

Gascoyne Resources Limited

Precious Metals - Producer

20 April 2021

Rating
BUY
unchanged

Price Target
A\$0.80
unchanged

GCY-ASX

Price
A\$0.55

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MarQ'21 report

MarQ'21 result; production consistency a key theme, beat on costs. Gold production from Dalgaranga in the MarQ'21 totalled 19.2koz (sales 19.1koz) at an AISC of A\$1,114/oz and AIC of A\$1,058/oz. Details:

- Gold production was in line with CG est. of 19.6koz (-2%) with lower grade processed (0.92g/t vs CG est. 1.05g/t) offset by better-than-forecasted throughput (704kt vs CG est. 640kt) and recovery (92.5% vs CG est. 90.5%). Grade was impacted by a misfire which delayed access to higher grade ore from Stage 1, compounded by lower grade stocks being processed due to elevated throughput rates (~2.8Mtpa vs nameplate capacity of 2.5Mtpa).
- AISC was a significant beat against CG est. of A\$1,376/oz (-19%), which was largely driven by lower volumes mined (waste and ore). Waste stripping during the quarter was in line with our forecast (~A\$16m) resulting in a 6% beat to our AIC estimate of A\$2,188/oz.
- FCF for the period totalled A\$9.4m, and the company repaid A\$19.5m in debt (A\$14.6m voluntary payment). The decision to repay debt early increases our confidence that Dalgaranga will continue to deliver on a go-forward basis. Cash at the end of the MarQ totalled A\$27m with debt almost halving QoQ to now total A\$17.5m.

Guidance unchanged, expecting flat QoQ. YTD output of 59.9koz at an AISC of A\$1,224/oz is tracking at the top end of production and towards the bottom end of the AISC guidance range (70-80koz at an AISC of A\$1,200-1,300/oz). Gold produced QoQ is expected to be flat with a 3-day plant shutdown scheduled. We have slightly refined our JunQ estimates to account for the shutdown, and now model 19.4koz at an AISC of A\$1,479/oz and AIC of A\$2,273/oz.

Resource and Reserve update, this quarter. GCY is targeting this quarter for an updated Mineral Resource and Ore Reserve. We see good potential for an increased inventory delivered by an extension of the Gilbey's pit, specifically in the southern zone, where headline drilling has intercepted gold at widths ranging between 13m and 44m grading between 1.0g/t and 2.1g/t (vs the current Resource grade of 0.84g/t). Importantly, the drill holes to be included are located outside the existing pit design, suggesting LOM extensions could materialise. We are expecting Plymouth to also add ounces with drilling showing strong continuation of mineralisation below the current Resource pit shell (widths ranging from 10m to 20m at grades ranging from 1.9g/t to 3.0g/t).

Sly Fox a potential underground. Sly Fox is emerging as a sub-vertical, higher-grade deposit, and GCY is assessing if underground methods are more suitable for extraction. We eagerly await diamond drilling that is targeting extensions of mineralisation to depths of 450-550m below surface (vs current depth of drilling at ~250m). Should deeper holes intercept mineralisation at grades amenable to underground methods, we believe Sly Fox could provide a 'high-grade sweetener' to the base load feed, which could result in a much more attractive production profile.

Model revisions. We have updated our 2021 estimates to account for the MarQ'21 actual performance and refined our JunQ'21 forecasts as per above. Our forecasts beyond FY22 are unchanged.

Valuation & recommendation

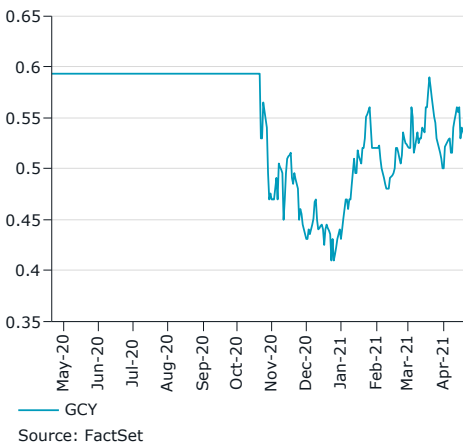
Our target price (1x forward curve NPV_{5%}) is A\$0.80/sh, and our BUY recommendation is maintained (P/NAV of 0.68x).

Market Data

52-Week Range (A\$) :	0.41 - 0.68
Avg Daily Vol (000s) :	0
Market Cap (A\$M) :	136.7
Shares Out. (M) :	250.9
Enterprise Value (A\$M) :	146
NAV /Shr (A\$) :	0.79
NAV /Shr (5%) (A\$) :	0.79
Net Cash (A\$M) :	9.5
P/NAV (x) (A\$) :	0.68

FYE Jun 2020A 2021E 2022E 2023E

Gold Production (000oz)	73	79	76	73
All in Sustaining Cost (Gold) (US\$ / oz)	1,058	956	943	1,319
EBITDA (A\$M)	50.7	104.5↑	86.2↑	38.7↓
Previous	-	101.4	86.0	38.8
EV/EBITDA (x)	4.2	1.2	1.1	1.9
Net Income (A\$M)	2.0	54.7↑	46.4↑	0.6↑
Previous	-	50.7	45.0	0.3
Free Cash Flow (A\$M)	5.0	11.0	31.6	29.4



Priced as of close of business 20 April 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.

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For important information, please see the Important Disclosures beginning on page 3 of this document.

Figure 1: GCY Financial Summary

FINANCIAL SUMMARY

Gascoyne Resources Limited

ASX:GCY

Analyst : Henry Renshaw
Date: 20/04/2021
Year End: June

Rating:
Target Price:

BUY
A\$0.80

Market Information

Share Price	A\$	0.55
Market Capitalisation	A\$m	136.7
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

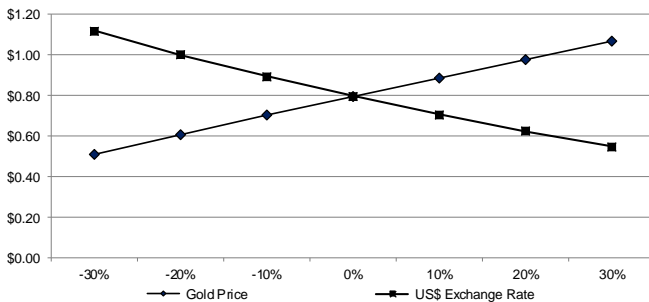
Valuation		A\$m	A\$/sh
Dalgaranga	NPV @ 5%	188	0.75
Corporate		(35)	-0.14
Exploration		20	0.08
Forwards		17	0.07
Cash & Bullion		27	0.11
Debt		(18)	-0.07
TOTAL NAV		199	0.79

Price:NAV 0.68 x
NAV @ Spot Spot US\$1,769/oz 0.74

TARGET PRICE 0.80

Assumptions	2020a	2021e	2022e	2023e
Gold Price (US\$/oz)	1,563	1,846	1,731	1,749
AUD:USD	0.67	0.75	0.76	0.76
Gold Price (A\$/oz)	2,328	2,476	2,271	2,304

Sensitivity



Production Metrics	2020a	2021e	2022e	2023e
Dalgaranga				
Prod'n (koz)	73	79	76	73
AISC (A\$/oz)	1,576	1,282	1,237	1,738
AIC (A\$/oz)	2,232	2,124	1,898	1,806

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	208.1	182.6	169.0
Operating Costs	108.0	92.2	86.3	120.3
Corporate & O'heads	12.9	10.9	10.0	10.0
Exploration (Expensed) & Other	0.0	0.0	0.0	0.0
EBITDA	50.7	104.5	86.2	38.7
Dep'n	42.0	44.9	39.7	38.5
Net Interest	-6.5	-2.5	-0.1	0.5
Other	0.0	0.0	0.0	0.0
Tax	0.1	2.4	0.0	0.0
NPAT (statutory)	2.0	54.7	46.4	0.6
Abnormals	0.0	0.0	0.0	0.0
NPAT	2.0	54.7	46.4	0.6
<i>EBITDA Margin</i>	<i>30%</i>	<i>50%</i>	<i>47%</i>	<i>23%</i>
<i>EV/EBITDA</i>	<i>4.2x</i>	<i>1.2x</i>	<i>1.1x</i>	<i>1.9x</i>
<i>EPS</i>	<i>\$0.00</i>	<i>\$0.22</i>	<i>\$0.18</i>	<i>\$0.00</i>
<i>EPS Growth</i>	<i>nm</i>	<i>nm</i>	<i>-15%</i>	<i>-99%</i>
<i>PER</i>	<i>nm</i>	<i>2.50</i>	<i>2.95</i>	<i>228.88</i>
<i>Dividend Per Share</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>
<i>Dividend Yield</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>

Cash Flow (A\$m)	2020a	2021e	2022e	2023e
Cash Receipts	171.5	205.9	182.6	169.0
Cash paid to suppliers & employee:	-119.7	-118.2	-96.3	-130.3
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-0.8	-2.5	-0.4	0.0
Other	0.0	1.1	0.0	0.0
Operating Cash Flow	50.9	86.3	85.8	38.7
Exploration and Evaluation	-1.1	-6.3	-4.0	-4.0
Capex	-44.8	-71.3	-50.3	-5.3
Other	0.0	2.3	0.0	0.0
Investing Cash Flow	-45.9	-75.3	-54.3	-9.3
Debt Drawdown (repayment)	-15.6	-66.6	-14.0	0.0
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	6.5	-17.0	-3.0
Opening Cash	16.7	5.6	23.1	37.7
Increase / (Decrease) in cash	-11.1	17.5	14.6	26.4
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	5.6	23.1	37.7	64.1

<i>Op. Cashflow/Share</i>	<i>\$0.05</i>	<i>\$0.34</i>	<i>\$0.34</i>	<i>\$0.15</i>
<i>P/CF</i>	<i>10.75</i>	<i>1.58</i>	<i>1.59</i>	<i>3.54</i>
FCF	5.0	11.0	31.6	29.4
<i>EV/FCF</i>	<i>42.1x</i>	<i>11.6x</i>	<i>3.1x</i>	<i>2.5x</i>
<i>FCF Yield</i>	<i>4%</i>	<i>8%</i>	<i>23%</i>	<i>22%</i>

Balance Sheet (A\$m)	2020a	2021e	2022e	2023e
Cash + S/Term Deposits	5.6	23.1	37.7	64.1
Other current assets	21.5	22.9	20.1	18.6
Current Assets	27.1	46.0	57.8	82.7
Property, Plant & Equip.	179.7	185.0	187.1	180.5
Exploration & Develop.	30.1	36.4	40.4	44.4
Other Non-current Assets	0.4	47.7	53.0	24.8
Payables	43.6	8.3	7.3	6.8
Short Term Debt	71.5	2.8	0.0	0.0
Long Term Debt	10.7	11.2	0.0	0.0
Other Liabilities	54.2	88.8	80.6	74.6
Net Assets	57.4	204.0	250.4	251.0
Shareholders Funds	171.6	263.6	263.6	263.6
Reserves	0.9	0.9	0.9	0.9
Retained Earnings	-116.2	-61.5	-15.2	-14.6
Total Equity	57.4	204.0	250.4	251.0

<i>Debt/Equity</i>	<i>19%</i>	<i>5%</i>	<i>0%</i>	<i>0%</i>
<i>Net Debt/EBITDA</i>	<i>1.5x</i>	<i>-0.1x</i>	<i>-0.4x</i>	<i>-1.7x</i>
<i>Net Interest Cover</i>	<i>5.4x</i>	<i>16.0x</i>	<i>94.3x</i>	<i>nm</i>
<i>ROE</i>	<i>3%</i>	<i>27%</i>	<i>19%</i>	<i>0%</i>
<i>ROIC</i>	<i>1%</i>	<i>18%</i>	<i>15%</i>	<i>0%</i>
<i>Book Value/share</i>	<i>\$0.23</i>	<i>\$0.81</i>	<i>\$1.00</i>	<i>\$1.00</i>

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: April 20, 2021, 03:20 ET

Date and time of production: April 20, 2021, 03:20 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.

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Global Stock Ratings (as of 04/20/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	601	64.48%	40.10%
Hold	159	17.06%	20.75%
Sell	14	1.50%	28.57%
Speculative Buy	143	15.34%	68.53%
	932*	100.0%	

*Total includes stocks that are Under Review

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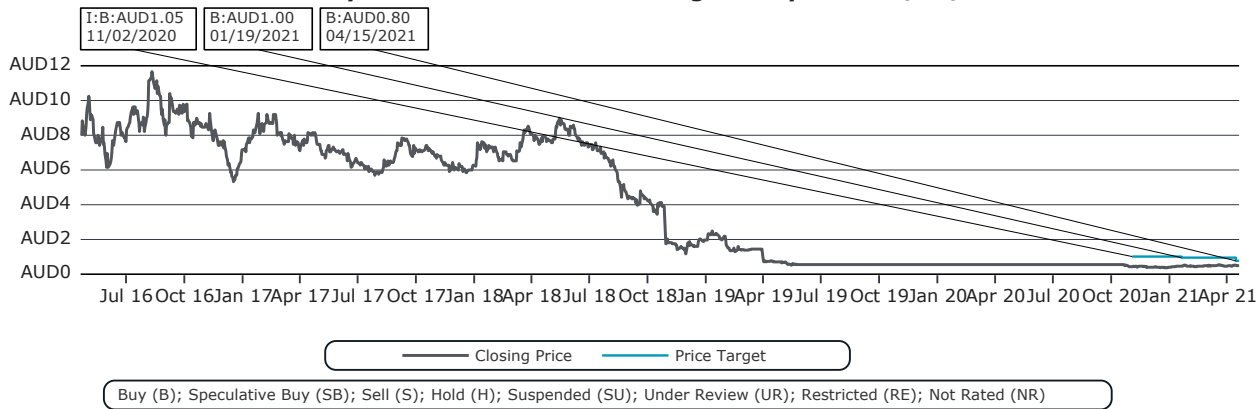
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Gascoyne Resources Limited Rating History as of 04/19/2021



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