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## SPEC BUY

Current Price \$0.79  
Valuation \$1.30

Wednesday, 15 December 2021

## OreCorp (ORR)

### Signed, Sealed

Analyst | Royce Haese

### Quick Read

On December 13<sup>th</sup>, 2021, the Special Mining Licence (SML) for Nyanzaga was granted. This was the final major legislative hurdle for the project to overcome. Nyanzaga is one of the best undeveloped gold projects in Africa, and with ongoing backing from the Government we see reduced jurisdictional risk. As such we have elected to reduce our discount rate from 10% to 8%. We maintain our Speculative Buy rating, with a valuation of \$1.30 per share, prior \$1.25.

### Signed, Sealed

**SML and Framework Agreement:** On December 13<sup>th</sup>, 2021, the Special Mining Licence (SML) for Nyanzaga was granted and the Framework and Shareholder Agreements for the project were signed. This was the final major legislative hurdle for the project to overcome and development work can now continue in earnest. Next step, DFS and project financing.

Terms of the agreement were not outlined in this most recent announcement, however we don't anticipate any change from the standard fiscal terms, specifically; a 16% government free carry interest, 7.3% total royalties and 30% corporate tax rate.

The granting of the SML and ongoing commentary from Tanzanian government officials provides comfort that Tanzania is 'walking the talk' when it comes to incentivising foreign investment into mining. At Monday's signing ceremony, President Hassan said that Tanzania aims for the mining sector to contribute 10% of total GDP by 2025, up from the current 6.7% contribution. As a large-scale gold operation, OreCorp's Nyanzaga will be a key contributor to this goal long term.

**Argonaut Mining Scenario and Valuation:** With the SML now in place and ongoing positive in-country commentary regarding advancing the mining industry, we see reduced jurisdictional risk. We have elected to reduce our discount rate from 10% to 8%. We also factor in a higher proportion of debt in assumed project funding. Predominantly using inputs outlined in OreCorp's 2017 DFS we derive a NPV<sub>8</sub> for Nyanzaga of A\$597M, prior NPV<sub>10</sub> A\$519M.

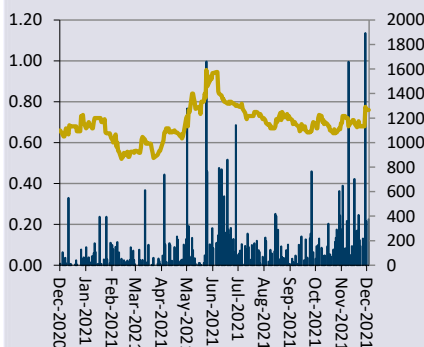
Jurisdiction risk remains the key risk to the project, despite the positive momentum the potential for a black swan event remains. Upside potential remains in regional exploration.

### Recommendation

We maintain our Speculative Buy rating, with a valuation of \$1.30 per share, prior \$1.25.

Code:	ORR		
Sector:	Materials		
* All figures in AUD unless stated otherwise			
Shares on Issue (M):	397		
Market Cap (\$M):	313		
Net cash (\$M Sep 2021)	67		
Enterprise value (\$M):	246		
52 wk High/Low (ps):	\$0.96	\$0.52	
12m av. daily vol. (Mshs):	0.17		
<b>Key Metrics</b>			
	FY24e	FY25e	FY26e
P/E (x)	5.6	3.7	2.3
EV/EBITDA (x)	1.8	1.2	0.8
<b>Financials:</b>			
	FY24e	FY25e	FY26e
Revenue (\$M)	234	362	512
EBIT (\$M)	118	169	259
NPAT (A\$M)	84	127	200
Net assets (\$M)	266	379	565
Op CF (\$M)	114	167	243
<b>Per share data:</b>			
EPS (c)	14.2	21.4	33.8
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	19.2	28.3	41.1
Prod (koz Au)	100.4	155.2	219.3

Share Price Graph and trading volumes (msh)



Please refer to important disclosures at the end of the report (from page 6)

## OreCorp

## Equities Research

Analyst: Royce Haese

**Recommendation** Speculative buy  
**Current Price** \$0.79  
**Valuation** \$1.30

**Sector** Metals & Mining  
**Issued Capital (Mshs)** 397  
**Market Cap (M)** \$313

Wednesday, 15 December 2021

Profit & loss (\$M) CY	2021E	2022E	2023E	2024E
<b>Sales Revenue</b>	0	0	0	234
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	0	-65
- Royalties	0	0	0	-21
- Corporate & administration	-11	-4	-4	-9
<b>Total Costs</b>	<b>-11</b>	<b>-4</b>	<b>-4</b>	<b>-94</b>
<b>EBITDA</b>	<b>-11</b>	<b>-4</b>	<b>-4</b>	<b>140</b>
- margin	0%	0%	0%	60%
- D&A	0	0	0	-22
<b>EBIT</b>	<b>-11</b>	<b>-4</b>	<b>-4</b>	<b>118</b>
+ Finance Income/Expense	0	0	-6	-12
<b>PBT</b>	<b>-11</b>	<b>-4</b>	<b>-10</b>	<b>105</b>
- Tax expense	2	0	2	-21
- Impairments and other				
<b>NPAT</b>	<b>-9</b>	<b>-4</b>	<b>-8</b>	<b>84</b>

Cash flow (\$M)	2021E	2022E	2023E	2024E
+ Revenue	0	0	0	234
- Cash costs	-11	-4	-4	-94
- Forwards	0	0	0	0
-Tax payments	0	0	0	-14
+ Interest & other	0	0	-6	-12
<b>Operating activities</b>	<b>-11</b>	<b>-4</b>	<b>-10</b>	<b>114</b>
- Property, plant, mine devel.	0	0	-365	-58
- Exploration	-6	-6	-6	-6
<b>Investment activities</b>	<b>-6</b>	<b>-6</b>	<b>-371</b>	<b>-64</b>
+ Borrowings	0	0	315	-25
- Dividends	0	0	0	0
+ Equity	0	1	135	0
<b>Financing activities</b>	<b>0</b>	<b>1</b>	<b>450</b>	<b>-25</b>
<b>Cash change</b>	<b>-17</b>	<b>-9</b>	<b>68</b>	<b>25</b>

Balance sheet	2021E	2022E	2023E	2024E
<b>Cash &amp; bullion</b>	<b>55</b>	<b>46</b>	<b>114</b>	<b>139</b>
Other Current Assets	0	0	0	0
<b>Total current assets</b>	<b>55</b>	<b>46</b>	<b>114</b>	<b>139</b>
Property, plant & equip.	4	4	369	405
Investments/other	0	0	0	0
<b>Total non-curr. assets</b>	<b>4</b>	<b>4</b>	<b>369</b>	<b>405</b>
<b>Total assets</b>	<b>59</b>	<b>50</b>	<b>484</b>	<b>544</b>
Trade payables	1	1	1	17
Short term borrowings	0	0	25	50
Other	6	1	184	21
<b>Total curr. liabilities</b>	<b>7</b>	<b>3</b>	<b>185</b>	<b>38</b>
Long term borrowings	0	0	290	240
Other	0	0	0	0
<b>Total non-curr. liabil.</b>	<b>0</b>	<b>0</b>	<b>290</b>	<b>240</b>
<b>Total liabilities</b>	<b>7</b>	<b>3</b>	<b>475</b>	<b>278</b>
<b>Net assets</b>	<b>52</b>	<b>47</b>	<b>8</b>	<b>266</b>

Shares	2021E	2022E	2023E	2024E
New shs issued/exerciseable	0.0	2.5	192.9	0.0
Average issue price	0.00	0.44	0.70	0.00
Ordinary shares - end	397	399	592	592
Diluted shares - end	399	399	592	592

\*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Financial ratios		2024E	2025E	2026E	2027E
GCFPS	AC	19.2	28.3	41.1	40.9
CFR	X	4.1	2.8	1.9	1.9
EPS	AC	14.2	21.4	33.8	33.2
PER	X	5.6	3.7	2.3	2.4
DPS	AC	0.0	0.0	0.0	0.0
Yield	%	0.0%	0.0%	0.0%	0.0%
Interest cover	x	9.4	15.6	29.3	36.9
ROCE	%	29%	41%	65%	68%
ROE	%	40%	42%	44%	33%
Gearing	%	90%	50%	25%	12%

Operations summary (100% Basis)	2024E	2025E	2026E	2027E
<b>Nyanzaga project</b>				
Ore processed (Mt)	2.3	3.3	3.9	3.9
Head grade (g/t)	1.51	1.64	1.96	1.96
Met. recovery	0.88	0.88	0.88	0.88
Gold prodn (koz)	100	155	219	219
Cost per milled tonne (A\$/t)	27	37	41	42
Cash costs pre royalty (A\$/oz)	849	996	936	953
Sustaining capital (\$M)	1	6	7	7
All in sustaining costs (A\$/oz)	861	1032	968	985
Growth capital (\$M)	43	35	17	17
CAIC (A\$/oz)	1325	1596	1353	1356

Price assumptions	2024E	2025E	2026E	2027E
AUDUSD	0.75	0.75	0.75	0.75
Gold	1750	1750	1750	1750

Valuation summary	A\$M	A\$/sh
Nyanzaga project 8% real after tax	597	1.51
Tanzania Government 16% Free-Carry Interest	-89	-0.22
Exploration, Nyanzaga	102	0.26
Eastern Goldfields Projects	15	0.04
Corporate overheads	-25	-0.06
Cash (inclusive of final Nyanzaga Payment)	57	0.14
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-142	-0.36
<b>NAV</b>	<b>514</b>	<b>1.30</b>

Directors, management	
Craig Williams	Non-Executive Chairman
Matthew Yates	CEO & Managing Director
Mike Klessens	Non-Executive Director
Alastair Morrison	Non-Executive Director
Robert Rigo	Non-Executive Director

Top shareholders	M shs	%
Federation Mining	49.6	12.5
Westoz Funds Management	43.6	11.0
Rollason	35.9	9.0
Mutual Investments	25.7	6.5

Resources Sep '17	Mt	g/t Au	Kozs	Mkt cap/oz
<b>Nyanzaga gold project</b>	<b>23.7</b>	<b>4.03</b>	<b>3,073</b>	<b>102</b>
Measured & indicated	20.8	4.06	2,715	
Inferred	2.9	3.84	358	

Argonaut model Dec '21	Mt	g/t Au	Kozs	
<b>TOTAL INVENTORY</b>	<b>45.0</b>	<b>1.95</b>	<b>2,819</b>	<b>111</b>
Nyanzaga UG	9.0	3.70	1,071	
Nyanzaga OP	36.0	1.51	1,748	

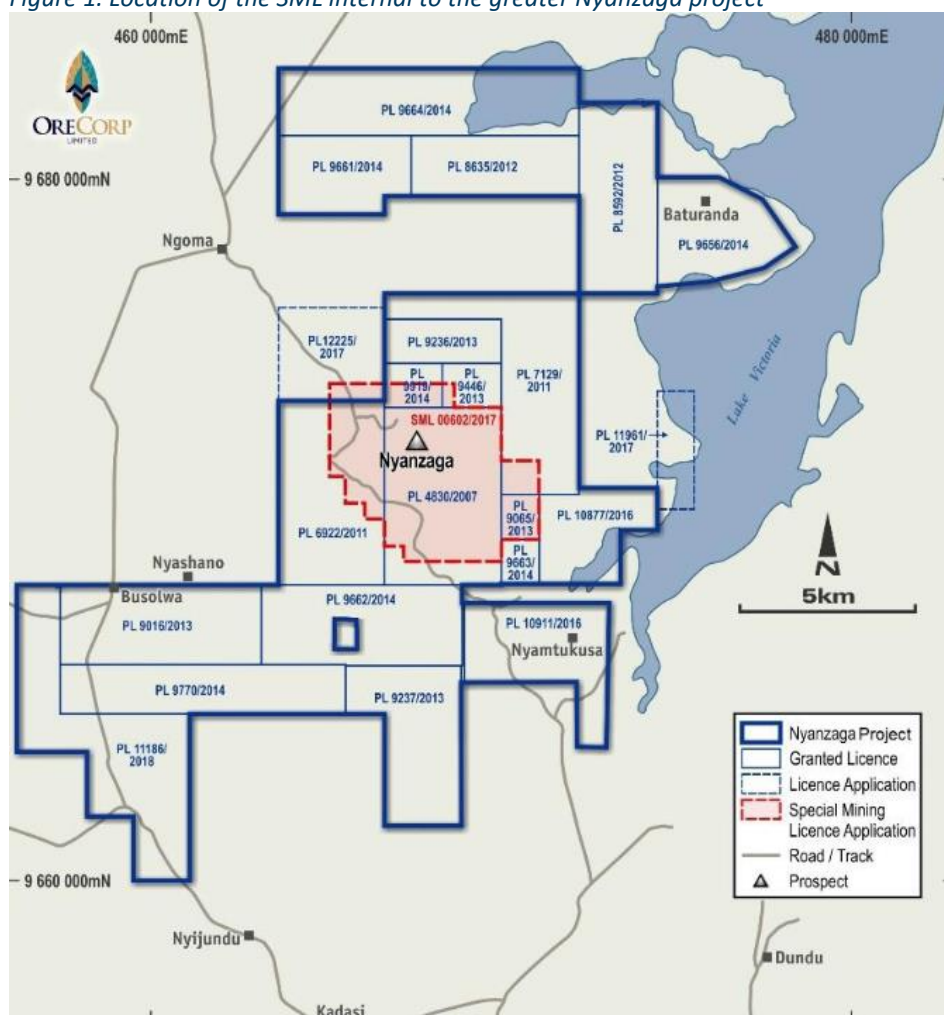
## OreCorp: Signed, Sealed

### SML and Framework Agreement

**On December 13<sup>th</sup>, 2021, the Special Mining Licence (SML) for Nyanzaga was granted**

On December 13<sup>th</sup>, 2021, the Special Mining Licence (SML) for Nyanzaga was granted and the Framework and Shareholder Agreements for the project were signed. This was the final major legislative hurdle for the project to overcome and development work can now continue in earnest.

Figure 1. Location of the SML internal to the greater Nyanzaga project



Source: ORR

**We assume standard Tanzanian terms of 16% government free-carry, 7.3% total royalties and 30% corporate tax rate**

Complete terms of the Framework and Stakeholder agreements were not outlined in this most recent announcement, however we don't anticipate any change from the standard fiscal terms, specifically; we assume a 16% government free carry interest, 7.3% total royalties and 30% corporate tax rate as is outlined in Tanzanian legislature.

Following the appointment of Samia Suluhu Hassan as Tanzanian President on the 19<sup>th</sup> of March 2021 Tanzanian government commentary on the need for foreign mining investment into Tanzania has increased. In a speech on the 5<sup>th</sup> of April the President directed the Tanzanian Revenue Authority to "stop frustrating business" and ordered a review into the regulations and taxes related to foreign investment, urging officials to "work hard to regain the trust of international business".

**At the recent signing ceremony, President Hassan said that Tanzania aims for the mining sector to contribute 10% of total GDP by 2025**

At the recent signing ceremony, President Hassan said that Tanzania aims for the mining sector to contribute 10% of total GDP by 2025, up from the current 6.7% contribution. As a large-scale gold operation, OreCorp's Nyanzaga will be a key contributor to this goal long term. This ongoing commentary from Tanzanian government officials and tangible progress provides comfort that Tanzania is 'walking the talk' when it comes to incentivising foreign investment into mining.

The granting of this SML has triggered a payment of US\$8.05M to Barrick as final consideration for the project.

**As part of its DFS, OreCorp is completing a decarbonisation review**

In country, construction continues on the 2,000MW Julius Nyerere Hydropower Dam, which will more than double the installed energy capacity of Tanzania. This will provide a steady supply of green energy. OreCorp is factoring this into its DFS with a separate decarbonisation review underway.

DFS work is ongoing, and is expected to be finalised by the middle of next year. The DFS will include the inferred category 220koz Kilimani deposit, with Resource conversion drilling underway. Drill testing of a further 15 targets internal the SML is also underway, with four rigs on site. Now that the SML has been granted we see potential for some components of ORR's development timeline to be brought forward.

*Figure 2. OreCorp's preliminary project development timeline*

	2021			2022				2023				2024			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Cabinet Approves SML	✓														
DFS		✓													
RAP Planning Process	✓	✓													
RAP Implementation															
Project Financing															
FEED															
Engineering & Procurement															
Construction															
Commissioning															
Production															
SML Exploration	✓	✓													

Source: ORR, 22/11/2021

**With the SML in place we see reduced jurisdictional risk, we have elected to reduce our discount rate from 10% to 8%**

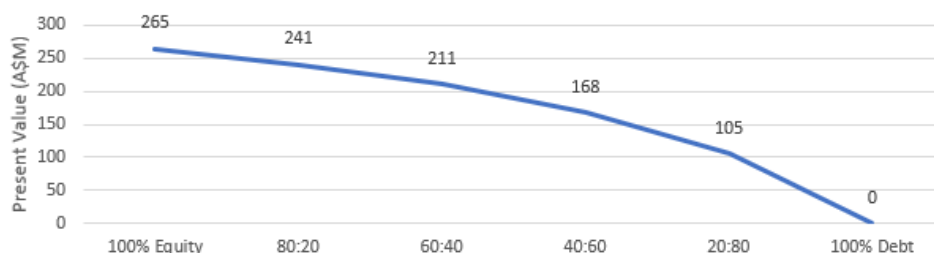
#### **Argonaut Mining Scenario and Valuation**

With the SML now in place and ongoing positive in-country commentary regarding advancing the mining industry, we see reduced jurisdictional risk. We have elected to reduce our discount rate from 10% to 8%.

**We also factor in a higher proportion of debt in assumed project funding**

We also factor in a higher proportion of debt in assumed project funding. We now assume a 70:30 debt to equity split, or A\$315M in debt and A\$135M in equity. To fund the equity component, we assume the issue of 193M shares at an issue price of A\$0.70 per share. This results in equity dilution in present value terms of A\$140M.

*Figure 3. Present Value of equity dilution under different finance structure scenarios.*  
**Equity Dilution Present Value**



Source: Argonaut

**We derive an NPV<sub>8</sub> for Nyanzaga of A\$597M**

Predominantly using inputs outlined in OreCorp's 2017 DFS, we derive a NPV<sub>8</sub> for Nyanzaga of A\$597M, prior NPV<sub>10</sub> A\$519M. Full assumptions outlined previously.

**As a sum of parts Argonaut values OreCorp at A\$514M, prior A\$400M**

As a sum of parts Argonaut values OreCorp at A\$514M, prior A\$400M. This factors in Argonaut's mining scenario for the Nyanzaga project, a valuation of the Tanzanian Governments free-carry interest, a nominal exploration valuation for Nyanzaga and Eastern Goldfields projects, current cash and equivalents, and future tax benefits. Corporate overheads and equity dilution are also included.

*Table 1. OreCorp Valuation Summary*

Valuation summary	A\$M	A\$/sh
Nyanzaga project 8% real after tax	597	1.51
Tanzania Government 16% Free-Carry Interest	-89	-0.22
Exploration, Nyanzaga	102	0.26
Eastern Goldfields Projects	15	0.04
Corporate overheads	-25	-0.06
Cash (inclusive of final Nyanzaga Payment)	57	0.14
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-142	-0.36
<b>NAV</b>	<b>514</b>	<b>1.30</b>

Source: Argonaut

**Jurisdiction risk remains the key risk to the project**

Jurisdiction risk remains the key risk to the project, despite the positive momentum the potential for a black swan event remains. Upside potential remains in regional exploration and through refinement of the mine plan as part of the ongoing DFS.

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Argonaut acted as Co Lead Manager in respect of the Placement to raise \$56M in June 2021 and received fees commensurate with this service.

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