



SPEC BUY

Current Price \$0.43
Valuation \$1.00

Thursday, 28 July 2022

OreCorp (ORR)

Eyes on DFS

Analyst | Royce Haese

Quick Read

This quarter OreCorp will present its Nyanzaga DFS. Most attention will be on capex and opex lines. We also expect to see a refined schedule that may bring forward higher value underground ounces in the mine plan partially offsetting some of the inevitable cost hikes. In Tanzania, recent budget presentations have highlighted the importance the country places on its mining industry, and significant investment continues into large scale infrastructure projects, this gives us confidence in the investability of the region. We maintain our Spec Buy recommendation with a valuation of \$1.00 per share, prior \$1.20.

Eyes on DFS

DFS: The Nyanzaga DFS is expected this quarter. Cost escalations will 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 an 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 positioned to develop a new, profitable, gold project. We expect some adjustments to the mine plan compared to the PFS but we're holding steady on our modelled mining assumptions for now.

Tanzania: Newswire out of Tanzania has remained upbeat regarding commitment to infrastructure projects and in supporting foreign investment into its mining industry. The recent Tanzania budget presentations reiterated this view and included a commitment to reduce the gold royalty rate to 4%.

Mining Scenario and Valuation: Our mining scenario we use as a basis for ORR valuation remains unchanged, recent share price softness (on admittedly small volumes) has given cause to review our prior assumed equity raise of A\$150M at 60cps. We now assume the same raised at 38cps acknowledging that a positive outcome from the DFS could result in an improved share price that would lessen the equity dilution impact of any future raise. Factoring in the increased equity dilution reduces our Valuation to \$1.00, prior \$1.20.

Recommendation

Maintain Spec Buy.

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

* All figures in AUD unless stated otherwise

Shares on Issue (M): **397**
Market Cap (\$M): **171**
Net cash (\$M Mar 2022): **32**
Enterprise value (\$M): **139**

52 wk High/Low (ps): **\$0.85** **\$0.36**
12m av. daily vol. (Mshs): **0.17**

Key Metrics

	FY25e	FY26e	FY27e
P/E (x)	1.4	1.1	1.1
EV/EBITDA (x)	0.6	0.5	0.4

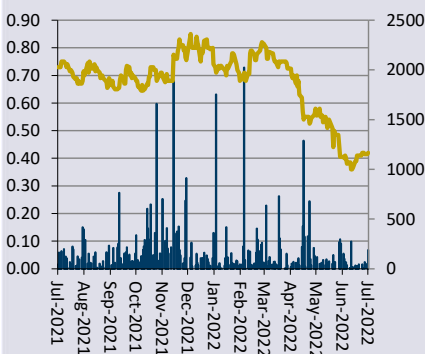
Financials:

	FY25e	FY26e	FY27e
Revenue (\$M)	323	426	529
EBIT (\$M)	183	223	283
NPAT (A\$M)	137	171	220
Net assets (\$M)	299	447	660
Op CF (\$M)	180	218	266

Per share data:

	FY25e	FY26e	FY27e
EPS (c)	25.0	31.2	40.2
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	33.0	39.9	48.7
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	\$0.43
Valuation	\$1.00

Sector	Metals & Mining
Issued Capital (Mshs)	397
Market Cap (M)	\$171
Wednesday, 27 July 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	-74
- Royalties	0	0	0	-28
- Corporate & administration	-4	-4	-9	-4
Total Costs	-4	-4	-9	-106
EBITDA	-4	-4	-9	217
- margin	0%	0%	0%	67%
- D&A	0	0	0	-34
EBIT	-4	-4	-9	183
+ Finance Income/Expense	0	-7	-14	-12
PBT	-4	-11	-23	171
- Tax expense	0	2	5	-34
- Impairments and other				
NPAT	-4	-9	-18	137

Cash flow (\$M)	2022E	2023E	2024E	2025E
+ Revenue	0	0	0	323
- Cash costs	-4	-4	-9	-106
- Forwards	0	0	0	0
-Tax payments	0	0	4	-24
+ Interest & other	0	-7	-14	-12
Operating activities	-4	-11	-19	180
- 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	0	150	0	0
Financing activities	0	500	-25	-50
Cash change	-10	483	-470	60

Balance sheet	2022E	2023E	2024E	2025E
Cash & bullion	31	514	43	103
Other Current Assets	0	0	0	0
Total current assets	31	514	43	103
Property, plant & equip.	4	4	424	456
Investments/other	0	0	0	0
Total non-curr. assets	4	4	424	456
Total assets	35	518	468	559
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	32	190	187	299

Shares	2022E	2023E	2024E	2025E
New shs issued/exerciseable	0.0	394.7	0.0	0
Average issue price	0.00	0.38	0.00	0.00
Ordinary shares - end	397	792	792	792
Diluted shares - end	397	792	792	792

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Financial ratios		2025E	2026E	2027E	2028E
GCFPS	AC	22.8	27.6	33.6	33.5
CFR	X	1.9	1.6	1.3	1.3
EPS	AC	17.3	21.5	27.8	27.3
PER	X	2.5	2.0	1.5	1.6
DPS	AC	0.0	0.0	0.0	0.0
Yield	%	0.0%	0.0%	0.0%	0.0%
Interest cover	x	15.0	21.8	34.3	44.2
ROCE	%	40%	51%	68%	98%
ROE	%	57%	48%	42%	33%
Gearing	%	75%	39%	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 (kcozs)	134	177	219	219
Cost per milled tonne (A\$/t)	24	34	38	39
Cash costs pre royalty (A\$/oz)	764	887	892	910
Sustaining capital (\$M)	3	7	7	7
All in sustaining costs (A\$/oz)	787	928	925	943
Growth capital (\$M)	47	17	17	17
CAIC (A\$/oz)	1595	1503	1334	1337

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	658	1.66
Tanzania Government 16% Free-Carry Interest	-108	-0.27
Exploration, Nyanzaga	110	0.28
Corporate overheads	-25	-0.06
Cash	32	0.08
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-271	-0.68
NAV	396	1.00

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
Wilson Asset 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 deposit	23.7	4.03	3,072	56
Measured & indicated	20.8	4.06	2,714	
Inferred	2.9	3.84	358	

Argonaut model July '22	Mt	g/t Au	Kozs	
TOTAL INVENTORY	45.0	1.95	2,819	61
Nyanzaga UG	9.0	3.70	1,071	
Nyanzaga OP	36.0	1.51	1,748	

Eyes on DFS

DFS

We anticipate higher capital and operating costs in the up-coming DFS for Nyanzaga in comparison to the 2017 PFS

Everything is expensive in 2022: Iceberg lettuce, Land Cruisers, steel, labourers, the list goes on. It’s inevitable that in the up-coming DFS, OreCorp will forecast higher capital and operating costs for its Nyanzaga gold project when compared to the 2017 PFS numbers. A benefit OreCorp has in its current state is that it retains optionality in how it chooses to develop the project. We imagine all options have been on the table as it has progressed the study. There’s too many levers to pull here for us to comprehensively asses the Nyanzaga development alternatives so we retain our previous modelled mining assumptions which were essentially a rehash of the 2017 PFS assumptions with some cost escalations factored in.

In the June 2022 Quarterly announcement OreCorp retained its preliminary project timeline.

Figure 1: Nyanzaga Preliminary Project Timeline

	2022				2023				2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
DFS	✓	✓												
RAP Implementation	✓	✓												
Project Financing														
Engineering & Procurement														
Construction														
Commissioning														
Production														
SML Exploration	✓	✓												

Source: ORR

Due to its potential to access grid power, OreCorp should be buffered slightly from the recent rise in diesel price

One area in which operations at Nyanzaga will have a relative advantage is in costs of electricity. Assuming the previous plan of accessing Tanzanian grid power is retained, OreCorp should have access to a relatively cheap and green electricity source when compared to peers.

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

A broad survey of Australian gold producers flagged the recent rise in diesel price to have added somewhere between \$60 - \$140/oz to costs. At the end of 2021 ~45% of Tanzania’s electricity was generated via hydro with another ~40% LNG. Tanzania is further investing in hydro power supply which will increase its generation capacity to +70% of the country’s requirements. It is still exposed to diesel prices to fuel its mining fleet.

We expect Kilimani to contribute high-margin ounces to the Nyanzaga mine plan

The DFS will also factor in mining of Kilimani, we expect this deposit to contribute little to the mine plan in terms of total ounces, but as a near-surface, oxide deposit the ounces it contributes should be high-margin. Exploration is currently underway to attempt to identify high-grade feeder structures which could extend the contribution of Kilimani to the mine plan.

Exploration upside remains, with drilling underway

Regionally, we think OreCorp has just begun to scratch the surface in terms of potential. Past drilling has focused heavily on Nyanzaga. Aircore drilling is currently underway testing numerous satellite targets.

Nyanzaga is open at depth. We expect this to be a long lived mining operation

Nyanzaga itself 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 mineralisation at Nyanzaga is constrained at depth by drilling, not geology.

In 2021 the mining sector contributed 7.2% of GDP, Tanzania aims to increase this contribution to 10% by 2025

Tanzania

In Tanzania, recent budget presentations have highlighted the importance the country places on its mining industry. In 2021 the mining sector contributed 7.2% of GDP, Tanzania aims to increase this contribution to 10% by 2025. Government messaging centres on the importance of separation of the Government governing, and the private sector doing business. Proposed adjustments to policy as part of the budget appears to echo the sentiment. Of note to OreCorp, Tanzania has proposed a reduction of national level gold royalty from the current 6% to 4%. We don't have final confirmation on whether this will apply to OreCorp yet, this will likely be confirmed post DFS.

Tanzania has proposed a reduction of national level gold royalty from the current 6% to 4%

Infrastructure investment in-country continues. The above-mentioned expansion to Tanzania's hydro-power generation capability is through a \$2.9B dam build. \$1.9B has been committed to upgrading national railway to standard gauge and replacement of diesel-powered trains with electric. +\$200M has also been spent on the construction of a 42 km road linking the north of Tanzania to the Kenyan port of Mombasa. Road and bridge upgrades were visible, both urban and rural, during our recent visit to Tanzania as part of the Nyanzaga site trip.

Foreign investment into Tanzania appears to be increasing

Foreign investment also appears to be increasing. Earlier this year BHP invested \$40M into Kabanga Nickel with the option to tip-in more. And the IMF recently approved a \$1.05B Extended Credit Facility to Tanzania to aid economic recovery and support structural reforms. The IMF sighted Tanzania's strong track record in reform implementation as part of its decision to approve the ECF.

Overall, the combination of support for foreign investment and continued consistent messaging around this goal gives us confidence in Tanzania as a relatively stable investment jurisdiction going forward.

Argonaut Mining Scenario and Valuation

Our mining scenario we use as a basis for ORR valuation remains unchanged. Key assumptions and risks are outlined in our [previous research](#). We had previously assumed the A\$150M equity component of pre-production capital to be raised at 60cps. Factoring in the current depressed share price we now assume the same raised at 38cps. This results in an increase in equity dilution.

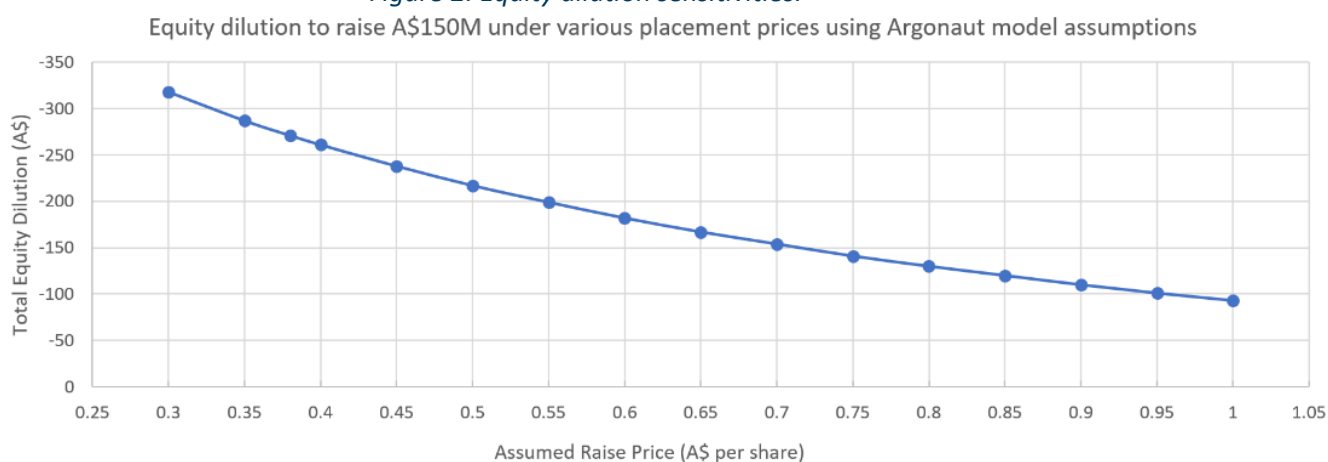
Table 1: OreCorp Valuation Summary.

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Option/equity dilution	-271	-0.68
NAV	396	1.00

Source: Argonaut

Raising at a higher share price would result in lower equity dilution borne by existing shareholders. A positively received DFS and/or strong exploration drill results may contribute to a rerate. Figure 2 outlines impact on equity dilution under multiple assumed raise prices with all else remaining equal in our modelling.

Figure 2: Equity dilution sensitivities.



Source: Argonaut

In the Tanzania budget presentations, a decrease in national gold royalty from 6% to 4% was flagged. If this royalty decrease were applied to gold produced at Nyanzaga our current assumed 7.3% royalty would reduce to 5.3%. Improving our project level NPV₈ from \$658M to \$700M. Or improving our modelled NAV by 5%.

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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.

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

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