

Emerald Resources Ltd

(EMR \$0.48) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	28 th April 2020	\$0.80/sh

Emerald Resources Ltd	Year End 30 June	
Share Price	0.45	A\$/sh
Price Target	0.80	A\$/sh
Valuation	0.772	A\$/sh (npv 10%)

Shares on issue	499	m, diluted *
Market Capitalisation	224	A\$m
Enterprise Value	151	A\$m
Debt	0	A\$m
Cash	73	A\$m
Largest Shareholder		Ruffer 8%

Production F/Cast	2020f	2021f	2022f
Attrib. Prod'n (koz)	0	27	107
Cash Cost (A\$/oz)	593	696	724
Total Cost (A\$/oz)	749	906	945

Assumptions	2020f	2021f	2022f
Gold US\$/oz	1539	1600	1600
AUDUSD	0.72	0.68	0.65

Key Financials	2020f	2021f	2022f
Revenue (A\$m)	5	53	244
EBITDA (A\$m)	-5	19	122
NPAT (A\$m)	-5	5	62
Cashflow (A\$m)	0	-169	-51

CFPS (Ac)	0	-23	-7
P/CFPS (x)	0.0	na	na

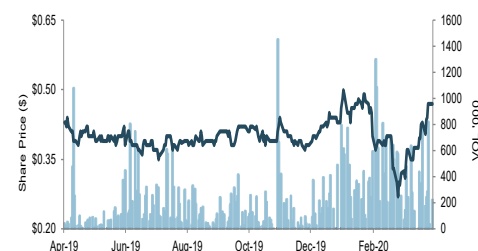
EPS (Ac)	0	-1	1
EPS growth (%)	0%	na	na
PER (x)	0.0	na	32.2

EV:EBITDA (x)	0.0	-30.3	8.0
EV:EBIT (x)	0.0	-30.3	14.8

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

ND:Net Debt+Equity (%)	0%	28%	48%
Interest Cover (x)	0.0	na	na

Share Price Chart



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

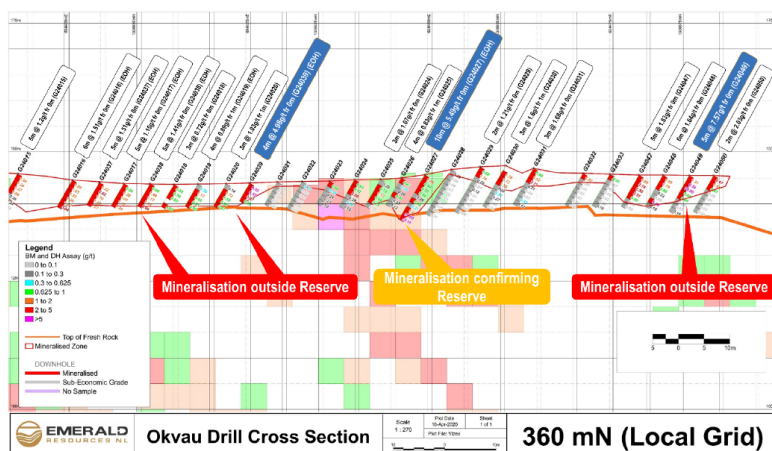
Project financing closed on track for Q2 FY'21 1st Gold

Investment case

Financial close and first debt drawdown are significant milestones for EMR, especially in these uncertain times. Okvau is now fully funded for the US\$98m capital development and importantly it remains on track for commissioning in the 2nd Q CY'21. Grade control in the oxide continues to provide some upside. Our investment thesis remains the same: backing an outstanding management team with a proven track record of development with significant 'skin in the game'. It trades well below valuation of \$0.78/sh and offers excellent leverage to a rising gold price with no hedging per se. The US\$100m acquisition facility gives clear indication that EMR will look for other projects with the aim to become a multi mine mid cap gold producer. We retain our Buy.

Key points

- US\$60m project financing facility with Sprott has closed and first draw down completed. Sprott invested a further US\$3.5m in equity @ \$0.40/sh as a contingency against any adverse movements in the exchange rate. The finance facility has also provided access to the US\$100m Acquisition and Development Facility that was previously announced.
- Now fully funded to complete Okvau construction after \$75m equity raised in Jan'20.
- In excess of US\$23m of contracts executed - Outotec to supply mineral processing equipment, MACA Mining to provide contract mining services (US\$230m over 7 yrs), and start of works on Okvau electrical substation.
- Stage 1 oxide grade control completed on a 5m x 5m pattern. Original program of 1,200 holes extended to 1,824 holes due to additional ore defined from outside reserves as shown in the diagram below



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- Site access road to Okvau completed during the Q and access to project is now via a significantly improved 42km stretch of unsealed road including a new 35 tonne concrete bridge across the Prek Te River and 14km of new road to Okvau.
- Other activities included work on the substation, Okvau accommodation, village construction works and various other site infrastructure required.
- Despite potential delays due to the COVID 19, EMR has maintained guidance of commissioning in Q2 CY'21.
- WHO classifies Cambodia COVID-19 incidence rate as a 'Sporadic Case' the number of reported cases is 122 (119 recovered) with no deaths.. International travel to Cambodia is allowed with business visa and valid reason - Okvau development is deemed a valid reason. International border with Vietnam, Lao and Thailand remain open but heavily restricted to essential business related travel and trafficked goods.
- EMR expects to be able to ship goods to Cambodia during this restricted period. However, the above circumstances have restricted movements of expats mgt currently on roster at site.

Analysis

Financial close and drawdown are significant milestones for EMR as there was some risk with the uncertainty around COVID 19 this may have been delayed so its pleasing to see this occur. As we would expect, EMR has hit the ground running now that is fully funded and despite the uncertainty - particularly with the SAG mill being manufactured in Italy, it remains on schedule for commissioning in the 2nd Q CY'22.

The grade control drilling continues to provide upside surprise - identifying mineralisation outside the current envelope.

We continue to back EMR to successfully execute as one of the best 'in house development teams and a proven track record of delivery and with Directors owing 30%, interests are aligned. The US\$100m acquisition facility is a massive vote of confidence for this team to become a multi mine mid cap gold producer and hence we view Okvau as a starter project.

EMR's share price has been rangebound (3-4cps last two yrs) as the Mining Investment Agreement and financing took longer than anticipated. We would expect the stock to re rate with funding now secured - similar to what occurred at WAF and CMM.

Our valuation remains at \$0.78/sh (post 1 for 10 consolidation) based on a LT gold price of US\$1,550/oz. We note that at spot price our valuation is >\$1.00/sh.

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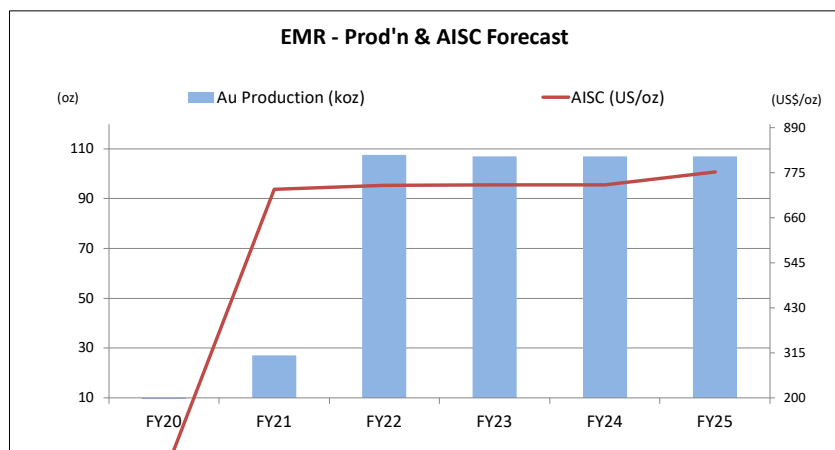
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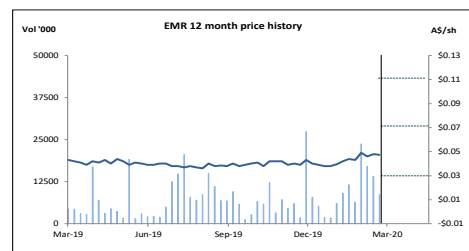
Key Variables

Val/ Sh	Gold \$									
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
\$0.772										
AUDUSD	15%	\$0.44	\$0.50	\$0.57	\$0.63	\$0.69	\$0.76	\$0.82	\$0.88	\$0.95
	10%	\$0.45	\$0.52	\$0.59	\$0.65	\$0.72	\$0.78	\$0.85	\$0.92	\$0.98
	5%	\$0.47	\$0.54	\$0.60	\$0.67	\$0.74	\$0.81	\$0.88	\$0.95	\$1.02
	0%	\$0.48	\$0.55	\$0.63	\$0.70	\$0.77	\$0.85	\$0.92	\$0.99	\$1.06
	-5%	\$0.50	\$0.57	\$0.65	\$0.73	\$0.80	\$0.88	\$0.96	\$1.03	\$1.11
	-10%	\$0.52	\$0.60	\$0.68	\$0.76	\$0.84	\$0.92	\$1.00	\$1.08	\$1.16
-15%	\$0.54	\$0.62	\$0.71	\$0.79	\$0.88	\$0.96	\$1.05	\$1.14	\$1.22	



Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Gold (USD)	\$1,250	\$1,263	\$1,539	\$1,600	\$1,600	\$1,550
AUDUSD	\$0.78	\$0.72	\$0.67	\$0.66	\$0.67	\$0.68

Our Share Price Sensitivity



Our Market Sensitivity

Valuation: \$0.083/sh

Price Target: \$0.08/sh

Bull Scenario: \$0.11/sh

Mine life additions (>3yrs) at Okava and a new project for EMR to take advantage of its unique development capabilities.

Base Scenario: \$0.08/sh

Develop Okvau in line with feasibility estimates and timing with no capital cost overrun and first gold in mid CY'20.

Bear Scenario: \$0.03/sh

Political issues in Cambodia result in project delay.

Company Summary

Emerald Resources NL (EMR) is a gold exploration and development company. EMR's key asset is the Okvau Gold Project, Cambodia. Total gold reserves and resources are 907koz and 1130koz. Capital cost is estimated at US\$98m and funding via debt of US\$60m and a US\$50m equity raising is envisaged. First production is targeting 2nd Q CY'21.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Market Statistics

		Year End 30 June			
Share Price	\$0.450	A\$/sh	Directors		
Issued Capital			S.Lee	Chair	
FP Ord	498.7	m	M. Hart	MD	
Total Dil.	498.7	m	M.Evans	Ex Dir	
			R.Williams	NE Dir	
			R. Stanley	NE Dir	
Mkt Capital'n	\$224	m	Shareholders		
Enterprise Value	\$151	m	Ruffer	8%	
Debt	\$-	m	Dir & Mgt	10%	
Cash	\$73	m			

Asset Valuation

	A\$m	A\$/sh
Okvau gold project	337	0.68
Hedging/GPP	(27)	(0.06)
Corporate	(37)	(0.07)
Okvau Exploration	40	0.08
Debt	-	-
Cash	73	0.15
Total	385	0.772

F/Cast Production (A\$m) 2020f 2021f 2022f 2023f 2024f

	koz	0	27	107	107	107
Okvau (100%)						
Avg Cash Cost	US\$/oz	593	696	724	725	725
Avg Total Cost	US\$/oz	749	906	945	951	955
Avg All in Costs	US\$/oz	n/a	733	743	744	744
Avg Spot Price	US\$/oz	1,539	1,600	1,600	1,550	1,550
Avg Price Rec'd	US\$/oz	1,539	1,600	1,600	1,550	1,550

Ratio Analysis (A\$m) 2020f 2021f 2022f 2023f 2024f

CF (A\$m)	(169)	(51)	148	140	151
CF / Sh (Ac/sh)	(23)	(7)	20	19	21
CF Ratio (x)	na	na	2	2	2
Earnings (A\$m)	(7)	7	93	87	95
EPS (Ac/sh)	(1)	1	19	17	19
EPS Growth (%)	na	na	12	(0)	0
Earnings Ratio (x)	na	32	2	3	2
E'prise Val. (A\$m)	258	296	203	113	16
EV : EBITDA (x)	(30.3)	8.0	1.2	1.3	1.3
EV : EBIT (x)	(30.3)	14.8	1.8	2.0	1.9
Net Debt / ND+Eq (%)	28%	48%	na	na	na
Interest Cover (x)	na	na	32	na	na
EBIT Margin (%)	na	20%	35%	33%	34%
ROE (%)	-5%	6%	42%	27%	22%
ROA (%)	-2%	7%	44%	33%	26%
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) 2020f 2021f 2022f 2023f 2024f

Gold Revenue	0	65	257	244	244
Gold Price Participation	-	(13)	(13)	(12)	(8)
Interest Revenue	5	1	0	3	7
Other Revenue	-	-	-	-	-
TOTAL REVENUE	5	53	244	236	243
Operating Costs	0	28	116	114	114
Dep/Amort	0	9	35	35	36
W/O & Provisions	-	-	-	-	-
Corp O/H	5	5	6	6	6
EBITDA	(5)	19	122	112	116
EBIT	(5)	10	86	77	80
Interest Expense	6	5	3	1	-
NPBT	(6)	6	83	79	87
Tax	(2)	2	21	20	22
Minorities	-	-	-	-	-
NET PROFIT	(5)	5	62	59	65
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(5)	5	62	59	65

Cash Flow (A\$m) 2020f 2021f 2022f 2023f 2024f

Net Profit	(5)	5	62	59	65
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	9	35	35	36
+ Provisions	-	-	-	-	-
+ Tax Expense	(2)	2	21	20	22
- Tax Paid	(1)	1	17	16	17
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(5)	13	102	98	105
-Capex + Development	108	47	3	3	3
-Exploration	6	6	6	6	6
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(114)	(53)	(9)	(9)	(9)
+Equity Issues	75	-	-	-	-
+Loan D'down/Receivable	88	-	-	-	-
-Other (share buy back)	-	-	-	-	-
-Loan Repayment	-	30	30	30	-
-Dividends	-	-	-	-	-
Financing Cashflow	163	(30)	(30)	(30)	-
Period Sur (Def)	44	(70)	63	60	96
Cash Balance	59	(11)	52	111	208

Balance Sheet (A\$m) 2020f 2021f 2022f 2023f 2024f

Assets					
Cash	59	(11)	52	111	208
Current Receivables	5	5	5	5	5
Other Current Assets	10	10	10	10	10
Non-Current Assets	127	153	131	109	64
Total Assets	201	157	198	235	309
Liabilities					
Borrowings	92	61	30	-	-
Current Accounts Payable	5	5	5	5	5
Other Liabilities	15	15	15	15	15
Total Liabilities	112	81	50	20	20
Net Assets	89	76	148	215	289

Reserves and Resources

	Reserves		Resources			
	mt	g/t	koz	mt	g/t	koz
Okvau (100%)	14.3	2.0	907	15.8	2.2	1,130
EV per oz			167			134

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