



AUSTRALIA

GOR AU Outperform

Price (at 09:11, 27 Jan 2015 GMT) A\$0.35

Valuation A\$ 0.51

- DCF (WACC 10.0%)

12-month target A\$ 0.51

12-month TSR % +45.7

Volatility Index Very High

GICS sector Materials

Market cap A\$m 208

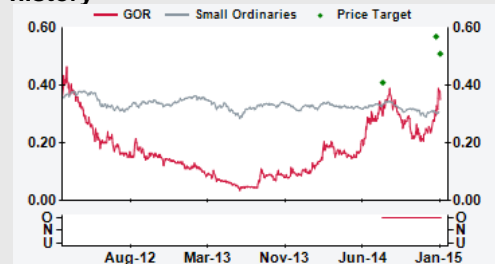
30-day avg turnover A\$m 0.5

Number shares on issue m 594.9

Investment fundamentals

Year end 30 Jun		2014A	2015E	2016E	2017E
Revenue	m	0.0	0.0	0.0	10.9
EBIT	m	-2.9	-17.0	-10.4	-12.7
Reported profit	m	0.4	-11.5	-6.5	-18.0
Adjusted profit	m	0.4	-11.5	-6.5	-18.0
Gross cashflow	m	0.4	1.4	-0.2	-8.4
CFPS	¢	0.1	0.2	0.0	-0.7
CFPS growth	%	nmf	183.2	nmf	-3517.4
PGCFPS	x	406.2	143.4	nmf	nmf
PGCFPS rel	x	45.49	16.47	nmf	nmf
EPS adj	¢	0.1	-1.9	-0.5	-1.5
EPS adj growth	%	nmf	nmf	72.3	-178.3
PER adj	x	409.7	nmf	nmf	nmf
PER rel	x	23.78	nmf	nmf	nmf
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-8.8	-28.6	-3.5	-2.2
ROE	%	1.3	-22.2	-3.6	-6.3
EV/EBITDA	x	-56.9	-48.9	-101.8	-135.8
Net debt/equity	%	-26.7	-23.3	-69.2	120.1
P/BV	x	5.0	3.1	1.5	1.6

GOR AU vs Small Ordinaries, & 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, January 2015
(all figures in AUD unless noted)

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27 January 2015

Macquarie Securities (Australia) Limited

Gold Road Resources

Positive Gruyere Scoping Study

Event

- GOR has released the results of the Scoping Study into its Gruyere deposit in the Yamarna Trend of Western Australia.

Impact

- A solid base case.** GOR's Scoping Study presents a 5Mtpa base case for the development of Gruyere. The study assumes an A\$ gold price of \$1,350/oz equivalent to a US\$ gold price of US\$1,170/oz at our long term FX assumption of \$0.87 AUDUSD. The study presents a conventional open pit and CIL operation producing 213kozpa in the first three years and 180kozpa after Central Bore is mined out.
- \$360m capital cost and opex lower than we expected.** GOR's study estimates \$190m for the process plant with an additional \$170m infrastructure and pre-production capital development. Opex assuming contract mining is also marginally lower than our expectation reflecting recent reductions in contractor costs.
- Bigger will be better.** As a result of the study findings GOR carried out a review of the benefits of a larger operation and will examine both a 7.5Mtpa and 10Mtpa in the PFS. We previously modelled a 6Mtpa throughput rate for Gruyere believing that the size of the operation was constrained by capital cost and funding ability. However, as a result of the lower than expected capital and operating costs in the study and OoM review we now model a 7.5Mtpa option. We maintain our mine life assumption of 11 years as, at our gold price forecasts a large cut back would be viable. Based on the forward timeline implied in the study we have pushed back first gold production by six months to late 2017.

Earnings and target price revision

- We now value Gruyere at \$305m or \$0.25/sh and GOR at \$626m or \$0.51/sh after dilution for \$257m in new equity. Gruyere's potential size offers significant leverage to the A\$ gold price. We note that at the current A\$ spot the NPV¹⁰ of our modelled scenario jumps to ~\$1 billion.

Price catalyst

- 12-month price target: A\$0.51 based on a DCF methodology.
- Catalyst: GOR will now progress with the PFS and drill-out of Gruyere. The PFS should be completed by the end of 2015 with an interim update evaluating the optimum production rate. We expect this to indicate the viability of a larger mine which will be a positive catalyst. Exploration continues and has the potential to deliver new discoveries.

Action and recommendation

- Maintain outperform.** The delivery of the Scoping Study is a positive milestone for GOR. In our view there is a compelling argument to upscale the project with a significant improvement in already robust economics. A higher throughput rate will also increase the project's leverage to an improved A\$ gold price.

Scoping Study analysis

A solid 5Mtpa base case

- GOR's Scoping Study presents a 5Mtpa base case for the development of Gruyere. The study assumes an A\$ gold price of \$1,350/oz equivalent to a US\$ gold price of US\$1,066/oz at today's \$0.79 AUDUSD exchange rate and US\$1,170/oz at our long term FX assumption of \$0.87 AUDUSD.

Fig 1 Gruyere Base Case assumptions

	5mtpa
Mine life	11 years
Strip ratio	1.6:1
Average annual gold production	190
Capex (A\$m)	360
Mining cost (A\$/t milled)	11.50
Mining cost (A\$/t milled)	19.90
Mining dilution	2.5
Recovery	95

Source: Company data, Macquarie Research, January 2015

- The study envisages a large scale open pit operation using conventional drill, blast load and haul with 2 stage crushing and grinding and conventional CIL gold extraction. LoM grade averages 1.2g/t with recoveries assumed to be 95%. High-grade ore from a small underground at Central Bore will supplement mill feed in the first three years. Initial gold production is 213kozpz falling to 180kozpa after Central Bore is mined out.
- Base case capital cost came in lower than we expected at \$360m, we had assumed \$500m construction cost with an additional \$80m in pre-production and working capital. GOR's study estimates \$190m for the process plant with an additional \$170m for pre-production capital development at both Gruyere and Central Bore, a for road and airstrip, a 25MW diesel power station, borefield, TSF and 250 person camp.
- Operating costs, which assume fully contracted mining are also marginally lower than our expectation and reflect recent reductions in contractor costs.

Bigger will be better – we assume a 7.5Mtpa mine

- As a result of the study finds GOR carried out an Order of Magnitude review for a 7.5mtpa and 10Mtpa option, both will be fully examined in the PFS. In our view bigger will be better. At Gruyere's moderate LoM grade of 1.2g/t the trade off between higher capex vs lower operating costs and higher gold production suggests to us that an increased throughput rate will improve the project's economics.

Fig 2 Gruyere NPV sensitivity to throughput rate

	NPV (A\$m)
5Mtpa	164
6Mtpa (Macq pre-Scoping Study assumption)	233
7.5Mtpa (Macq current assumption)	305
10Mtpa	417

Source: Company data, Macquarie Research, January 2015

- Also driving our preference for a larger mine is the operation's ability to generate free cash flow. Under GOR's base case assumptions Gruyere would generate in the order of \$80m in annual free cash. In our view this falls short of critical mass however, under our modelled 7.5Mtpa case the mine generates an average of ~\$150m in annual free cash over the life of the mine.

Fig 3 Gruyere 7.5Mtpa assumptions

	7.5Mtpa case	Macq assumption
Mine life	7 - 8 years	11 years
Strip ratio	1.6:1	1.9:1
Average annual gold production	268	274
Capex (A\$m)	435 - 480	545
Mining cost (A\$t milled)	11.30 - 11.50	17.00
Mining cost (A\$t milled)	17.70 - 19.90	19.00
Mining dilution	2.5	2.5
Recovery	95%	95%

Source: Company data, Macquarie Research, January 2015

- We previously modelled a 6Mtpa throughput rate for Gruyere believing that the size of the operation was constrained by capital cost and funding ability. However, as a result of the lower than expected capital and operating costs in the study and OoM review we now model a 7.5Mtpa option.
- At this early stage we still build some conservatism into our modelling and assume a \$545m capital cost inclusive of study, pre-production and working capital. We optimistically factor in some recovery in the contracting sector and also model slightly higher LoM strip ratio of 1.9:1, consequently our cost per milled tonne is higher than GOR's. We maintain our mine life assumption of 11 years as, at our gold price forecasts a large cut back would be viable, we include a \$60m capital cost for this in year 9. Based on the forward timeline implied in the study we have pushed back first gold production by six months to late 2017.

Changes to our valuation -leverage to FX and gold price

- Under our assumed 7.5Mtpa through put rate we now value Gruyere at \$305m or \$0.25/sh and GOR at \$626m or \$0.51/sh. We have removed Central bore from undeveloped resources as it is now included in the mining inventory of Gruyere.

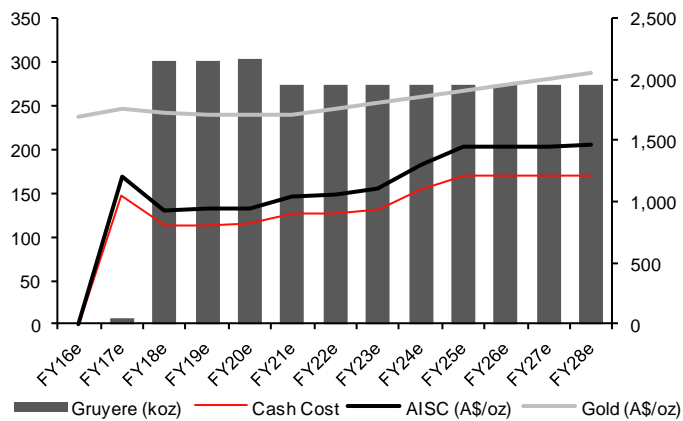
Fig 4 Sum-of-parts DCF valuation

Projects	Macquarie		Spot	
	A\$m	A\$ps	A\$m	A\$ps
Gruyere	305	0.25	999	0.81
Undeveloped Resources	96	0.08	103	0.08
Unpaid capital & new equity	257	0.21	257	0.21
Forwards	0	0.00	0	0.00
Corporate	(45)	(0.04)	(45)	(0.04)
Net cash (debt)	14	0.01	14	0.01
Net Equity Value (@ 10% WACC)	626	0.51	1,327	1.07
Price Target		0.51		1.07

Source: Company data, Macquarie Research, January 2015

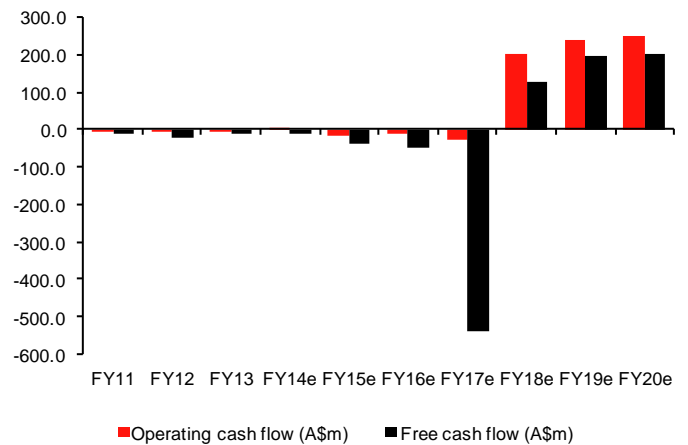
- A key change to our valuation of GOR is the inclusion of future equity as part of the project funding. We assume that the project will be funded on an approximate 60:40 debt to equity ratio and model \$257m in new equity raised at the current share price, our valuation per share is diluted accordingly.
- Gruyere's potential size offers significant leverage to the A\$ gold price. We note that at the current A\$ spot gold price of \$1,615/oz (US\$1,279 at \$0.79 AUDUSD) the NPV¹⁰ of our modelled 7.5Mtpa scenario jumps to ~\$1 billion on annual cash flows of \$330m.

Fig 5 Modelled 7.5Mtpa production scenario



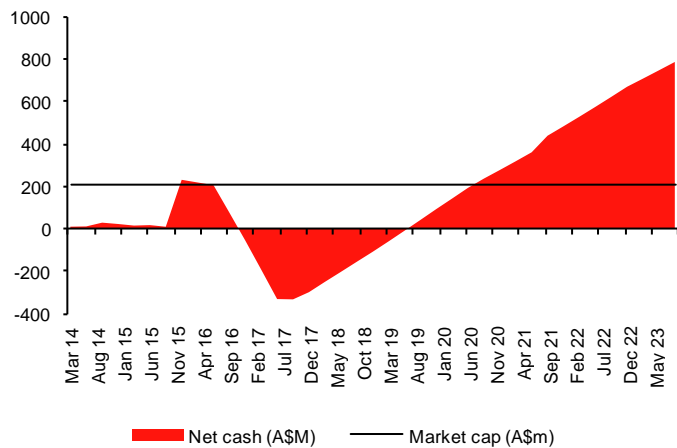
Source: Company data, Macquarie Research, January 2015

Fig 6 Operating and free cash flow (A\$m)



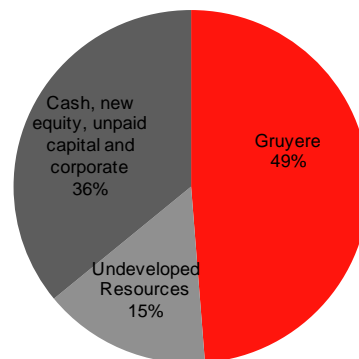
Source: Company data, Macquarie Research, January 2015

Fig 7 Cumulative cash generation (A\$m)



Source: Company data, Macquarie Research, January 2015

Fig 8 GOR valuation breakdown



Source: Company data, Macquarie Research, January 2015

Gold Road Resources

ASX: GOR Price: (A\$ps) 0.35 Year end: Jun Rating: Outperform Up/dn
 Mkt cap: (A\$m) 208 Diluted shares (m) 594.9 Target: 0.51 46%

ASSUMPTIONS		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	FY18e
Exchange Rate	A\$/US\$	0.99	1.03	1.03	0.92	0.85	0.77	0.80	0.84
Spot Gold	(US\$/oz)	1,371	1,672	1,604	1,295	1,240	1,314	1,408	1,459
Spot Gold	(A\$/oz)	1,390	1,631	1,563	1,406	1,464	1,701	1,759	1,729

RATIO ANALYSIS		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	FY18e
Diluted share capital	m	432.1	453.0	494.1	512.8	652.0	1,239.5	1,239.5	1,239.5
EPS (diluted and pre sig. items)	A¢	-0.7	-0.7	-4.6	0.1	-1.9	-0.6	-1.5	6.6
P/E	x	-48.4x	-53.3x	-7.6x	417.3x	-18.2x	-54.0x	-24.1x	5.3x
CFPS	A¢	(0.4)	(0.4)	(0.4)	0.2	(2.5)	(0.7)	(2.1)	16.2
P/CF	x	-91.0x	-99.8x	-92.0x	156.1x	-13.8x	-46.9x	-16.8x	2.2x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking Level	%	100%	100%	100%	100%	100%	100%	100%	100%
Book value per share	x	0.05	0.09	0.05	0.07	0.10	0.24	0.22	0.29
P/Book value	x	7.1x	3.9x	6.7x	5.0x	3.4x	1.5x	1.6x	1.2x
R.O.E. (pre sig items)	%	-14%	-7%	-88%	1%	-17%	-2%	-6%	23%
R.O.A. (pre sig items)	%	-17%	-9%	-87%	-7%	-21%	-2%	-2%	11%
Interest Cover	x	9.7x	4.3x	65.3x	8.4x	31.6x	9.0x	-1.0x	5.5x
EBITDA per share	A\$ps	-0.01	-0.01	-0.05	-0.01	-0.03	-0.01	-0.01	0.21
EV/EBITDA	x	-53.2x	-51.8x	-8.4x	-68.5x	-11.3x	-0.3x	-56.9x	1.6x

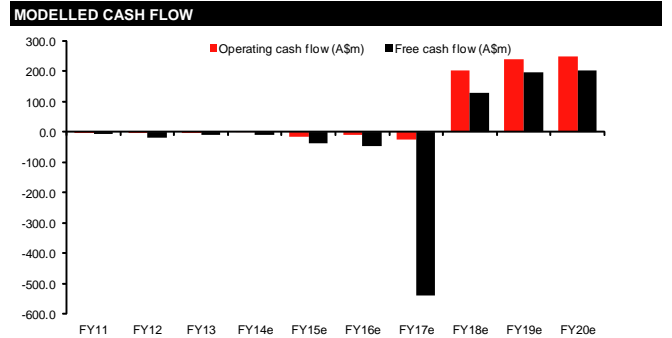
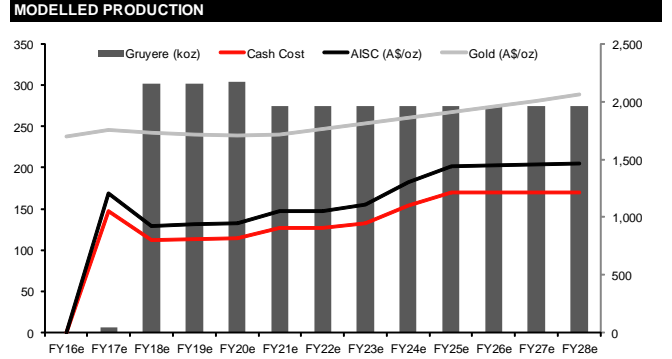
EARNINGS		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	FY18e
Sales Revenue	A\$m	0	0	0	0	0	0	11	521
Other Revenue	A\$m	0	0	0	0	0	0	0	0
Total Revenue	A\$m	0	0	0	0	0	0	11	521
Operating Costs	A\$m	0	0	0	0	0	0	(7)	(242)
Operational EBITDA	A\$m	0	0	0	0	0	0	4	279
Exploration Expense/Write-offs	A\$m	(0)	(0)	(20)	(0)	(13)	(6)	(6)	(7)
Corporate & Other Costs	A\$m	(3)	(4)	(4)	(3)	(4)	(4)	(7)	(11)
EBITDA	A\$m	(4)	(4)	(24)	(3)	(17)	(10)	(10)	262
D&A	A\$m	0	0	0	0	0	0	(3)	(120)
EBIT	A\$m	(4)	(4)	(24)	(3)	(17)	(10)	(13)	142
Net Interest	A\$m	0	1	0	0	1	1	(13)	(26)
Profit Before Tax	A\$m	(3)	(3)	(23)	(3)	(16)	(9)	(26)	116
Tax Expense	A\$m	0	0	1	3	5	3	8	(35)
Minorities	A\$m	0	0	0	0	0	0	0	0
Adjusted NPAT	A\$m	(3)	(3)	(23)	0	(12)	(6)	(18)	81
Significant Items (post tax)	A\$m	0	0	0	0	0	0	0	0
Reported NPAT	A\$m	(3)	(3)	(23)	0	(12)	(6)	(18)	81

CASHFLOW		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	FY18e
Net Profit	A\$m	-3	-3	-23	0	-12	-6	-18	81
Interest/Tax/D&A	A\$m	(6)	(17)	9	(17)	(5)	(3)	(5)	155
Working Capital/Other	A\$m	7	19	12	17	0	0	(3)	(35)
Net Operating Cashflow	A\$m	(2)	(2)	(2)	1	(16)	(9)	(26)	201
Capex	A\$m	(7)	(18)	(10)	(13)	(31)	(36)	(514)	(73)
Investments	A\$m	0	0	0	0	0	0	0	0
Sale of PPE and Other	A\$m	(0)	(0)	1	3	10	0	0	0
Free cash flow	A\$m	(8)	(19)	(11)	(9)	(37)	(46)	(539)	128
Dividends Paid	A\$m	0	0	0	0	0	0	0	0
Debt	A\$m	0	0	0	0	0	200	155	(80)
Equity Issuance	A\$m	16	22	7	10	43	235	0	0
Other	A\$m	0	0	0	0	0	0	0	0
Net Financing Cashflow	A\$m	16	22	7	10	43	435	155	(80)
Net change in cash	A\$m	8	3	(4)	1	6	389	(384)	48

BALANCE SHEET		FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	FY18e
Cash	A\$m	10	13	9	10	16	405	21	69
PP&E & Mine Development	A\$m	1	2	1	1	32	68	579	532
Exploration	A\$m	11	28	17	27	27	31	38	48
Total Assets	A\$m	23	43	27	39	80	510	663	1,244
Debt	A\$m	0	0	0	0	0	200	355	275
Total Liabilities	A\$m	1	2	1	3	12	213	384	884
Total Net Assets / Equity	A\$m	21	41	26	36	68	296	278	360
Net Debt / (Cash)	A\$m	(10)	(13)	(9)	(10)	(16)	(205)	334	206
Gearing (net debt/(nd + equity))	%	(84%)	(46%)	(53%)	(36%)	(30%)	#####	55%	36%
Gearing (net debt/equity)	%	(46%)	(31%)	(35%)	(27%)	(23%)	(69%)	120%	57%

ATTRIBUTABLE MINE OUTPUT		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Gold production (equity)							
Gruyere	(koz)	0.0	6.2	301.5	301.5	304.2	274.9
Total	(koz)	0.0	6.2	301.5	301.5	304.2	274.9

Cash costs		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Gruyere	(A\$/oz)	-	1,053	803	814	818	903
AISC Cash Costs							
Gruyere	(A\$/oz)	-	1,209	925	941	949	1,050
AISC Cash Costs	(A\$/oz)	-	1,209	925	941	949	1,050
Operational EBITDA Contribution (pre hedging)							
Gruyere	A\$m	-	4	279	271	270	224



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

EQUITY DCF VALUATION	Macquarie forecasts		Spot prices	
Projects	A\$m	A\$ps	A\$m	A\$ps
Gruyere	305	0.25	999	0.81
Undeveloped Resources	96	0.08	103	0.08
Unpaid capital & new equity	257	0.21	257	0.21
Forwards	0	0.00	0	0.00
Corporate	(45)	(0.04)	(45)	(0.04)
Net cash (debt)	14	0.01	14	0.01
Net Equity Value (@ 10% WACC)	626	0.51	1,327	1.07
Price Target		0.51		1.07
GOR Blended price target	Blend	0.62		

Source: Company data, Macquarie Research, January 2015

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

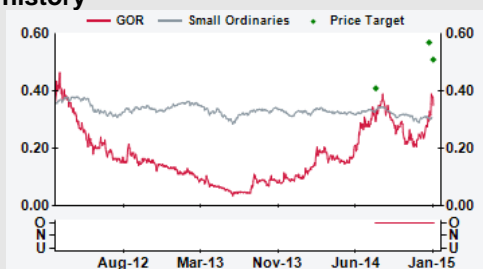
Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

GOR AU vs Small Ordinaries, & rec history

(all figures in AUD currency unless noted)

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, January 2015

12-month target price methodology

GOR AU: A\$0.51 based on a DCF methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

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

Target price risk disclosures:

GOR AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:

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