

Gold Road Resources ^{GOR}

Recommendations

Rating	BUY
Risk	High
Price Target	\$0.80
Share Price	\$0.61

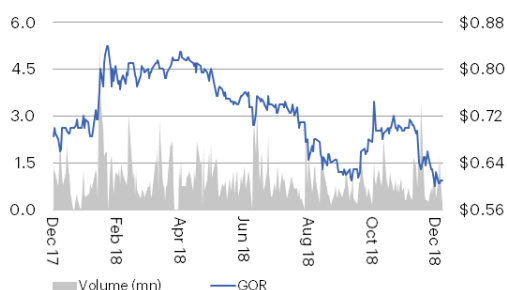
Snapshot

Monthly Turnover	\$14.7mn
Market Cap	\$535mn
Shares Issued	877.5mn
52-Week High	\$0.85
52-Week Low	\$0.59
Sector	Materials

Business Description

Gold Road is an exploration company with a significant tenement position in the Yamarna Greenstone Belt, W.A. It is building a mine and processing facility at Gruyere in a 50/50 joint venture with Gold Fields Ltd.

12 Month Price & Volume



Research Analyst

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Disclosure

The author owns no shares in GOR.

Company Report

Change of plan

More throughput and modified feed: The Gruyere Joint Venture has updated the mine plan – this includes the upgrade of the processing rate from 7.5Mtpa to 8.2Mtpa (+9%), increasing the average gold production from 270kozpa to 300kozpa (+11%), an increase in the AISC from A\$945/oz to A\$1,025/oz, and the addition of ore feed from the Golden Highway deposits. In comparing the charts provided in the release and our previous modelling, it also appears that the revised mine plan also involves bringing forward some of the higher-grade ore zones to lift production in the middle of the mine life.

Construction progressing: GOR reported that the overall project is now 85% complete and EPC construction is at 77%. All civil and contract works are complete and all major equipment and materials to complete construction are on site. The remaining works are due to be completed over the next few months to allow commissioning in the March quarter and production in the June quarter of 2019. Production guidance is due to be released in March quarter 2019.

Investment view: GOR and Gruyere are approaching the phase in development when markets can become disappointed with the rate of progress in completion and conversion to feasibility studies into tangible revenues and costs. Our valuation and price target have been upgraded from 71cps to 80cps on the back of the new production profile and costs and reflects the cash flow we forecast can come from Gruyere longer term. However, in the medium term GOR and Gold Fields need to deliver the project on time and on budget and ramp it up to full production. We have upgraded our recommendation from Hold to BUY but remain cognisant of the risk over the next six months. Gold Fields' diversified production base reduces the significance of its risk, but Gruyere is GOR's sole source of production and earnings.

Investment Summary

Year End: 31 December		2016 (A)	2017 (A)	2018 (E)	2019 (E)	2020 (E)
Revenue	\$mn	0	1	0	72	231
EBITDA	\$mn	-6.1	-4.1	-6.1	22.9	99.7
EBIT	\$mn	-11.6	-6.4	-7.2	14.9	75.1
Reported Profit	\$mn	-9.2	-2.5	-1.7	11.1	53.0
Adjusted Profit	\$mn	-9.2	-2.5	-1.7	11.1	53.0
EPS (Reported)	¢	-1.1	-0.3	-0.2	1.3	6.0
EPS (Adjusted)	¢	-1.1	-0.3	-0.2	1.3	6.0
EPS Growth	%	N/A	N/A	N/A	N/A	378.9
PER (Adjusted)	x	N/A	N/A	N/A	48.4	10.1
EV/EBITDA	x	N/A	N/A	N/A	22.5	4.8
Dividend	¢	0.0	0.0	0.0	0.0	1.0
Yield	%	0.0	0.0	0.0	0.0	1.6
Franking	%	0	0	0	0	0

Financial Summary

Code	GOR
Analyst	Warren Edney
Date	06-December-18
Share Price (\$A)	\$0.61
Market Capitalisation (A\$m)	\$535
Enterprise Value (A\$m)	\$438

Rating	BUY
Price Target	\$0.80
Upside/(Downside)	30%
Valuation	\$0.80
Risk	High

Year End	31 December	Previously 30 June			
Key Ratios	FY17A	CY17A	CY18E	CY19E	CY20E
NPAT - Reported	229.8	-2.5	-1.7	11.1	53.0
NPAT - Attributable	229.8	-2.5	-1.7	11.1	53.0
EPS - Adjusted	26.2	(0.3)	(0.2)	1.3	6.0
EPS Growth (%)	N/A	N/A	N/A	N/A	379%
P/E (x)	2.3	N/A	N/A	48.4	10.1
CFPS (A Cents)	(9.8)	(9.3)	(0.3)	2.2	8.8
P/CF (x)	N/A	N/A	N/A	27.2	6.9
DPS (A Cents)	-	-	-	-	1.0
Franking (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	-	-	-	-	1.6%
Payout Ratio (%)	-	-	-	-	17%
FCF Yield (%)	N/A	N/A	N/A	N/A	14%
EV/EBIT (x)	0.7	(35.8)	(31.8)	15.3	3.0
EV/EBITDA (x)	0.9	N/A	N/A	22.8	4.8

Assumptions	FY17A	CY17A	CY18E	CY19E	CY20E
Australian Dollar (AUD/USD)	0.75	0.78	0.75	0.75	0.75
Gold Price (US\$/oz)	1,258	1,276	1,276	1,278	1,325
Gold Price (A\$/oz)	1,667	1,637	1,695	1,711	1,767

Production & Costs	FY17A	CY17A	CY18E	CY19E	CY20E
Production					
Gruyere	0	0	0	81	261
Other					
Total Production (Equity share)	0	0	0	81	261
AISC					
Gruyere	0	0	0	1,170	1,003
Other					
AISC (A\$/oz)	0	0	0	1,170	1,003

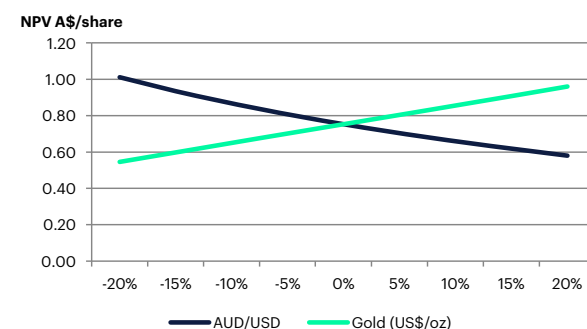
Profit & Loss (A\$m)	FY17A	CY17A	CY18E	CY19E	CY20E
Operating Revenue	0.0	0.0	0.0	72.5	230.9
Other Revenue	326.6	0.7	0.4	0.0	0.0
Total Revenue	326.6	0.7	0.4	72.5	230.9
Operating Expenses	0.0	0.0	0.0	-46.3	-127.9
Corporate/Other Expenses	-11.6	-4.8	-6.5	-3.3	-3.3
EBITDA	315.1	-4.1	-6.1	22.9	99.7
Depreciation & Amortisation	-0.6	-0.3	-0.6	-8.0	-24.6
Exploration/write-offs	-7.7	-1.9	-0.5	0.0	0.0
EBIT	306.8	-6.4	-7.2	14.9	75.1
Net Interest / (Expense)	5.0	3.0	4.9	0.9	0.6
Pre Tax Profit	311.8	-3.4	-2.2	15.8	75.7
Income Tax Expense	-81.9	0.9	0.5	-4.7	-22.7
NPAT - Adjusted	229.8	-2.5	-1.7	11.1	53.0
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT - Reported	229.8	-2.5	-1.7	11.1	53.0

Cash Flow (A\$m)	FY17A	CY17A	CY18E	CY19E	CY20E
Cash Flow from Ops	-84.6	-0.8	0.1	19.7	77.6
Capex - Development & Sustaining	-36.7	-40.2	-159.8	-33.3	-3.4
Free Cash Flow	-121.3	-41.0	-159.8	-13.6	74.2
Cash Flow From Investing	132.9	86.0	-175.0	-58.3	-23.4
Cash Flow From Financing	12.4	0.3	34.8	-5.2	-13.9
Net Cash Flow	60.7	85.5	-140.1	-43.8	40.3

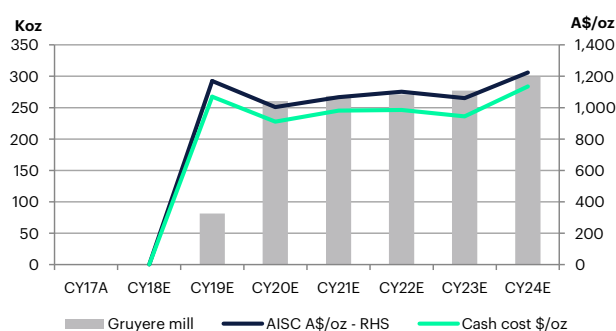
Balance Sheet (A\$m)	FY17A	CY17A	CY18E	CY19E	CY20E
Cash	255.1	236.8	96.7	52.9	93.2
PP&E/Development/Exploration	105.1	169.2	364.2	414.6	413.4
Assets	416.6	426.1	468.0	474.6	513.6
Debt	0.0	0.0	40.0	40.0	40.0
Liabilities	28.0	39.3	44.7	84.7	84.7
Equity	388.6	386.8	385.6	396.6	440.9
Net Debt / (Cash)	-255.1	-236.8	-56.7	-12.9	-53.2
Gearing (%) - ND / (ND + Eq)	-191%	-158%	-17%	-3%	-14%

Valuation Summary	A\$m	A\$/Share
WACC	8.6%	
Gruyere	531	0.61
Corporate	(18)	(0.02)
Exploration	87	0.10
Net Cash / (Debt)	97	0.11
Total Valuation	697	0.80

Valuation Sensitivity



Production & Costs



Reserves & Resources (100%)

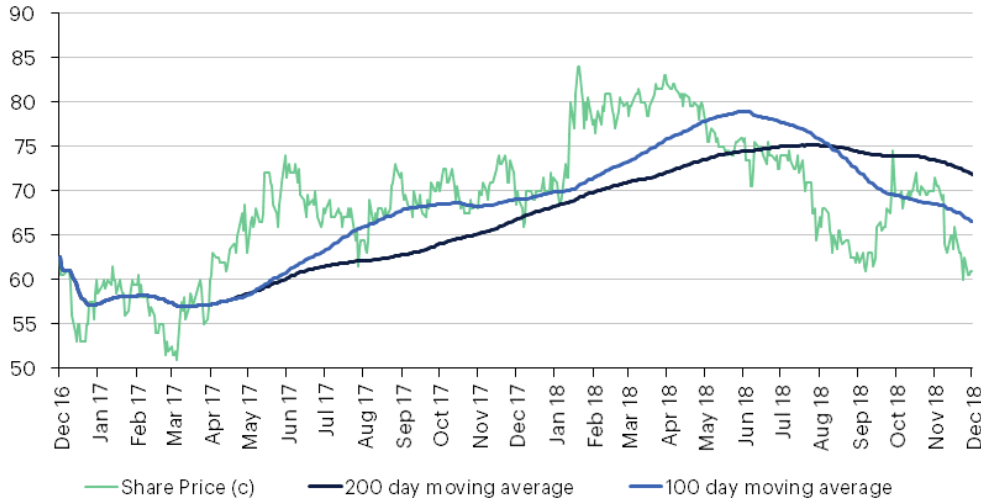
Gruyere	Reserve		
	Mt	g/t Au	Moz
Proved	14.9	1.09	0.52
Probable	76.7	1.22	3
	91.6	1.20	3.52

Gruyere	Resource		
	Mt	g/t Au	Moz
Gruyere	147.7	1.30	6.160
Central Bore	0.6	9.17	0.187
Attila Trend	5.3	1.58	0.270
	153.6	1.34	6.617

EV/Resource (A\$/oz)	68.8
EV/Reserve (A\$/oz)	129.3

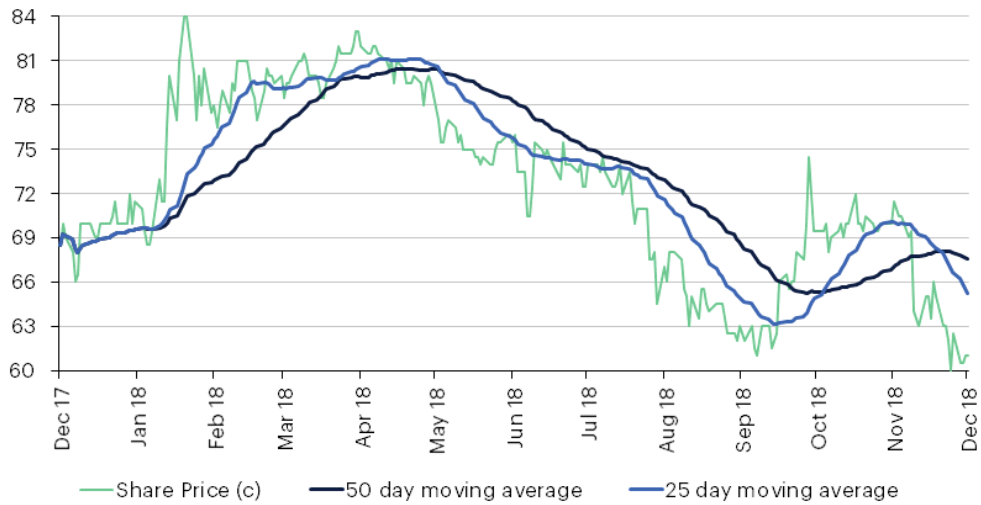
Appendix

Fig.1: Long term momentum indicators



Source: Iress

Fig.2: Short term momentum indicators



Source: Iress

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Hold: The stock's total return is expected to trade within a range of $\pm 10-15$ percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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Hold: 39%

Sell: 1%

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