

Emerald Resources NL

(EMR \$0.04) Speculative Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	13 th July 2017	\$0.09/sh

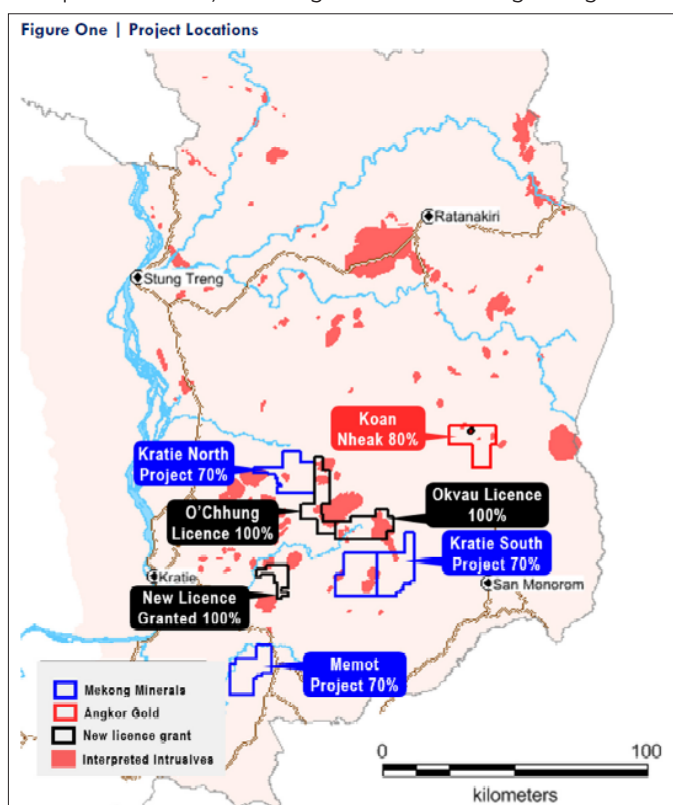
Quadruples Land Holding In Cambodia

Investment case

We like this deal to expand its land holding around Okvau for minimal cash outlay and sensible earn in deals as we believe the area is prospective and very under explored. This ground is likely to be worth more when Okvau is in production. We expect the EISA to be granted shortly, paving the way for the Mining Licence and Mineral Investment Agreement. The company remains confident that construction can start in 4th Q CY'17 with first gold in late CY'18/early CY'19. Our valuation remains at \$0.09/sh; offering a >100% return at current prices and we maintain our Speculative Buy.

Key points

- EMR has expanded its exploration land position in Cambodia from 374sqkm to 1,500sqkm via farm in/earn in agreements and the granting of a new EL.



Source: Emerald Resources NL

- The largest earn in is with Mekong Minerals, an Australian unlisted company with 4 EL's covering 861 sqkm whereby EMR can earn up to a 70% interest. It can earn 51% through expenditure of US\$1.5m and then Mekong have option of contributing or diluting (Southern Gold has a 15% free carried interest until DFS complete). If Mekong elect not to contribute (15% free carried to DFS), EMR will earn and effective 70%.

Emerald Resources NL	Year End 30 June	
Share Price	0.04	A\$/sh
Price Target	0.09	A\$/sh
Valuation	0.09	A\$/sh
	(npv 10%)	

Shares on issue	2106	m, diluted *
Market Capitalisation	88	A\$m
Enterprise Value	78	A\$m
Debt	0	A\$m
Cash	10	A\$m
Largest Shareholder		Dir & Mgt 28%

Production F/Cast	2017f	2018f	2019f
Attrib. Prod'n (koz)	0	0	81
Cash Cost (A\$/oz)	na	n/a	585
Total Cost (A\$/oz)	na	n/a	857

Assumptions	2017f	2018f	2019f
Gold US\$/oz	1258	1325	1350
AUDUSD	0.75	0.76	0.76

Key Financials	2017f	2018f	2019f
Revenue (A\$m)	1	3	110
EBITDA (A\$m)	-2	-5	57
NPAT (A\$m)	-1	-5	22
Cashflow (A\$m)	-3	-180	57
CFPS (Ac)	0	-4	1
P/CFPS (x)	na	na	3.0
EPS (Ac)	0	0	1
EPS growth (%)	na	na	na
PER (x)	na	na	4.4
EV:EBITDA (x)	-39.2	-15.7	1.4
EV:EBIT (x)	-39.2	-15.7	2.2
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	73%	24%	11%
Interest Cover (x)	na	na	11.4

Share Price Chart



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This analyst declares that he has a beneficial interest in Emerald Resources NL.

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- Historical drilling within the Mekong ground has intersected ore grade intercepts including;
 - 4m @ 11.9 g/t Au from 4m,
 - 4m @ 10.2 g/t Au from 56m,
 - 16m @ 2.9 g/t Au from 4m,
- The Kratie Sth project (part of the Mekong Minerals package) is located 15km south of Okvau and displays similar mineralisation characteristics to Okvau.
- EMR has also reached agreement with TSX listed company Angkor Gold Corp over a EL licence (189sqkm) located 50km NE of Okvau where it can earn a 80% interest by sole funding US\$2m in exploration, cash payment of US\$0.2m and completion of a DFS by 2022.
- Grab samples have returned 33.2 g/t Au and rock chips up to 10 g/t Au.
- EMR has received indicative debt financing proposals and expect to mandate the preferred debt financier(s) in the coming weeks. The proposals provide for a significant portion of debt funding for Okvau capex – potentially limiting dilution for existing shareholders.
- Permitting continues with the Environmental and Social Impact Assessment ('EISA') now in its final form. EMR remains confident the Industrial Mining Licence will be granted shortly, following environmental approval. EMR continues to target the 3rd Q for all approvals and development to start in Q4.

Analysis

This is a positive and logical move for EMR to tie up the most prospective land positions around the Okvau project. The deals/earn in all are reasonably priced with money going into the ground to earn interest with minimal upfront cash payments.

Okvau is a very robust project capable of producing 106koz pa @ AISC of US\$731/oz for +7 yrs with initial capital requirement of US\$98m (incl US\$7m for pre-production mining). Maiden reserves of 907koz @ 2.0 g/t Au represent a 90% conversion of the 1.0moz indicated resource – an excellent outcome. It is also 9.3% higher than the '830koz in pit mining inventory' used in the PFS.

EMR is different from many junior companies in that management have a substantial interest in the company. The Directors currently hold around 30%, having invested significant money into the company. There has been no free performance shares/options etc with genuine 'skin in the game'.

In addition, the in house capabilities of EMR means it will assemble its own internal construction team rather an outsource to an engineering firm (as many of its peers do) as the key members of have been actively involved in project development in Australia and Overseas.

We maintain our Speculative Buy and valuation of \$0.09/sh. Permitting remains a key share price catalyst for EMR and we are hopeful this will be done in the Sept Q.

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Market Statistics				Year End 30 June		
Share Price	\$0.040	A\$/sh	Directors			
Issued Capital			S Lee	Chr'n		
FP Ord	2,106.0	m*	M Hart	MD		
			R Stanley	NE Dir		
Total Dil. FPOrd	2,106.0	m	R Williams	NE Dir		
			J Tremain	Exec Dir		
Market Capitalisation	\$88	m				
Enterprise Value	\$78	m	Shareholders			
Debt	\$-	m	Dir & Mgt	29%		
Cash	\$10	m	Ingalls & Synder	10%		
Asset Valuation				A\$m	A\$/sh	
Okvau gold project			245	0.08		
Hedging			-	-		
Corporate			(46)	(0.01)		
Okvau Exploration			20	0.01		
Unpaid Capital			60	0.02		
Debt			-	-		
Cash			10	0.00		
Total			289	0.090		
F/Cast Production (A\$m) 2017f 2018f 2019f 2020f 2020f						
Okvau (100%)	koz	0	0	81	108	107
Avg Cash Cost	US\$/oz	na	n/a	585	585	640
Avg Total Cost	US\$/oz	na	n/a	857	860	924
Avg All in Costs		n/a	n/a	769	769	843
Avg Spot Price	US\$/oz	1,258	1,325	1,350	1,350	1,350
Avg Price Rec'd	US\$/oz	1,258	1,325	1,350	1,350	1,350
Ratio Analysis (A\$m) 2017f 2018f 2019f 2020f 2020f						
CF (A\$m)		(3)	(180)	57	82	78
CF / Sh (Ac/sh)		(0)	(4)	1	2	2
CF Ratio (x)		na	na	3.0	2.0	2.1
Earnings (A\$m)		(1)	(7)	29	43	39
EPS (Ac/sh)		(0)	(0)	1	1	1
EPS Growth (%)		na	na	na	49%	-10%
Earnings Ratio (x)		na	na	4.4	3.0	3.3
E'prise Val. (A\$m)		169	163	142	86	32
EV : EBITDA (x)		(39.2)	(15.7)	1.4	1.0	1.1
EV : EBIT (x)		(39.2)	(15.7)	2.2	1.6	1.9
Net Debt / ND+Eq (%)		73%	24%	11%	na	na
Interest Cover (x)		na	na	11.4	42.5	na
EBIT Margin (%)		na	na	32%	33%	28%
ROE (%)		-6%	-5%	19%	23%	18%
ROA (%)		-2%	-3%	18%	21%	16%
Div. (Ac/sh)		-	-	-	-	-
Div. payout ratio (x)		-	-	-	-	-
Div. Yield (%)		0%	0%	0%	0%	0%
Div. Franking (%)		0%	0%	0%	0%	0%
Profit and Loss (A\$m) 2017f 2018f 2019f 2020f 2020f						
Gold Revenue		0	0	109	146	144
Hedging Revenue		0	-	-	-	-
Interest Revenue		1	3	1	3	6
Other Revenue		-	-	-	-	-
TOTAL REVENUE		1	3	110	149	150
Operating Costs		0	0	47	63	68
Dep/Amort		0	0	22	30	30
W/O & Provisions		-	-	-	-	-
Corp O/H		2	5	5	5	5
EBITDA		(2)	(5)	57	78	71
EBIT		(2)	(5)	35	48	41
Interest Expense		-	5	5	5	5
NPBT		(1)	(7)	31	46	42
Tax		(0)	(2)	9	14	13
Minorities		-	-	-	-	-
NET PROFIT		(1)	(5)	22	32	29
Net Abnormal Gain/(Loss)		-	-	-	-	-
NET PROFIT After Abn'l		(1)	(5)	22	32	29
Cash Flow (A\$m) 2017f 2018f 2019f 2020f 2020f						
Net Profit		(1)	(5)	22	32	29
+ Working Capital Adj.		-	-	-	-	-
+ Dep/Amort		0	0	22	30	30
+ Provisions		-	-	-	-	-
+ Tax Expense		(0)	(2)	9	14	13
- Tax Paid		(0)	(2)	7	11	10
- Deferred Revenue		-	-	-	-	-
Operating Cashflow		(1)	(6)	46	65	62
-Capex + Development		2	132	3	3	3
-Exploration		1	4	6	6	6
-Assets Purchased		-	-	-	-	-
+Asset Sales		-	-	-	-	-
+ Other		5	-	-	-	-
Investing Cashflow		1	(135)	(9)	(9)	(9)
+Equity Issues		-	60	-	-	-
+Loan D'down/Receivable		-	80	-	-	-
-Other (share buy back)		0	0	0	0	0
-Loan Repayment		-	-	-	-	-
-Dividends		-	-	-	-	-
Financing Cashflow		-	140	-	-	-
Period Sur (Def)		(0)	(1)	37	56	54
Cash Balance		15	15	52	108	162
Balance Sheet (A\$m) 2017f 2018f 2019f 2020f 2020f						
Assets						
Cash		15	15	52	108	162
Current Receivables		5	5	5	5	5
Other Current Assets		10	10	10	10	10
Non-Current Assets		52	152	132	105	76
Total Assets		83	182	199	228	253
Liabilities						
Borrowings		50	50	66	66	66
Current Accounts Payable		5	5	5	5	5
Other Liabilities		15	15	15	15	15
Total Liabilities		70	70	86	86	86
Net Assets		13	112	113	142	167
Reserves and Resources						
		Reserves		Resources		
		mt	g/t	koz	mt	g/t
Okvau (100%)		14.3	2.0	907	15.8	2.2
Total (koz)				907		1130
EV per oz				86		69

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