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# Gold Road Resources (GOR)

Build them a golden bridge.

**Recommendation**

**Buy** (unchanged)

**Price**

**\$2.04**

**Target (12 months)**

**\$2.55** (previously \$2.40)

**Sector**

**Materials**

**Expected Return**

Capital growth	<b>25.0%</b>
Dividend yield	<b>0.7%</b>
Total expected return	<b>25.7%</b>

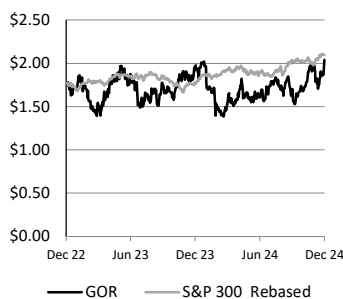
**Company Data & Ratios**

Enterprise value	<b>\$2,116.9m</b>
Market cap	<b>\$2,211.4m</b>
Issued capital	<b>1,084m</b>
Free float	<b>85%</b>
Avg. daily val. (52wk)	<b>\$10.2m</b>
12 month price range	<b>\$1.385-\$2.04</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	1.92	1.71	1.85
Absolute (%)	6.5	19.3	10.3
Rel market (%)	2.2	14.5	-9.6

**Absolute Price**



SOURCE: IRESS

**Strategic stake in DEG pays off.**

Northern Star Resources Ltd (NST, Buy, TP\$19.55ps) and DeGrey Mining Ltd (DEG, Buy Spec, Val\$2.15ps, pre-offer) announced that they had agreed that NST would acquire DEG by Scheme of Arrangement (the Scheme). Under the terms of the all-scrip Scheme, shareholders would receive 0.119 new NST shares for each DEG share. The Scheme requires 75% shareholder approval (meeting expected in April 2025). GOR is the largest shareholder in DEG, holding 414m shares (17.3%, undiluted basis). Under the Scheme, at NST's last closing price (\$16.59ps), the implied offer price for DEG is \$1.97ps (vs the headline number of \$2.08ps), and the implied value of GOR's interest is \$815m (vs an estimated acquisition cost of \$414m). If the Scheme completes as presented, we estimate that GOR would own ~3.4% of NST.

**GOR's intentions absent in the Scheme announcement.**

GOR is yet to respond to the Scheme announcement, despite, we expect, being invited to support, and commit to the Scheme. We think that GOR is generally supportive of a change of control transaction for DEG, given recent commentary. However, it makes sense for them to wait to see if a superior proposal emerges. We expect the inclusion of a cash component would better serve GOR's interests. But if no superior proposal was to emerge, the Scheme would be a great outcome for GOR.

**Investment view: Buy. TP\$2.55ps (prev. \$2.40ps).**

We update our valuation to reflect the Scheme, marking-to-market the value of the DEG shareholding. While it's not possible to accurately estimate GOR's final exit price from an all-scrip Scheme, on last closing prices, we estimate net proceeds for GOR of ~\$700m (65cps), which could be returned to shareholders, or used to finance growth. On the operational front, we expect a strong 4Q for GOR given: (1) gold production of ~90koz given a return to full high-grade plant feed, (2) sold into a >A\$4,000/oz gold price, (3) reported with CY25 gold production guidance of ~350koz, and (4) GOR has underperformed the S&P/ASX All Ordinaries Gold Index (XGD) for the last 12-months.

**Earnings Forecast**

Year end	2023a	2024e	2025e	2026e
Sales (A\$m)	473	513	676	689
EBITDA (A\$m)	252	269	401	418
NPAT (reported) (A\$m)	116	138	224	244
NPAT (adjusted) (A\$m)	118	138	224	244
EPS (adjusted) (\$ps)	11.0	12.7	20.6	22.5
EPS growth (%)	66	18	62	9
PER (x)	19.0	16.1	9.9	9.1
FCF Yield (%)	4.4	1.6	10.1	9.9
EV/EBITDA (x)	8.5	7.9	5.3	5.1
Dividend (\$ps)	1.7	1.5	3.5	4.0
Yield (%)	0.8	0.7	1.7	2.0
Franking (%)	100.0	100.0	100.0	100.0
ROE (%)	12	13	18	17

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Gold Road Resources Ltd (GOR)

## Company description

GOR is a gold producer through its 50% ownership of the Tier-1 Gruyere Gold Mine in Western Australia. GOR is also a growth focused company, through active gold exploration and project assessment and acquisition work. GOR is a significant shareholder in De Grey Mining Ltd (DEG).

## Investment thesis: Buy.

We maintain our BUY recommendation on GOR in accordance with our rating structure. Our investment thesis is based on the following:

- **Investment situation:** GOR is a debt-free, unhedged, free-cash generating, single asset gold producer, with targeted attributable production of a sustainable 175 kozpa (attributable) out to 2032. GOR pays dividends, targeting dividends of 15-to-30% of free-cash-flow, subject to a minimum cash balance of \$100m. Earnings from Gruyere provide an excellent foundation for GOR's growth ambitions i) a 100% owned project, and ii) Tier 1 gold assets.
- **Gruyere Gold Mine:** GOR owns 50% of the Gruyere JV (50% Gold Fields Ltd, GFI.JSE, not rated). Gruyere is a long-life, Tier-1 operating gold mine in WA. Key points include:
  1. **Processing expansion:** The JV is expanding the ore processing rate to ~10Mtpa (from 7.5Mtpa) through progressive debottlenecking. The latest processing plant upgrade was completed in 4QCY23 (upgraded pebble crushing capacity).
  2. **350 kozpa Gold Production:** 100% basis. From the increased processing rate, and increasing gold grade with depth at Gruyere pit, potentially from FY25.
  3. **Reserves:** 98.8Mt at 1.27g/t Au containing 4.05 Moz (100% basis, ~11-year life).
  4. **Resources:** Gruyere JV Resources total 138.9Mt at 1.35g/t Au containing 6.04 Moz of gold (open pits, 100% basis, December 2023). Outside of the Gruyere JV, 100% owned Yamarna Resources total 6.45Mt at 2.44 g/t Au containing 0.51 Moz of gold. The Gruyere deposit extends at depth beneath the life-of-mine open pit design, and longer-term, could be mined using underground methods. Underground Resources at Gruyere are 21.6Mt at 1.41g/t Au containing 0.98Moz of gold (attributable basis). Gruyere noted in its 4QCY23 report that it will re-commence drilling beneath the pit, and scoping studies into future underground mining, most likely, after the completion of open pit mining.
- **Strategic interest in DEG:** GOR owns 17.27% of DEG (Resources: 12.7Moz) owner of the Mallina Gold Project, where 10.5Moz of gold have been delineated at the Tier-1 'Hemi Mining Centre'. In September 2023, DEG reported Feasibility Study outcomes for Mallina, reporting total production of 122Mt at 1.5g/t to produce 5.7 Moz over 12 years, at ~540kozpa.

## Valuation.

Our valuation for GOR is based a 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 which also includes a notional estimate for the exploration value of GOR's other exploration and mineral assets, and mark-to-market valuations for GOR's listed investments. 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, summarised below.

Table 1 - GOR sum-of-the-parts valuation summary

Ordinary shares (m)		1,084.0	
Options in the money (m)		3.3	
Diluted (m)		1,087.4	
<hr/>			
<b>Sum-of-the-parts</b>		<b>\$m</b>	<b>\$/sh</b>
Project (unrisked NPV10)		1,571	1.45
Corporate overheads and exploration expenses		-58	(0.05)
Resources and exploration		300	0.28
Investments		827	0.76
<b>Subtotal</b>		<b>2,641</b>	<b>2.44</b>
Net Cash (debt)		275	0.25
<b>Total (undiluted)</b>		<b>2,916</b>	<b>2.69</b>
Add options in the money (m)		-	-
Add cash		-	-
<b>Total (diluted)</b>		<b>2,916</b>	<b>2.68</b>
Risk Discount: 5%.			
<b>Target Price</b>		<b>2,770</b>	<b>2.55</b>

Our NPV-based valuation increases to \$2.68ps, after updating our mark-to-market valuation for DEG. We apply a risk discount of 5% to our valuation to arrive at our rounded \$2.55ps Target Price. In our view, the share price will underperform our NPV-based valuation until GOR demonstrates more consistent production from Gruyere.

# 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.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks due to the inherent hazards of the operating environment and the human resource intensity of the activities undertaken.
- **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.

Table 2 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS							
Year ending December	Unit	2022a	2023a	2024e	2025e	2026e	Year ending December	Unit	2022a	2023a	2024e	2025e	2026e	
<b>REVENUE</b>							<b>VALUATION</b>							
Revenue	\$m	383.0	472.8	513.4	676.2	689.3	NPAT	\$m	63.7	115.7	137.7	223.5	244.3	
Expense	\$m	(199.5)	(221.1)	(244.2)	(275.4)	(271.7)	Reported EPS	c/sh	6.5	10.7	12.7	20.6	22.5	
<b>EBITDA</b>	<b>\$m</b>	<b>183.5</b>	<b>251.7</b>	<b>269.3</b>	<b>400.8</b>	<b>417.6</b>	Adjusted EPS	c/sh	6.8	11.0	12.7	20.6	22.5	
Depreciation	\$m	(81.5)	(78.1)	(70.2)	(88.6)	(83.4)	EPS growth	%	91.1	65.6	18.3	62.3	9.3	
<b>EBIT</b>	<b>\$m</b>	<b>101.9</b>	<b>173.6</b>	<b>199.0</b>	<b>312.2</b>	<b>334.2</b>	PER	x	31.5	19.0	16.1	9.9	9.1	
Net interest expense	\$m	(6.7)	(3.0)	(5.4)	0.4	7.6	DPS	c/sh	1.0	1.7	1.5	3.5	4.0	
Unrealised gains (Impairments)	\$m	(4.5)	(3.5)	(0.0)	-	-	Franchising	%	100.0	100.0	100.0	-	-	
Other	\$m	-	-	-	-	-	Yield	%	0.5	0.8	0.7	1.7	2.0	
<b>PBT</b>	<b>\$m</b>	<b>90.8</b>	<b>167.1</b>	<b>193.6</b>	<b>312.6</b>	<b>341.7</b>	FCF/share	c/sh	-2.3	9.1	3.3	20.7	20.2	
Tax expense	\$m	(27.1)	(51.4)	(55.9)	(89.1)	(97.4)	P/FCFPS	x	-88.5	22.5	62.6	9.9	10.1	
<b>NPAT (reported)</b>	<b>\$m</b>	<b>63.7</b>	<b>115.7</b>	<b>137.7</b>	<b>223.5</b>	<b>244.3</b>	EV/EBITDA	x	11.8	8.5	7.9	5.3	5.1	
NPAT (underlying)	\$m	68.2	118.2	137.7	223.5	244.3	EBITDA margin	%	46.7	52.6	52.5	59.3	60.6	
<b>CASH FLOW</b>							<b>LIQUIDITY &amp; LEVERAGE</b>							
Year ending December	Unit	2022a	2023a	2024e	2025e	2026e	Return on assets	%	6.2	9.8	10.8	15.6	14.9	
<b>OPERATING CASHFLOW</b>							Return on equity	%	7.7	12.3	13.2	18.2	17.1	
Receipts	\$m	384.0	473.6	510.9	677.2	688.9	<b>ASSUMPTIONS - Prices</b>							
Payments	\$m	(223.0)	(216.1)	(214.3)	(253.5)	(249.2)	Year ending December - average	Unit	2022a	2023a	2024e	2025e	2026e	
Tax	\$m	(23.7)	(22.5)	(69.0)	(89.1)	(97.4)	Gold price	US\$/oz	1,814	1,958	2,375	2,700	2,500	
Net interest	\$m	(0.8)	(1.5)	(4.4)	0.4	7.6	AUD:USD	AS/US\$	0.70	0.66	0.66	0.70	0.70	
Other	\$m	(4.4)	-	(9.8)	(22.0)	(22.1)	Gold price	AS/oz	2,604	2,950	3,605	3,891	3,571	
<b>Operating cash flow</b>	<b>\$m</b>	<b>132.2</b>	<b>233.6</b>	<b>213.4</b>	<b>313.0</b>	<b>327.8</b>	<b>ASSUMPTIONS - Production</b>							
<b>INVESTING CASHFLOW</b>							Year ending December	Unit	2022a	2023a	2024e	2025e	2026e	
Property, plant and equipment	\$m	(48.5)	(78.2)	(116.5)	(70.7)	(108.5)	Processed - Ore Tonnes	kt	4,440	4,687	4,350	4,700	5,000	
Mine development	\$m	-	-	-	-	-	Processed - Gold Grade	g/t Au	1.21	1.15	1.12	1.25	1.29	
Exploration & evaluation	\$m	(2.7)	(2.5)	(10.2)	(18.2)	-	Gold Produced	koz	157.3	161.0	143.0	173.8	190.1	
Other	\$m	(105.9)	(55.2)	(51.2)	-	-	<b>VALUATION</b>							
<b>Investing cash flow</b>	<b>\$m</b>	<b>(157.0)</b>	<b>(135.8)</b>	<b>(178.0)</b>	<b>(88.9)</b>	<b>(108.5)</b>	Ordinary shares (m)		1,084.0		1,084.0		1,084.0	
<b>Free Cash Flow</b>	<b>\$m</b>	<b>(24.8)</b>	<b>97.7</b>	<b>35.3</b>	<b>224.1</b>	<b>219.3</b>	Options in the money (m)		3.3		3.3		3.3	
<b>FINANCING CASHFLOW</b>							Diluted (m)		1,087.4		1,087.4		1,087.4	
Share issues/(buy-backs)	\$m	-	-	-	-	-	<b>Sum-of-the-parts</b>							
Debt proceeds	\$m	(8.2)	-	-	-	-		\$m	\$/sh	\$m	\$/sh	\$m	\$/sh	
Debt repayments	\$m	-	-	-	-	-	Operations	1,667	1.53	1,571	1.45	1,505	1.38	
Dividends	\$m	(12.7)	(15.5)	(14.3)	(37.9)	(43.4)	Corporate	(68)	-0.06	(58)	-0.05	(51)	-0.05	
Other	\$m	(11.4)	(12.8)	(11.6)	(8.6)	(9.2)	Exploration	300	0.28	300	0.28	300	0.28	
<b>Financing cash flow</b>	<b>\$m</b>	<b>(32.3)</b>	<b>(28.3)</b>	<b>(29.2)</b>	<b>(46.5)</b>	<b>(52.6)</b>	Investments	827	0.76	827	0.76	827	0.76	
Change in cash	\$m	(57.1)	69.4	6.1	177.6	166.8	Subtotal	2,726	2.51	2,641	2.44	2,581	2.38	
<b>BALANCE SHEET</b>							Net cash (debt)		95	0.09	275	0.25	349	0.32
Year ending December	Unit	2022a	2023a	2024e	2025e	2026e	<b>Total (undiluted)</b>	<b>2,820</b>	<b>2.60</b>	<b>2,916</b>	<b>2.69</b>	<b>2,931</b>	<b>2.70</b>	
<b>ASSETS</b>							Add options in the money (m)		-	-	-	-	-	-
Cash & short term investments	\$m	74.4	143.8	150.0	327.5	494.3	Add cash		-	-	-	-	-	
Accounts receivable	\$m	4.9	7.2	9.9	8.9	9.2	<b>Total (diluted)</b>	<b>2,820.3</b>	<b>2.59</b>	<b>2,915.7</b>	<b>2.68</b>	<b>2,930.6</b>	<b>2.70</b>	
Property, plant & equipment	\$m	324.3	343.1	403.9	394.6	438.6	Risk Discount, 5%		-	-	-	-	-	
Mine development expenditure	\$m	57.3	43.8	50.5	48.1	58.2	<b>Target Price</b>			<b>2,769.9</b>	<b>2.55</b>			
Exploration & evaluation	\$m	37.1	39.5	49.6	67.8	58.0	<b>MAJOR SHAREHOLDERS</b>							
Other	\$m	531.8	600.7	598.9	590.4	581.2	Shareholder				%	m		
<b>Total assets</b>	<b>\$m</b>	<b>1,029.8</b>	<b>1,178.3</b>	<b>1,262.8</b>	<b>1,437.2</b>	<b>1,639.5</b>	Van Eck Associates Corporation				10.4	113.1		
<b>LIABILITIES</b>							The Vanguard Group, Inc.					5.0	54.0	
Accounts payable	\$m	36.9	40.6	52.7	50.1	60.7	State Street Global Advisors, Inc.					4.8	51.7	
Income tax payable	\$m	6.6	25.0	9.7	9.7	9.7	Dimensional Fund Advisors LP					3.3	35.6	
Borrowings	\$m	-	-	-	-	-	<b>CAPITAL STRUCTURE</b>							
Other	\$m	154.6	170.2	159.8	151.2	142.0	Shares on issue	m					1,084.0	
<b>Total liabilities</b>	<b>\$m</b>	<b>198.0</b>	<b>235.8</b>	<b>222.2</b>	<b>211.0</b>	<b>212.4</b>	<b>Total shares on issue</b>	<b>m</b>					<b>1,084.0</b>	
<b>SHAREHOLDER'S EQUITY</b>							<b>Share price</b>	<b>\$/sh</b>					<b>2.040</b>	
Share capital	\$m	434.2	440.1	441.9	441.9	441.9	Market capitalisation	\$m					2,211.4	
Reserves	\$m	114.8	117.1	91.6	91.6	91.6	Net cash	\$m					94.5	
Retained earnings	\$m	282.9	385.3	507.0	692.6	893.6	<b>Enterprise value (undiluted)</b>	<b>\$m</b>					<b>2,116.9</b>	
<b>Total equity</b>	<b>\$m</b>	<b>831.8</b>	<b>942.4</b>	<b>1,040.6</b>	<b>1,226.2</b>	<b>1,427.2</b>	Options outstanding (m)	m	(price \$0.00 per share)				3.3	
Weighted average shares	m	982.1	1,077.5	1,084.0	1,084.0	1,084.0	Options (in the money)	m					3.3	
							Issued shares (diluted for options)	m					1,087.4	
							Market capitalisation (diluted)	m					2,218.2	
							Net cash + options	\$m					94.5	
							<b>Enterprise value (diluted)</b>	<b>\$m</b>					<b>2,123.7</b>	

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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The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

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