

## BUY

Current Price \$0.62  
Target Price \$0.98

Ticker: GOR  
Sector: Materials

Shares on Issue (m): 877.5  
Market Cap (\$m): 544.0  
Cash Estimate (\$m): 114.3  
Enterprise Value (\$m): 429.7

52 wk High/Low: \$0.85 \$0.59  
12m Av Daily Vol (m): 1.07

### Mineral Inventory (100% attributable)

	Mt	g/t	Moz
Reserves	97.35	1.2	3.6
Resources	156.7	1.3	6.5

	\$/oz
EV / Reserve	121
EV / Resource	66

### Directors:

Timothy Netscher	Non-Executive Chairman
Duncan Gibbs	Managing Director & CEO
Justin Osborne	Executive Director
Brian Levet	Non-Executive Director
Sharon Warburton	Non-Executive Director

### Substantial Shareholders:

Gruyere Holdings	10.0%
Sun Valley Gold	9.0%
Van Eck	5.0%

### Share Price Graph



Please refer to important disclosures at the end of the report (from page 4)

Friday, 7 December 2018

## Gold Road Resources

### Ripening up for production

Analysts | James Wilson | Matthew Keane

### Quick Read

Gold Road has announced a Life of Mine Plan (LOM) update for the Gruyere Gold Project in Western Australia. Highlights of the announcement includes the higher average throughput to 8.2Mtpa, higher average gold production and the inclusion of the Attila and Alaric satellite deposits into the mine plan. Investors continue to discount emerging gold production plays versus their producer peer group. We feel this is unwarranted for several reasons including i) Forecast capex is within 2% of final pricing, ii) the project remains on schedule as per recent guidance and; iii) production has been upsized further improving the project economics. GOR aims to substantially de-risk the project ahead of first gold by completing the first two years of grade control, building large ROM stocks as well as having spare capacity upside in the current mill configuration for potentially higher throughput. Production is scheduled for the June Q CY19 and we anticipate dry commissioning of the Gruyere processing plant infrastructure could commence as early as mid-January 2019.

### Event & Impact | Positive

**Construction Progress:** As expected all of the civil works is complete. At this late stage of project construction, we find that the final stages of construction involve the reticulation of electrical cabling, processing systems and piping installation. The power station has been commissioned and Argonaut forecasts the energising of the power systems and of the crushing circuit in early January 2019. Commissioning on smaller processing plants takes about 8-10 weeks before first gold. We see Gruyere having a longer lead time because of its size with dry commissioning likely to commence in early January and wet commissioning in mid-February to early April.

**Life of Mine Plan update:** Gold Fields updated mine plan incorporates enhancements to the 2016 Feasibility Study (FS) including higher production via higher mill processing throughput to 8.2Mtpa (from 7.5Mtpa) and the addition of 178koz of additional reserves from the Attila and Alaric satellite pits. Overall this results in an overall lift in production of ~13% on the previous FS numbers and a 25% lift in production over years 2024-2026 (Years 5-7). Overall reserve tonnes have increased by 6% to 97Mt and total mined ounces have increased by 8% to 3.47Moz (albeit using a \$1,600/oz assumed gold price vs A\$1,500/oz in the 2016 FS). All in sustaining costs have risen to \$1,025/oz (from A\$945/oz in the 2016 FS) due to wage inflation and higher sustaining capital.

**Changes to our model:** We see GOR's projections on the timing to first production as conservative, but readily admit that large projects such as this rarely come in on time. Investors will likely remain cautious, but with capex now within 2% of final forecast cost we don't see much impact the project from here. Argonaut estimates first gold around mid-late April 2019. Infrastructure is now largely complete and we see fewer impediments to reaching first gold on time in the early June Q.

### Recommendation

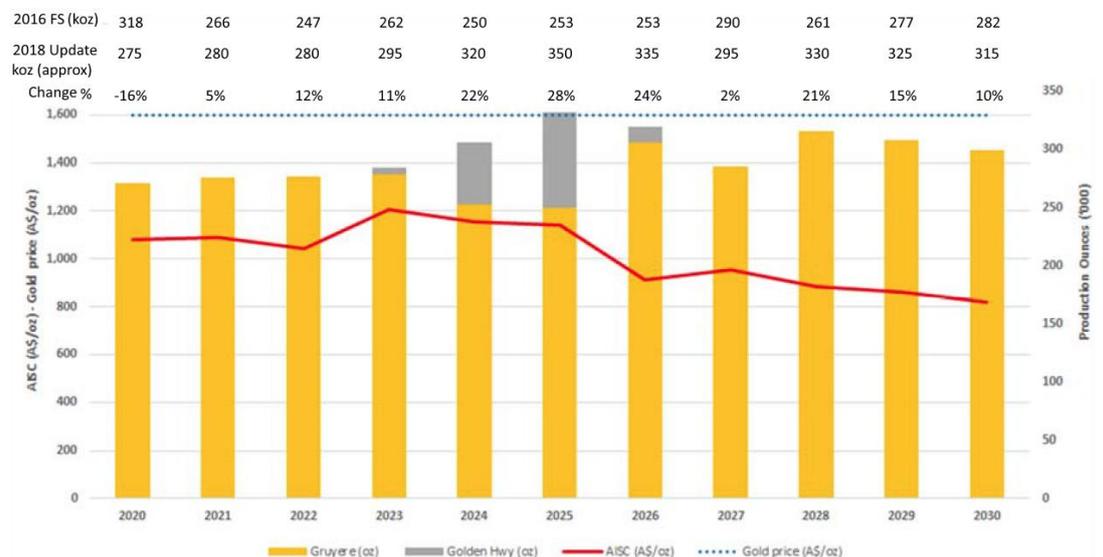
Maintain BUY recommendation and target price of \$0.98ps (prior \$0.99ps).

## Life of Mine Plan update

Gold Fields updated 2018 mine plan incorporates enhancements to the 2016 Feasibility Study (FS). A combination of higher mill throughput at 8.2Mtpa (vs 7.5Mtpa prior) and an additional 178koz of reserves has seen average production rates lift to 300kozpa over the LOM representing an overall 13% lift in gold production vs the 2016 FS. Importantly Years 5-7 (2024-2026) see the biggest gain with production increasing by 25% over the period. Previously the proposed cutback at the time saw production dip and this has been infilled by supplemental ore feed from the Attila and Alaric satellite open pits.

In Figure 1 below we show the Gruyere Business Plan 2020-2030 which we have overlaid the approximate FS 2016 and current 2018 forecast production figures for comparison.

Figure 1: Gruyere Business Plan and Outlook 2020-2030



Source: GOR, Modified by Argonaut

### Key outcomes of the mine plan:

Overall reserve tonnes have increased by 6% to 97Mt and total mined ounces have increased by 8% to 3.47Moz (albeit using a \$1,600/oz assumed gold price vs A\$1,500/oz in the 2016 FS). All in sustaining costs have risen to \$1,025/oz (from A\$945/oz in the 2016 FS) due to wage inflation and higher sustaining capital costs. On an NPV basis however, these cost increases have largely been offset by higher production in our model.

Figure 2: Updated Mine Plan key parameters

Key Outcomes	Updated Mine Plan	Feasibility Study 2016	Variance
Project Processing Life (years)	12	13	-8%
Life of Mine Ore Mined (Mt)	96.6	91.6	5%
Stripping Ratio (waste:ore) <sup>1</sup>	2.85	2.77	3%
Gold Mined (Moz)	3.75	3.52	6%
Gold Recovered (Moz)	3.47	3.21	8%
Life of Mine Average Annual Throughput (Mtpa) <sup>2</sup>	8.2	7.5	9%
Life of Mine Head Grade (g/t)	1.21	1.20	1%
Annualised Gold Production (average koz pa)	300	270	10%
All In Sustaining Cost (A\$/oz)	1,025	945	8%
Gold Price assumed (A\$/oz)	1,600	1,500	6%

Source: GOR

### Commissioning imminent

Commissioning on smaller processing plants historically takes about 9-10 weeks before first gold. Since Gruyere’s infrastructure is substantially larger than other projects, we see a longer lead time. We anticipate energizing of the power systems in early January followed by commencement of dry commissioning in mid-January. We anticipate wet commissioning to commence in early February and last for 8 weeks. Argonaut estimates first gold production in mid-April 2019.

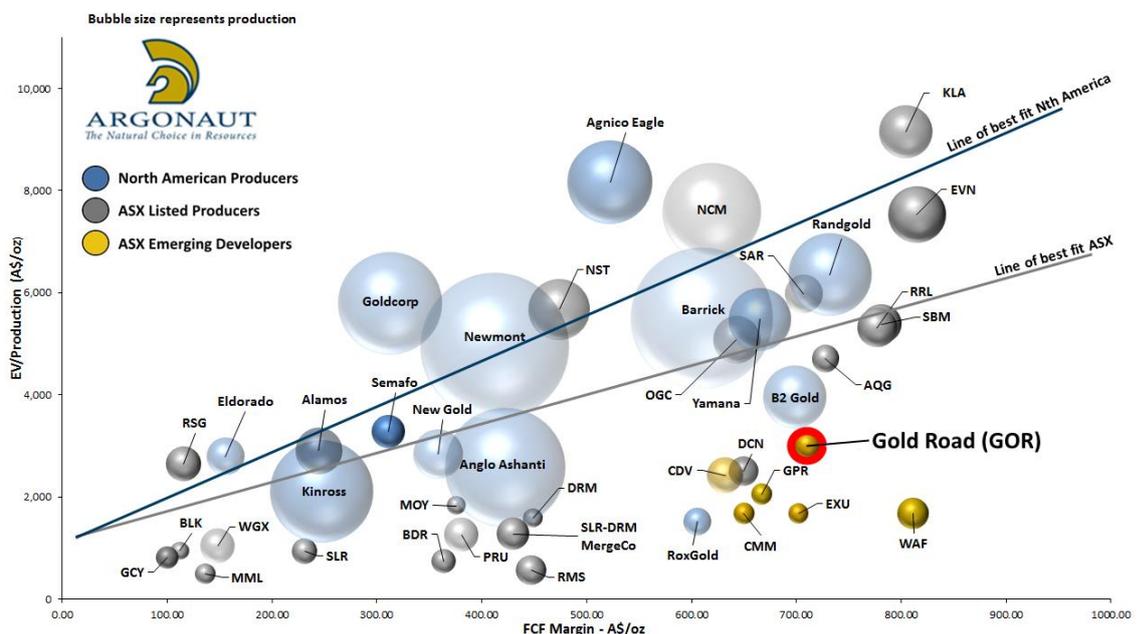
### The Path forward and potential risk/rewards

We see GOR’s projections on the timing to first production as conservative, but readily admit that large projects such as this rarely come in on time. Investors will likely remain cautious on further cost escalation but with capex now within 2% of final forecast cost we see the likelihood of further capex hikes as being highly unlikely. Seasonal rains are prevalent during Jan-March, but since infrastructure is largely complete and the pre-strip at Gruyere was completed in mid-2018. Mining operations have already commenced and we anticipate GOR to have 500kt of ROM stockpiles at the time of first gold production. GOR has already completed the first two years of grade control drilling as part of the original Feasibility Study and the nature of the Gruyere orebody suggests a high level of confidence in mine to mill reconciliation.

### Valuation

We have revised our model in line with the 2018 LOM Plan and have aligned our forecast production and costs in line with the Gold Fields update. Argonaut estimates commercial production being achieved in the March Q of 2020. GOR continues to be a key pick in Argonaut’s emerging gold producer space. GOR trades at a forward-looking EV/Production of \$3,000/oz with 50% ownership of an asset with one of the longest reserve’s life in the ASX for a domestic gold asset. We see first production in the early June Q and a commensurate de-risking of the project as this occurs. BUY maintained and target price of \$0.98ps (prior \$0.99ps).

Figure 3. EV/Production vs FCF Margin – Global gold producers and developers



Source: Argonaut

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