga 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.

Henry Renshaw | Analyst | Canaccord Genuity (Australia) Ltd. | hrenshaw@cgf.com | +61.2.9263.2798
Tim McCormack | Analyst | Canaccord Genuity (Australia) Ltd. | tmccormack@cgf.com | +61.8.9268.4810

1H FY21 result

1H'FY21 result. Key financials based on 1H gold sales of 41.4koz at an AISC of A\$1,267/oz were in line with our estimates. Key outcomes:

- Revenue A\$109.6m vs CGe A\$108.6m.
- We calculate EBITDA to be A\$55.9m vs CGe A\$52.6m, the variance driven by lower corporate costs, nil exploration expensed (capitalised) and other income (largely due to a discount resulting from debt repayments following the company recapitalisation).
- NPAT A\$26.8m vs CGe A\$29.4m, the variance driven by higher D&A and tax expense.
- OCF A\$37.3m vs CGe A\$38.0m.
- ICF A\$36.8m vs CGe A\$37.5m.
- The company had cash and equivalents totalling A\$37.3m at the end of the period (previously reported), with debt of A\$36.5m (net cash A\$0.8m). FY21/22 has been well flagged by GCY as a period of investment in waste stripping at Dalgaranga, which will improve access to ore benches and enable an increase to stockpiles at the asset. During the period we model GCY being able to comfortably maintain its debt repayment schedule (CGe A\$3.5m per quarter) while modestly increasing its cash balance. We forecast cash to be relatively flat HoH and estimate a balance of A\$39m, with debt being reduced to A\$29.5m at the end of FY21 (CGe cash A\$35m using spot at time of writing).

Guidance (unchanged) running above the top end. Production from Dalgaranga in 1H'FY21 of 40.7koz at an AISC of A\$1,276/oz (AIC A\$2,078/oz, inclusive of waste stripping) is running above the top end of GCY's production range and within AISC (guidance 70-80koz at an AISC of A\$1,200-1,300/oz). We continue to see limited risk to FY21 guidance given the nine-month track record at the asset (+80kozpa run-rate for three consecutive quarters) and GCY's expectation of flat output HoH. It is evident that higher mining volumes are allowing preferential treatment of ore (demonstrated by the delta of mined ore grade vs processed ore grade) which we believe is contributing to the performance of the asset, and as such, we see investment of capital over FY21/22 (as mentioned above) as a key de-risking measure.

Exploration budget increased, confidence building. The board recently approved an increase to its FY21 exploration budget, from A\$3m to A\$6.3m. We are of the view that this clearly demonstrates: 1) the board is confident that Dalgaranga will generate operational cash flows to sustain its debt repayments and the increased exploration spend; and 2) drilling within its tenements warrants increased activity. GCY intends to advance its exploration efforts at Dalgaranga (both regional and near mine extensional) and at Glenburgh-Mt Egerton. Positive initial results at Tanqueray (located ~2km north of the Dalgaranga plant) have subsequently been released, with 9m at 7.0g/t from 138m and 8m at 3.1g/t from 125m reported. While follow-up drilling is required (and planned) to determine the scale of mineralisation at Tanqueray; the fresh rock nature, grade and proximity to surface is encouraging at this juncture. We have previously noted that our valuation is highly sensitivity to mine life extensions, and we believe increasing exploration expenditure at GCY's assets is a positive step towards achieving such valuation tailwinds.

Model updates. We have updated our model to account for the 1H'FY21 financial result, and incorporated a higher exploration spend over the remainder of the FY (as per guidance, see above). We have also capitalised exploration expenditure which has elevated our earnings forecasts over FY22/23 (project metrics unchanged).

Valuation and recommendation

On incorporation of the changes noted above, our target price (1.0x forward curve NPV_{5%}) of A\$1.00 is unchanged. BUY recommendation maintained (P/NAV 0.53x).

Figure 1: GCY Financial Summary

FINANCIAL SUMMARY

Gascoyne Resources Limited

ASX:GCY

Analyst : Henry Renshaw
Date: 1/03/2021
Year End: June

Rating:
Target Price:

BUY
A\$1.00

Market Information

Share Price	A\$	0.53
Market Capitalisation	A\$m	133.0
12 Month Hi	A\$	0.68
12 Month Lo	A\$	0.41
Issued Capital	m	250.9
Options	m	0.0
Fully Diluted	m	250.9

Valuation

	A\$m	A\$/sh	
Dalgaranga	NPV @ 5%	260	1.04
Corporate		(35)	-0.14
Exploration		20	0.08
Forwards		4	0.01
Cash & Bullion		37	0.15
Debt		(37)	-0.15
TOTAL NAV		249	0.99
Price:NAV			0.53 x
NAV @ Spot	Spot US\$1,749/oz		0.72

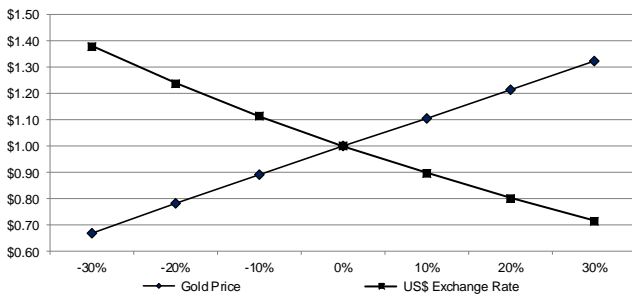
TARGET PRICE

1.00

Assumptions

	2020a	2021e	2022e	2023e
Gold Price (US\$/oz)	1,563	1,922	1,965	1,986
AUD:USD	0.67	0.75	0.77	0.77
Gold Price (A\$/oz)	2,328	2,578	2,557	2,585

Sensitivity



Production Metrics

	2020a	2021e	2022e	2023e
Dalgaranga				
Prod'n (koz)	73	80	76	73
AISC (A\$/oz)	1,576	1,315	1,244	1,745
AIC (A\$/oz)	2,232	2,130	1,905	1,813

Reserves & Resources

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

Company Description

Gascoyne Resources Limited is an Australian gold producer operating the Dalgaranga project in Western Australia. The project currently 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	212.6	195.4	189.8
Operating Costs	108.0	96.0	86.9	120.9
Corporate & O'heads	12.9	11.9	10.0	10.0
Exploration (Expensed) & Other	0.0	0.0	0.0	0.0
EBITDA	50.7	104.2	98.5	59.0
Dep'n	42.0	45.2	39.7	38.5
Net Interest	-6.5	-3.1	-1.2	0.2
Other	0.0	0.0	0.0	0.0
Tax	0.1	2.4	0.0	0.0
NPAT (statutory)	2.0	53.6	57.6	20.6
Abnormals	0.0	0.0	0.0	0.0
NPAT	2.0	53.6	57.6	20.6

EBITDA Margin

	2020a	2021e	2022e	2023e
EBITDA Margin	30%	49%	50%	31%
EV/EBITDA	4.1x	1.2x	0.8x	0.6x
EPS	\$0.00	\$0.21	\$0.23	\$0.08
EPS Growth	nm	nm	8%	-64%
PER	nm	2.48	2.31	6.44
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	210.4	195.4	189.8
Cash paid to suppliers & employee	-119.7	-122.9	-96.9	-130.9
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-0.8	-3.1	-1.7	-0.5
Other	0.0	2.0	0.0	0.0
Operating Cash Flow	50.9	86.4	96.8	58.4
Exploration and Evaluation	-1.1	-6.3	-4.0	-4.0
Capex	-44.8	-69.1	-50.3	-5.3
Other	0.0	-0.0	0.0	0.0
Investing Cash Flow	-45.9	-75.4	-54.3	-9.3
Debt Drawdown (repayment)	-15.6	-50.4	-14.0	-14.0
Share capital	0.0	85.2	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing/Lease Expenses	-0.5	-12.2	-3.0	-3.0
Financing Cash Flow	-16.1	22.7	-17.0	-17.0
Opening Cash	16.7	5.6	39.3	64.9
Increase / (Decrease) in cash	-11.1	33.7	25.6	32.2
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	5.6	39.3	64.9	97.1

Op. Cashflow/Share

	2020a	2021e	2022e	2023e
Op. Cashflow/Share	\$0.05	\$0.34	\$0.39	\$0.23
P/CF	10.46	1.54	1.37	2.28
FCF	5.0	11.0	42.6	49.2
EV/FCF	41.3x	11.2x	2.0x	0.8x
FCF Yield	4%	8%	32%	37%

Balance Sheet (A\$m)

	2020a	2021e	2022e	2023e
Cash + S/Term Deposits	5.6	39.3	64.9	97.1
Other current assets	21.5	23.4	21.5	20.9
Current Assets	27.1	62.7	86.4	118.0
Property, Plant & Equip.	179.7	184.5	186.6	180.0
Exploration & Develop.	30.1	36.4	40.4	44.4
Other Non-current Assets	0.4	46.2	52.6	25.3
Payables	43.6	8.5	7.8	7.6
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	88.9	82.1	77.3
Net Assets	57.4	203.0	260.6	281.2
Shareholders Funds	171.6	263.6	263.6	263.6
Reserves	0.9	0.9	0.9	0.9
Retained Earnings	-116.2	-62.6	-5.0	15.6
Total Equity	57.4	203.0	260.6	281.2

Debt/Equity

	2020a	2021e	2022e	2023e
Debt/Equity	19%	12%	5%	0%
Net Debt/EBITDA	1.5x	-0.1x	-0.5x	-1.6x
Net Interest Cover	5.4x	12.9x	23.2x	71.8x
ROE	3%	26%	22%	7%
ROIC	1%	18%	19%	7%
Book Value/share	\$0.23	\$0.81	\$1.04	\$1.12

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: February 28, 2021, 23:54 ET

Date and time of production: February 28, 2021, 23:54 ET

Target Price / Valuation Methodology:

Gascoyne Resources Limited - GCY

Our valuation is derived using DCF analysis (1.0x forward curve NPV_{5%}) 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.

Commodity price and currency fluctuations

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 02/28/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	589	64.51%	59.93%
Hold	162	17.74%	43.21%
Sell	11	1.20%	45.45%
Speculative Buy	134	14.68%	79.85%
	913*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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

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12-Month Recommendation History (as of date same as the Global Stock Ratings table)

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An analyst has visited the material operations of Gascoyne Resources Limited. Full payment was received for the related travel costs. 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.

Gascoyne Resources Limited Rating History as of 02/26/2021



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