

Gold Road Resources Limited

They call it a Royale with cheese

February 2016

Recommendation: BUY

- **Australia's largest undeveloped gold project at Gruyere**
- **IRR estimated at >20%: lower grade vs. scale and long mine life**
- **Gruyere would be the 10th largest Australian gold operation today**

ASX: GOR

Share Price: \$0.46

Target Price: \$0.55

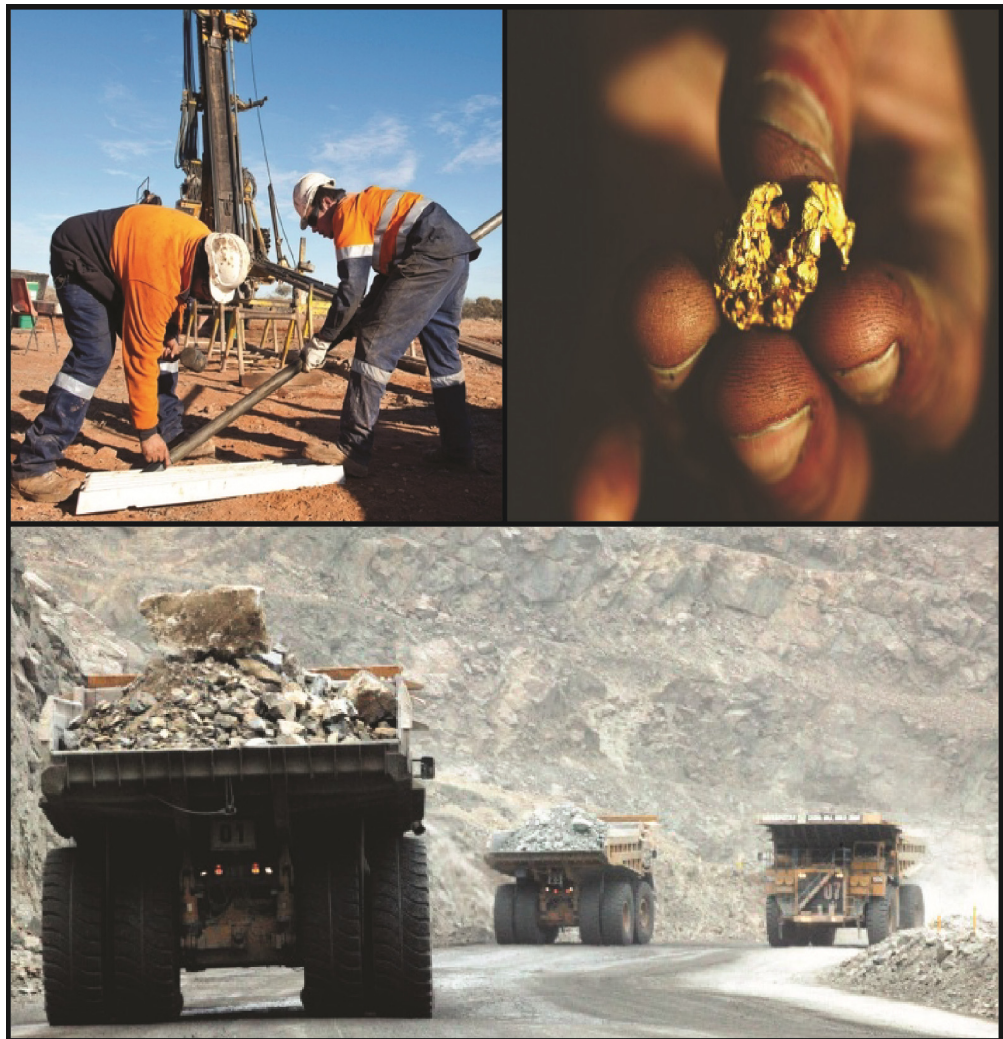
M/Cap.: \$327M

Valuation: A\$0.50/share

Valuation: A\$575M

Shares: 700M

Monthly T/over: A\$8M



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Gold Road Resources (GOR)

BUY

Share Price: A\$0.46

They call it a Royale with cheese

Target Price: A\$0.55

Gold Road is advancing the A\$0.5B Gruyere gold project in WA, which if producing today would be the 10th largest Australian gold mine. From 2H18 Gruyere is expected to produce 265koz annually at ~A\$1,000/oz for 12 years. A reserve grade of 1.2g/t gold means this is a lower grade project, however some of Australia's most valuable gold projects are lower grade / bulk mining operations such as Boddington and Cadia. This is a leveraged project and we estimate it requires ~A\$1,550/oz to generate an IRR of 15%, spot yields +20%. In our view there is scope for the Feasibility Study to deliver enhanced outcomes, however the key leverage is further exploration success. GOR is higher risk / reward with permitting and funding key catalysts over the next 12 months. We initiate coverage with a Buy and A\$0.55/share target price.

PFS supports A\$0.5B Gruyere project at 265kozpa

- Maiden reserve of 3.2Moz at 1.2g/t gold, supporting a large open cut mine producing ~265koz for 12 years.
- PFS mining & processing costs of A\$30/t yield LOM AISC of A\$960/oz (Petra A\$1,015/oz).
- Our Gruyere NPV is A\$486M, increasing to +A\$1B on delivery. We estimate an IRR of +20% at spot gold.

Key milestones

- Permitting: targeting to receive the mining licence (ML) in 2Q16 and environmental licence (EL) in 3Q16.
- Feasibility study late 2016 with funding targeted in early 2017 leading to first production in 4Q 2018.
- Resource update expected in 2Q16, progress on an energy solution (targeting a BOO for gas plant/pipeline).

Exploration upside at region is tested

- The Yarmana belt is a prospective region hosting both Gruyere (+5Moz) and Tropicana (+7Moz) to the south.
- GOR has cash of A\$37M allowing it to finance both the Gruyere FS and a planned A\$10M in 2016 exploration.
- Current program to test a number of prospects including Corkwood (100%), Smokebush (JV with Sumitomo).

Diluted NPV of A\$0.50/share rising to ~A\$0.80/share

- GOR is valued at A\$575M or A\$0.50/share diluting for an assumed A\$220M of new equity (at A\$0.50/share).
- As capital is deployed and cash flows commence our valuation steadily rises to A\$0.80/share with production.
- GOR is leveraged and for every +/-10% change in gold prices equates to +/-30% to our NPV.

Company Data

Shares – ordinary	700M
Market cap.	\$327M
12 month low/high (\$)	A\$0.29 / A\$0.48
Average monthly turnover / volume	A\$8M / 20M
GICS Industry	Materials / Gold

Financial Summary (fully diluted)

Year end June	2016F	2017F	2018F	2019F	2020F
Revenue (\$M)	0	0	0	193	602
Costs (\$M)	-5	-5	-5	-140	-276
EBITDA (\$M)	-5	-5	-5	53	326
NPAT (\$M)	-3	-3	-3	9	168
EPS (¢ps)	0	0	0	1	24
PER (x)	N.M	N.M	N.M	34.8	1.9
Cashflow (\$M)	-2	-3	-3	49	249
CFPS (¢ps)	0	0	0	7	35
PCFPS (x)	-133	-102	-112	7	1
Enterprise Value (\$M)	289	285	318	600	376
EV / EBITDA (x)	N.M	N.M	N.M	11.3	1.2
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0

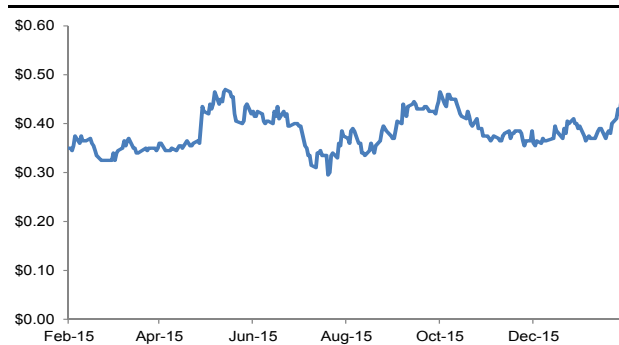
Board

Director	Position	Executive
Ian Murray	Chairman	Executive
Justin Osborne	Director	Executive
Russell Davis	Director	Non-Executive
Tim Netscher	Director	Non-Executive
Martin Pyle	Director	Non-Executive

Significant Holders

Significant Holders	Interest
Resource Capital Funds Mgmt	9.8%
Platypus Asset Management	8.4%
Van Eck Associates Corporation	5.8%

Gold Road Resources (A\$/share) – performance over one year



Executive Summary

Targeting to be permitted and funded in 12 months

Gruyere is the largest undeveloped gold project in Australia

Gold Road's cornerstone asset is the 100% owned Gruyere gold deposit the company discovered in 2013. The other potential driver is prospective exploration on its large 5,000km² landholding encompassing Gruyere in the Yamarna region of WA (Figure 1). The company recently completed a Gruyere pre-feasibility study (PFS) and is targeting to deliver within 12 months a feasibility study, key permits and funding to allow it to develop a large open cut mining operation.

Lower grade highlights this is a long life / scale opportunity

If in production today Gruyere would be the 10th largest Australian gold mine and one of the longest life projects on reserves

The recently published PFS outlined Gruyere has the potential to support a moderate to large open cut mining operation, which based on a reserve of 3.2Moz at 1.2g/t gold produces on average ~265koz of gold for 12 years. Significantly, at the design rate, if Gruyere was in production today it would be the 10th largest gold operation in the country and one of the longest life projects on reserves. Gruyere, is a lower grade deposit, however some of the more profitable gold assets in the country are bulk mine / lower grade operations (e.g. Cadia and Boddington). Achieving targeted costs will be key, and PFS mining & processing costs of A\$30/t yield LOM AISC of ~A\$1,000/oz, whilst low, other operations are getting similar results (e.g. Cowal and Tropicana).

Leveraged to higher gold prices

Spot gold prices implies a robust IRR of +20%, however, below A\$1,550/oz returns look more marginal

The PFS identified development capital of A\$455M with an indicative payback of 4 years at a A\$1,500/oz gold price. Our analysis points to GOR's funding requirement being closer to A\$550M including potential for higher capex, working capital and exploration funding. In our view there is opportunity to optimise project economics through the Feasibility (e.g. increasing pit wall angles), however overall we don't expect a material change in base economics. GOR stopped short of publishing NPV's and IRR's in the PFS; however our Gruyere NPV is A\$486M (increasing to +A\$1B on project delivery). Our analysis suggests 3 years out from production the project requires ~A\$1,550/oz to generate an IRR of 15%, with spot gold prices suggesting a more robust IRR of +20%.

Higher risk / reward development play – valuation A\$0.50/share

Initiate with BUY rating & \$0.50 target

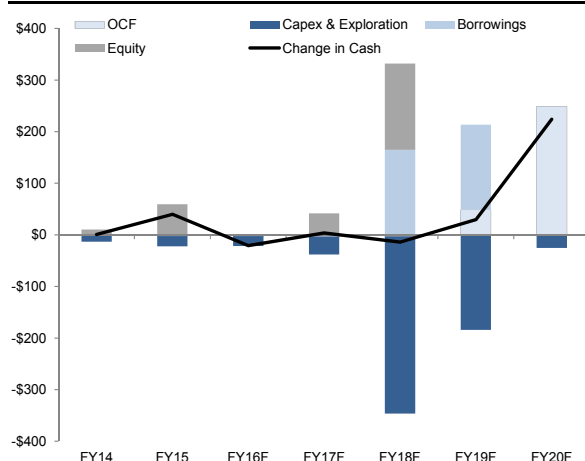
GOR is a classic resources development play where the valuation is expected to rise to +A\$0.80/share as the project is funded, capital is sunk and cash flows commence. It is a higher risk / reward proposition as key permits and funding are yet to be secured. Our NPV is A\$575M or A\$0.50/share diluted for a A\$220M equity raising at A\$0.50 (Figure 2). A large commitment to regional exploration is a key potential catalyst given the large ore bodies at Gruyere (+5Moz) and Tropicana (+7Moz), in addition to the fact the region is relatively under explored. Further, given the scale of Gruyere there is potential for corporate interest, as GOR could make an attractive bolt-on acquisition.

Figure 1: Asset location



Source: Gold Road Resources Ltd

Figure 2: GOR cash flow profile



Source: Petra Capital

Analysis



Gold Road Resources (GOR)

P&L (A\$M)						Analyst: David Radclyffe, David Cotterell					
	FY16F	FY17F	FY18F	FY19F	FY20F						
Revenues	0	0	0	193	602	Rating	BUY				
Operating Costs	-5	-5	-5	-140	-276	Target Price (A\$)	0.55	TSR	19%		
Other	0	0	0	0	0	Price (A\$)	0.46	Price (US\$)	0.33		
EBITDA	-5	-5	-5	53	326	NPV (A\$)	0.50	NPV (US\$)	0.36		
D&A	0	0	0	-20	-62	Shares (M)	1,143				
EBIT	-5	-5	-5	33	264	Mcap (A\$M)	318	Mcap (US\$M)	228		
Net Interest	1	0	1	-20	-24	EV (A\$M)	269	EV (US\$M)	192		
Taxes	1	1	1	-4	-72	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-3	-3	-3	9	168						
EPS (¢)	0	0	0	1	24						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)						Assumptions					
	FY16F	FY17F	FY18F	FY19F	FY20F		FY16F	FY17F	FY18F	FY19F	FY20F
Receipts	0	0	0	193	602	Gold (US\$/oz)	1,107	1,150	1,250	1,300	1,300
Payments	-5	-5	-5	-140	-276	Gold (A\$/oz)	1545	1667	1852	1955	1970
Net Interest	1	0	1	-20	-24	Silver (US\$/oz)	14	16	19	20	20
Taxes	2	1	1	16	-52	Copper (US\$/lb)	2.25	2.50	2.78	2.95	2.95
Other	0	0	0	0	0	AUD/USD	0.72	0.69	0.68	0.67	0.66
Operating Cash Flows	-2	-3	-3	49	249	Key Ratios					
Capex	0	-25	-333	-174	-15	PE (x)	N.M	N.M	N.M	34.8	1.9
Disposals	0	0	0	0	0	EV/EBITDA (x)	N.M	N.M	N.M	11.3	1.2
Exploration	-18	-10	-10	-10	-10	EPS Growth (%)	-27.2	-0.7	-5.1	<-100	>100
Other	0	0	0	0	0	ROE (%)	-3.5	-2.4	-1.0	2.8	38.7
Investing Cash Flows	-19	-35	-343	-184	-25	Net Debt to Equity (%)	-32.5	-25.7	49.9	85.9	13.2
Change in Borrowings	0	0	165	165	0	Net Debt to EBITDA (x)	5.5	6.9	-30.4	5.3	0.2
Dividends	0	0	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Equity	1	42	167	0	0	FCF Yield (%)	-6.6	-11.8	<-100	-41.8	69.3
Other	0	0	0	0	0						
Financing Cash Flows	1	42	332	165	0	Production & Costs					
Balance Sheet (A\$M)						FY16F	FY17F	FY18F	FY19F	FY20F	
	FY16F	FY17F	FY18F	FY19F	FY20F	Gold Production (oz)					
Cash	29	33	19	49	273	Gruyere	0	0	0	97,842	305,614
Receivables	0	0	0	10	30	Group Gold Production (oz)	0	0	0	97,842	305,614
Inventories	0	0	0	15	48	By-Product Gold AISC (US\$/oz)					
Other	0	0	0	0	0	Gruyere	0	0	0	495	629
Current Assets	29	33	19	74	351	AISC Gold Cash Costs (US\$/oz)	0	0	0	495	629
Receivables	0	0	0	0	0	AISC Gold Cash Costs (A\$/oz)	0	0	0	744	952
Investments	0	0	0	0	0	Resources (Contained Au, Moz)	6.1				
Property, Plant and Equipment	2	27	360	514	468	Reserves (Contained Au, Moz)	3.2				
Intangibles	59	69	79	89	5	EBITDA (A\$M)					
Other	0	0	0	0	0		FY16F	FY17F	FY18F	FY19F	FY20F
Non Current Assets	61	96	439	603	473	Gruyere	0	0	0	58	330
Total Assets	90	129	458	677	824	Corporate & Other	-5	-5	-5	-5	-5
Borrowings	0	0	0	0	0	NPV					
Payables	0	0	0	19	60	(A\$M)	Per Share				
Provisions	0	0	0	0	0	Gruyere	468				\$0.41
Other	0	0	0	0	0	Corporate	-31				-\$0.03
Current Liabilities	0	0	0	19	60	Exploration	101				\$0.09
Payables						Hedging	0				\$0.00
Borrowings	0	0	165	330	330	Options	1				\$0.00
Provisions	0	0	0	0	0	Net Cash	35				\$0.03
Other	0	0	0	0	0	Total	575				\$0.50
Non Current Liabilities	0	0	165	330	330	Assumes GOR issues A\$220M of equity at A\$0.50/share					
Total Liabilities	0	0	165	350	391						
Total Equity	90	128	293	327	433						

Source: Petra Capital

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