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SPEC BUY

Current Price \$0.56
Valuation \$1.20

Tuesday, 24 May 2022

OreCorp (ORR)

Nyanzaga Site Visit

Analyst | Royce Haese

Quick Read

Earlier this month Argonaut attended a site visit to OreCorp's Nyanzaga project in Tanzania. DFS progress, site access, project geology and exploration upside were key discussion points. Nyanzaga hill is a striking geographic feature, three million ounces literally sticking out of the ground. Cost inflation remains the key risk to the project, as is the case for most developers. The scale and quality of this project gives OreCorp a competitive advantage over most peers in our view, hence we maintain our speculative buy recommendation with a \$1.20 valuation.

Nyanzaga Site Visit

Project Status: Despite the bulk of the study work occurring offsite, status of the DFS was a central discussion point during the site visit. As outlined in our previous note, COVID-19 related disruptions and skills shortages have resulted in a delay to the Nyanzaga DFS, now scheduled for release Q3 this year. Cost escalations are also likely to factor into the study. The 2017 PFS projected +200kozpa over 12 years at a forecast AISC US\$838/oz with pre-production capex of US\$287M. We are expecting increase beyond the 2017 PFS numbers to both capex and opex. Cost escalations are near ubiquitous industry wide, however, the gold endowment of the Nyanzaga project will allow OreCorp the ability to design to maintain a strong margin. We therefore think that OreCorp is better positioned than most to develop a new, profitable, gold project. Cost increases are likely to be at least partially offset by adjustments to the mine plan so we're holding steady on our model mining assumptions and valuation until we have more clarity here.

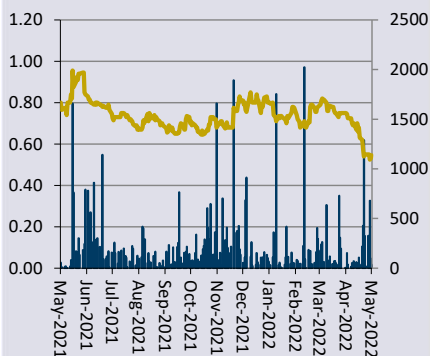
Project Geology: Existing endowment and controls on mineralisation are well understood by company geologists. Regionally, the surface is barely scratched. Unlike the majority fresh-rock Nyanzaga, the satellite deposit Kilimani estimate is around 95% oxide material. Potential for high-grade shoots at depth remain at Kilimani, and the gap between Nyanzaga and Kilimani is poorly tested due to the historical focus on Nyanzaga itself. Longer term regional potential remains, as does depth potential at Nyanzaga once more economical exploration is afforded by drilling from underground development.

Recommendation

The site visit reinforced our view that OreCorp's Nyanzaga project is a future large-scale gold producer being developed to industry best-practice standards. Maintain Spec Buy.

Code:	ORR		
Sector:	Materials		
* All figures in AUD unless stated otherwise			
Shares on Issue (M):	397		
Market Cap (\$M):	216		
Net cash (\$M Mar 2022)	37		
Enterprise value (\$M):	179		
52 wk High/Low (ps):	\$0.96	\$0.53	
12m av. daily vol. (Mshs):	0.20		
Key Metrics			
	FY25e	FY26e	FY27e
P/E (x)	2.1	1.6	1.7
EV/EBITDA (x)	0.8	0.7	0.5
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:			
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 8)

OreCorp

Equities Research

Analyst: Royce Haese

Recommendation	Speculative buy
Current Price	\$0.56
Valuation	\$1.20

Sector	Metals & Mining
Issued Capital (Mshs)	397
Market Cap (M)	\$220
Monday, 23 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	A/C	27.4	33.3	40.7	40.5
CFR	X	2.0	1.7	1.4	1.4
EPS	A/C	20.7	25.9	33.5	33.0
PER	X	2.7	2.1	1.7	1.7
DPS	A/C	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 (kozs)	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	72
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	78
Nyanzaga UG	9.0	3.70	1,071	
Nyanzaga OP	36.0	1.51	1,748	

Nyanzaga Site Visit

Site Access

Nyanzaga is located around 2.5 hours drive from the nearest major city, Mwanza

The nearest major city to Nyanzaga is the port city on the shores of Lake Victoria, Mwanza. The journey to site from Mwanza is two to three hours, broad range here due to a ferry crossing at the half-way point. Bitumen road from Mwanza to the ferry, with dirt road through rural farmland and villages for around 45 km from the ferry to site. The construction of a bridge is currently underway which will make this trip faster and more reliable. Expected completion late 2023/early 2024.

Figure 1: Bridge construction in progress



Source: Argonaut

4WD access is available all year round via the main route, high rain periods may impact access to heavy equipment

Access tracks are in good condition, although may be less reliable during prolonged periods of bad weather. Assuming ferries are in operation this route would likely be accessible via four-wheel-drive all year round, risk would only be when transporting heavy equipment.

The nearest air strip is at Barrick's Bulyanhulu mine, approximately 40 km south-west of Nyanzaga as the crow flies. Near to here is also the likely location for OreCorp to hook into grid power.

The Tanzanian electricity grid is expected to be +70% hydro power by early next year, with the balance LNG generated

The construction of the Julius Nyerere Hydropower Station is ongoing in eastern Tanzania, once commissioned +70% of Tanzania's power will be sourced from hydro-electricity, the remainder LNG. The new facility is scheduled to commence commissioning by the end of this year.

Water will be accessed from Lake Victoria, approximately 7 km east of the project.

The Tanzanian government is investing in infrastructure both near Nyanzaga and elsewhere in the country

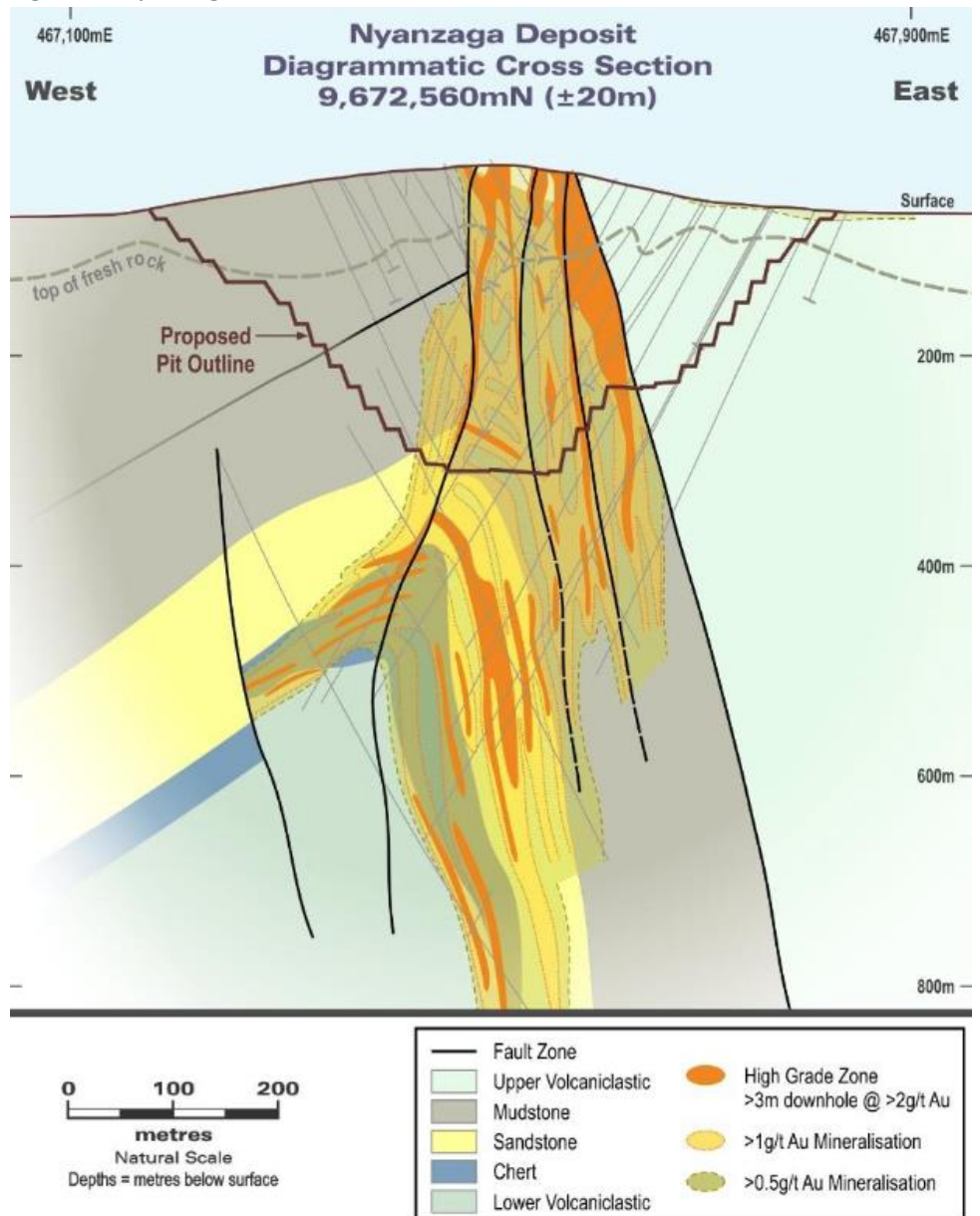
A comprehensive re-logging and interpretation process was completed by OreCorp in 2016

Overall regional infrastructure is good, and getting better. There is visible regional infrastructure investment in-country which will improve operating conditions for OreCorp.

Project Geology and Exploration Upside

The site visit afforded the opportunity to review the project geology and upside potential. In 2016, OreCorp completed a detailed re-logging and geological review of the project, information gained from this process informed the updated geological model used in the 2017 MRE update. On site we reviewed drill core from near-surface, stepping through to the deeper parts of the system.

Figure 2: Nyanzaga cross section



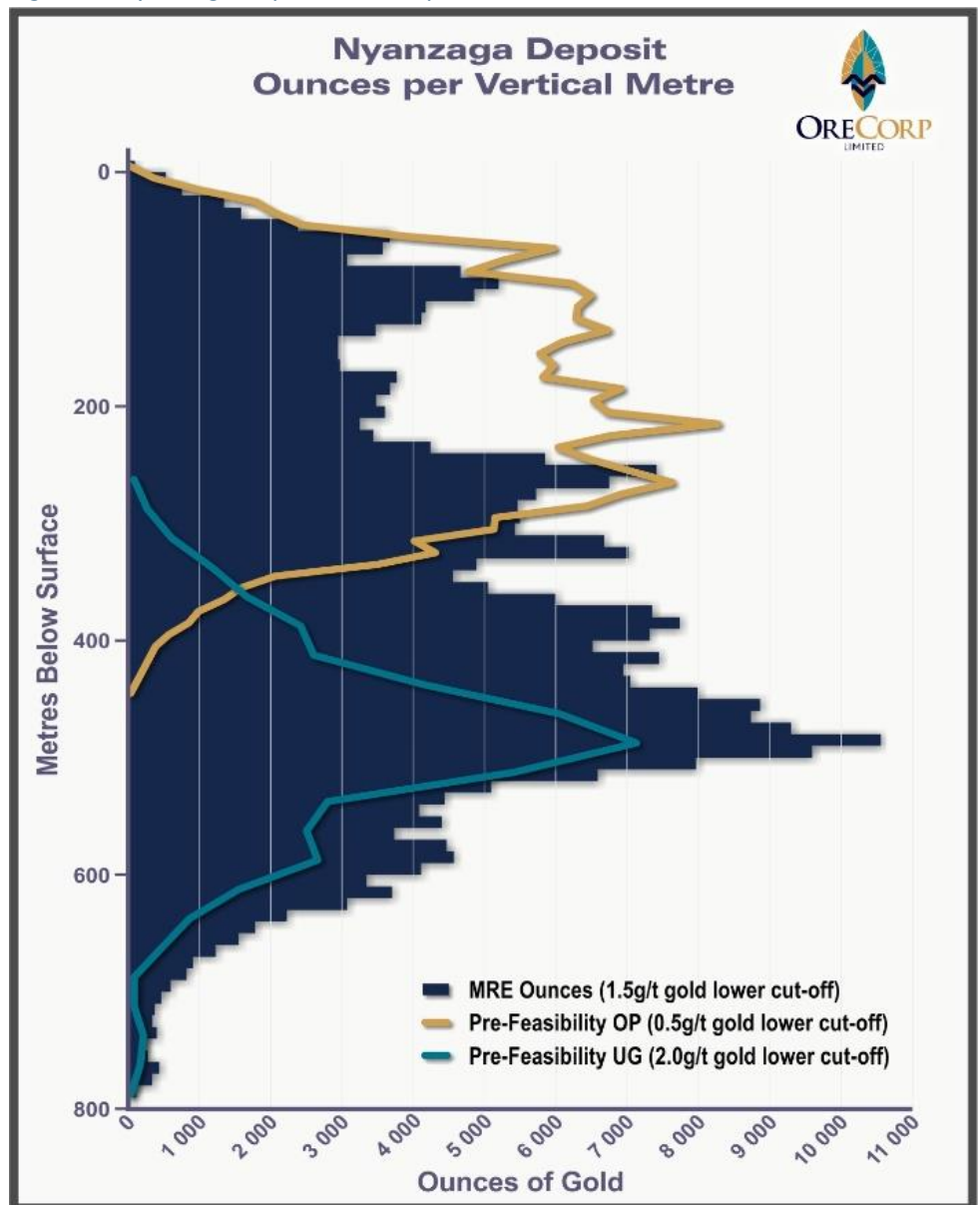
Source: OreCorp

Thrusts have caused stacking of mineralisation in places, which greatly improves ounces per vertical metre at certain RL's

Mineralisation is hosted within a series of sedimentary packages, bounded by an upper and lower volcanoclastic unit. These three units are folded into a north-northwest plunging anticline, with mineralisation also following this structural trend.

A series of thrusts offset the host lithologies and mineralised zones, in places this has caused stacking of mineralised lodes which greatly improves ounces per vertical metre at certain RL's. Accessing these parts of the deposit earlier would require an earlier capital investment, but would likely result in higher cashflow earlier.

Figure 3: Nyanzaga deposit ounces per vertical metre



Source: OreCorp

Drill core observed on-site reconciled closely with OreCorp's geological interpretation. Grade consistency internal to mineralised zones was a key feature

Stepping through the presented drill core, consistency with the Company interpretation was clear. Also of note was grade consistency internal to the ore zones. Mineralisation in each intercept was generally consistent throughout the intersection, and not reliant on isolated high-grade spikes to carry the interval. Outside of the reported mineralised zone, grades dropped off gradually not immediately. This gradual grade drop-off provides a buffer at the margin of designed stopes, giving the company the ability to take a bit more ore if gold prices are good and also slightly more margin for error in the case of overbreak. This is important within the sedimentary units as the ore is not overly visual, so margin for error will be helpful, especially in the open pit.

This is not the case on the sediment/volcaniclastic footwall/hangingwall contacts. Here, the contact is visual and mineralisation does not extend into the volcaniclastic units. Within the open pit this will be an easy contact to spot and allocate ore/waste. Within the underground environment, this will be a simple contact to follow.

Figure 4: Typical ore-zone/volcaniclastic contact, ore to the left, waste to the right



Source: Argonaut

Core appeared competent to the deepest depths presented, with no diskings or major shear zones or fault gouges observed

Core was sighted to a depth of +900 m, no diskings were noted, no major shear zones were noted either. This indicates good ground conditions, an update to geotechnical studies will be incorporated into the DFS. In the 2017 PFS, OreCorp indicated further geotechnical drilling will be conducted to optimise pit wall angles, potentially improving strip ratios.

Nyanzaga is open at depth, follow up drilling will be completed more economically from underground drill platforms at a later date

Nyanzaga is open at depth, the deepest hole completed to date is ~1.35 km deep, with mineralisation intersected in that hole. It is not economic to continue testing at depth. Once development has commenced underground it will be more effective to continue testing the depth potential from underground drill platforms. We note that the OVM profile outlined in figure 3 is constrained at depth by drilling, not geology.

Upside potential remains at Kilimani and regionally. Recent drilling has identified potential high-grade shoots at depth at Kilimani. OreCorp has just begun to scratch the surface here in our view. Company geologists interpret mineralisation

Regionally, significant exploration upside remains, as historically the focus has been on the main Nyanzaga deposit

at Kilimani to be volcanoclastic hosted (up-sequence from the sedimentary host of Nyanzaga). This opens up search-space within the volcanoclastic units regionally. Regional drilling will continue in parallel with development at Nyanzaga.

Overall, we see modern exploration practices applied to a future large-scale gold producing asset at Nyanzaga. The main deposit is well understood, and significant upside remains.

Figure 5: Photo of Nyanzaga Hill from OreCorp core shed



Source: Argonaut

Risk of capital and operating expenditure increases remains

Argonaut Mining Scenario and Valuation

Risk of capital and operating expenditure increases remains, potentially offset by changes to the mine plan and an increase in gold price. We stick with our \$1.20 valuation, key assumptions and risks outlined in our [previous research](#).

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

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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.

The analyst recently attended a site visit to Nyanzaga in Tanzania, with in-country costs borne by OreCorp.

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