



SPEC BUY

Current Price \$0.68
Valuation \$1.20

Friday, 6 May 2022

OreCorp (ORR)

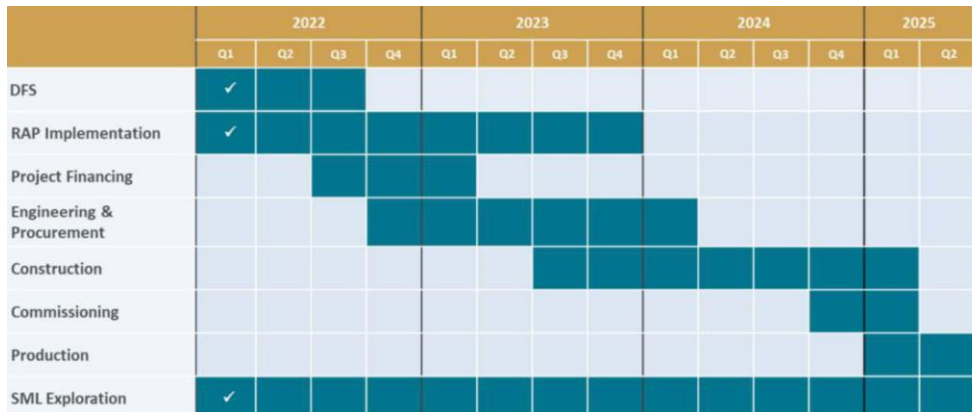
Slight DFS Deferral

Analyst | Royce Haese

Quick Read

Covid related disruptions and skills shortages have resulted in a delay to OreCorp's DFS. Previously the study was planned for release by mid-year, Q3 the new target. We tweak assumptions in our model to factor in delayed first-gold which has resulted in a slight reduction in our sum-of-parts valuation, now \$1.20 per share, prior \$1.32 per share. We still see significant upside to current price. Cost escalations and further disruptions to the plan the key risks, such is life in 2022.

Figure: Updated preliminary project timeline. Source: ORR



Slight DFS Deferral

Kilimani MRE Update: OreCorp has updated its estimate for Kilimani, ~450 m NE of the Nyanzaga deposit. Using a 0.4 g/t Au cut-off the deposit is now estimated to contain 213 kozs at 1.03 g/t Au with 55% in the higher confidence Indicated category. Prior estimate was 220 kozs @ 1.21 g/t Au, all Inferred. OreCorp will incorporate mining at Kilimani into its DFS. Exploration upside remains at Kilimani, with drilling earlier this year hinting at a potential high-grade feeder zone at depth, and mineralisation potentially linking Kilimani and Nyanzaga also interpreted. Further drilling is required to test these theories.

Argonaut Mining Scenario and Valuation: We don't include Kilimani in our modelling due to its small scale when compared to Nyanzaga. We note that having a secondary ore source, albeit small by comparison, will add flexibility to the mining schedule. We have updated our model to factor in the delay to DFS completion and subsequent development milestones. First production is now expected in Q1 2025. As a sum of parts we value OreCorp at \$476M, or \$1.20 per share. Details on Argonaut assumptions outlined below.

Recommendation

A minor setback but the underlying quality of the Nyanzaga project persists. Our valuation is pulled back slightly but remains at a premium to the current share price. Maintain Speculative Buy.

Code: **ORR**
Sector: **Materials**

* All figures in AUD unless stated otherwise

Shares on Issue (M): **397**
Market Cap (\$M): **270**
Net cash (\$M Mar 2022): **37**
Enterprise value (\$M): **233**

52 wk High/Low (ps): **\$0.96** **\$0.62**
12m av. daily vol. (Mshs): **0.20**

Key Metrics

	FY25e	FY26e	FY27e
P/E (x)	2.6	2.0	2.1
EV/EBITDA (x)	1.1	0.9	0.7

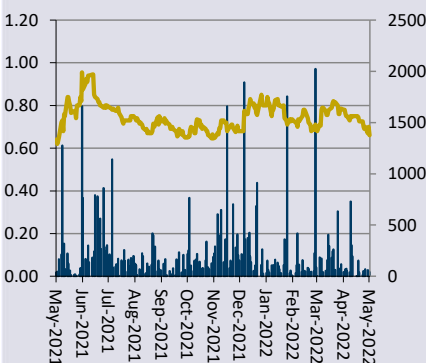
Financials:

	FY25e	FY26e	FY27e
Revenue (\$M)	323	426	529
EBIT (\$M)	181	221	280
NPAT (A\$M)	135	168	218
Net assets (\$M)	297	443	654
Op CF (\$M)	178	216	264

Per share data:

	FY25e	FY26e	FY27e
EPS (c)	20.7	25.9	33.5
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	27.4	33.3	40.7
Prod (koz Au)	133.8	176.5	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	\$0.68
Valuation	\$1.20

Sector	Metals & Mining
Issued Capital (Mshs)	397
Market Cap (M)	\$270
	Friday, 6 May 2022

Profit & loss (\$M) CY	2022E	2023E	2024E	2025E
Sales Revenue	0	0	0	323
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	0	-76
- Royalties	0	0	0	-28
- Corporate & administration	-4	-4	-9	-4
Total Costs	-4	-4	-9	-109
EBITDA	-4	-4	-9	214
- margin	0%	0%	0%	66%
- D&A	0	0	0	-34
EBIT	-4	-4	-9	181
+ Finance Income/Expense	0	-7	-14	-12
PBT	-4	-11	-23	168
- Tax expense	0	2	5	-34
- Impairments and other				
NPAT	-4	-9	-18	135

Cash flow (\$M)	2022E	2023E	2024E	2025E
+ Revenue	0	0	0	323
- Cash costs	-4	-4	-9	-109
- Forwards	0	0	0	0
-Tax payments	0	0	4	-24
+ Interest & other	0	-7	-14	-12
Operating activities	-4	-11	-19	178
- Property, plant, mine devel.	0	0	-420	-65
- Exploration	-6	-6	-6	-6
Investment activities	-6	-6	-426	-71
+ Borrowings	0	350	-25	-50
- Dividends	0	0	0	0
+ Equity	1	150	0	0
Financing activities	1	500	-25	-50
Cash change	-9	483	-470	57

Balance sheet	2022E	2023E	2024E	2025E
Cash & bullion	32	515	44	102
Other Current Assets	0	0	0	0
Total current assets	32	515	44	102
Property, plant & equip.	4	4	424	456
Investments/other	0	0	0	0
Total non-curr. assets	4	4	424	456
Total assets	36	519	469	557
Trade payables	1	1	1	17
Short term borrowings	0	25	50	50
Other	1	1	5	18
Total curr. liabilities	3	3	6	35
Long term borrowings	0	325	275	225
Other	0	0	0	0
Total non-curr. liabil.	0	325	275	225
Total liabilities	3	328	281	260
Net assets	34	192	188	297

Shares	2022E	2023E	2024E	2025E
New shs issued/exerciseable	2.5	250.0	0.0	0
Average issue price	0.44	0.60	0.00	0.00
Ordinary shares - end	399	649	649	649
Diluted shares - end	399	649	649	649

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Financial ratios		2025E	2026E	2027E	2028E
GCFPS	AC	27.4	33.3	40.7	40.5
CFR	X	2.5	2.0	1.7	1.7
EPS	AC	20.7	25.9	33.5	33.0
PER	X	3.3	2.6	2.0	2.1
DPS	AC	0.0	0.0	0.0	0.0
Yield	%	0.0%	0.0%	0.0%	0.0%
Interest cover	x	14.7	21.5	34.0	43.8
ROCE	%	40%	50%	68%	97%
ROE	%	57%	48%	42%	33%
Gearing	%	76%	40%	19%	9%

Operations summary (100% Basis)	2025E	2026E	2027E	2028E
Nyanzaga project				
Ore processed (Mt)	3.1	3.5	3.9	3.9
Head grade (g/t)	1.51	1.76	1.96	1.96
Met. recovery	0.88	0.88	0.88	0.88
Gold prodn (koz)	134	177	219	219
Cost per milled tonne (A\$/t)	24	34	38	39
Cash costs pre royalty (A\$/oz)	783	901	904	922
Sustaining capital (\$M)	3	7	7	7
All in sustaining costs (A\$/oz)	47	943	937	955
Growth capital (\$M)	47	17	17	17
CAIC (A\$/oz)	1612	1515	1344	0

Price assumptions	2025E	2026E	2027E	2028E
AUDUSD	0.725	0.725	0.725	0.725
Gold	1750	1750	1750	1750

Valuation summary	A\$M	A\$/sh
Nyanzaga project 8% real after tax	643	1.62
Tanzania Government 16% Free-Carry Interest	-106	-0.27
Exploration, Nyanzaga	107	0.27
Corporate overheads	-25	-0.06
Cash	37	0.09
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-180	-0.45
NAV	476	1.20

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	45.1	11.4
Rollason	34.9	8.8
Mutual Investments	25.8	6.5

Resources Sep '17	Mt	g/t Au	Kozs	Mkt cap/oz
Nyanzaga gold project	23.7	4.03	3,073	88
Measured & indicated	20.8	4.06	2,715	
Inferred	2.9	3.84	358	

Argonaut model May '22	Mt	g/t Au	Kozs	
TOTAL INVENTORY	45.0	1.95	2,819	96
Nyanzaga UG	9.0	3.70	1,071	
Nyanzaga OP	36.0	1.51	1,748	

Slight DFS Deferral

Argonaut Mining Scenario and Valuation

We have factored in the 3 month delay to the DFS and subsequent milestones flagged by OreCorp

We have updated our model to factor in the delay to DFS completion and subsequent development milestones including first revenue. Our assumed timeline tracks with OreCorp's preliminary schedule outlined on the cover page.

We assume US\$300M in pre-production capital, although this is a low confidence estimate and a key risk to the project

We assume US\$300M in pre-production capital expenditure, this includes the construction of a 4Mtpa CIL processing facility plus site infrastructure, early site works, and mining pre-strip. This factors in OreCorp's 2017 PFS estimate, inflation, and current higher global steel prices. We consider this a low confidence estimate with cost increases of both construction and operating costs a key risk to the project.

We estimate a further US\$292M of capital expenditure across LOM. This includes box cut, paste fill plant and underground capital development, in-mine reserve drilling and processing facility equipment replacement.

We assume a treatment cost of US\$13/t of ore

For processing we assume a treatment cost of US\$13/t of ore, slightly higher than OreCorp's PFS assumption of US\$11.5/t. We have used OreCorp's estimated gold recovery of 88% in our scenario.

We have assumed 1.54Moz produced from the open pit over its 12-year mine life and 0.94Moz produced from the Nyanzaga underground over 11 years. After the initial pre-strip we have utilised OreCorp's stated waste to ore ratio of 3.7:1 in developing the 445 m deep pit, although we note that the PFS was completed using a US\$1250/oz gold price so depending on cost assumptions current gold price would likely support a higher strip. Factoring in assumed operating costs we derive a LOM average C1 cash cost for open pit mining of US\$798/oz. For underground mining we derive a LOM average C1 cash cost of US\$618/oz.

Argonaut has used internal gold price estimates which average to US\$1750 across the life of the project, and an AUD to USD currency conversion rate of \$0.725.

Using an 8% real after-tax discount rate we value the Nyanzaga Project at A\$643M, or \$1.62 per share

Using an 8% real after-tax discount rate we value the Nyanzaga Project at A\$643M, or \$1.62 per share.

We have factored a 16% Government free-carry interest into our valuation. Using our mining and price assumptions this interest has a current NPV of A\$106M, or \$0.27 per share. We note that under Tanzania's current fiscal policy the Government has a right to up to 50% free-carry interest. The terms under which OreCorp will be operating will be outlined in the imminent Framework Agreement. We have also assumed a 7.3% royalty payable to the Tanzanian government on all doré shipped, and a 30% corporate tax rate.

We assume A\$500M in debt and equity required to fund pre-production activities

A A\$350M debt facility and A\$150M equity raise at \$0.60 subscription price have been used to fund pre-production capital in our model. This results in equity dilution in present value terms of A\$180M.

We have also assigned a nominal exploration valuation to Nyanzaga equal to 20% of the projects post tax valuation (inclusive of government 16% free-carry interest), or A\$107M.

We expect all near term efforts to be focussed on the development of Nyanzaga. Longer term the exploration potential remains, recently OreCorp have been awarded two exploration licences which are under-explored.

As a sum of parts Argonaut values OreCorp at A\$476M, or \$1.20 per share

As a sum of parts Argonaut values OreCorp at A\$476M, or \$1.20 per share. This valuation includes Argonaut's mining scenario for the Nyanzaga project, a valuation of the Tanzanian Governments free-carry interest, a nominal exploration valuation for Nyanzaga, and current cash and equivalents. 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	643	1.62
Tanzania Government 16% Free-Carry Interest	-106	-0.27
Exploration, Nyanzaga	107	0.27
Corporate overheads	-25	-0.06
Cash	37	0.09
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-180	-0.45
NAV	476	1.20

Source: Argonaut

The main risk to valuation remains the inflationary cost environment and access to skilled labour and contractors/consultants

Tanzania's fiscal policy and in-country security is also a risk

Key risks to Valuation

The main risk to valuation remains the inflationary cost environment and access to skilled labour and contractors/consultants. Tanzania's fiscal policy and in-country security is also a risk. We have used a discount rate of 8% to account for this risk. OreCorp is currently in negotiations with the Tanzanian Government to finalise a Framework Agreement. This will set the fiscal terms for the project under which OreCorp will operate. At this stage we have assumed a royalty rate of 7.3%, Corporate Tax Rate of 30%, and government free-carry interest of 16%. The final rates could vary from these assumptions, positively or negatively. Ongoing rhetoric from the government speaks to Tanzania's desire to stimulate foreign mining investment.

All else staying equal, if we were to use a lower discount rate of 5% the Nyanzaga project NPV would increase to A\$888M or \$2.24 per share. If this increase in confidence were to be combined with fiscal policy that was more favourable to OreCorp, significant increase in NAV would be forecast.

At spot gold/AUD:USD exchange rate, our valuation of the Nyanzaga project improves by 24%

Argonaut's valuation of the Nyanzaga project is highly sensitive to both gold price and exchange rate. We have used Argonaut's internal gold price estimate of US\$1750 and exchange rate of 0.725 AUD:USD across the life of the project. Of note, if current spot gold (US\$1875) and exchange rate (0.72) were used our estimated Nyanzaga project NPV would be A\$797M, a 24% increase.

For the current valuation Argonaut utilised a processing recovery factor of 88%. DFS studies will investigate processing options. If recovery of 90% was able to be achieved our project NPV would increase by 8%.

Argonaut has assumed total pre-production capital expenditure of US\$300M, inclusive of plant, associated infrastructure construction, pit pre-strip, and other pre-mining capital.

This is centred around a 4Mtpa processing facility. Factoring in the increased Resource estimate post-PFS and higher current gold price it is likely that more gold will optimise into the Maiden Reserve than anticipated in the PFS. It follows that higher capex will be required for a higher throughput processing facility and larger scale associated infrastructure. More clarity on this will come with the DFS.

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Important Disclosure

Argonaut acted as Joint Lead Manager in respect of the process to demerge OreCorp's West Australian assets announced in January 2022 and will receive fees commensurate with this service. 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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