



## AUSTRALIA

GOR AU Outperform

Price (at 06:10, 20 May 2015 GMT) A\$0.44

Valuation A\$ 0.58

- DCF (WACC 9.0%)

12-month target A\$ 0.55

12-month TSR % +25.0

Volatility Index Very High

GICS sector Materials

Market cap A\$m 262

30-day avg turnover A\$m 0.9

Number shares on issue m 595.1

## Investment fundamentals

Year end 30 Jun		2014A	2015E	2016E	2017E
Revenue	m	0.0	0.0	0.0	0.0
EBIT	m	-2.9	-17.0	-10.4	-13.9
Reported profit	m	0.4	-11.5	-6.8	-9.0
Adjusted profit	m	0.4	-11.5	-6.8	-9.0
Gross cashflow	m	0.4	1.4	-0.6	-2.6
CFPS	¢	0.1	0.2	-0.1	-0.2
CFPS growth	%	nfmf	177.6	nfmf	-124.4
PGCFPS	x	510.7	184.0	nfmf	nfmf
PGCFPS rel	x	51.42	18.87	nfmf	nfmf
EPS adj	¢	0.1	-1.9	-1.1	-0.7
EPS adj growth	%	nfmf	nfmf	44.8	35.2
PER adj	x	515.0	nfmf	nfmf	nfmf
PER rel	x	28.27	nfmf	nfmf	nfmf
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-8.8	-34.4	-11.3	-4.0
ROE	%	1.3	-27.5	-8.6	-3.7
EV/EBITDA	x	-68.4	-59.2	-67.2	-73.2
Net debt/equity	%	-26.7	-12.7	-26.9	-0.2
P/BV	x	6.2	5.5	2.7	1.5

## GOR AU vs Small Ordinaries, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2015  
(all figures in AUD unless noted)

## Analyst(s)

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20 May 2015

Macquarie Securities (Australia) Limited

## Gold Road Resources

## Gruyere site visit

## Event

- We attended a site visit to GOR's Gruyere gold project in the Yamarna Trend of WA's Eastern Goldfields.

## Impact

- PFS update.** The Gruyere PFS will be completed in two stages. Stage 1 is expected to be finalised in 2HCY15 and will determine the size and power options for the project. We currently model an 8Mtpa operation with a 10-year mine life. Assuming a BOO supply agreement we believe that gas-fired power generation can deliver meaningful operating cost savings and is likely to be the favoured option. A number of study milestones have already been reached with the resource drill out completed along with positive initial metallurgical test work and early comminution studies. Geotechnical drilling is underway as are hydrogeological and environmental studies. Stage 2 will be delivered at the end of 2015.
- Interim resource update with PFS Stage 1.** GOR has completed a substantial amount of new drilling since releasing Gruyere's maiden resource. The company plans to release an interim resource update with the PFS Stage 1 results. Our expectation is that the interim resource will deliver ~80Mt of indicated mining inventory to support the completion of the PFS.
- Gruyere compares favourably on a number of meaningful metrics.** Based on the scoping study pit design, Gruyere has a low 1.3:1 strip ratio (1.6:1 inclusive of pre-strip). We expect this to rise slightly with the expanded PFS pit but still to remain below 2 for the life of mine average. Recent metallurgical test work demonstrated high average recoveries of between ~98% in oxide material and ~93% in fresh material at a relatively coarse 125µm and 106µm respectively.

## Earnings and target price revision

- We've made a number of adjustments to our model including increasing our estimated throughput rate to 8Mtpa (from 7.5Mtpa). Our capex estimate of \$510m is unchanged. We have pushed first production back 12 months to 1QCY18 and rescheduled our assumed project financing in line with the later start. We leave our target price unchanged at \$0.55/sh.

## Price catalyst

- 12-month price target: A\$0.55 based on a DCF methodology.
- Catalyst: Key near-term study catalysts will be the release of PFS Stage 1 and the interim resource update. With completion of drilling at Gruyere, rigs will become available for the testing of regional exploration targets. Diamond drilling at Smokebush has the potential to deliver more high-grade results.

## Action and recommendation

- Outperform.** It looks like there is scope for GOR to improve on an already robust scoping study. As the story continues to evolve we believe that recent corporate interest in GOR also has the potential to develop into meaningful bids.

## Site visit key takeaways

### PFS update

- GOR will complete the Gruyere PFS in two stages. Stage 1 is expected to be completed in 2H CY15 and will determine the size and power options for the project. GOR's scoping study focused on a 5Mtpa option with a 7.5Mtpa and 10Mtpa option evaluated to a lower level of confidence. Further work has shown that the project's economics are improved at higher throughput and PFS Stage 1 will evaluate 7.5 to 10Mtpa options.
- Stage 2 will be delivered at the end of 2015 and assuming a positive outcome the project will move directly DFS. A number of study milestones have already been reached with the resource drill out completed along with positive initial metallurgical test work and early comminution studies. Geotechnical drilling is underway as are hydrogeological and environmental studies.

**Fig 1 Gruyere from the air**



Source: Macquarie Research, May 2015

- As indicated in recent metallurgical test work and evidenced by the core that we saw on site, Gruyere ore is hard. Consequently crushing, grinding and power requirements will be key elements of capital and operating costs. As well as determining optimal throughput for the project PFS Stage 1 will also evaluate preferred power options for Gruyere. The expectation is that gas-fired power generation will offer significant cost advantages over diesel generation at higher throughput rates.
- Based on the scoping study parameters and assuming gas is supplied under a Build Own Operate (BOO) agreement GOR believes gas could provide a 4c/kWh cost advantage over diesel; equivalent to a saving of ~\$10m pa at 5Mtpa. Currently GOR is considering two gas options: firstly the possibility of tying in to new Eastern Goldfields pipeline from Murrin Murrin to Tropicana which will pass ~120km south of Gruyere. Secondly a longer ~220km dedicated pipeline running directly from Murrin Murrin could offer some competitive advantages.

- The \$140m cost of the Eastern Goldfields pipeline suggests a relatively modest ~\$60m for a branch line off the Tropicana pipeline. Assuming sufficient capacity is available in our view the project should be feasible. However, with third-party capex for a dedicated option likely to be ~\$120m plus, we believe GOR will need to demonstrate production potential beyond Gruyere to secure a deal.

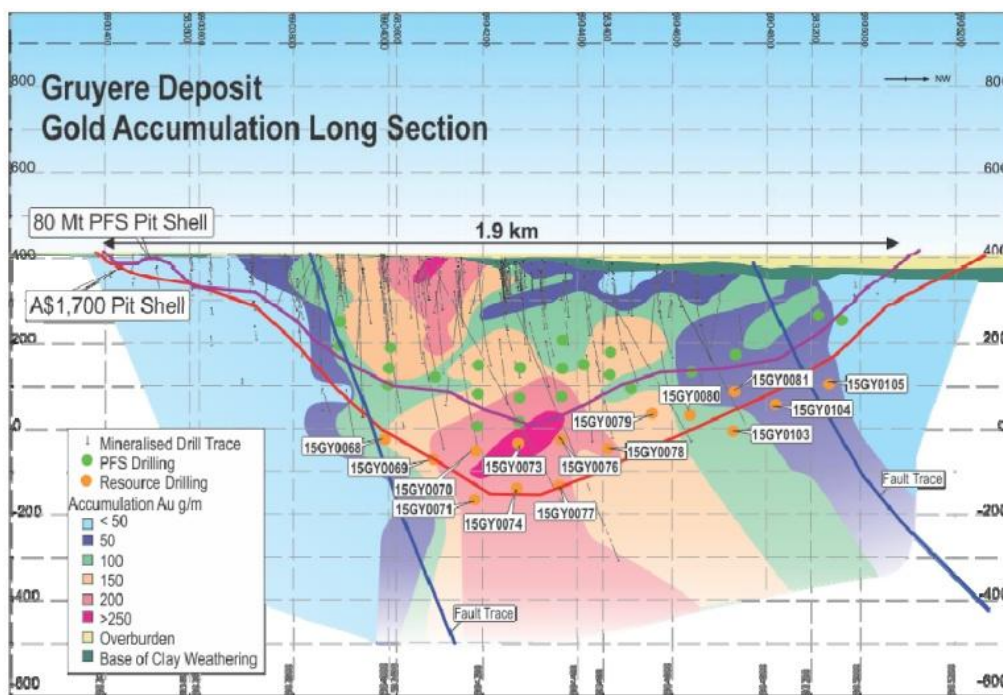
**Fig 2 The Tropicana gas pipeline will pass ~120km to the south of Gruyere**



Source: IGO, May 2015

- GOR recently completed 22,000m of resource drilling at Gruyere in addition to the ~20,000m which was completed post the announcement of the maiden resource in August 2014. Assay results from a significant portion of this are available and the company plans to release an interim resource update with the PFS Stage 1 results.
- Drilling has been completed within an 80Mt PFS pit shell and a larger A\$1,700/oz pit shell to define inferred resources outside of the PFS pit. The expectation is the interim resource will include around 60% of the new drilling data and will deliver ~80Mt of indicated mining inventory to support the completion of the PFS.

**Fig 3 Gruyere long section showing new PFS and resource drilling**



Source: GOR, May 2015



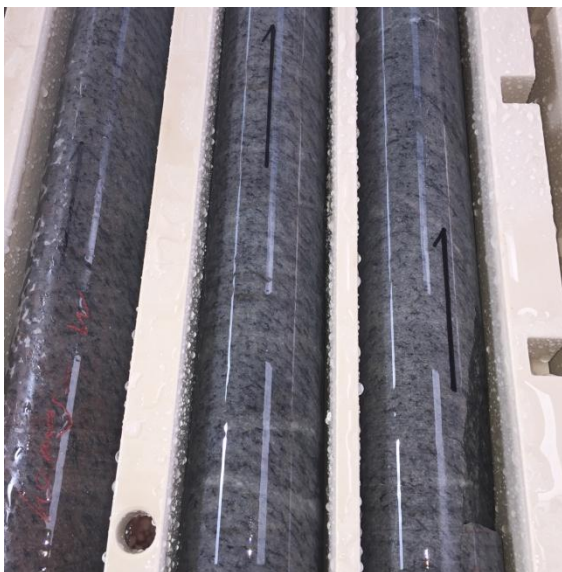
**Native Title negotiations to commence**

- Negotiations for a mining agreement with the Native Title claimants for the Gruyere area began today. This will be the first agreement negotiated with the Yilka claimant group which may result in a slower conclusion. GOR already has a good working relationship with the group, having completed a number heritage and archaeological surveys and negotiated, although not completed an agreement over Central Bore.

**Favourable bulk mining characteristics**

- Review of the core from some of the most recent diamond holes to be drilled at Gruyere reinforced some of the deposit’s unique characteristics. The apparently highly consistent nature of mineralisation through the Gruyere tonalite is notable, broken only by infrequent mafic dykes and their surrounding alteration halos.

**Fig 4 Typical mineralised Tonalite**



Source: Macquarie Research, May 2015

**Fig 5 Mafic dyke and magnetite/haematite alteration**



Source: Macquarie Research, May 2015

- At this point we believe the mineralisation at Gruyere has been reasonably well-constrained and our expectation is that over time Gruyere will deliver GOR’s targeted ~80Mt in reserves. We assume that the PFS will recommend an 8Mtpa throughput rate translating to a 10-year mine life.
- In our view, Tropicana serves as a useful benchmark in illustrating some of the characteristics of Gruyere, which balance the deposit’s relatively modest grade. We believe that Tropicana will ultimately outstrip Gruyere in terms of mine life, but comparing the two deposits on a 10-year basis highlights some of Gruyere’s unique traits.

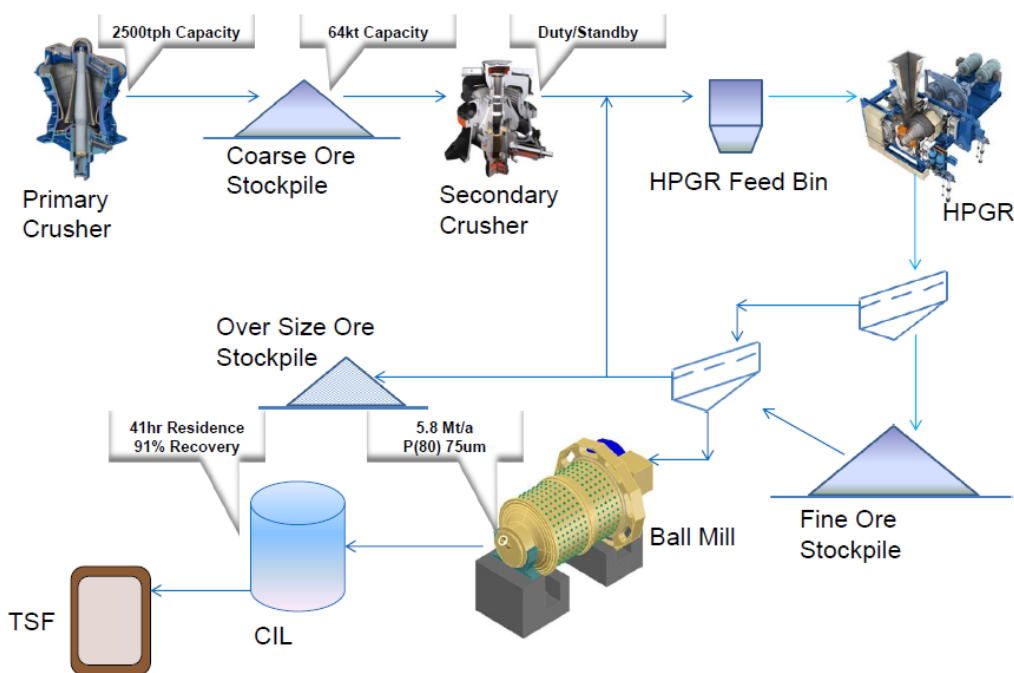
**Fig 6 On a 10-year basis, Gruyere compares well against Tropicana on a number of key metrics**

	Tropicana	Gruyere
Reserves	53.3Mt	80Mt (MacqE)
Grade	2.08 g/t	1.15 g/t(MacqE)
Resources	115.7Mt	97.9
Grade	2.03 g/t	1.23 g/t
Throughput	5.8Mtpa	8Mtpa (MacqE)
Mine life	~9 on current reserves	~10
LoM Strip ratio	6	1.3 (excl pre strip)
LoM TMM	~410Mt	~220Mt
Grind size	75µm	106-125µm
Recovery	91%	93-98%
Ave gold production (1st 10 years)	~390kozpa	~290kozpa (Macq E)
AISC	~A\$850/oz	~A\$1050/oz (MacqE)

Source: IGO, GOR, Macquarie Research, May 2015

- Most notable is the strip ratio of Gruyere which is a low 1.3:1 based on the pit design used in the scoping study (1.6:1 inclusive of 18Mt pre-strip). We expect this to rise slightly with the expanded PFS pit but still to remain below 2 for the life of mine average. This low strip ratio will ultimately drive much lower total material movements which we estimate at 220Mt over the life of the mine.
- Recent metallurgical test work demonstrated high recoveries of between ~98% in oxide material and ~93% in fresh material at relatively coarse 125µm and 106µm respectively. GOR estimates that 15-20% of ore at Gruyere will be oxide/transitional and expects this to be depleted in the first two years of mining. Fresh ore at Gruyere has a similar hardness to that at Tropicana and we expect Gruyere’s crushing and grinding circuit to be broadly similar with three-stage crushing including High Pressure Grinding Rolls.

**Fig 7 Simplified Tropicana flow sheet**



Source: IGO, May 2015

**Updates to our model and changes to our valuation**

- We’ve made a number of updates to our model; most notably we have increased our estimated throughput rate to 8Mtpa (up from 7.5Mtpa) and also marginally increased our modelled strip ratio to 2:1 LoM. Our capex estimate of \$510m is unchanged. We have pushed first production back 12 months to 1QCY18 and rescheduled our assumed project financing in line with the later start. As a consequence of these changes, our fully diluted valuation of GOR increases 4% to \$0.58/sh. We leave our target price unchanged at \$0.55/sh.

**Fig 8 Earnings changes and valuation changes**

Y/E Jun	FY14e	FY15e	FY16e	FY17e	FY18e	NPV
Net profit (A\$ m) - old	0.4	-11.5	-6.5	-17.3	111.4	0.56
Net profit (A\$ m) - new	0.4	-11.5	-6.8	-9.0	-59.6	0.58
Change	0%	0%	5%	-48%	-153%	4%

Source: GOR, Macquarie Research, May 2015

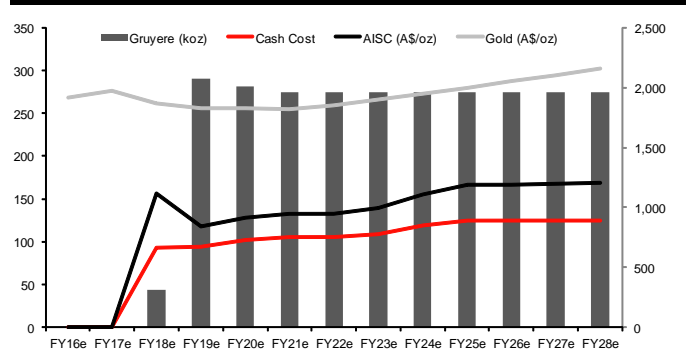
## Gold Road Resources

ASX: GOR Price: (A\$ps) 0.44 Year end: Jun Rating: Outperform Up/dn  
Mkt cap: (A\$m) 262 Diluted shares (m) 594.9 Target: 0.55 25%

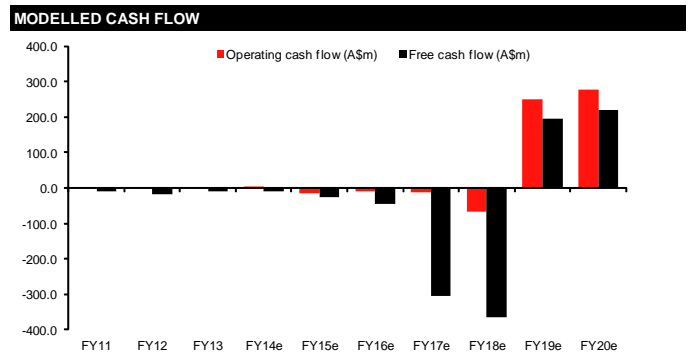
ASSUMPTIONS		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	ATTRIBUTABLE MINE OUTPUT	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Exchange Rate	A\$/US\$	0.99	1.03	1.03	0.92	0.82	0.68	0.71	<b>Gold production (equity)</b>						
Spot Gold	(US\$/oz)	1,371	1,672	1,604	1,295	1,226	1,300	1,408	Gruyere	(koz)	0.0	0.0	44.0	290.1	281.1
Spot Gold	(A\$/oz)	1,390	1,631	1,563	1,406	1,486	1,919	1,975	<b>Total</b>	<b>(koz)</b>	<b>0.0</b>	<b>0.0</b>	<b>44.0</b>	<b>290.1</b>	<b>281.1</b>

RATIO ANALYSIS		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	Cash costs	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Diluted share capital	m	432.1	453.0	494.1	512.8	594.9	683.8	1,294.9	Gruyere	(A\$/oz)	-	-	660	676	728
EPS (diluted and pre sig. items)	A¢	-0.7	-0.7	-4.6	0.1	-1.9	-1.1	-0.8	<b>AISC Cash Costs</b>						
P/E	x	-60.9x	-67.0x	-9.5x	524.6x	-22.6x	-41.1x	-54.3x	Gruyere	(A\$/oz)	-	-	1,115	845	912
CFPS	A¢	(0.4)	(0.4)	(0.4)	0.2	(2.8)	(1.4)	(1.0)	<b>AISC Cash Costs</b>	(A\$/oz)	-	-	1,115	845	912
P/CF	x	-114.3x	-125.5x	-115.6x	196.3x	-15.9x	-31.0x	-44.4x	<b>Operational EBITDA Contribution (pre hedging)</b>						
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Gruyere	A\$m	-	-	-29	334	309
<b>Dividend yield</b>	%	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>MODELLED PRODUCTION</b>						

Franking Level	%	100%	100%	100%	100%	100%	100%	100%
Book value per share	x	0.05	0.09	0.05	0.07	0.08	0.16	0.29
P/Book value	x	9.0x	4.9x	8.5x	6.2x	5.5x	2.7x	1.5x
R.O.E. (pre sig items)	%	-14%	-7%	-88%	1%	-24%	-6%	-2%
R.O.A. (pre sig items)	%	-17%	-9%	-87%	-7%	-28%	-8%	-2%
Interest Cover	x	9.7x	4.3x	65.3x	8.4x	31.6x	15.0x	12.9x
EBITDA per share	A\$ps	-0.01	-0.01	-0.05	-0.01	-0.03	-0.02	-0.01
<b>EV/EBITDA</b>	x	<b>-67.5x</b>	<b>-66.0x</b>	<b>-10.7x</b>	<b>-87.0x</b>	<b>-15.0x</b>	<b>-22.3x</b>	<b>-18.8x</b>



EARNINGS		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e
Sales Revenue	A\$m	0	0	0	0	0	0	0
Other Revenue	A\$m	0	0	0	0	0	0	0
<b>Total Revenue</b>	<b>A\$m</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Operating Costs	A\$m	0	0	0	0	0	0	0
<b>Operational EBITDA</b>	<b>A\$m</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Exploration Expense/Write-offs	A\$m	(0)	(0)	(20)	(0)	(13)	(6)	(6)
Corporate & Other Costs	A\$m	(3)	(4)	(4)	(3)	(4)	(4)	(7)
<b>EBITDA</b>	<b>A\$m</b>	<b>(4)</b>	<b>(4)</b>	<b>(24)</b>	<b>(3)</b>	<b>(17)</b>	<b>(10)</b>	<b>(14)</b>
D&A	A\$m	0	0	0	0	0	0	0
<b>EBIT</b>	<b>A\$m</b>	<b>(4)</b>	<b>(4)</b>	<b>(24)</b>	<b>(3)</b>	<b>(17)</b>	<b>(10)</b>	<b>(14)</b>
Net Interest	A\$m	0	1	0	0	1	1	1
<b>Profit Before Tax</b>	<b>A\$m</b>	<b>(3)</b>	<b>(3)</b>	<b>(23)</b>	<b>(3)</b>	<b>(16)</b>	<b>(10)</b>	<b>(13)</b>
Tax Expense	A\$m	0	0	1	3	5	3	4
Minorities	A\$m	0	0	0	0	0	0	0
<b>Adjusted NPAT</b>	<b>A\$m</b>	<b>(3)</b>	<b>(3)</b>	<b>(23)</b>	<b>0</b>	<b>(12)</b>	<b>(7)</b>	<b>(9)</b>
Significant Items (post tax)	A\$m	0	0	0	0	0	0	0
<b>Reported NPAT</b>	<b>A\$m</b>	<b>(3)</b>	<b>(3)</b>	<b>(23)</b>	<b>0</b>	<b>(12)</b>	<b>(7)</b>	<b>(9)</b>



CASHFLOW		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e
<b>Net Profit</b>	<b>A\$m</b>	<b>-3</b>	<b>-3</b>	<b>-23</b>	<b>0</b>	<b>-12</b>	<b>-7</b>	<b>-9</b>
Interest/Tax/D&A	A\$m	(6)	(17)	9	(17)	(5)	(3)	(4)
Working Capital/Other	A\$m	7	19	12	17	0	0	0
<b>Net Operating Cashflow</b>	<b>A\$m</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>1</b>	<b>(16)</b>	<b>(10)</b>	<b>(13)</b>
Capex	A\$m	(7)	(18)	(10)	(13)	(20)	(36)	(291)
Investments	A\$m	0	0	0	0	0	0	0
Sale of PPE and Other	A\$m	(0)	(0)	1	3	10	0	0
<b>Free cash flow</b>	<b>A\$m</b>	<b>(8)</b>	<b>(19)</b>	<b>(11)</b>	<b>(9)</b>	<b>(27)</b>	<b>(46)</b>	<b>(304)</b>
Dividends Paid	A\$m	0	0	0	0	0	0	0
Debt	A\$m	0	0	0	0	0	0	155
Equity Issuance	A\$m	16	22	7	10	23	70	275
Other	A\$m	0	0	0	0	0	0	0
<b>Net Financing Cashflow</b>	<b>A\$m</b>	<b>16</b>	<b>22</b>	<b>7</b>	<b>10</b>	<b>23</b>	<b>70</b>	<b>430</b>
<b>Net change in cash</b>	<b>A\$m</b>	<b>8</b>	<b>3</b>	<b>(4)</b>	<b>1</b>	<b>(4)</b>	<b>24</b>	<b>126</b>

RESERVES AND RESOURCES (ATTRIBUTABLE)				
<b>Reserves</b>				
<b>Project</b>		Mt	g/t	koz
Gruyere		0.0	0.0	0
Attila - Central Bore		0.0	0.0	0
<b>Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0</b>
<b>Resources</b>				
<b>Project</b>		Mt	g/t	koz
Gruyere		96.9	1.23	3,833.1
Attila - Central Bore		26.3	1.49	1,261.7
<b>Total</b>		<b>96.9</b>	<b>1.23</b>	<b>3,837</b>

BALANCE SHEET		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e
Cash	A\$m	10	13	9	10	6	30	156
PP&E & Mine Development	A\$m	1	2	1	1	22	58	349
Exploration	A\$m	11	28	17	27	27	31	38
<b>Total Assets</b>	<b>A\$m</b>	<b>23</b>	<b>43</b>	<b>27</b>	<b>39</b>	<b>60</b>	<b>124</b>	<b>569</b>
Debt	A\$m	0	0	0	0	0	0	155
<b>Total Liabilities</b>	<b>A\$m</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>12</b>	<b>13</b>	<b>191</b>
<b>Total Net Assets / Equity</b>	<b>A\$m</b>	<b>21</b>	<b>41</b>	<b>26</b>	<b>36</b>	<b>48</b>	<b>111</b>	<b>377</b>
Net Debt / (Cash)	A\$m	(10)	(13)	(9)	(10)	(6)	(30)	(1)
Gearing (net debt/(nd + equity))	%	(84%)	(46%)	(53%)	(36%)	(14%)	(37%)	(0%)
Gearing (net debt/equity)	%	(46%)	(31%)	(35%)	(27%)	(13%)	(27%)	(0%)

EQUITY DCF VALUATION	Macquarie forecasts		Spot prices	
<b>Projects</b>	<b>A\$m</b>	<b>A\$ps</b>	<b>A\$m</b>	<b>A\$ps</b>
Gruyere	347	0.27	297	0.24
Undeveloped Resources & exploration	89	0.07	96	0.08
Unpaid capital & new equity	347	0.27	257	0.21
Forwards	0	0.00	0	0.00
Corporate	(48)	(0.04)	(48)	(0.04)
Net cash (debt)	14	0.01	14	0.01
<b>Net Equity Value (@ 10% WACC)</b>	<b>748</b>	<b>0.58</b>	<b>615</b>	<b>0.50</b>
<b>Price Target</b>		<b>0.55</b>		<b>0.50</b>

Source: GOR, Macquarie Research, May 2015

Important disclosures:

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**Recommendation proportions – For quarter ending 31 March 2015**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	48.99%	59.51%	49.30%	43.79%	59.59%	52.20%	(for US coverage by MCUSA, 7.42% of stocks followed are investment banking clients)
Neutral	34.12%	26.62%	35.21%	50.29%	34.93%	31.32%	(for US coverage by MCUSA, 5.68% of stocks followed are investment banking clients)
Underperform	16.89%	13.87%	15.49%	5.93%	5.48%	16.48%	(for US coverage by MCUSA, 0.87% of stocks followed are investment banking clients)



**12-month target price methodology**

GOR AU: A\$0.55 based on a DCF methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
21-Mar-2015	GOR AU	Outperform	A\$.55
27-Jan-2015	GOR AU	Outperform	A\$.51
15-Jan-2015	GOR AU	Outperform	A\$.57
13-Aug-2014	GOR AU	Outperform	A\$.41

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