

Emerald Resources NL

(EMR \$0.825) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	4 th February 2021	\$1.05/sh ▲ from \$0.85/sh

Emerald Resources NL	Year End 30 June	
Share Price	0.825	A\$/sh
Price Target	1.05	A\$/sh
Valuation	0.88	A\$/sh (npv 10%)

Shares on issue	515	m, diluted *
Market Capitalisation	434	A\$m
Enterprise Value	439	A\$m
Debt	82	A\$m
Cash	77	A\$m
Largest Shareholder		M. Hart 8.1%

Production F/Cast	2020f	2021f	2022f
Attrib. Prod'n (koz)	0	11	105
Cash Cost (US\$/oz)	594	1017	754
Total Cost (US\$/oz)	708	1328	982

Assumptions	2020f	2021f	2022f
Gold US\$/oz	1563	1897	1900
AUDUSD	0.72	0.68	0.66

Key Financials	2020f	2021f	2022f
Revenue (A\$m)	0	13	249
EBITDA (A\$m)	-9	-10	136
NPAT (A\$m)	-11	-11	75
Cashflow (A\$m)	0	-48	146

CFPS (Ac)	0	-22	21
P/CFPS (x)	0.0	na	na

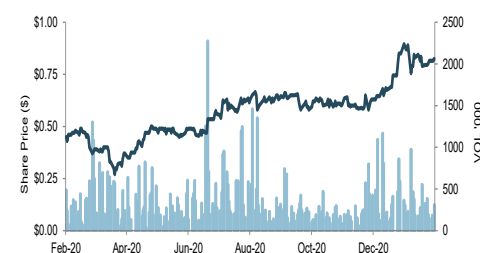
EPS (Ac)	0	-3	19
EPS growth (%)	0%	na	na
PER (x)	0.0	na	4.3

EV:EBITDA (x)	0.0	-46.1	3.2
EV:EBIT (x)	0.0	-31.6	4.2

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

ND:Net Debt+Equity (%)	0%	47%	na
Interest Cover (x)	0.0	na	na

Share Price Chart



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Less than 5 months to first gold at Okvau

Investment case

Emerald Resources (EMR) remains on track for first gold in Q2CY'21, with the recent latest Okvau construction update highlighting good progress. Equipment deliveries to site are running to plan and open pit mining has commenced. The project development remains “on time and on budget” with 70% of the total construction costs now spent and committed, implying -US\$29m (-A\$39m) left to spend. Cash at DecQ end was -A\$77m, with debt of -A\$82m (Net Debt -A\$5m), so well-funded to complete the build, with contingency available, if so required. However, it should be noted, that the Company boasts a strong management team that has a track record of delivering gold project developments ahead of time and under budget, and the Okvau construction appears to be no exception. EMR has traded well since late Nov'20 (up over 40%), but we expect it to be re-rated further as it nears this production milestone. We have lifted our price target to \$1.05/sh (up from 85cps), adjusted by a DCF roll-forward, minor production changes and our gold price assumptions. Buy maintained.

Key points

On track for first gold Q2CY21

- Emerald has maintained its guidance for first gold from the Okvau Gold Project in Cambodia in Q2CY21.
- Development activities at Okvau continues to advance well, with key equipment delivery on schedule (+75% of all gear on site, 15% in transit and <10% to be shipped), plant site concrete works continuing (SAG mill base poured late DecQ), crushing area foundations progressed and tank (CIL and detox) assembly underway.
- The Okvau village is largely complete, and grid power connection is expected to be completed in the MarQ, planned to coincide with execution of the power supply agreement.
- Mining fleet equipment from contractor MACA has ramped-up, with the tailings storage facility (TSF) clearing and construction started; and open pit mining commenced late in the DecQ.
- The Company spent -A\$24m on the mine development in the DecQ with -A\$44m FY21 ytd. The total project development expenditure is tracking well to plan with -70% of the budget (-US\$98m) spent and committed at the end of the quarter. This implies that current cash (-A\$77m) can fully cover the construction balance, with a healthy buffer in place for both the restricted cash requirements, and contingency (unlikely required).

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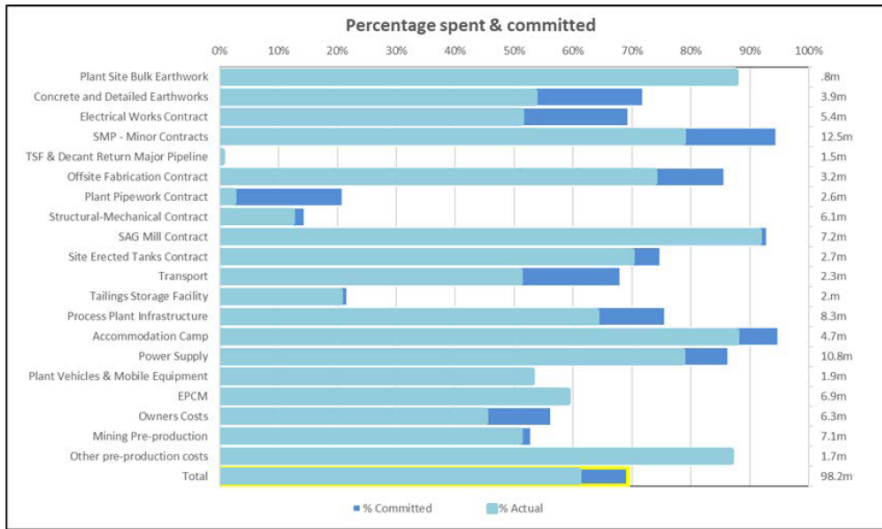
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Fig 1: Construction Progress



Source: Emerald Resources NL

- Recent drilling at Okvau has also returned encouraging exploration results while testing for the potential high-grade feeder zone for the intrusion-related system. Drill highlight include: 17m @ 6.06g/t Au from 258m, (incl. 6m @ 11.40g/t Au). The mineralisation currently sits outside of open pit reserves which bodes well for potential pit extensions and later-date underground options.
- Cash at DecQ end was -A\$77m with debt of -A\$82m (fully drawn US\$60m facility with some capitalised interest).

Fig 2: Power Sub-station



Source: Emerald Resources NL

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Fig 3: Okvau Accommodation Village (now complete)



Source: Emerald Resources NL

Fig 4: Okvau Processing Plant



Source: Emerald Resources NL

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Fig 5: Mining Commenced

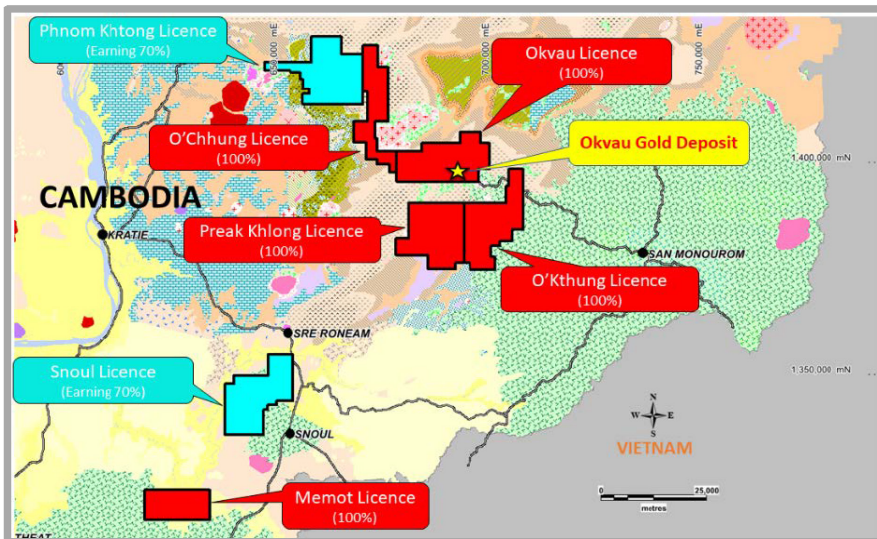


Source: Emerald Resources NL

New Cambodian ground considered highly prospective

- Emerald has also added new highly prospective tenure to its exploration portfolio, located some 95km SE of Okvau.
- The new licence application (“Memot Project”) is 100% EMR-owned and spans -107km². The ground contains extensive artisanal workings (one of the largest in country) along with indications of significant gold mineralisation from historical records (mapping and sampling results of up to +80g/t Au).
- EMR controlled ground now spans +1,240km² in Cambodia, with aspirations to have multiple mines and grow into a mid-cap producer.

Fig 6: Cambodia Exploration Licences



Source: Emerald Resources NL

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Analysis

- The Okvau DFS largely forms the basis of our modelling but adjustments have been made over time from Company updates and ultimately timing to first production, which remains on track for Q2CY21.
- The DFS appears conservative, and we have expectations of higher plant availability (91% used in the study, targeting 95-96%) for increased throughput levels, potential for slightly better grade and recoveries for higher production than forecast.
- Our latest valuation, using a discount rate of 10% is 88cps (up from 84cps), current Spot VAL of 95cps and improved price target of \$1.05/sh.

ASSET VALUATION	A\$m	A\$/sh
Okvau (100%)	489	0.93
Hedging/GPP	(38)	(0.07)
Corporate	(31)	(0.06)
Okvau Exploration	49	0.09
Debt	(82)	(0.16)
Cash	77	0.15
Total @ 10%	463	0.88
Spot NAV	500	0.95

- EMR has one of the “best in class” development teams, with a solid track of multiple gold project developments in Australia, West Africa and now South East Asia.
- Despite some of the recent Covid-19 challenges, the construction remains on time and on budget, with potential for the project development to be delivered under budget.
- We continue to see some project upside from recently completed grade control drilling, oxide providing additional few months of feed at similar grades.
- We maintain our Buy.
- Key risks appear largely development, production related in the near-term, with commodity price (gold) downside/upside risks, and some financial risks (debt to repay). Sovereign risk appears low due to the Minerals Investment Agreement (MIA), which means no changes to tax (4yrs of 25%, then 30%) or royalties (3%) over the LOM, also no import duties during the construction period.

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Fig 7: Peer Comparison Near-term Gold Developers

		Emerald Resources	Capricorn	Calidus	Ora Banda
ASX Code		EMR	CMM	CAI	OBM
Share	m	526	344	336	842
Price	\$/sh	0.825	1.65	0.45	0.31
Mkt Cap	\$m	434	568	151	261
Cash	\$m	77	49	60	33
Debt	\$m	82	12.5	0	0
Enterprise Value	\$m	359	531	91	228
Fully funded EV	\$m	488	691	211	253
Project		Okvau	Bibra	Warrawoona	Davyhurst
Location		Cambodia	WA	WA	WA
% Ownership		100%	100%	100%	100%
Total Resource		1.14Moz @ 2.01g/t Au	2.1Moz @ 0.8g/t Au	1.5Moz @ 1.06 g/t	2.0Moz @ 2.4 g/t
M+Ind Resource		1Moz @ 2.08g/t Au	1.7Moz @ 0.8g/t Au	1Moz @ 1 g/t Au	1.3Moz @ 2.5g/t
Reserve		0.9Moz @ 2.0g/t Au	1.2Moz @ 0.9 g/t Au	0.55Moz @ 1.2 g/t Au	0.46Moz @ 2.4 g/t
M+Ind Resource to Reserve	%	90%	71%	52%	35%
FF EV/rsc oz		428	329	141	127
FF EV/rsv oz		542	576	406	551
FF EV/prod oz		4600	6280	2486	3129
Capex/Rsv oz	\$/oz	143	142	231	98
Mining method		Single open pit	Single Open pit	Single Open pit +U/G	5 x OC + 1 x U/G
Capex	A\$m	129	170	120	45
Strip Ratio		5.8:1	3.6:1	3.6:1	13.1
Throughput	mtpa	2.0	3.75	2.0	1.2
Grade	g/t	2.0	0.9	1.2	2.4
Recoveries	%	84	92	94	90.3
Av LOM Production pa	koz	106	110	85	81
Peak Production	koz	106	120	91	95
Mine life	Yrs	7	12	8.3	5.2
Spot		2410	2410	2410	2410
C1 Cost	A\$/oz	856	950	1113	1427
AISC	A\$/oz	980	1175	1250	1566
Op CF (notional)	A\$m	152	148	106	80
Capital payback	yr	1.1	1.1	1.1	1.1
NPV to capex	x	3.1	3.8	2.6	3.0
LOM CF/FF EV		1.6	1.7	3.1	1.4
LOM CF/Capex		6.2	6.9	5.4	8.0
Mining Cost	A\$/t	26	17	24	74
Milling Cost	A\$/t	20.5	11	15	20
G & A Cost	A\$/t	4	2	2	3.5
Total	A\$/t	51	31	41	97.6
Royalties + Sus Cap	A\$/t	7.3	3	5	9.4
AISC	A\$/t	58	33	46	107
Financial					
LOM CF post capex	A\$m	800	1180	648	358
NPV 5 pre tax	A\$m	626	830	423	290
NPV 5 post tax	A\$m	435	580	303	290
NPV pre tax/ FF EV		1.3	1.2	2.0	1.1
NPV post tax/FF EV		0.9	0.8	1.4	1.1
IRR - pre tax	%	85	90	88	238
IRR - post tax	%	70	66	77	238
Financed		Yes	Yes	Yes	Yes
Permitted		Yes	Yes	No	Yes
Forecast Construction		Underway	Underway	Q1CY21	Complete
1st Gold pour		Q2CY21	Q2CY21	Q2CY22	Q1CY21

Source: Euroz Hartleys, Company Reports, note the high operating cashflows (Op CF (notional) = gold price received less AISC x recovered gold production).

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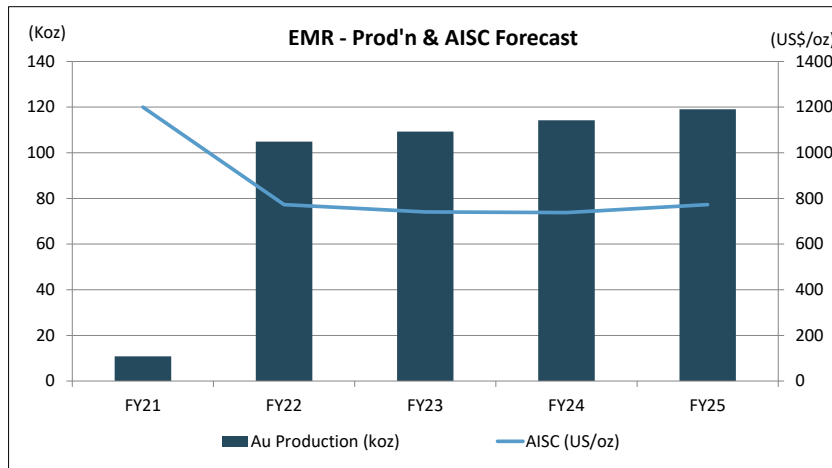
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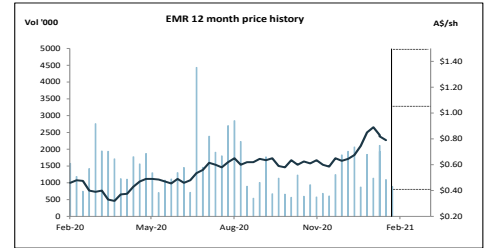
Key Variables

Val/ Sh		Gold \$								
\$0.881		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.45	\$0.53	\$0.61	\$0.69	\$0.76	\$0.84	\$0.92	\$1.00	\$1.07
	10%	\$0.47	\$0.56	\$0.64	\$0.72	\$0.80	\$0.88	\$0.96	\$1.04	\$1.12
	5%	\$0.50	\$0.58	\$0.67	\$0.75	\$0.84	\$0.92	\$1.01	\$1.09	\$1.18
	0%	\$0.53	\$0.61	\$0.70	\$0.79	\$0.88	\$0.97	\$1.06	\$1.15	\$1.24
	-5%	\$0.55	\$0.65	\$0.74	\$0.84	\$0.93	\$1.02	\$1.12	\$1.21	\$1.30
	-10%	\$0.59	\$0.69	\$0.78	\$0.88	\$0.98	\$1.08	\$1.18	\$1.28	\$1.38
	-15%	\$0.62	\$0.73	\$0.83	\$0.94	\$1.04	\$1.15	\$1.25	\$1.36	\$1.46

Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Gold (USD)	\$1,250	\$1,263	\$1,563	\$1,897	\$1,900	\$1,800
AUDUSD	\$0.78	\$0.72	\$0.67	\$0.75	\$0.75	\$0.74



Our Share Price Sensitivity



Our Market Sensitivity

Valuation: \$0.88/sh

Price Target: \$1.05/sh

Bull Scenario: \$1.50/sh

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

Base Scenario: \$1.05/sh

Develop Okvau in line with feasibility estimates and timing with no capital cost overrun and first gold in Q2CY21.

Bear Scenario: \$0.40/sh

Political issues in Cambodia results in project delays.

Company Summary

Emerald Resources NL (EMR) is a gold developer/explorer targeting first gold production in mid-CY21. EMR's key asset is the Okvau Gold Project in Cambodia. Total gold reserves and resources are 0.9Moz and 1.1Moz. EMR is fully funded (cash and debt) to first gold and to ramp-up to targeted production levels. It also has a US\$100m acquisition facility to acquire other projects with the long term aim of becoming a multi mine, mid-cap gold producer.

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	\$0.825	A\$/sh	Directors			
Issued Capital			S.Lee			Chair
FP Ord	515.4	m	M. Hart			MD
Total Dil.	525.9	m	M.Evans			Ex Dir
			M. Clements			NE Dir
			R. Stanley			NE Dir
Mkt Capital'n	\$434	m	Shareholders			
Enterprise Value	\$439	m	M. Hart			8.1%
Debt	\$82	m	Tazga Two			7.4%
Cash	\$77	m	Other Directors			6.5%
			Ruffer			5.9%
Asset Valuation			A\$m	A\$/sh		
Okvau (100%)			489			0.93
Hedging/GPP			(38)			(0.07)
Corporate			(31)			(0.06)
Okvau Exploration			49			0.09
Debt			(82)			(0.16)
Cash			77			0.15
Total @ 10%			463			0.88
Spot NAV			500			0.95
F/Cast Production (A\$m) 2020f 2021f 2022f 2023f 2024f						
Okvau (100%)	koz	0	11	105	109	114
Avg Cash Cost	US\$/oz	594	1,017	754	722	721
Avg Total Cost	US\$/oz	708	1,328	982	945	951
Avg All in Costs	US\$/oz	n/a	n/a	773	741	738
Avg Spot Price	US\$/oz	1,563	1,897	1,900	1,800	1,700
Avg Price Rec'd	US\$/oz	1,563	1,897	1,900	1,800	1,700
Ratio Analysis (A\$m) 2020f 2021f 2022f 2023f 2024f						
CF (A\$m)		(48)	(155)	146	156	162
CF / Sh (Ac/sh)		(6)	(22)	21	22	23
CF Ratio (x)		na	na	4	4	4
Earnings (A\$m)		(17)	(15)	100	108	110
EPS (Ac/sh)		(3)	(3)	19	21	21
EPS Growth (%)		na	na	na	0	0
Earnings Ratio (x)		na	na	4	4	4
E'prise Val. (A\$m)		376	491	390	280	166
EV : EBITDA (x)		(50.1)	(46.1)	3.2	3.2	3.2
EV : EBIT (x)		(39.8)	(31.6)	4.2	4.2	4.4
Net Debt / ND+Eq (%)		na	47%	na	na	na
Interest Cover (x)		na	na	32	na	na
EBIT Margin (%)		na	na	42%	42%	40%
ROE (%)		-10%	-16%	50%	34%	25%
ROA (%)		-5%	-8%	53%	40%	29%
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	27	266	266	262
Gold Price Participation		-	(19)	(19)	(16)	(9)
Interest Revenue		0	5	1	4	9
Other Revenue		0	-	-	-	-
TOTAL REVENUE		0	13	249	254	262
Operating Costs		6	14	105	107	111
Dep/Amort		0	4	32	33	36
W/O & Provisions		2	-	-	-	-
Corp O/H		3	3	6	6	6
EBITDA		(9)	(10)	136	137	136
EBIT		(11)	(14)	104	104	100
Interest Expense		1	6	5	1	-
NPBT		(11)	(15)	100	107	109
Tax		-	(4)	25	27	27
Minorities		-	-	-	-	-
NET PROFIT		(11)	(11)	75	80	82
Net Abnormal Gain/(Loss)		-	-	-	-	-
NET PROFIT After Abn'l		(11)	(11)	75	80	82
Cash Flow (A\$m) 2020f 2021f 2022f 2023f 2024f						
Net Profit		(11)	(11)	75	80	82
+ Working Capital Adj.		9	-	-	-	-
+ Dep/Amort		0	4	32	33	36
+ Provisions		-	-	-	-	-
+ Tax Expense		-	(4)	25	27	27
- Tax Paid		-	(3)	20	21	22
- Deferred Revenue		-	-	-	-	-
Operating Cashflow		(2)	(7)	112	118	123
-Capex + Development		30	108	3	3	3
-Exploration		6	6	6	6	6
-Assets Purchased		-	-	-	-	-
+Asset Sales		-	-	-	-	-
+ Other		-	-	-	-	-
Investing Cashflow		(36)	(114)	(9)	(9)	(9)
+Equity Issues		78	-	-	-	-
+Loan D'down/Receivable		86	-	-	-	-
-Other (share buy back)		-	-	-	-	-
-Loan Repayment		-	-	53	27	-
-Dividends		-	-	-	-	-
Financing Cashflow		164	-	(53)	(27)	-
Period Sur (Def)		126	(122)	50	83	114
Cash Balance		136	15	65	147	261
Balance Sheet (A\$m) 2020f 2021f 2022f 2023f 2024f						
Assets						
Cash		136	15	65	147	261
Current Receivables		2	5	5	5	5
Other Current Assets		0	1	1	1	1
Non-Current Assets		72	148	126	104	56
Total Assets		211	169	197	257	347
Liabilities						
Borrowings		84	78	27	-	-
Current Accounts Payable		6	5	5	5	5
Other Liabilities		0	15	15	15	15
Total Liabilities		90	98	47	20	20
Net Assets		120	71	150	237	327
Reserves and Resources						
		Reserves		Resources		
		mt	g/t	koz	mt	g/t
Okvau (100%)		14.3	2.0	907	15.8	2.2
EV per oz				484		388

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