

Emerald Resources NL

(EMR \$0.052) Speculative Buy

EUROZ

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

Environmental Approval for Okvau

Investment case

EMR is now on the cusp of development having secured Environmental Approval for Okvau. A mining licence and financing is expected shortly. Okvau is a robust project with production of >100koz pa @ AISC of US\$731/oz for +7yrs with a capital cost of US\$98m. Importantly, EMR has the management team capable of taking this project all the way through to production. Our valuation is \$0.082/sh and Price Target of \$0.09/sh

Key points

- EMR has signed an Environmental Contract with the Cambodian Ministry of Environment providing environmental approval for the Okvau project.
- Material conditions including rehabilitation sureties and contribution towards Environmental and Social Funds are in line with DFS estimates.
- This agreement paves the way for an Industrial Mining Licence ('ML') and progress toward Mineral Investment Agreement. EMR expects the ML to be granted in the next few weeks.
- EMR is currently progressing due diligence with a mandated debt financier. EMR expects this will be completed in the coming weeks and the potential funding proposal will see 'a majority of the development costs of Okvau being funded'.
- If financing is completed before year end we believe that construction could start in Q1 CY'18 with commissioning and first gold pour 12-15 months later.
- The DFS completed in May'17 envisaged a project capable of producing ~ 106koz pa at AISC of US\$731/oz for a +7yrs with an initial capital cost of US\$98m. The leverage to gold price is outlined in the table below:

Ore Reserve	14.3Mt @ 2.0g/t gold for 907koz contained		
LOM Strip Ratio (waste t: ore t)	5.8:1		
Throughput	2.0Mt/pta		
Life of Mine	7.2 years		
Processing Recovery	84%		
Recovered Ounces	762koz		
Average Annual Production	106koz		
Pre-production Capital Costs ²	US\$98M		
Sustaining Capital Costs ³	US\$23M		
Gold Price	US\$1,100/oz	US\$1,250/oz	US\$1,400/oz
Gross Revenue	US\$838M	US\$952M	US\$1,066M
LOM Net Revenue (net of royalties ⁴ and refining)	US\$801M	US\$911M	US\$1,020M
Operating Cash Flow pre-tax	US\$309M	US\$419M	US\$528M
Project Cash Flow pre-tax	US\$188M	US\$298M	US\$407M
NPV _(5%) pre-tax	US\$133M	US\$223M	US\$313M
NPV _(5%) post-tax ⁵	US\$95M	US\$160M	US\$224M
Payback pre-tax	3.0 years	2.2 years	1.6 years
Payback post-tax	3.3 years	2.5 years	1.8 years
IRR pre-tax	32%	48% pa	63%
IRR post-tax ⁵	27%	40% pa	54%
LOM C1 Cash Costs ⁶	US\$650/oz	US\$650/oz	US\$650/oz
LOM All-In Sustaining Costs ('AISC') ⁷	US\$725/oz	US\$731/oz	US\$737/oz

Analysis

This is the key approval and whilst it has taken slightly longer than the original timetable, it's pleasing the conditions are all similar to those assumed in the DFS.

It now paves the way for financing and development with the Mining Licence expected within weeks.

Emerald Resources NL	Year End 30 June	
Share Price	0.05	A\$/sh
Price Target	0.09	A\$/sh
Valuation	0.08	A\$/sh
	(npv 10%)	

Shares on issue	2106	m,diluted*	
Market Capitalisation	110	A\$m	
Enterprise Value	103	A\$m	
Debt	0	A\$m	
Cash	7	A\$m	
Largest Shareholder		Dir & Mgt 28%	

Production F/Cast	2017f	2018f	2019f
Attrib. Prod'n (koz)	0	0	41
Cash Cost (A\$/oz)	na	n/a	585
Total Cost (A\$/oz)	na	n/a	845

Assumptions	2017f	2018f	2019f
Gold US\$/oz	1258	1325	1350
AUDUSD	0.75	0.78	0.78

Key Financials	2017f	2018f	2019f
Revenue (A\$m)	1	3	55
EBITDA (A\$m)	-2	-5	26
NPAT (A\$m)	-1	-5	8
Cashflow (A\$m)	-3	-171	21

CFPS (Ac)	0	-4	1
P/CFPS (x)	na	na	8.6

EPS (Ac)	0	0	0
EPS growth (%)	na	na	na
PER (x)	na	na	14.0

EV:EBITDA (x)	-51.3	-20.5	3.9
EV:EBIT (x)	-51.3	-20.5	6.6

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	73%	22%	26%
Interest Cover (x)	na	na	4.1

Share Price Chart



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We assume an equity component of \$60m at a price of 5.5pcs, however this may prove to be conservative with the company indicating the debt financing could provide for the majority of the capital.

We have assumed a more conservative ramp up with forecast FY'19 production of 45koz. Our valuation has fallen slightly from 8.8cps to 8,2cps but we acknowledge the equity dilution could be significantly less than we currently model.

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. This key permitting milestone, followed by financing and construction should see the stock re rate towards our \$0.09/sh Price Target.

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Market Statistics

		Year End 30 June			
Share Price	\$0.052	A\$/sh	Directors		
Issued Capital			S.Lee	Chr'n	
FP Ord	2,106.0	m*	M. Hart	MD	
Total Dil. FPOrd	2,106.0	m	R.Stanley	NE Dir	
			R.Williams	NE Dir	
			J.Tremain	Exec Dir	
Market Capitalisation	\$110	m	Shareholders		
Enterprise Value	\$103	m	Dir & Mgt	29%	
Debt	\$-	m	Ingalls & Synder	10%	
Cash	\$7	m			

Asset Valuation		A\$m	A\$/sh
Okvau gold project		221	0.07
Hedging		-	-
Corporate		(46)	(0.01)
Okvau Exploration		20	0.01
Unpaid Capital		60	0.02
Debt		-	-
Cash		7	0.00
Total		262	0.082

F/Cast Production (A\$m)		2017f	2018f	2019f	2020f	2020f
Okvau (100%)	koz	0	0	41	108	107
Avg Cash Cost	US\$/oz	na	n/a	585	585	640
Avg Total Cost	US\$/oz	na	n/a	845	854	917
Avg All in Costs		n/a	n/a	750	750	821

Ratio Analysis (A\$m)		2017f	2018f	2019f	2020f	2020f
CF (A\$m)		(3)	(171)	21	79	75
CF / Sh (Ac/sh)		(0)	(4)	1	2	2
CF Ratio (x)		na	na	8.6	2.3	2.5

Earnings (A\$m)	(1)	(6)	10	41	37
EPS (Ac/sh)	(0)	(0)	0	1	1
EPS Growth (%)	na	na	na	302%	-10%
Earnings Ratio (x)	na	na	14.0	3.5	3.9

E'prise Val. (A\$m)	201	176	179	124	71
EV : EBITDA (x)	(51.3)	(20.5)	3.9	1.3	1.4
EV : EBIT (x)	(51.3)	(20.5)	6.6	2.1	2.5

Net Debt / ND+Eq (%)	73%	22%	26%	na	na
Interest Cover (x)	na	na	4.1	23.3	na
EBIT Margin (%)	na	na	28%	33%	29%
ROE (%)	-6%	-4%	8%	24%	18%
ROA (%)	-2%	-3%	8%	22%	17%

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	55	146	144
Hedging Revenue	0	-	-	-	-
Interest Revenue	1	3	1	2	5
Other Revenue	-	-	-	-	-
TOTAL REVENUE	1	3	55	148	149

Operating Costs	0	0	24	63	68
Dep/Amort	0	0	11	29	30
W/O & Provisions	-	-	-	-	-
Corp O/H	2	5	5	5	5
EBITDA	(2)	(5)	26	78	71
EBIT	(2)	(5)	15	49	41
Interest Expense	-	5	5	5	5
NPBT	(1)	(7)	11	46	41
Tax	(0)	(2)	3	14	12
Minorities	-	-	-	-	-
NET PROFIT	(1)	(5)	8	32	29

Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(1)	(5)	8	32	29

Cash Flow (A\$m)	2017f	2018f	2019f	2020f	2020f
Net Profit	(1)	(5)	8	32	29
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	11	29	30
+ Provisions	-	-	-	-	-
+ Tax Expense	(0)	(2)	3	14	12
- Tax Paid	(0)	(2)	3	11	10
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(1)	(5)	19	64	61

-Capex + Development	2	128	3	3	3
-Exploration	1	4	6	6	6
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	5	-	-	-	-
Investing Cashflow	1	(132)	(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)	3	11	55	52
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Cash Balance	15	18	29	84	137
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Balance Sheet (A\$m)	2017f	2018f	2019f	2020f	2020f
Assets					
Cash	15	18	29	84	137
Current Receivables	5	5	5	5	5
Other Current Assets	10	10	10	10	10
Non-Current Assets	52	152	144	117	89
Total Assets	83	185	188	216	241

Liabilities					
Borrowings	50	50	64	64	64
Current Accounts Payable	5	5	5	5	5
Other Liabilities	15	15	15	15	15
Total Liabilities	70	70	84	84	84

Net Assets	13	115	103	132	157
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Reserves and Resources

	Reserves		Reserves		Resources		
	mt	mt	g/t	koz	mt	g/t	koz
Okvau (100%)		14.3	2.0	907	15.8	2.2	1,130
Total (koz)				907			1130
EV per oz				113			91

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