

Australian Equity Research

12 November 2017

Patrick Chang, CFA | Analyst | Canaccord Genuity (Australia) Ltd. | patrick.chang@canaccord.com.au | +61.8.6216.2004

Reg Spencer | Analyst | Canaccord Genuity (Australia) Ltd. | reg.spencer@canaccord.com.au | +61.2.9263.2701

SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.08

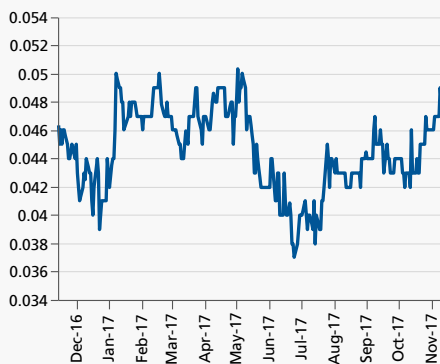
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Price (13-Nov) A\$0.05

Ticker EMR-ASX

52-Week Range (A\$):	0.04 - 0.05
Avg Daily Vol (M) :	0.8
Market Cap (A\$M):	106
Shares Out. (M) :	2,110.5
Enterprise Value (A\$M):	98.4
Cash (A\$M):	7.1
Long-Term Debt (A\$M):	0.0
NAV /Shr (A\$):	0.08
NAV /Shr (5%) (A\$):	0.10

FYE Jun	2017E	2018E	2019E	2020E
Gold Production (000oz)	0	0	37	106
All in Sustaining Cost (Gold) (US \$ /oz)	-	-	822	763



EMR
Source: FactSet

Priced as of close of business 13 November 2017

Emerald Resources (EMR:ASX) is a gold development and exploration company developing its Okvau gold project in Cambodia. A recent Feasibility Study demonstrated the potential for the project to become a +100kozpa, low cost operation with +7 year mine life. EMR is managed by a well-regarded ex-Equigold team which has developed and operated projects in Australia and overseas.

Company Update

Environmental Approval Received

Environmental Approval received. Emerald (EMR) received Environmental Approval (EA) for its 100% owned Okvau Gold Project, achieving a key permitting milestone and de-risking the permitting process ahead of a General Election in July 2018. Key terms including rehabilitation and contributions towards Environmental and Social Funds are in line with those provided in the DFS. Under the Environmental Contract, the project area will be rezoned from a “Conservation Zone” to a ‘Sustainable Use Zone’ by the Cambodian Ministry of Environment.

The EA has taken longer than anticipated, but delays are not unexpected considering the project’s first mover status in the country. We see this as a precursor to an Industrial Mining License (expected in the coming weeks) and subsequently, a Mineral Investment Agreement (Stability Agreement). Furthermore, we expect the project to move into the financing and construction phases in the near term.

Quality asset. We re-iterate favourable attributes of the project, with a recent DFS highlighting:

- A maiden Reserve of 907koz @ 2.0g/t
- Gold-only operation featuring stacked lodes from a single open pit
- A modest stripping ratio of ~5.7:1
- Competitive pre-production capex of ~US\$100m and AISC ~US\$750/oz
- Current mine life of 7.2 years with tangible upside

Further details on the project can be found in [our initiation note](#).

First-class team. EMR has consolidated a proven development and operational team, comprising key technical personnel from Equigold (now Newcrest) and Regis. The team has an excellent reputation for building projects cheaply (e.g. Bonikro, Duketon) and superior operational delivery, even when the underlying assets are considered modest. The granted EA further demonstrates management’s ability to operate in frontier jurisdictions.

First mover and exploration upside. Okvau is classified as an Intrusive Related Gold Systems deposit. These systems are responsible for the formation of multi-Moz deposits in better explored belts (e.g. Tintina Gold Belt in Alaska). Whilst modern gold exploration in the project region is at an early stage, Okvau exhibits classic IRGS geochemical signatures and formed under similar geological environment in terms of age and host rocks. Systematic exploration effort is likely to be rewarded, given the prospectivity and under-explored nature of the tenements. The company’s recent acquisitions enhances its exploration pipeline and further strengthens its footprint in the region.

Valuation

EMR offers a quality undeveloped gold asset, a first-class management team with high ownership (~30%), prospective geology and a first mover advantage which should translate to further opportunities. We maintain a SPEC BUY recommendation and a A \$0.08 price target. Our A\$0.08 price target is based on 1x NPV_{10%} for the operating assets net of corporate and other adjustments.

FINANCIAL SUMMARY

Emerald Resources NL

ASX:EMR

Analyst: Patrick Chang
Date: 13/11/2017
Year End: June

Rating:
Target Price:

SPEC BUY
\$0.08

Market Information

Share Price	A\$	0.05
Market Capitalisation	A\$m	109.7
12 Month Hi	A\$	0.05
12 Month Lo	A\$	0.04
Average daily turnover (3 month)	m	0.78
Issued Capital	m	2110
Options	m	63.62
Fully Diluted	m	2174

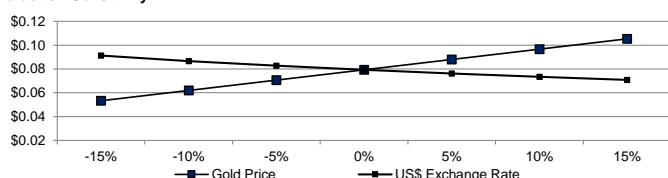
Valuation diluted for funding

	A\$m	A\$/share
Okvau NPV @ 10%	177.3	0.05
Exploration & Projects	48.4	0.01
Corporate	(15.1)	(0.00)
Forwards (inc spot deferred)	-	-
Cash & Bullion and Investment	7.1	0.00
Project funding	76.8	0.02
Debt	-	-
Unpaid Capital	-	-
TOTAL NAV	294.3	0.08
Price:NAV	0.66	
NAV at Spot US\$1,275/oz, AUDUSD \$0.77		0.07
Target Price		0.08

Assumptions

	2017a	2018e	2019e	2020e
Gold Price (US\$/oz)	1,241	1,297	1,320	1,348
AUD:USD	0.753	0.796	0.793	0.787
Gold Price (A\$/oz)	1,649	1,629	1,665	1,713

Valuation Sensitivity



Production Metrics (attributable)

	2017a	2018e	2019e	2020e
Okvau				
Gold production (koz)	0	0	37	106
AISC (A\$/oz)	0	0	1,038	969

Resources & Reserves (50% basis)

	Mt	Grade	Moz
Resources - Okvau			
Measured	-	-	-
Indicated	15.1	2.1	1.0
Inferred	2.6	1.6	0.1
Resources TOTAL	17.7	2.0	1.1
Reserves - Okvau			
Proved	-	-	-
Probable	14.3	2.0	0.9
Reserves TOTAL	14.3	2.0	0.9

Directors & Management

Name	Position
Simon Lee AO	Non-Executive Chairman
Morgan Hart	Managing Director
Justin Tremain	Executive Director
Ross Stanley	Non-Executive Director
Ross Williams	Non-Executive Director

Substantial Shareholders

	Shares (m)	%
Management	632.39	30.0%
Ingalls & Snyder	168.64	8.0%
Confederate Capital	105.40	5.0%

Source: EMR & Canaccord Genuity estimates

Company Description

Emerald Resources (EMR:ASX) is a gold development and exploration company developing its Okvau gold project in Cambodia. A recent Feasibility Study demonstrated the potential for the project to become a +100kozpa, low cost operation with +7 year mine life. EMR is managed by a well-regarded ex-Equigold team that has developed and operated projects in Australia and overseas.

Profit & Loss (A\$m)	2017a	2018e	2019e	2020e
Revenue	0.5	0.8	62.8	182.6
Operating Costs	0.0	0.0	-30.1	-86.4
Corporate & O'heads	-1.5	-2.8	-4.1	-4.1
Exploration (Expensed)	-7.4	-4.9	-4.9	-4.9
Others	-0.0	0.0	0.0	0.0
EBITDA	-8.4	-6.9	23.7	87.1
Dep'n	-0.1	0.0	-8.1	-23.2
EBIT	-8.5	-6.9	15.6	63.9
Net Interest	-0.0	0.2	-2.8	-1.7
Tax	0.0	0.0	-4.7	-16.4
NPAT	-8.5	-6.7	8.1	45.8
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-8.5	-6.7	8.1	45.8

Cash Flow (A\$m)	2017a	2018e	2019e	2020e
Cash Receipts	0.0	0.0	62.4	182.3
Cash paid to suppliers & employ	-2.3	-2.8	-36.7	-97.8
Tax Paid	0.0	0.0	-4.7	-16.4
Net Interest	0.3	0.2	-2.8	-1.7
Operating Cash Flow	-2.0	-2.6	18.3	66.3
Exploration and Evaluation	-7.7	-6.0	-6.0	-6.0
Capex	-0.0	-73.1	-63.7	-4.9
Other	6.5	0.0	0.0	0.0
Investing Cash Flow	-1.2	-79.1	-69.7	-10.9
Debt Drawdown (repayment)	0.0	47.0	15.0	-40.0
Share capital	0.0	76.8	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	0.0	3.8	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing Cash Flow	0.0	127.6	15.0	-40.0
Opening Cash	11.7	8.5	46.7	10.3
Increase / (Decrease) in cash	-3.2	45.9	-36.4	15.4
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	8.5	54.4	10.3	25.7

Balance Sheet (A\$m)	2017a	2018e	2019e	2020e
Cash + S/Term Deposits	8.5	46.7	10.3	25.7
Other current assets	0.5	0.3	20.7	60.2
Current Assets	9.1	47.0	31.0	85.9
Property, Plant & Equip.	0.1	73.2	128.8	110.5
Exploration & Develop.	37.9	39.1	40.3	41.6
Other Non-current Assets	0.0	10.0	0.0	0.0
Payables	0.9	0.3	5.0	14.6
Short Term debt	0.0	5.0	40.0	22.0
Long Term Debt	0.0	42.0	22.0	0.0
Other Liabilities	0.0	6.6	12.4	42.5
Net Assets	46.2	115.4	120.7	158.9
Shareholders Funds	88.5	165.2	165.2	165.2
Reserves	2.5	2.5	2.5	2.5
Retained Earnings	-44.7	-52.2	-46.9	-8.8
Total Equity	46.2	115.4	120.7	158.9

Ratios & Multiples	2017a	2018e	2019e	2020e
EBITDA Margin	nm	nm	38%	48%
EV/EBITDA	nm	nm	6.8x	1.2x
Op. Cashflow/Share	\$0.00	\$0.00	\$0.01	\$0.03
P/CF	nm	nm	nm	nm
EPS	-\$0.01	\$0.00	\$0.00	\$0.02
EPS Growth	nm	nm	-170%	623%
PER	nm	nm	nm	nm
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-18%	-6%	7%	29%
ROIC	-10%	-3%	6%	29%
Debt/Equity	0%	36%	18%	0%
Net Interest Cover	-1724.4x	-11.6x	5.0x	31.0x
Book Value/share	\$0.02	\$0.05	\$0.06	\$0.08
Price/Book Value	2.4x	1.0x	0.9x	0.7x
EV/FCF	nm	nm	nm	nm

Crown Jewel

Key project attributes

In our view, Okvau is a high quality pre-development asset, featuring favourable attributes including:

- Grade – open pit Reserve grade of 2.0g/t
- Geometry – stacked lodes and a modest stripping ratio of 5.7:1
- Scale – 100kozpa production and Reserve of 907koz
- Mine Life – 7.2 years underpinned by Reserve
- Simplicity – single open pit operation
- Costs – competitive AISC of ~US\$750/oz and pre-production capex of ~US\$100m

As a recap, key assumptions used for our modelling are described in Figure 1 below.

Figure 1: Key physical assumptions

Key assumptions (100% basis)		EMR FS	CG assumption
Recovered gold	koz	762	771
Capex required	US\$m	98	100
Sustaining capex LOM	US\$m	23	28
Processing rate	Mtpa	2.0	2.0
Head grade (LOM)	g/t	2.0	2.0
Recoveries	%	84%	84%
LOM production (average)	kozpa	106	103
LOM AISC	US\$/oz	731	763
Mine Life		7.2	7.2
OP strip ratio	:	5.7	5.7

Source: Company Reports, Canaccord Genuity estimates

Technically de-risked project

EMR has further de-risked the project through additional technical work:

- The top ~120m has been in-fill drilled to ~25m x 25m spacing, beyond the requirement for an Indicated Resource, providing enhanced confidence during the first ~3 years of the operation.
- Internal/external dilutions and ore loss have been factored into the MIK Resource model, resulting in a head grade of 2.0g/t, which we consider prudent to compensate for the shallower dips of the orebody.
- Further metallurgical work confirmed a viable processing route through the flotation, regrind, CIL circuit to deliver an average recovery of ~84%.

Upside to our valuation

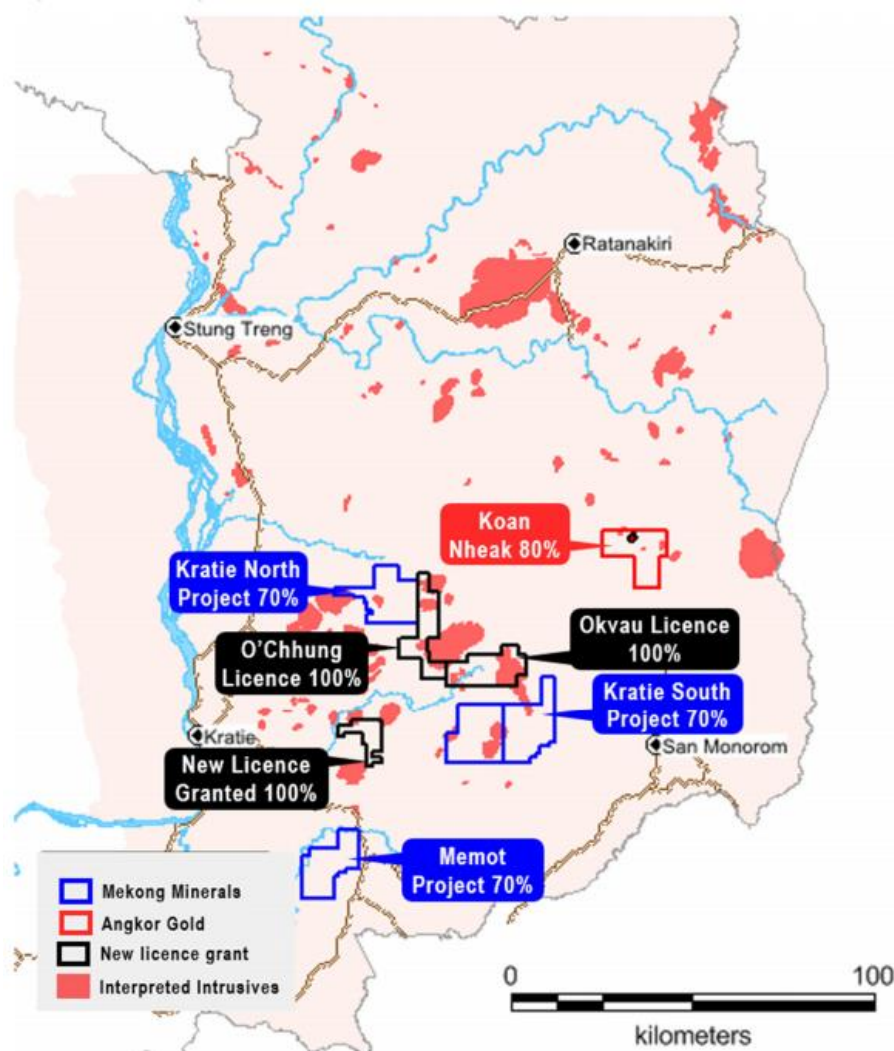
Potential upside to our modelled scenario include:

- Additional mineralisation at depth via further cut-backs
- Future underground operations
- Near-mine discovery resulting in satellite feed
- More favourable fiscal terms achieved through the signing of a fiscal stability agreement
- Better than expected reconciliation due to conservative modelling detailed grade control practices

Expanding footprint and Boosting pipeline

During the September Q, EMR reached agreements to earn-in to five additional exploration licenses covering ~1,050km² from TSX-listed Angkor Gold Corp and unlisted Australian company Mekong Minerals Ltd. EMR has the option to earn 70-80% interest in these tenements. In addition, EMR has successfully applied for ~75km² tenements ~40km to the SW of Okvau.

Figure 2: Additional project locations



Source: Company reports

While early state, the additional positions cover land prospective for large scale intrusive related gold systems (e.g., Okvau). Some of the projects had encouraging, but limited drilling that warrant follow up work. Examples include:

- 16m @ 2.9g/t from 4m at Memot
- 4m @ 10.3g/t from 56m at Kratie South
- 3m @ 12.9g/t from 38m at Kratie South

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Date and time of first dissemination: November 12, 2017, 19:55 ET

Date and time of production: November 12, 2017, 19:55 ET

Target Price / Valuation Methodology:

Emerald Resources NL - EMR

Our A\$0.08 price target is based on 1x NPV10% for the operating assets net of corporate and other adjustments.

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Rating	Coverage Universe		IB Clients
	#	%	%
Buy	563	59.96%	40.14%
Hold	263	28.01%	25.48%
Sell	21	2.24%	9.52%
Speculative Buy	92	9.80%	66.30%
	939*	100.0%	

*Total includes stocks that are Under Review

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