1 April 2021

Watching Brief – GCY – *Reducing debt provides autonomy on hedging*

The writer owns 101,200 GCY securities. Foster Stockbroking and associated entities own 874,329 GCY shares. Cranport Pty Ltd owns 1,215,718 GCY shares. Refer to end of email for details.
Foster Stockbroking acted as Co-Manager to the $85M placement and entitlement offer of 3,410M shares at $0.025/share (pre-consolidation) in August 2020. Foster Stockbroking has received fees for this service.

Gascoyne Resources Ltd (GCY, $0.52, mkt cap $125M)

- **GCY yesterday announced it had made a voluntary debt repayment of $14.6M, which reduced debt to $17.5M at end March.** Cash end December was $37.3M, or $22.7M pro-forma adjusted for the debt repayment.

- **A key motive for repaying the debt was extinguishing the requirement for mandatory gold hedge.** Given the current subdued gold price, we believe the company was reluctant to hedge further ounces. Any future to decision to hedge is now solely at the company's discretion.

- **The debt repayment is also a sign of the confidence in the performance of Dalgaranga operation.** The plant has been consistently meeting or exceeding expectations, with management recently upgrading guidance to the "upper end" of the previous 70-80koz range. Exploration activities are unchanged, the company recently committing to doubling of expenditure to $6.3M given the positive results so far from Gilbey's South; near mine targets such as Sly Fox, Plymouth, and Tanqueray; and regional projects Glenburgh and Mt Egerton.

- **Current hedge book retained – $15.7M in the money.** GCY retains its current hedge book of 50koz at A$2,564/oz (vs current spot of A$2,252/oz). We expect the company to keep the book to term (mid-CY22), although it provides optionality should it wish to close it before term to utilise funds for any purpose (e.g. projects development, M&A).

- **Valuation – still at discount to peers.** From the company's disclosed prospectus and mine plan re production, AISC, and capex forecasts, as well as consensus gold and A$ estimates, we forecast average EBITDA of $87M for FY22e, implying GCY is trading on an EV/EBITDA of 1.4x, well below comparable ASX gold peers. This is before any upside from a revised mine plan (expected in the June quarter), or the plant continuing to exceed its design rate.

Watching Brief provides select highlights of company news and announcements, which mostly focuses on stocks for which Foster Stockbroking does not provide research coverage.