

Friday, 15 February 2019

Gold Road Resources

Analyst(s) | James Wilson | Matthew Keane

Stock	GOR
Recommendation	BUY
Current Price	\$0.79
Target Price	\$1.02 (prior \$0.98)

Event and First Take | Positive

Guidance: GOR has released CY2019 guidance for the Gruyere Gold Project of 100-120koz (100% basis). This is broadly in line with Argonaut's forecast of 127koz (100%). All in sustaining costs (AISC) are guided between \$1,050-\$1,150/oz once commercial production is declared versus Argonaut's forecast costs for 2HCY19 of \$1,400/oz. Costs are impressive for a project that will be in its commissioning phase, and the project is expected to ramp up to nameplate capacity within 6-7 months of first gold.

Mining mobilised: First ore was mined in January 2019 and as at 14th February the Gruyere JV had mined 185kt of ore. Argonaut anticipates GOR will 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.

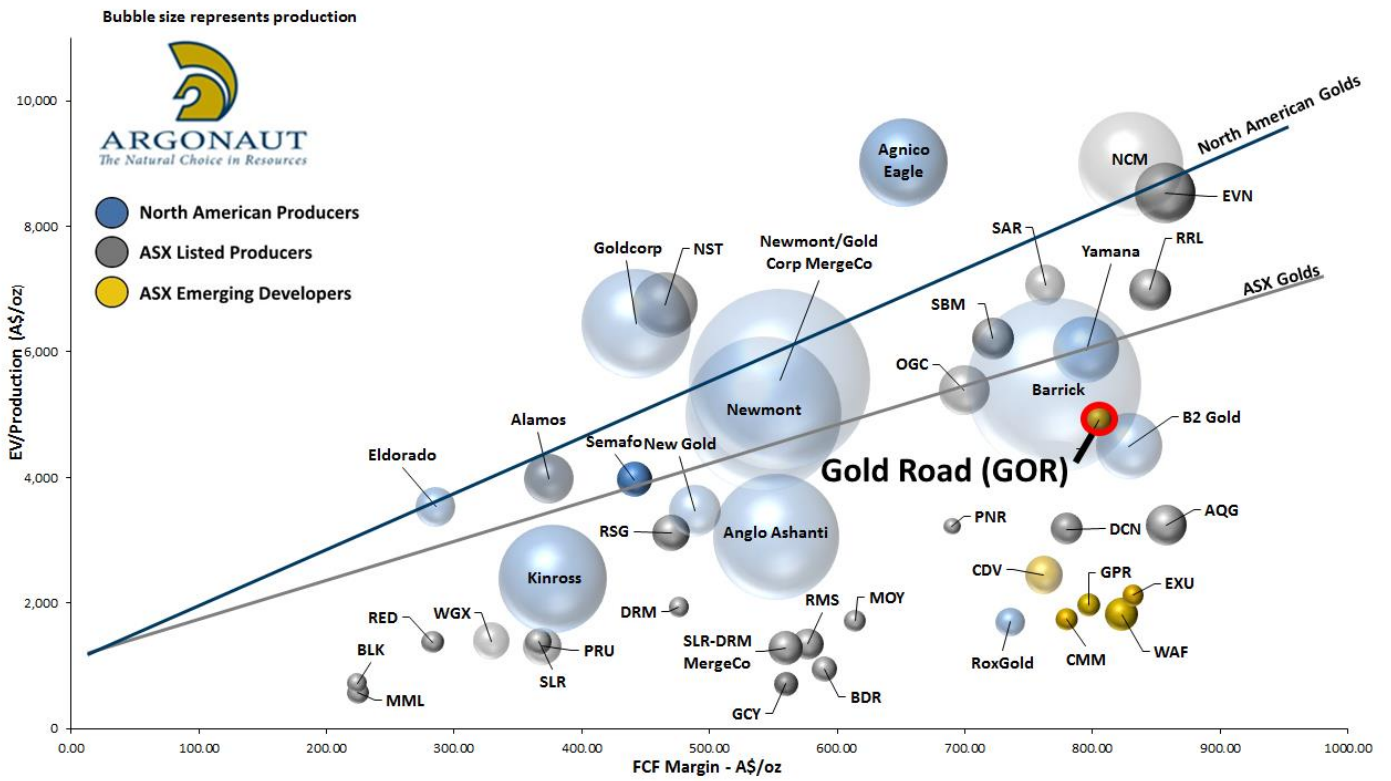
Trades at a discount to the peer group: Justifiably, GOR trades at a discount to its producer peer group ahead of first production. GOR trades at a forward-looking EV/production of \$4,900/oz versus its peer group producers of NST, RRL and SAR at \$7,000/oz and SBM at \$6,200/oz. Arguably, GOR has a higher quality asset than its peers with one of the longest reserve lives in the ASX for a domestic gold asset.

You couldn't pick a better time to commission an Aussie gold project: Gold prices have risen ~14% since mid-2018. GOR's Ore Reserves have been completed on a A\$1,600/oz gold price vs current spot pricing of A\$1,840/oz. Normally this is a critical phase in the early start up of a new development, however GOR's costs have largely been smoothed with grade control for the first two years of the project already complete and pre-stripping of the ore being largely completed in site preparations in late 2018. Argonaut estimates commercial production being achieved in the March Q of 2020. Risks remain during the wet season in the March Q, however with the bulk of the infrastructure now complete, we see limited impact.

Recommendation

GOR continues to be a key pick in Argonaut's emerging gold producer space. GOR trades at a forward-looking EV/Production of \$4,000/oz (vs the peer group at >\$6,000/oz) with 50% ownership of an asset with one of the longest reserves 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. We make revisions to our model to account for higher spot gold pricing in CY19 and lower costs post-startup. BUY maintained and we upgrade our target price to \$1.02ps (prior \$0.98ps).

Figure 1: Global gold producers and developers EV/Production vs FCF Margin



Source: Argonaut

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