

Gascoyne Resources Limited

Precious Metals - Producer

7 June 2021

Rating
BUY
unchanged

Price Target
A\$0.70↓
from A\$0.80

GCY-ASX

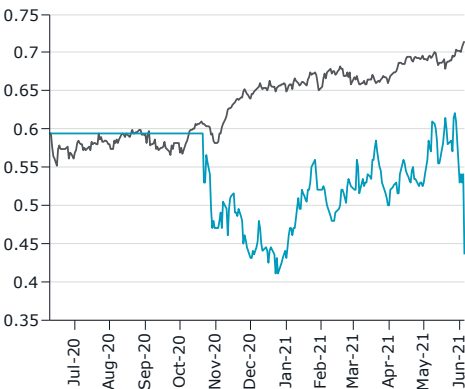
Price
A\$0.44

Market Data

52-Week Range (A\$) :	0.41 - 0.68
Avg Daily Vol (000s) :	0
Market Cap (A\$M) :	109.1
Shares Out. (M) :	250.9
Enterprise Value (A\$M) :	119
NAV /Shr (A\$) :	0.68
NAV /Shr (5%) (A\$) :	0.68
Net Cash (A\$M) :	9.5
P/NAV (x) (A\$) :	0.62

FYE Jun 2020A 2021E 2022E 2023E

Gold Production (000oz)	73	77	74	73
All in Sustaining Cost (Gold) (US\$ / oz)	1,058	980	1,226	1,309
EBITDA (A\$M)	50.7	99.8↓	56.9↓	38.7
Previous	-	104.5	86.2	-
EV/EBITDA (x)	3.6	1.0	1.8	2.0
Net Income (A\$M)	2.0	(26.5)↓	17.2↓	0.0↓
Previous	-	54.7	46.4	0.6



Source: FactSet

Priced as of close of business 6 June 2021

Gascoyne Resources (GCY) is a gold producer with its main asset, the Dalgarranga 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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FY21/22 guidance updates

FY21 guidance: production range narrowed toward the top end and AISC slightly increased. Total production from Dalgarranga for FY21 has been guided to 76-78koz, towards the top end of the previous range (70-80koz). YTD production was running at the top end, and we were previously anticipating a flat QoQ (see our [MarQ'21 note](#)), but according to the company, a combination of adverse weather events, increased ore processed with an elevated sulphide content and resourcing challenges will result in output reducing QoQ. GCY indicated the lower units of production will result in an elevated AISC, which has led it to slightly increase AISC guidance to A\$1,275-1,325/oz (from A\$1,200-1,300/oz, mid-point +4%). We now model 17.4koz at an AISC of A\$1,646/oz for the JunQ'21 (MarQ'21 actual 19.2koz at an AISC of A\$1,114/oz), resulting in our full FY21 forecast moving to 77koz at an AISC of A\$1,314/oz (from 79koz at an AISC of A\$1,282/oz).

FY22 guidance: production unchanged but costs lifted. The AISC range for FY22 has been revised to A\$1,600-1,700 (from A\$1,300-1,400/oz, mid-point +22%) due to general industry cost escalations and changes in the mine design that have increased overall waste volumes. Capex for FY21 (sustaining and waste stripping) has increased to A\$46-51.2m (from A\$40.2-45.3m, mid-point +14%), which is largely driven by waste stripping as mentioned earlier. We were previously anticipating this higher capex given the delays in waste mining in FY21 (post recapitalisation) and modelled A\$50.3m, which has slightly been increased to A\$51m.

Resource and Reserve statement: next update is the one to look out for. The Group Mineral Resource and Ore Reserve statement was also released last week, with Group Mineral Resource reported of 41.6Mt at 0.9g/t for 1.19Moz (86% Measured and Indicated) and Ore Reserve of 13.5Mt at 0.8gt for 339koz. Changes YoY were largely attributed to mining depletion and design changes in the southern end of the Gilbey's pit. We were expecting an increase to the Resource and mining inventory at Dalgarranga in this update, but concede that the majority of the drilling completed post the increased budget (announced in Feb'21) was likely not included (R&R as of Mar'21). We consider the tenements to be under explored given the amount of drilling to date, and are of the view that investment in exploration will result in mine life extensions that will leverage the existing infrastructure at the project.

Model updates. We have updated our FY21/22 production metrics to align with the revised guidance; FY23 and beyond is unchanged. We have also included an A\$77.5m non-cash impairment expense (pre-tax) in our FY21 earnings estimates, the mid-point of the guided impairment expense (A\$65-90m). The non-cash expense is a result of changing the gold price assumption in GCY's impairment model, accounting for capitalised waste and the increased operating costs discussed above. It has been reported that the impairment will not impact the financial covenants in the company's debt facility. We had previously assumed that the outstanding debt balance of A\$17.5m was paid off in FY22, but now we assume it is repaid by the end of FY23. Our cash low point of A\$11.5m is at the end of FY22 (last year of investment into capitalised waste stripping); noting our conservative price deck over the next 12-24 months, the cash low point increases to A\$19m if spot is applied at time of writing.

Valuation and recommendation

Incorporating the changes noted above, our target price (1x forward curve NPV_{5%}) is revised down to A\$0.70/sh (from A\$0.80/sh). GCY currently has an EV of ~A\$100m, which screens as significant deep value given the infrastructure in place (processing plant is only just over 3 years old). FY22 is a year of higher capital expenditure, but we believe investment in exploration could provide some good news flow over the year, and see FY23 as a significant FCF inflection point, which is generally supportive of higher share prices. BUY recommendation maintained (P/NAV 0.62x).

Figure 1: GCY Financial Summary

FINANCIAL SUMMARY

Gascoyne Resources Limited

ASX:GCY

Analyst: Henry Renshaw
Date: 6/06/2021
Year End: June

Rating:
Target Price:

BUY
A\$0.70

Market Information

Share Price	A\$	0.44
Market Capitalisation	A\$m	109.1
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%	155
Corporate		(35)
Exploration		25
Forwards		17
Cash & Bullion		27
Debt		(18)
TOTAL NAV	171	0.68

Price:NAV 0.62 x
NAV @ Spot Spot US\$1,891/oz 0.77

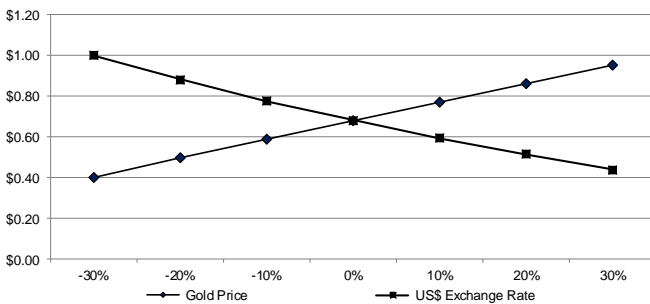
TARGET PRICE

0.70

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	77	74	73
AISC (A\$/oz)	1,576	1,314	1,609	1,724
AIC (A\$/oz)	2,232	2,178	2,283	1,792

Reserves & Resources

	Mt	Grade	Moz
Reserves			
Dalgaranga	13.5	0.8	0.34
Reserves TOTAL	13.5	0.8	0.34
Resources			
Dalgaranga	25.0	0.8	0.65
Glenbrugh	16.3	1.0	0.51
Mt Egerton	0.3	3.1	0.03
Resources TOTAL	41.6	0.9	1.19

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	203.3	179.3	169.0
Operating Costs	108.0	92.1	112.5	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	99.8	56.9	38.7
Dep'n	42.0	43.8	39.0	38.5
Net Interest	-6.5	-2.5	-0.7	-0.1
Other (non-cash)	0.0	-77.5	0.0	0.0
Tax	0.1	2.4	0.0	0.0
NPAT (statutory)	2.0	-26.5	17.2	0.0
Abnormals	0.0	77.5	0.0	0.0
NPAT	2.0	51.0	17.2	0.0
EBITDA Margin	30%	49%	32%	23%
EV/EBITDA	3.6x	1.0x	1.8x	2.0x
EPS	\$0.00	-\$0.11	\$0.07	\$0.00
EPS Growth	nm	nm	-165%	-100%
PER	nm	-4.12	6.34	2513.63
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	201.1	179.3	169.0
Cash paid to suppliers & employee	-119.7	-118.1	-122.5	-130.3
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-0.8	-2.5	-0.8	-0.3
Other	0.0	1.1	0.0	0.0
Operating Cash Flow	50.9	81.6	56.0	38.4
Exploration and Evaluation	-1.1	-6.3	-2.0	-2.0
Capex	-44.8	-71.3	-51.0	-5.3
Other	0.0	2.3	0.0	0.0
Investing Cash Flow	-45.9	-75.3	-53.0	-7.3
Debt Drawdown (repayment)	-15.6	-66.6	-7.0	-7.0
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	-10.0	-10.0
Opening Cash	16.7	5.6	18.4	11.5
Increase / (Decrease) in cash	-11.1	12.8	-7.0	21.1
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	5.6	18.4	11.5	32.6
Op. Cashflow/Share	\$0.05	\$0.33	\$0.22	\$0.15
P/CF	8.58	1.34	1.95	2.84
FCF	5.0	6.4	3.0	31.1
EV/FCF	36.6x	16.5x	34.7x	2.5x
FCF Yield	5%	6%	3%	29%

Balance Sheet (A\$m)

	2020a	2021e	2022e	2023e
Cash + S/Term Deposits	5.6	18.4	11.5	32.6
Other current assets	21.5	22.4	19.7	18.6
Current Assets	27.1	40.8	31.2	51.2
Property, Plant & Equip.	179.7	185.2	187.6	181.0
Exploration & Develop.	30.1	36.4	38.4	40.4
Other Non-current Assets	0.4	47.9	54.7	26.8
Payables	43.6	8.1	7.2	6.8
Short Term Debt	71.5	2.8	1.4	0.0
Long Term Debt	10.7	11.2	5.6	0.0
Other Liabilities	54.2	242.8	235.1	230.0
Net Assets	57.4	45.4	62.6	62.7
Shareholders Funds	171.6	263.6	263.6	263.6
Reserves	0.9	-76.6	-76.6	-76.6
Retained Earnings	-116.2	-142.7	-125.4	-125.4
Total Equity	57.4	45.4	62.6	62.7
Debt/Equity	19%	25%	9%	0%
Net Debt/EBITDA	1.5x	-0.1x	-0.1x	-0.8x
Net Interest Cover	5.4x	15.6x	45.6x	137.4x
ROE	3%	112%	27%	0%
ROIC	1%	17%	6%	0%
Book Value/share	\$0.23	\$0.18	\$0.25	\$0.25

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: June 06, 2021, 19:06 ET

Date and time of production: June 06, 2021, 19:06 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 06/06/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	614	64.77%	42.02%
Hold	168	17.72%	25.60%
Sell	9	0.95%	11.11%
Speculative Buy	145	15.30%	65.52%
	948*	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.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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

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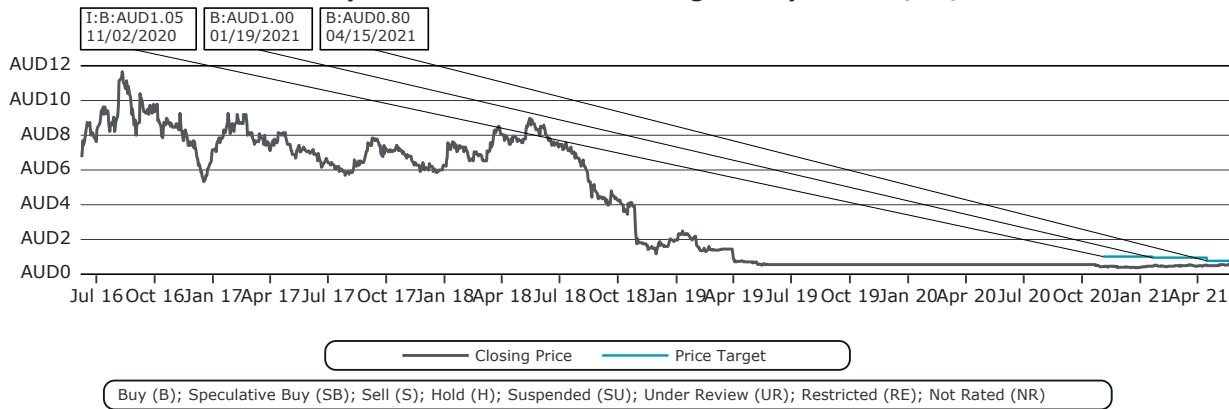
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Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Gascoyne Resources Limited Institutional Placement and Accelerated Non-Renounceable Entitlement offer announced 13 August 2020.

Gascoyne Resources Limited Rating History as of 06/04/2021



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