Thursday, 18 January 2018

Stock	**Gold Road (GOR)**
Recommendation	**BUY**
Current Price	**$0.71**
Target Price	**$1.07**

Event & Impact | Positive

Gold Road (GOR) has released a project update for the Gruyere Gold Project.

Key Highlights:

- Construction on schedule and on budget. Engineering is 72% complete and construction is 32% complete.
- Key infrastructure including the main access road and the airstrip have been completed. The airstrip is awaiting Civil Aviation's sign off for up to 100 seat aircraft to commence operations into the site.
- Processing plant construction underway – first CIL tanks have commenced construction and structural steel for the process plant is scheduled to arrive in the March quarter along with the ball-mill components which are undergoing final inspection in Perth.
- Borefield drilling has been completed. Installation of the 95km water pipeline will commence in the March Q.

How GOR's value will improve over coming months:

- GOR has roughly 12 months until the project construction is complete and first production commences. As construction milestones are reached we believe that the discount to our NAV of $1.07 will continue to unwind.
- We see a number of value add catalysts between now and first production including:

  i) **Higher production via a larger SAG mill has not included in the Feasibility:** The read through on higher production isn't being appropriately valued – GOR secured an 8.5Mtpa SAG mill via Goldfields. A redesign of the circuit to increase throughput aims to increase production vs the 7.5Mtpa Feasibility Design (which had highest production of 8.8Mtpa in 100% oxide feed. We expect throughput could rise to >9-10Mtpa in the early years of the project.

  ii) **Near mine resources not included in the Feasibility:** Atilla-Alaric resources have not been factored into the Feasibility Study – containing 420koz within 25km of Gruyere adding to early stage production upside.

  iii) **Construction de-risks:** As construction milestones are reached and the project is de-risked, the valuation on the stock relative to its market peers will continue to unwind.

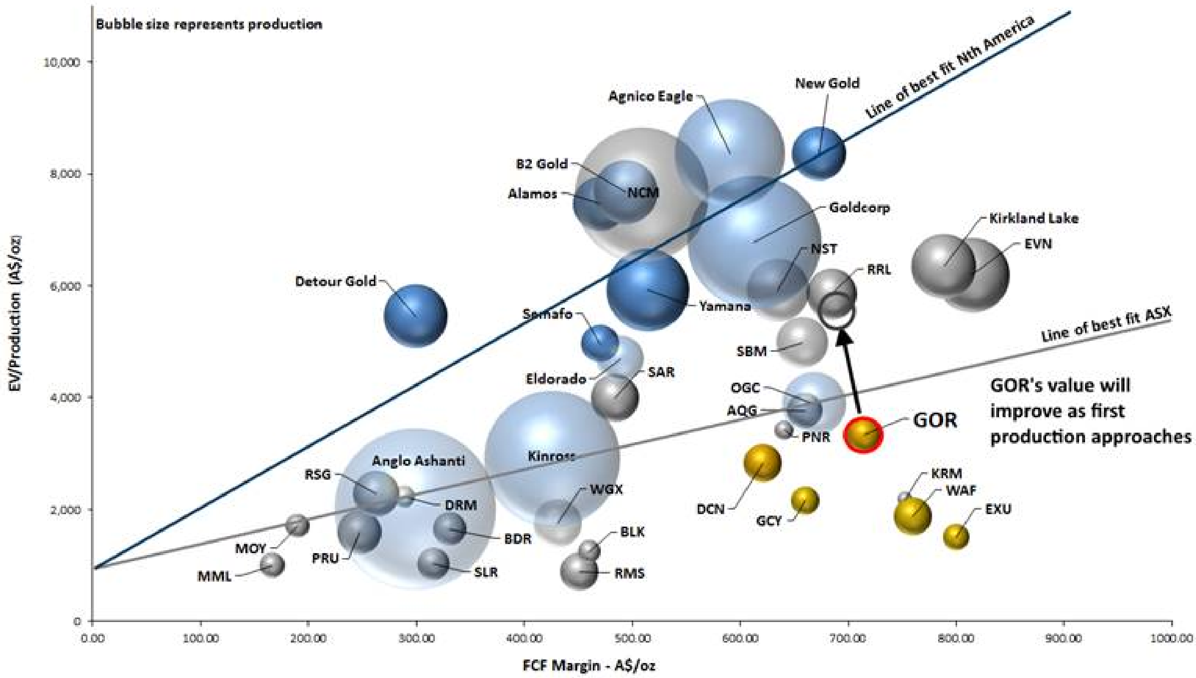
  iv) **Cheap EV/Production:** GOR trades at an EV/Production of roughly $2,800/oz which remains cheap compared to its producing peers with similar sized operations including RRL $5,850/oz, SAR $3,900/oz and NST at $5,900/oz.

v) **Largest Reserves of the peer group:** Arguably GOR has a significantly larger reserve life (+12 years) versus its peers which should attract a relative premium to its peer group (similar to North American producers with long mine life assets which also trade at a premium to ASX miners).

vi) **Exploration upside has not been adequately valued:** Exploration upside valuation has not been factored into the stock price. With mature exploration properties and a $30m budget, we argue the market is not adequately valuing these assets.

vii) **Gruyere will be the only mid-tier gold development in the FY19 (so far):** Strong performance in the gold sector has seen investors cycling out of producers and coming down the curve into pre-development plays such as DCN and GCY. In FY19 we believe Gruyere will be the only project in development which will emerge as a true mid-tier production asset. As such we believe GOR will bridge the gap between its current value and the value of similar producing assets in the mid-tier space once project approaches completion.

Figure 1: EV/Production vs FCF – Global Gold Producers and emerging developers



Source: Argonaut

Recommendation

Maintain BUY and target price of $1.07ps.

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Level 30, Allendale Square, 77 St Georges Terrace Perth, WA, 6000
Phone: +61 8 9224 6888 Fax: +61 8 9225 5511
clientservices@argonaut.com

Argonaut | Hong Kong
Suite 701, Level 7, Henley Building, 5 Queen's Road Central, Hong Kong
Phone: +852 3557 4888 Fax: +852 3557 4889
clientserviceshk@argonaut.com

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James Wilson
Research Analyst, Metals and Mining