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Gold Road Resources Limited (GOR)

2021 full year results

Recommendation

Hold (Buy)

Price

\$1.655/sh

Target (12 months)

\$1.70/sh (unchanged)

GICS Sector

Materials

Expected Return

Capital growth	2.7%
Dividend yield	1.2%
Total expected return	3.9%

Company Data & Ratios

Enterprise value	\$1,329m
Market cap	\$1,460m
Issued capital	882.4m
Free float	79%
Avg. daily val. (52wk)	\$7m
12 month price range	\$1.10 - \$1.83

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.48	1.53	1.24
Absolute (%)	10.5	6.9	32.4
Rel market (%)	6.8	5.5	22.0

Absolute Price



SOURCE: IRESS

FY21 financial result

GOR reported revenue of \$286m (vs BPe \$281m), EBITDA of \$119m (vs BPe \$116m) and NPAT of \$36.8m (vs BPe \$42.3m). The result was in-line with our expectations for a slightly weaker financial performance, with the main differences being depreciation \$60.2m (vs BPe \$45.8m), and its effect on tax expensed. EBITDA dropped 70% and earnings dropped by 46% vs the pcp on lower production and higher costs, the result of previously reported processing maintenance issues and lower than average Ore Reserve gold grades. A fully franked dividend of 0.5 cents per share was declared for the 2HCY21. At the end of CY21 GOR held cash of A\$131.5m and no drawn debt.

Looking ahead to CY22

The midpoint of the CY22 guidance range (320 koz) represents a 30% increase in gold production over the CY21 result (246.5 koz), and will require improved performance in both processing plant availability and Ore Reserve gold grade reconciliation.

Investment thesis: Hold (from Buy), TP\$1.70/sh (unchanged)

GOR's share price has appreciated significantly since the beginning of February (\$1.33/sh), exceeding our price target, and reaching \$1.835/sh in March. We consider that share price appreciation is mainly due to external macro factors that have benefited most Australian gold producers, with the S&P ASX Gold Index up +20% and the US\$ gold price up ~7% over this period. Supportive macro factors include rising inflation and increased geopolitical risks driving the safe-haven trade in a period of broader market volatility. In accordance with our rating structure and forecast TSR of 3.9%, we lower our recommendation to Hold. EPS changes in this report are: CY22 -16%; CY23 +3%; and CY24 +5%. This is driven by updated corporate cost and depreciation allowances.

Earnings Forecast

Year end December	2021a	2022e	2023e	2024e
Sales (A\$m)	286	371	449	480
EBITDA (A\$m)	119	175	251	233
NPAT (reported) (A\$m)	37	77	142	120
NPAT (adjusted) (A\$m)	29	77	142	120
EPS (adjusted) (¢ps)	3.2	8.7	16.0	13.7
EPS growth (%)	(55)	109	84	(15)
PER (x)	39.7	19.0	10.3	12.1
FCF Yield (%)	2.2	6.2	7.9	7.6
EV/EBITDA (x)	11.0	7.5	5.2	5.6
Dividend (¢ps)	1.0	2.0	2.6	2.5
Yield (%)	0.6	1.2	1.6	1.5
Franking (%)	100.0	100.0	100.0	100.0
ROE (%)	8	15	23	17

SOURCE: BELL POTTER SECURITIES ESTIMATES

2021 full year results

CY21 financial results

GOR announced its CY21 financial result, reporting revenue of \$286m (vs BPe \$281m), EBITDA of \$119m (vs BPe \$116m) and NPAT of \$36.8m (vs BPe \$42.3m). The result was in-line with our expectations for a weaker financial performance, with the main differences being depreciation \$60.2m (vs BPe \$45.8m), and its effect on tax expensed. EBITDA dropped 70% and earnings dropped by 46% vs the pcp on lower production and higher costs resulting from the previously reported processing maintenance issues, and lower than average Ore Reserve gold grades. A fully franked dividend of 0.5 cents per share was declared for the 2HCY21, taking the full year dividend to a fully franked dividend 1 cent per share. At the end of CY21 GOR held cash of A\$131.5m and no drawn debt. GOR retains its undrawn \$250m line-of-credit debt facilities.

Looking ahead to CY22

In CY21, Gruyere (on a 100% basis) produced 246.5 koz of gold against the original guidance of 260 koz to 300 koz. With its 4QCY21 results, GOR updated its production guidance for CY22 forecasting 300 koz to 340 koz (BPe of 310 koz). The midpoint of the guidance range (320 koz) represents a 30% increase in gold production over the CY21 result, and will require good performance in both processing plant availability and Ore Reserve gold grade reconciliation.

Changes to our forecasts and valuation

Following this update we have made the following changes to our modelled assumptions:

- Increased our forward allowances for depreciation and corporate costs, in line with the CY21 results.
- Updated for the latest capital structure, and GOR's latest reported net cash position.
- Updated for our commodity price forecasts and rolled our model forward.

Table 1 - Changes to our forecasts

Year ending 31 December	Previous			New			Change		
	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Prices & currency									
Gold (US\$/oz)	1,850	1,875	1,900	1,850	1,875	1,900	0%	0%	0%
US\$/A\$	0.73	0.73	0.73	0.73	0.73	0.73	0%	0%	0%
Average realised gold price (A\$/oz)	2,395	2,568	2,603	2,395	2,568	2,603	0%	0%	0%
Production									
Gold production (koz)	154.7	174.9	184.6	154.7	174.9	184.6	0%	0%	0%
Average all in sustaining cost (\$/oz)	1,409	1,434	1,614	1,399	1,421	1,601	-1%	-1%	-1%
Earnings									
Revenue (\$m)	371	449	480	371	449	480	0%	0%	0%
EBITDA (\$m)	179	253	232	175	251	233	-2%	-1%	0%
NPAT (adjusted) (\$m)	92	138	115	77	142	120	-16%	3%	5%
EPS (adjusted) (cps)	10.4	15.6	13.1	8.7	16.0	13.7	-16%	3%	5%
PER (x)	12.8	8.5	10.2	18.8	10.2	12.0	47%	20%	18%
DPS (reported) (cps)	2.0	2.9	2.8	2.0	2.6	2.5	1%	-9%	-10%
Price Target (\$/sh)		1.70			1.70			0%	

SOURCE: BELL POTTER SECURITIES

Upcoming catalysts

Upcoming catalysts for GOR include:

- Throughout CY21, production from Gruyere was at gold grades below the pit Ore Reserve average. Production from higher-grade ore, expected with increasing depth, should translate directly to earnings.
- GOR's (and Gold Fields Ltd., the 50:50 joint venture participant, GFI:US, not rated) plan to increase production throughput from Gruyere beyond the original ~8Mtpa considered in the operations design. Production rates of up to 10.25Mtpa are planned, with resulting increased gold production (targeting a steady state >350 kozpa, given Ore Reserves grades). Production is forecast to ramp-up steadily over CY22 to around 350 kozpa in CY23). Progress towards targeted gold production rates, evidenced in quarterly results, would provide support for increased valuations.
- GOR is advancing its exploration programmes on a significant number of projects. In CY22, exploration programmes are to switch from being weighted towards target testing, from target generation, with a greater proportion of RC and diamond drilling. GOR's share price will be sensitive the announcement of positive results.
- GOR demonstrated its interest in growth through M&A throughout CY21, and maintains undrawn debt facilities to support potential transactions. Further activity relating to these ambitions could serve as a catalysts for GOR's share price.

Valuation

Our valuation for GOR is based upon the 12-month forward NPV of our forecast of attributable free cash flows from the Gruyere Gold Mine. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the exploration value of GOR's other exploration assets, which include the Gruyere Underground Resource, and Yamarna Exploration Project. We also include a discounted cash flow estimate of corporate costs, adjust for GOR's net cash position and dilute our valuation for in-the-money options.

The table below summarises our valuation for GOR.

Table 2 - GOR sum-of-the-parts valuation summary		
Ordinary shares (m)		882.4
Options in the money (m)		6.4
Diluted (m)		888.8
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Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	1,149	1.28
Corporate overheads and exploration expenses	-84	-0.09
Exploration	240	0.27
Subtotal	1,305	1.48
Net Cash (debt)	196.6	0.22
Total (undiluted)	1,494	1.70
Add options in the money (m)	6.4	6.4
Add cash		0
Total (diluted)	1,501	1.69

We round our valuation to the nearest 5 cents.

The table below summarises GORs current capital structure.

Table 3 - GOR capital structure summary

Shares on issue	m	882.4
Escrow shares / other	m	0.0
Total shares on issue	m	882.4
Share price	\$/sh	1.655
Market capitalisation	\$m	1,460.3
Net cash	\$m	131.5
Enterprise value (undiluted)	\$m	1,328.8
Options outstanding	m	6.4
Options (in the money)	m	6.4
Issued shares (diluted for options)	m	888.8
Market capitalisation (diluted)	\$m	1,470.9
Net cash + options	\$m	131.5
Enterprise value (diluted)	\$m	1,339.4

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Gold Road Resources Ltd (GOR)

Company description

GOR is a gold producer with an operating gold mine, and exploration projects in Western Australia.

After discovering the Gruyere gold deposit in 2013 and completing feasibility study, GOR sold 50% of Gruyere to Gold Fields Ltd, and agreed to operate the project in a joint venture (JV). Construction of Gruyere commenced in 2017, with first gold produced in 2019. Gruyere produced gold from a large open pit mine and a carbon-in-leach (CIL) processing plant. At Gruyere, the JV is targeting production rates of up to 10Mtpa of processing plant throughput by CY23 years (up from 7.5Mtpa planned in the Feasibility Study). The increase in throughput is planned to be achieved by process plant debottlenecking projects and improvements to maintenance and operations practices (with minimal additional sustaining capital costs).

After declaring its first UG Resource at Gruyere (1.7 Moz, 100% basis) in February 2021, the JV is continuing exploration drilling to a depth of 1,100m below surface to further define the UG mining opportunity at Gruyere.

GOR's exploration programmes continue on its 100% owned Yamarna land position. The Yamarna Greenstone belt is considered to be underexplored relative to other greenstone belts in the Yilgarn Craton. Existing targets are currently being tested, and further work conducted on developing new targets.

Investment thesis: Hold (from Buy), TP\$1.70/sh (unchanged)

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Resource sector risks

Risks include, but are not limited to:

- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Gold Road Resources Limited

as at 29 March 2022

Recommendation
Price
Target (12 months)

Hold
\$1.655/sh
\$1.70/sh

Table 4 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending December	Unit	2020a	2021a	2022e	2023e	2024e	Year ending December	Unit	2020a	2021a	2022e	2023e	2024e
Revenue	\$m	314.5	286.3	370.6	449.3	480.5	VALUATION						
Expense	\$m	(144.0)	(167.4)	(195.4)	(197.8)	(247.8)	NPAT	\$m	80.8	36.8	77.0	141.5	120.5
EBITDA	\$m	170.6	118.9	175.3	251.5	232.7	Reported EPS	c/sh	9.2	4.2	8.7	16.0	13.7
Depreciation	\$m	(49.6)	(60.2)	(61.0)	(48.5)	(60.2)	Adjusted EPS	c/sh	7.6	3.2	8.7	16.0	13.7
EBIT	\$m	121.0	58.7	114.3	202.9	172.5	EPS growth	%	0.0	-54.6	109.2	83.9	-14.9
Net interest expense	\$m	(7.5)	(7.3)	(6.6)	(5.0)	(4.0)	PER	x	13.6	39.7	19.0	10.3	12.1
Unrealised gains (Impairments)	\$m	-	-	-	-	-	DPS	c/sh	1.5	1.0	2.0	2.6	2.5
Other	\$m	-	-	-	-	-	Franking	%	100.0	100.0	100.0	100.0	100.0
PBT	\$m	113.5	51.3	107.6	197.9	168.5	Yield	%	1.2	0.6	1.2	1.6	1.5
Tax expense	\$m	(32.7)	(14.6)	(30.7)	(56.4)	(48.0)	FCF/share	c/sh	13.1	3.6	10.2	12.8	12.3
NPAT (reported)	\$m	80.8	36.8	77.0	141.5	120.5	P/FCFPS	x	9.5	45.4	16.2	12.9	13.4
NPAT (underlying)	\$m	66.6	28.5	77.0	141.5	120.5	EV/EBITDA	x	7.8	11.2	7.6	5.3	5.7
							EBITDA margin	%	57.9	43.3	47.3	56.0	48.4
							EBIT margin	%	41.1	21.4	30.8	45.2	35.9
							Return on assets	%	12.9	5.6	10.8	17.1	13.0
							Return on equity	%	19.3	8.3	15.3	22.6	16.6
							LIQUIDITY & LEVERAGE						
							Net debt (cash)	\$m	-126	-132	-197	-278	-356
							ND / E	%	-30	-30	-39	-44	-49
							ND / (ND + E)	%	-32	-32	-42	-48	-53
							EBITDA / Interest	x	21	15	24	43	45
							ASSUMPTIONS - Prices						
							Year ending December - average	Unit	2020a	2021a	2022e	2023e	2024e
							Gold price	US\$/oz	1,777	1,800	1,850	1,875	1,900
							AUD:USD	AS/US\$	0.69	0.75	0.73	0.73	0.73
							Gold price	AS/oz	2,570	2,397	2,534	2,568	2,603
							ASSUMPTIONS - Production						
							Year ending December	Unit	2020a	2021a	2022e	2023e	2024e
							Processed - Ore Tonnes	kt	4,055	4,220	4,650	4,875	4,998
							Processed - Gold Grade	g/t Au	1.06	1.01	1.15	1.24	1.28
							Gold Produced	koz	126.4	124.3	154.7	174.9	184.6
							VALUATION						
							Ordinary shares (m)		882.4		882.4		882.4
							Options in the money (m)		6.4		6.4		6.4
							Diluted (m)		888.8		888.8		888.8
								current		+12 months		+24 months	
							Sum-of-the-parts	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh
							Operations	1,070	1.20	1,149	1.29	1,141	1.28
							Corporate	(81)	-0.09	(84)	-0.09	(72)	-0.08
							Exploration	240	0.27	240	0.27	240	0.27
							Investments	-	0.00	-	0.00	-	0.00
							Subtotal	1,229	1.39	1,305	1.48	1,309	1.48
							Net cash (debt)	132	0.15	197	0.22	278	0.31
							Total (undiluted)	1,360	1.54	1,501	1.70	1,586	1.80
							Add options in the money (m)	6.4	-	6.4	-	6.4	-
							Add cash	-	-	-	-	-	-
							Total (diluted)	1,360.1	1.53	1,501.4	1.69	1,586.4	1.78
							MAJOR SHAREHOLDERS						
							Shareholder				%	m	
							Van Eck Associates Corporation				10.2	90.3	
							BlackRock, Inc.				4.9	43.0	
							The Vanguard Group, Inc.				4.5	39.9	
							CAPITAL STRUCTURE						
							Shares on issue	m					882.4
							Total shares on issue	m					882.4
							Share price	\$/sh					1.655
							Market capitalisation	\$m					1,460.3
							Net cash	\$m					131.5
							Enterprise value (undiluted)	\$m					1,328.8
							Options outstanding (m)	m	(price \$0.00 per share)				6.4
							Options (in the money)	m					6.4
							Issued shares (diluted for options)	m					888.8
							Market capitalisation (diluted)	m					1,470.9
							Net cash + options	\$m					131.5
							Enterprise value (diluted)	\$m					1,339.4

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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