

Wednesday, 21 June 2017

Gold Road Resources

Gruyere project update

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Stock	Gold Road Resources
Recommendation	BUY
Current Price	\$0.67
Target Price	\$1.02

Event and Impact

Gold Road Resources (GOR) has announced a project update for its Gruyere Project in Western Australia. The release summarises recent and new developments in the project construction progress.

Updates: The release includes previously reported data included the award of the EPC contract to Amec Foster Wheeler and Bulk Earthworks to MACA Ltd.

- New updates include capital cost revisions and the award of the power supply contract to APA Group.
- Mining tender for 27mtpa contract expected in Q4 2017.
- Start of construction delayed by 2 months – construction completion Dec 2018, first gold Q1 2019 due to completion of detailed design and refinements to the feasibility.

Detailed Design: The Gold Fields JV (GFJV) has announced a revised capital cost of \$532m (+/- 10%) which remains within the originally forecast Feasibility Study capital cost of A\$514m (+10-15% accuracy). Importantly the increase capital cost includes the increase in mill design to 8.5Mtpa capacity so it's highly likely this cost increase is associated with up-scaling the remaining infrastructure to handle the increased throughput. As a result, the economics of the project should improve. Overall the cost to GOR is negligible with an additional 2% increase over its 50% share of the Feasibility Study cost of \$257m. The remaining costs are covered by the GFJV \$50.7m cost over-run guarantee.

Mine Village: The first 288 rooms were installed in the village in the March Q with the second set of 360 rooms installed in May. Commissioning of the camp is expected by the end of June 2017.

Power Supply contract awarded: APA Group has been awarded the contract to design, build, own and operate the 198km pipeline and the 45 Megawatt gas fired power station at Gruyere. APA will invest \$180m in the pipeline and power station which will be recovered over 15 years through a gas transportation and electricity supply contract. This was previously flagged in the feasibility, although two options were considered (one involving an initial start-up with diesel power and switching to gas later on). Commissioning of the pipeline and power station is expected in Q4 2018 to align with first gold production in Q1 2019.

On a peer group basis, GOR is cheap and largely de-risked due to its partnership with Gold Fields Australia: We base our FCF and EV/production assumptions on the likelihood of GOR reaching >300kozpa production via the up-scaling of the Gruyere processing plant to 8.5Mtpa and the additional treatment of near mine oxide resources which should see output grow to >9-9.5Mtpa in the early years. As a result, we expect GOR's position on Figure 4 below will move into line with its production peers such as RRL, NST and EVN. The project is fully financed, with insulation against cost over-runs.

Recommendation

Argonaut maintains a BUY recommendation with a \$1.02 target price.

Figure 1: Gruyere Mine Village (under construction)



Source: GOR

Bulk Earthworks: MACA was awarded the main road, Borefield, airstrip, process plant and tailings contract in May 2017 with an estimated value of \$49m.

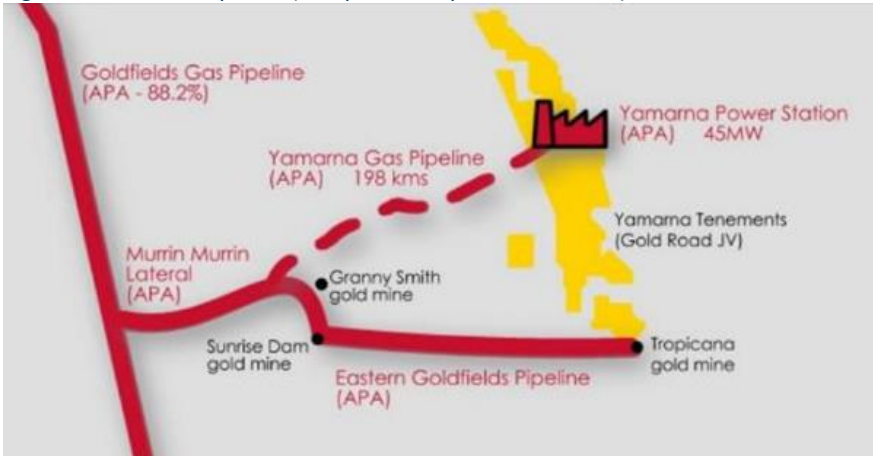
Figure 2: Gruyere Mine Village and airstrip (under construction)



Source: GOR

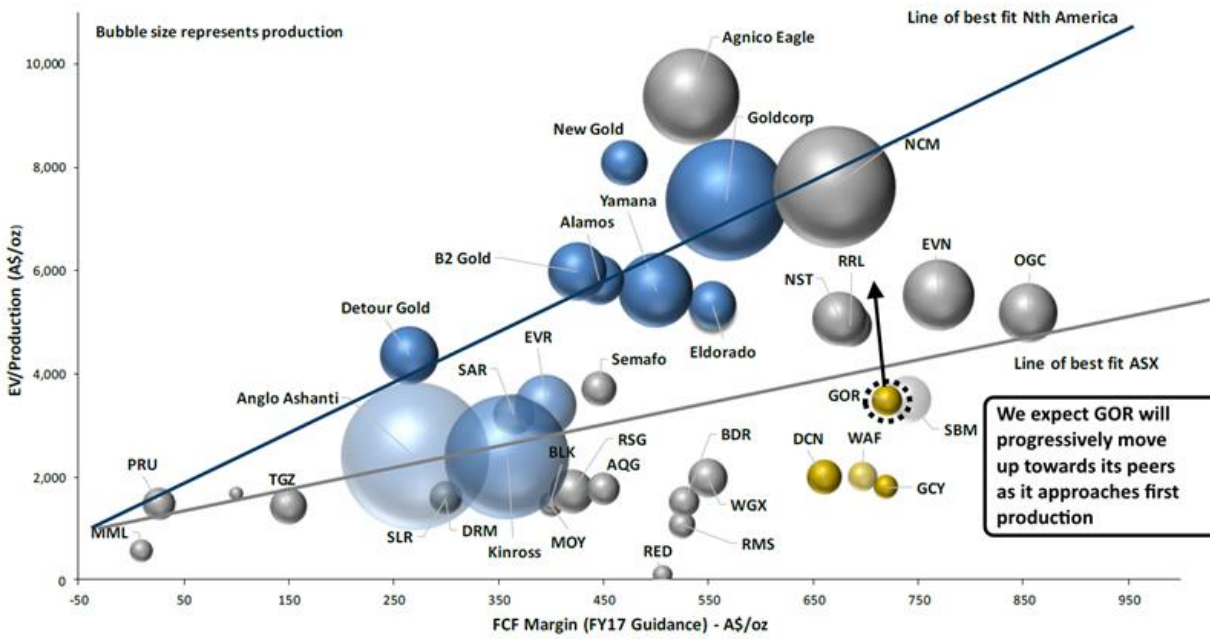
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Figure 3: APA Gas Pipeline (completion expected Q4 2018)



Source: GOR

Figure 4: Comparison of ASX to North American listed stock EV/Production over FCF Margin



Source: Argonaut