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BUY

Current Price \$0.60

Target Price \$0.93

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Gold Road Resources

Travelling the Gold Road to production

Analysts | James Wilson | Matthew Keane

Quick Read

Gold Road Resources (GOR) remains on track to complete its Gruyere Feasibility Study by the December Qtr 2016. Management are working on a multi-pronged approach aiming to enhance the mine life, advance regional exploration targets and optimising the mine schedule to increase production to +300kozpa over the life of mine. Within 12 months GOR will have completed its feasibility, arranged financing and commenced construction. We argue that GOR still trades at a discount to its NAV despite its tier 1 project size, it's near term timeline to production and significant land holding which could yield additional gold endowment translating to long term mine life. We upgrade our recommendation to BUY (from Spec Buy) and we lift our valuation to A\$0.93ps (from \$0.84ps) after revisions to our model FX assumptions and an increase in the value of the exploration portfolio.

Event & Impact | Positive

Tweaking the mine plan for maximum value: GOR released an update to their feasibility showing i) favourable geotechnical data which supports a steepening of the pit walls lowering strip ratio's and deepening of the pit, ii) using supplemental mill feed from satellite pits to increase production to 300kozpa for the life of mine and iii) assessing the potential for resources at depth.

5Moz of underground potential at Gruyere: Work is progressing on the potential for underground resources at Gruyere. Management believe this zone could be ~150m x 500m x 500m, and Argonaut calculates at an approximate grade of 1.5gt Au this zone could host up to 3-5Moz of additional resources. Argonaut notes RSG's Syama PFS outcome that sub-level caving was viable at 2Mtpa @ 2.4g/t Au, and NCM's Cadia operates at a head grade of 1.16g/t Au/0.33% Cu (at +20Mtpa). As such – we argue at ~5-7.5mtpa the economics of scale would give further scope to lower feed grade.

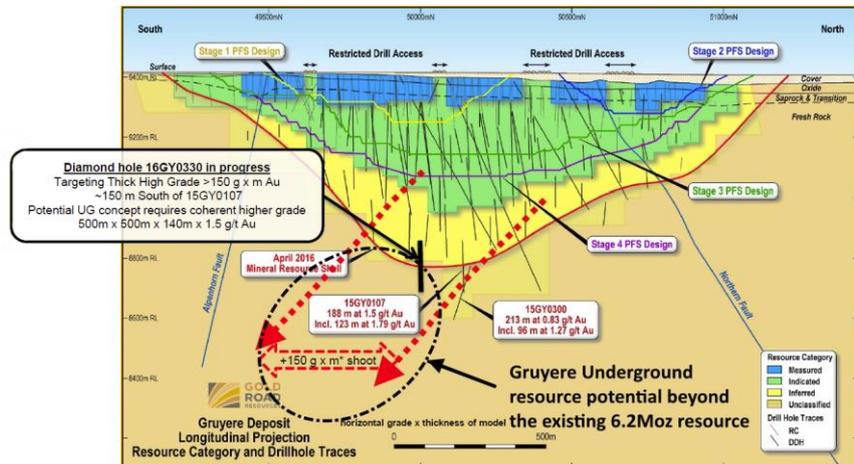
Exploration is now advanced to test targets at depth in FY17: Over the last few years, a large proportion of GOR's exploration push has been assessing bedrock geology, geochemistry and geophysics. GOR's understanding of litho-geochemistry is now well advanced with comprehensive coverage of the belt, so we expect a large proportion of exploration will focus on refined targets. Management intoned that there will be significant RC and diamond core drilling this year as opposed to air-core drilling in previous years.

Recommendation

We upgrade our recommendation to BUY (from Spec Buy) and lift our target price to A\$0.93ps after making revisions to our Gruyere DCF incorporating upside in potential satellite feed sources and increasing the value of GOR's substantial exploration portfolio.

5Moz of underground resources, potentially:

GOR’s recent drilling has started looking at the potential for underground expansion beyond the existing mine life. Ore zones persist at depth and drill programs aim to target a 140x500x500m zone of mineralisation. Argonaut estimates this zone could be as large as +3Moz @ 1.5g/t.

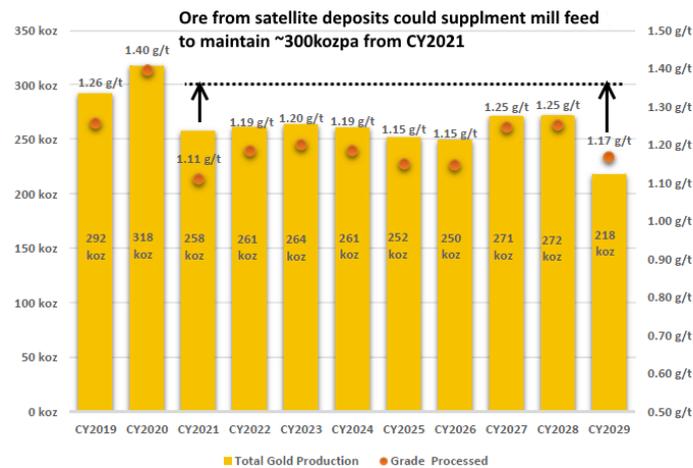


Source: Argonaut

300kozpa over 10 years

GOR’s exploration strategy has shifted gear, with the focus on delivery of an additional 30-50kozpa of feed coming from regional satellite deposits. Argonaut estimates 1Mtpa at 1.5g/t Au would be sufficient to add +30kozpa to the life of mine plan to maintain ~300kozpa.

Annual Gold Production – Gruyere PFS



Forward sales insulate early cash-flow

GOR has also executed a forward sale facility for 50,000oz Au at an average price of A\$1,791/oz with the Commonwealth Bank. The facility allows GOR to increase this facility to up to 150,000oz Au upon satisfactory completion of the Gruyere Feasibility Study. We think this is a prudent move and insulates the company against a decline in gold prices in the early stages of the project. We anticipate further hedging will be entered into as part of the project financing in late CY2016.

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Important Disclosure

Argonaut acted as Joint Lead Manager to the Placement in GOR to raise up to \$74M in April 2016 and received fees commensurate with this service.

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