

BUY

Current Price **\$0.63**
Target Price **\$1.10**

Ticker: **GOR**
Sector: **Materials**

Shares on Issue (m): **868.2**
Market Cap (\$m): **477.5**
Cash Estimate (\$m): **170.0**
Enterprise Value (\$m): **307.5**

52 wk High/Low: **\$0.75** **\$0.35**
12m Av Daily Vol (m): **1.75**

Mineral Inventory

	Mt	g/t	Moz
Reserves	81.1	1.2	3.2
Resources	153.6	1.3	6.6

	\$/oz
EV / Reserve	97
EV / Resource	47

Directors:

Ian Murray	Managing Director
Justin Osborne	Executive Director
Russell David	Non-Executive Director
Timothy Netscher	Non-Executive Director
Martin Pyle	Non-Executive Director
Sharon Warburton	Non-Executive Director

Substantial Shareholders:

RCF	7.7%
Platypus Asset Mgmt	7.1%
Van Eck	4.6%

Share Price Graph



Monday, 7 November 2016

Gold Road Resources

Paying up for a slice of the Big Cheese

Analysts | James Wilson | Matthew Keane

Quick Read

Gold Road (GOR) has entered into a 50:50 joint venture with an Australian subsidiary of Goldfields Ltd (GF) for the development of the Gruyere Gold Project in Western Australia. The purchase consideration comprises \$350m in cash payments and a 1.5% net smelter return (NSR) royalty. GF will fund up to 10% of cost over-runs and will provide funding support for any project level guarantee requirements. GOR will retain 100% interest in a large 2326km² exploration tenements (excl. YAM-14, Alaric, Attila and Central Bore tenements) and will have potential to toll treat any new discoveries through commercial arrangements. The deal removes funding risk and partially removes execution risk by partnering up with a large globally recognised and experienced gold producer with multiple mines in numerous jurisdictions. Argonaut's price target increases to \$1.10ps (from \$1.05ps) and we maintain our BUY recommendation.

Event & Impact | Positive

All of the upside and (almost) none of the risk: GOR has entered into an agreement with GF for an unincorporated JV on the Gruyere Project. GF will pay consideration of A\$350m in cash payments and an uncapped 1.5% NSR royalty after production of 2Moz of gold. In addition, GF will take on liability for up to 10% of cost over-runs on the budgeted A\$507m development capex and support any project level bonding requirements. Argonaut believes the deal is compelling and eliminates funding risk and de-risks the construction of Gruyere by partnering up with a globally recognised and experienced gold producer.

Goldfields is paying fair value for Gruyere: The acquisition and funding commitment cost to GF is ~\$600m (\$350m to GOR + \$250m capex share) for 50% of the project. GF's 50% share of the Gruyere reserve at ~1.6Moz implies an acquisition cost of A\$375/oz on an EV/Reserve basis. This conforms well to recent deals such as NST's sale of Plutonic at A\$310/oz, EVN's sale of Pajingo for A\$485/oz and EVN's acquisition of an economic interest in Ernest Henry from Glencore for A\$440/oz.

Exposure to regional success: GOR will retain 100% of the North Yarmana tenements (2,326km²) and 50% of the Gruyere JV which includes the near mine satellite resources at Attila, Alaric, Central Bore and YAM-14. Future discoveries in the 100% owned areas will be toll treatable via agreement as part of the JV deal.

Post deal GOR will be cashed up: We estimate GOR will have pro-forma ~A\$165m cash with no liabilities. Whilst the GF acquisition payment of \$350m is pre-tax, we expect GOR will offset any tax liability with its existing ~A\$110m in tax credits. We estimate completion of the deal in 6-8 weeks with FIRB, DMP and Native Title Consent to be completed.

Recommendation

BUY recommendation maintained. We revise our valuation upwards to \$1.10ps (from \$1.05ps) factoring in an increase in cash and a revised valuation for the Gruyere JV.

Transaction overview

GOR has entered into an agreement to sell 50% of the Gruyere project for A\$350m

Goldfields will fund the other 50% of capex requirements....

...In addition to taking on liability for cost over-runs on the construction of Gruyere.

GOR will retain 100% of the North Yamarna exploration rights with 2,326km² of tenements

GOR will JV 144km² of tenements surrounding Gruyere that contains the satellite deposits of Central Bore, YAM-14 and Attila-Alaric

GOR has entered into an agreement to JV the Gruyere gold project with an Australian subsidiary of Goldfields. The agreement is for an unincorporated JV. GF will pay a consideration of A\$350m in cash payments and an uncapped 1.5% NSR royalty after production of 2Moz of gold. In addition, GF, will take on liability for up to 10% of cost over-runs on the budgeted A\$507m development capex and support any project level bonding requirements. Argonaut believes the deal is compelling and eliminates funding risk and de-risks the construction of Gruyere by partnering up with a globally recognised and experienced gold producer.

Figure 1: Transaction overview

Acquisition of a 50% interest in the Gruyere Joint Venture for A\$350 million

Uncapped 1.5% NSR royalty on Gold Fields' share of production from the Gruyere Joint Venture tenements once total gold production exceeds 2 million ounces

Sole funding of up to 10% of capital overruns on the Gruyere development budget of A\$507 million

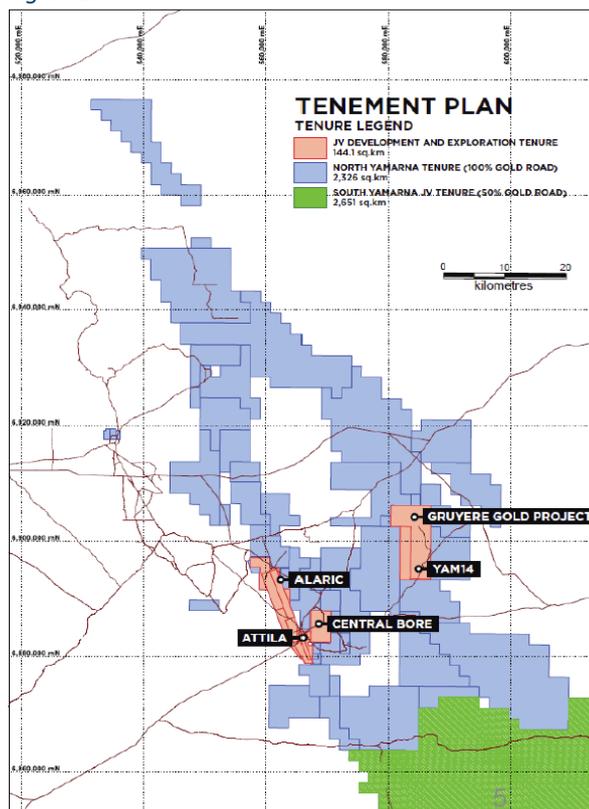
Funding support for project-level guarantees and performance bonds required to support third party suppliers and providers to the Gruyere Gold Project as required

Source: GOR

GOR retains a big chunk of Yamarna exploration:

The 50:50 JV area comprises the Gruyere project and a 144km² area comprising the Gruyere Mining Lease, YAM-14, Toto, Attila-Alaric and Central Bore. GOR will retain 100% exploration rights to a 2,326km² area which comprises the North Yamarna Tenure, in addition to the existing South Yamarna Tenure which it shares a 50% JV with Sumitomo.. Argonaut is highly encouraged by this component of the transaction as GOR retains its status as a belt scale exploration play.

Figure 2: Tenement overview and JV areas



Source: GOR

The deal is implying an acquisition cost of A\$375/oz on reserves

This compares well to the recent sale of Plutonic by NST at A\$331/oz.....

....and EVN's sale of Pajingo for A\$472/oz

....And EVN's acquisition of an interest in Ernest Henry for ~A\$440/oz

Post deal GOR will have ~\$165m in cash, no debt and will have its capex commitment fully funded to production.

It's a good deal and Goldfields is paying fair value

Argonaut believes the deal is compelling. Goldfields is a globally significant miner producing in excess of 2Moz of gold annually. We believe this mitigates some execution risk and eliminates the funding risk for the project moving forward. The acquisition and funding commitment cost to GF is ~\$600m (\$350m to GOR + \$250m capex share) for 50% of the project. GF's 50% share of the Gruyere reserve at ~1.6Moz implies an acquisition cost of A\$375/oz on an EV/Reserve ounce basis. This conforms well to recent deals such as NST's sale of Plutonic at A\$310/oz, EVN's sale of Pajingo for A\$485/oz and EVN's acquisition of an economic interest in Ernest Henry from Glencore for A\$440/oz.

Timeline to completion of the deal

We estimate completion of the deal in 6-8 weeks with FIRB, DMP and Native Title Consent to be completed. At the same time, GOR and GF will form committees to oversee the approval of key decisions including business plans and budgets. We expect that EPC, Bulk Earthworks and Power Supply contracts will still be awarded in the short term on the proviso that the deal is completed. Since GF already operates within Australia, we expect this process will be expedited.

Post deal GOR will have cash and intends to spread its wings

We estimate post deal GOR will have ~A\$165m cash with no liabilities. Whilst the GF acquisition payment of \$350m is pre-tax, we expect GOR will offset any tax liability with its ~A\$110m tax shield. GOR anticipates using the funds to identify immature exploration belts to replicate its success at Yamarna or to identify early stage assets globally.

Valuation

We have changed our forecasts to account for dilution of ownership through the JV, an increase in net cash post capital expenditure commitment and no requirement for further equity or debt. Our valuation on the Gruyere project falls to A\$583 (versus \$816m previously) which factored in a debt / equity raise of 60:40 for the A\$507m capex requirement and expanded pro-forma capital dilution. We increase GOR's cash position to account for the additional net-\$165m in cash post-transaction.

Table 1: Valuation summary

		GOLDFIELDS JV 50:50	OLD VALUATION
Valuation Summary	A\$m	A\$/sh	A\$/sh
Gruyere	582.6	0.67	0.72
Unmined Resources	113.6	0.10	0.10
Yamarna Exploration	200.0	0.18	0.18
Corporate	-39.8	-0.04	-0.04
Cash Estimate (post transaction)	165.0	0.19	0.07
Debt	0.0	0.00	0.00
Total @8% discount rate	1021.3	1.10	1.05

Source: Argonaut

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 ichristie@argonaut.com

Matthew Keane | Analyst, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

James Wilson | Analyst, Metals & Mining Research
+61 8 9224 6835 jwilson@argonaut.com

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hlaui@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Damian Rooney | Senior Institutional Dealer
+61 8 9224 6862 drooney@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwiloughby@argonaut.com

INSTITUTIONAL SALES - HONG KONG:

Travis Smithson | Managing Director - Asia
+852 9832 0852 tsmithson@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Executive Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Ian Dorrington | Director, Corporate Stockbroking
+61 8 9224 6865 Idorrington@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Tony Locantro | Dealer, Private Clients
+61 8 9224 6851, tlocantro@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Chris Hill | Dealer, Private Clients
+61 8 9224 6830, chill@argonaut.com

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

Information Disclosure

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") or by Argonaut Securities (Asia) Limited ("ASAL") for the use of the clients of ASPL, ASAL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited. ASAL has a licence (AXO 052) to Deal and Advise in Securities and Advise on Corporate Finance in Hong Kong with its activities regulated by the Securities and Futures Ordinance ("SFO") administered by the Securities and Futures Commission ("SFC") of Hong Kong.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL and ASAL have made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, ASAL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL and ASAL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's and / or ASAL's overall revenues.

Hong Kong Distribution Disclosure

This material is being distributed in Hong Kong by Argonaut Securities (Asia) Limited which is licensed (AXO 052) and regulated by the Hong Kong Securities and Futures Commission. Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in the Hong Kong office should be contacted at Argonaut Securities (Asia) Limited of Unit 701, 7/F, Henley Building, 5 Queen's Road Central, Hong Kong, telephone (852) 3557 48000.

Copyright

© 2016. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited and / or Argonaut Securities (Asia) Limited. Argonaut Securities Pty Limited and Argonaut Securities (Asia) Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.