

# Gascoyne Resources Limited

## Precious Metals - Producer

21 December 2021

**Rating**  
**SPECULATIVE BUY**↓  
from BUY

**Price Target**  
**A\$0.50**↓  
from A\$0.65

**GCY-ASX**

**Price**  
**A\$0.28**

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## Revisiting our base case

**New convertible A\$20m debt facility.** GCY has entered a A\$20m convertible note debt facility with major shareholder Deutsche Balaton AG group (~17.4%). Key terms of the debt facility are:

- Two A\$10m tranches, 2-year term, maturity 17 December 2023.
- 18% p.a. fixed interest rate, payable six months in arrears.
- Unsecured facility with no financial covenants or financial ratio requirements.
- **Tranche 1** — A\$10m principal value convertible at A\$0.30/share at the election of Balaton at any time up to maturity.
- **Tranche 2** — A\$10m principal value convertible:
  - At A\$0.30/share at the election of GCY at maturity; or
  - At A\$0.36/share at the election of Balaton at maturity or on a change of control occurring; or
  - At the lower of the capital raise price or A\$0.36/share, at the election of Balaton, if GCY undertakes a capital raise of more than A\$3m during the term.
- The conversion rights as detailed above are subject to shareholder approval with intending to call a general meeting to seek approval by 31 March 2022.
- Proceeds are to be used to repay the Investec debt (A\$10.3m) and closing the hedge facility (SepQ'21: 43.6koz @ A\$2,506/oz) with the remainder for working capital.

Funds from the new facility are expected to be received on 21 December 2021, with GCY intending to immediately repay the Investec debt facility and close out the existing hedge facility (CGe cost of ~A\$1m). GCY intends to use the remainder of the funds (CGe ~A\$8.3m) for working capital purposes and growth opportunities, namely near-mine drilling at Dalgara and Resource drilling at Yalgoo as well as securing additional ore sources in the region.

**Exploration update.** GCY has also released an exploration update highlighting results from its near-mine and regional drill program. Notable results at Plymouth, which is currently being mined, include: **12m @ 2.2 g/t Au** from 99m and **9m @ 3.4 g/t Au** from 75m, the intercepts are below the current Resource and mine plan areas, demonstrating upside potential to the existing Resource with mineralisation remaining open down dip. Results from Hendricks, located 1.5km east of the Dalgara plant include: **5m @ 8.3 g/t Au** from 80m and **15m @ 1.1 g/t Au** from 51m. GCY is targeting a maiden Resource at Hendricks in early CY22. Results from the high Crescent prospect at Yalgoo, ~110km by road from Dalgara, included **6m @ 5.1 g/t Au** from 56m and **11m @ 1.9 g/t Au** from 43m, a maiden Resource is expected early CY22.

**Model updates.** We have rolled our model forward to account for the closing of the hedgebook and new debt. We have assumed a bullet repayment of the principal at maturity; however, we highlight the potential for the debt to be converted into equity. We note if both tranches are converted, this would result in up to 66.6m shares being issued, representing an 18% increase in shares on issue for GCY, and an increase in Balaton's overall interest in GCY from 17.4% to ~30%.

We have also refined our outlook for Dalgara, reducing our assumed LOM until such time as we have greater confidence around the various potential future ore sources both in the near-term and beyond FY24. To this end, we look to the expected maiden Ore Reserve and Scoping Study for the newly acquired Melville deposit (200koz @ 1.47g/t Au), expected in MarQ'22, as well as maiden Resource Estimates for numerous satellite deposits expected in the next 6-12 months.

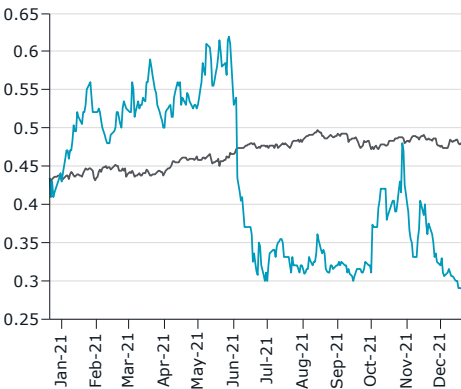
**Valuation and recommendation.** On incorporating the changes noted above our price target decreases to \$0.50 (from \$0.65). We move from a Buy to SPECULATIVE BUY recommendation.

### Market Data

52-Week Range (A\$) :	0.28 - 0.64
Avg Daily Vol (000s) :	1
Market Cap (A\$M) :	105.4
Shares Out. (M) :	369.9
Enterprise Value (A\$M) :	121
NAV /Shr (5%) (A\$) :	0.48
Net Cash (A\$M) :	15.9
P/NAV (x) (A\$) :	0.57

### FYE Jun

	2021E	2022E	2023E	2024E
Gold Production (000oz)	77	71	88	90
All in Sustaining Cost (Gold) (US\$ / oz)	977	1,505	1,316	1,273
EBITDA (A\$M)	95.7	16.1↓	56.2↓	66.1↓
Previous	-	20.8	60.0	92.8
Net Income (A\$M)	(44.1)	(23.6)↓	6.9↓	15.2↓
Previous	-	(16.5)	13.1	38.0
Free Cash Flow (A\$M)	10.6	3.3	27.6	47.9



— GCY  
— S&P/ASX All Ordinaries (rebased)

Source: FactSet

Priced as of close of business 21 December 2021

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

## FINANCIAL SUMMARY

Gascoyne Resources Limited

ASX:GCY

Analyst : Tim McCormack  
Date: 21/12/2021  
Year End: June

Rating:  
Target Price:

**BUY**  
**A\$0.50**

### Market Information - pro-forma

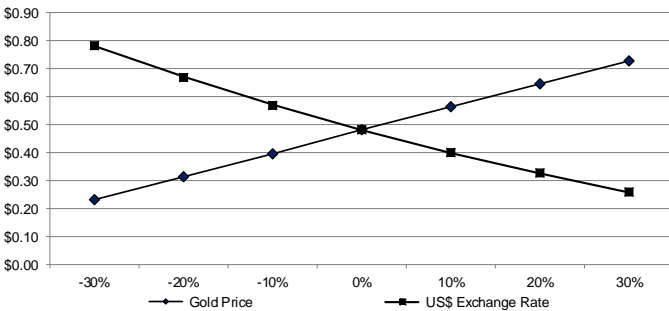
Share Price	A\$	0.28
Market Capitalisation	A\$m	103.6
12 Month Hi	A\$	0.64
12 Month Lo	A\$	0.28
Issued Capital	m	369.9
Options	m	0.0
Fully Diluted	m	369.9

Valuation		A\$m	A\$/sh
Dalgaranga	NPV @ 5%	159	0.43
Corporate		(25)	-0.07
Exploration		30	0.08
Forwards		(0)	0.00
Cash & Bullion (CGe DecQ21)		36	0.10
Debt (CGe DecQ21)		(20)	-0.05
<b>TOTAL NAV</b>		<b>179</b>	<b>0.48</b>
Price:NAV			0.56 x
NAV @ Spot	Spot US\$1,791/oz		0.53

**TARGET PRICE** **0.50**

Assumptions	2021a	2022e	2023e	2024e
Gold Price (US\$/oz)	1,851	1,783	1,774	1,800
AUD:USD	0.75	0.73	0.73	0.73
Gold Price (A\$/oz)	2,476	2,427	2,431	2,467

### Sensitivity



Production Metrics	2021a	2022e	2023e	2024e
<b>Dalgaranga</b>				
Prod'n (koz)	77	71	88	90
AISC (A\$/oz)	1,308	2,049	1,803	1,745
AIC (A\$/oz)	2,064	2,264	1,849	1,790

Reserves & Resources		Mt	Grade	Moz
<b>Reserves</b>				
Dalgaranga		13.5	0.8	0.34
<b>Reserves TOTAL</b>		<b>13.5</b>	<b>0.8</b>	<b>0.34</b>
<b>Resources</b>				
Dalgaranga		25.0	0.8	0.65
Glenbrugh		16.3	1.0	0.51
Mt Egerton		0.3	3.1	0.03
Melville		4.2	1.5	0.2
<b>Resources TOTAL</b>		<b>45.8</b>	<b>0.9</b>	<b>1.39</b>

### Company Description

Gascoyne Resources Limited is an Australian gold producer operating the Dalgaranga project in Western Australia. The project is guided to produce 70-80koz at AISC's of A\$1,900-2,000/oz in FY22. The company recently merged with FFR, which has the potential to provide a high grade satellite ore source.

Profit & Loss (A\$m)	2021a	2022e	2023e	2024e
Revenue	203.1	173.2	213.7	222.3
Operating Costs	93.7	151.3	147.5	146.3
Corporate & O'heads	9.5	5.8	10.0	10.0
Exploration (Expensed) & Other	3.8	0.0	0.0	0.0
<b>EBITDA</b>	<b>95.7</b>	<b>16.1</b>	<b>56.2</b>	<b>66.1</b>
Dep'n	53.0	37.2	46.1	47.3
Net Interest	-4.1	-2.6	-3.2	-0.3
Other (non-cash)	-80.2	0.0	0.0	0.0
Tax	2.4	0.0	0.0	3.3
<b>NPAT (statutory)</b>	<b>-44.1</b>	<b>-23.6</b>	<b>6.9</b>	<b>15.2</b>
Abnormals	80.2	0.0	0.0	0.0
NPAT	36.2	-23.6	6.9	15.2
<b>EBITDA Margin</b>	<b>47%</b>	<b>9%</b>	<b>26%</b>	<b>30%</b>
<b>EV/EBITDA</b>	<b>1.0x</b>	<b>5.9x</b>	<b>1.3x</b>	<b>0.4x</b>
<b>EPS</b>	<b>-\$0.06</b>	<b>-\$0.06</b>	<b>\$0.02</b>	<b>\$0.04</b>
<b>EPS Growth</b>	<b>nm</b>	<b>nm</b>	<b>-129%</b>	<b>121%</b>
<b>PER</b>	<b>-4.44</b>	<b>-4.39</b>	<b>15.08</b>	<b>6.81</b>
<b>Dividend Per Share</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Dividend Yield</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Cash Flow (A\$m)	2021a	2022e	2023e	2024e
Cash Receipts	199.8	173.2	213.7	222.3
Cash paid to suppliers & employee	-121.3	-157.0	-157.5	-156.3
Tax Paid	0.0	0.0	0.0	-3.3
Net Interest	-3.4	-2.9	-3.6	-0.9
Other	-0.0	8.5	0.0	0.0
<b>Operating Cash Flow</b>	<b>75.1</b>	<b>21.8</b>	<b>52.6</b>	<b>61.9</b>
Exploration and Evaluation	-3.3	-4.2	-4.0	-4.0
Capex	-61.1	-17.2	-21.0	-10.0
Other	-0.0	2.9	0.0	0.0
<b>Investing Cash Flow</b>	<b>-64.5</b>	<b>-18.5</b>	<b>-25.0</b>	<b>-14.0</b>
Debt Drawdown (repayment)	-65.9	4.8	0.0	-20.0
Share capital	85.2	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing/Lease Expenses	-12.2	-3.0	-3.0	-3.0
<b>Financing Cash Flow</b>	<b>7.2</b>	<b>1.8</b>	<b>-3.0</b>	<b>-23.0</b>
Opening Cash	5.6	23.4	28.6	53.2
Increase / (Decrease) in cash	17.8	5.1	24.6	24.9
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>23.4</b>	<b>28.6</b>	<b>53.2</b>	<b>78.1</b>
<b>Op. Cashflow/Share</b>	<b>\$0.20</b>	<b>\$0.06</b>	<b>\$0.14</b>	<b>\$0.17</b>
<b>P/CF</b>	<b>1.38</b>	<b>4.76</b>	<b>1.97</b>	<b>1.67</b>
<b>FCF</b>	<b>10.6</b>	<b>3.3</b>	<b>27.6</b>	<b>47.9</b>
<b>EV/FCF</b>	<b>8.9x</b>	<b>28.8x</b>	<b>2.5x</b>	<b>0.5x</b>
<b>FCF Yield</b>	<b>10%</b>	<b>3%</b>	<b>27%</b>	<b>46%</b>

Balance Sheet (A\$m)	2021a	2022e	2023e	2024e
Cash + S/Term Deposits	23.4	28.6	53.2	78.1
Other current assets	20.2	19.0	23.5	24.5
<b>Current Assets</b>	<b>43.7</b>	<b>47.6</b>	<b>76.7</b>	<b>102.6</b>
Property, Plant & Equip.	112.6	108.6	103.6	96.1
Exploration & Develop.	32.9	37.0	41.0	45.0
Other Non-current Assets	0.4	4.8	-10.5	-39.3
Payables	9.7	6.9	8.5	8.9
Short Term Debt	16.8	0.0	0.0	0.0
Long Term Debt	11.5	0.0	20.0	0.0
Other Liabilities	43.6	106.8	91.1	89.2
<b>Net Assets</b>	<b>107.9</b>	<b>84.3</b>	<b>91.1</b>	<b>106.3</b>
Shareholders Funds	266.2	266.2	266.2	266.2
Reserves	0.7	0.7	0.7	0.7
Retained Earnings	-160.3	-184.0	-177.1	-161.9
<b>Total Equity</b>	<b>107.9</b>	<b>84.3</b>	<b>91.1</b>	<b>106.3</b>
<b>Debt/Equity</b>	<b>11%</b>	<b>0%</b>	<b>22%</b>	<b>0%</b>
<b>Net Debt/EBITDA</b>	<b>0.1x</b>	<b>-1.3x</b>	<b>-0.6x</b>	<b>-1.3x</b>
<b>Net Interest Cover</b>	<b>12.0x</b>	<b>11.9x</b>	<b>11.9x</b>	<b>52.2x</b>
<b>ROE</b>	<b>34%</b>	<b>-28%</b>	<b>8%</b>	<b>14%</b>
<b>ROIC</b>	<b>21%</b>	<b>-13%</b>	<b>4%</b>	<b>11%</b>
<b>Book Value/share</b>	<b>\$0.29</b>	<b>\$0.23</b>	<b>\$0.25</b>	<b>\$0.29</b>

Source: Company reports, Canaccord Genuity estimates

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### Investment Recommendation

Date and time of first dissemination: December 21, 2021, 00:33 ET

Date and time of production: December 21, 2021, 00:33 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.

### 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 12/21/21)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	662	68.96%	44.71%
Hold	140	14.58%	27.86%
Sell	9	0.94%	33.33%
Speculative Buy	146	15.21%	58.90%
	960*	100.0%	

\*Total includes stocks that are Under Review

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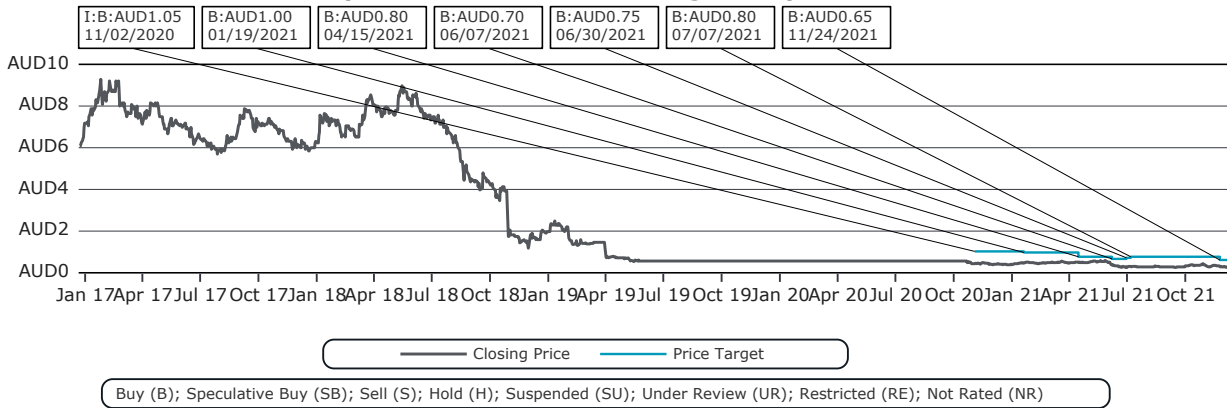
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**Gascoyne Resources Limited Rating History as of 12/20/2021**



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