



SPEC BUY

Current Price \$0.39
Valuation \$0.90

Tuesday, 29 November 2022

OreCorp (ORR)

Steady Progress

Analyst | Royce Haese

Quick Read

With FID scheduled for the first quarter of next year, OreCorp continues to move forwards. Indicative debt proposals have been tabled for funding of up to US\$400M, a potential royalty sale has been flagged as an option to reduce future equity dilution. Exploration has returned tantalising results without shooting the lights out. Board and Management is restructuring to execute a project build.

For our valuation purposes mining assumptions remain unchanged. Our long-term AUD:USD exchange rate drop results in an improved project level valuation, this is offset by a lower assumed equity raise price resulting in an unchanged valuation of \$0.90 per share.

Steady Progress

Funding: Last week OreCorp reported that it had received non-binding, indicative debt funding proposals in excess of US\$400M from a series of European, African and Tanzanian banks. No commercial terms were disclosed in the announcement. While we don't anticipate OreCorp leveraging the project to the full US\$400M tabled, optionality is always a good thing.

OreCorp also said that it had commenced discussions with potential credit funds and royalty/streaming groups. Tanzania has flagged that it may reduce the national gold royalty rate from 6% to 4% if in-country refineries are used. On our project level valuation, a 2% royalty reduction would add ~A\$45M to the project level NPV₈ after factoring in the government free carry.

Exploration: Last week OreCorp also reported exploration results across a number of targets, discussed further herein.

Mining Scenario and Valuation: Our mining scenario used as a basis for valuation is unchanged. We maintain our assumed 70:30 debt to equity split. We don't assume a reduced royalty or royalty sale at this time. On the back of continued share price softness we lower our assumed equity raise price, resulting in increased dilution to current holders, this is offset by utilising our updated long-term AUD:USD exchange rate assumption, now 0.70, prior 0.725.

Recommendation

Maintain Spec Buy with an unchanged valuation of \$0.90 per share.

Price: \$0.39
Valuation: \$0.90

Code: ORR
Sector: Materials

* All figures in AUD unless stated otherwise

Shares on Issue (M): 397
Market Cap (\$M): 155
Net cash (\$M Sept 2022): 26
Enterprise value (\$M): 129

52 wk High/Low (ps): \$0.85 \$0.32
12m av. daily vol. (Mshs): 0.29

Key Metrics

	CY25e	CY26e	CY27e
P/E (x)	2.1	1.6	1.6
EV/EBITDA (x)	0.9	0.4	0.3

Financials:

	CY25e	CY26e	CY27e
Revenue (\$M)	242	525	608
EBIT (\$M)	89	272	330
NPAT (A\$M)	31	179	232

Net assets (\$M)	235	405	631
Op CF (\$M)	105	245	302

Per share data:

EPS (c)	3.1	18.3	23.7
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	10.7	25.0	30.8

Prod (koz Au)	96.6	210.2	243.3
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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	\$0.39
Valuation	\$0.90

Sector	Metals & Mining
Issued Capital (Mshs)	397
Market Cap (M)	\$155
Tuesday, 29 November 2022	

Profit & loss (\$M) CY	2022E	2023E	2024E	2025E
Sales Revenue	0	0	0	242
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	0	-63
- Royalties	0	0	0	-21
- Corporate & administration	-4	-4	-11	-8
Total Costs	-4	-4	-11	-92
EBITDA	-4	-4	-11	149
- margin	0%	0%	0%	62%
- D&A	0	0	0	-61
EBIT	-4	-4	-11	89
+ Finance Income/Expense	0	-25	-50	-50
PBT	-4	-29	-61	38
- Tax expense	0	6	12	-8
- Impairments and other				
NPAT	-4	-24	-49	31

Cash flow (\$M)	2022E	2023E	2024E	2025E
+ Revenue	0	0	0	242
- Cash costs	-4	-4	-11	-92
- Forwards	0	0	0	0
-Tax payments	0	0	11	6
+ Interest & other	0	-25	-50	-50
Operating activities	-4	-29	-50	105
- Property, plant, mine devel.	0	0	-649	-22
- Exploration	-6	-6	-6	-6
Investment activities	-6	-6	-655	-28
+ Borrowings	0	504	0	0
- Dividends	0	10	0	0
+ Equity	0	216	0	0
Financing activities	0	730	0	0
Cash change	-10	695	-706	77

Balance sheet	2022E	2023E	2024E	2025E
Cash & bullion	31	725	20	97
Other Current Assets	0	0	0	0
Total current assets	31	725	20	97
Property, plant & equip.	4	4	654	615
Investments/other	0	0	0	0
Total non-curr. assets	4	4	654	615
Total assets	35	730	673	712
Trade payables	1	1	2	26
Short term borrowings	0	0	0	80
Other	1	1	5	27
Total curr. liabilities	3	3	7	52
Long term borrowings	0	504	504	424
Other	0	0	0	0
Total non-curr. liabil.	0	504	504	424
Total liabilities	3	507	511	476
Net assets	33	223	163	235

Shares	2022E	2023E	2024E	2025E
New shs issued/exercisable	0.0	583.8	0.0	0
Average issue price	0.00	0.37	0.00	0.00
Ordinary shares - end	397	981	981	981
Diluted shares - end	397	981	981	981

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Financial ratios		2025E	2026E	2027E	2028E
GCFPS	AC	10.7	25.0	30.8	32.0
CFR	X	3.6	1.6	1.3	1.2
EPS	AC	3.1	18.3	23.7	25.1
PER	X	12.4	2.1	1.6	1.6
DPS	AC	0.0	0.0	0.0	0.0
Yield	%	0.0%	0.0%	0.0%	0.0%
Interest cover	x	1.8	5.7	8.4	10.8
ROCE	%	14%	47%	61%	96%
ROE	%	16%	55%	46%	37%
Gearing	%	180%	85%	42%	22%

Operations summary (100% Basis)	2025E	2026E	2027E	2028E
Nyanzaga project				
Ore processed (Mt)	2.0	4.0	4.0	4.0
Head grade (g/t)	1.71	1.86	2.15	2.23
Met. recovery	0.88	0.88	0.88	0.88
Gold prodn (koz)	97	210	243	252
Cost per milled tonne (US\$/t)	31	34	38	40
Cash costs pre royalty (US\$/oz)	871	871	841	848
Sustaining capital (\$M)	4	9	9	9
All in sustaining costs (US\$/oz)	911	915	879	884
Growth capital (\$M)	15	20	20	20
CAIC (US\$/oz)	971	1050	981	973

Price assumptions	2025E	2026E	2027E	2028E
AUDUSD	0.700	0.700	0.700	0.700
Gold	1750	1750	1750	1750

Valuation summary	A\$M	A\$/sh
Nyanzaga project 8% real after tax	706	1.78
Tanzania Government 16% Free-Carry Interest	-110	-0.28
Exploration, Nyanzaga	119	0.30
Corporate overheads	-36	-0.09
Cash	26	0.06
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-348	-0.88
NAV	357	0.90

Directors, management	
Matthew Yates	Executive Chairman
Henk Diederichs	CEO & Managing Director
Mike Klessens	Non-Executive Director
Alastair Morrison	Non-Executive Director
Michael Davis	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	50
Measured & indicated	20.8	4.06	2,714	
Inferred	2.9	3.84	358	

Reserves July '22	Mt	g/t Au	Kozs	
TOTAL INVENTORY	40.1	2.02	2,600	60
Nyanzaga UG	12.4	3.57	1,420	
Nyanzaga +Kilimani OP	27.7	1.35	1,180	

Steady Progress

Exploration Update

Last week OreCorp provided an exploration update outlining the results from recent exploration activities. Results from three programmes were discussed:

- Fresh rock drilling at Kilimani targeting high-grade feeder structures
- Regional reconnaissance aircore drilling
- Results from a deep, geotechnical hole, that was extended to target an interpreted mineralisation offset

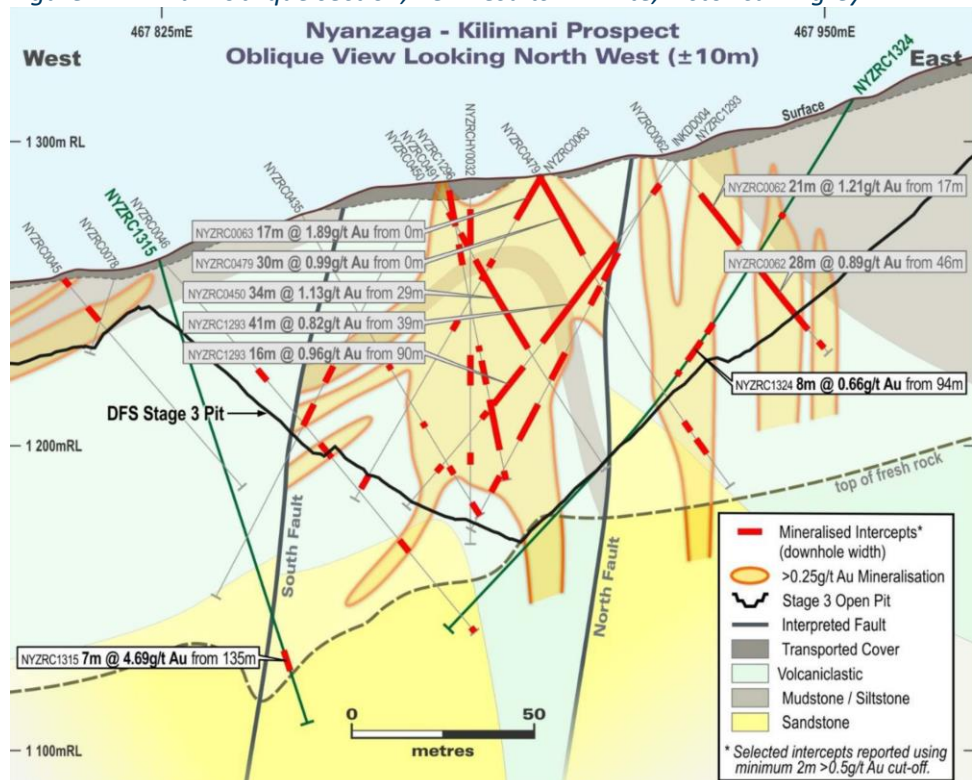
Kilimani holds an existing Resource estimate of 6.3Mt @ 1.1 g/t Au for 213koz

Kilimani is a satellite deposit located immediately northeast of Nyanzaga. It holds a current Mineral Resource estimate of 6.3Mt @ 1.1 g/t Au for 213koz. Around one third of this is included in the current Reserve estimate. The existing Resource sits almost entirely in oxide and transitional material, with limited drilling to depth.

Kilimani may represent an up-sequence extension of Nyanzaga

Geological interpretation previously flagged that Kilimani may represent an up-sequence extension of the Nyanzaga deposit that had been offset, this would imply that the Nyanzaga stratigraphy may sit at depth beneath Kilimani. If this were the case, then there may be high-grade feeder structures beneath the existing Resource estimate.

Figure 1: Kilimani oblique section, new results in white, historical in grey



Source: ORR

The recent drill programme targeted these interpreted feeder structures. Results include:

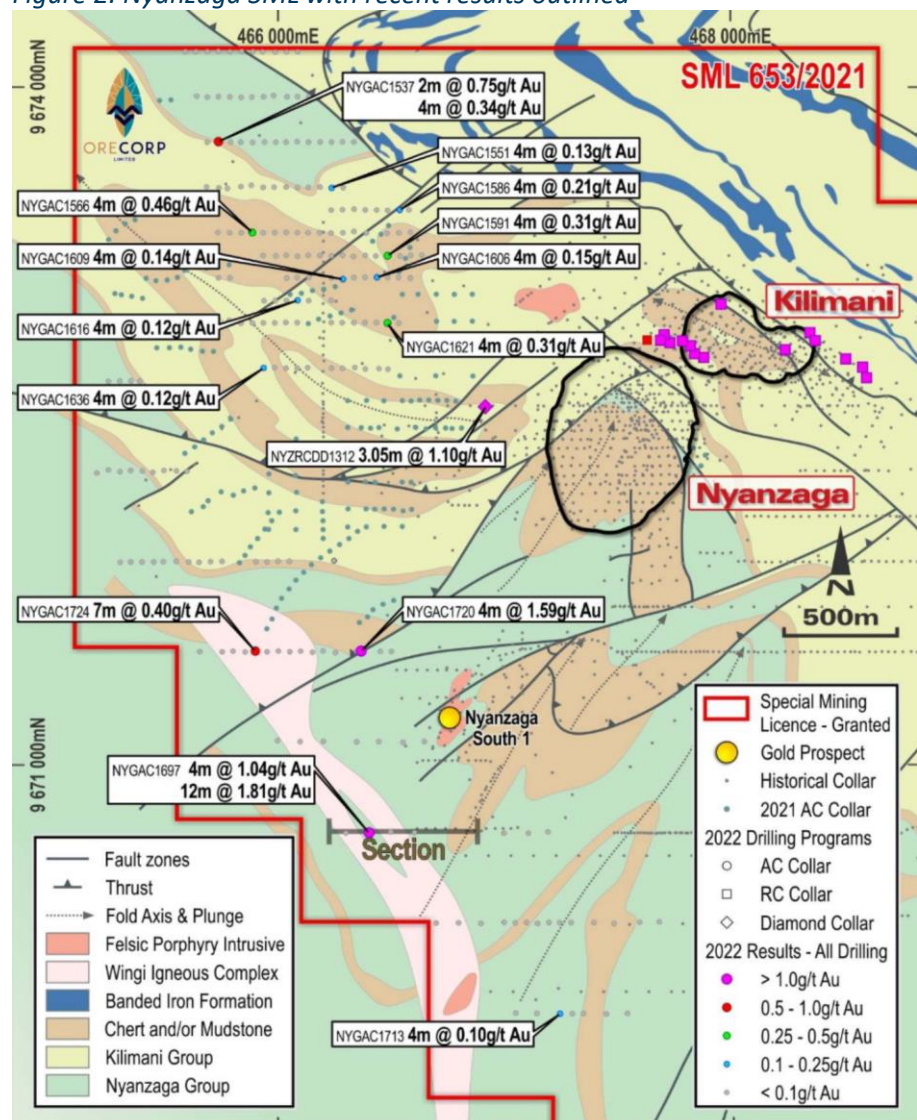
- 6 m @ 2.8 g/t Au from 124 m
- 7 m @ 4.7 g/t Au from 135 m
- 24 m @ 2.2 g/t Au from 100 m

Results beneath the current Kilimani Resource may represent high-grade feeder structures at depth

These results are from around the margins of the Resource Estimate at Kilimani, or well outside as outlined in figure 1. They show mineralisation remains open at depth towards the west. Grades appear to be increasing at depth, with mineralisation narrowing. These results essentially confirm the proof of concept, with further drilling required to determine geometry and ultimately mineralisation potential.

Regionally, reconnaissance aircore drilling was completed over broad spacings to gather baseline information.

Figure 2: Nyanzaga SML with recent results outlined



Reconnaissance aircore drilling has defined broad anomalism across the Nyanzaga SML that warrants follow up

Source: ORR

Results from regional aircore drilling included:

- 12 m @ 1.8 g/t Au from 8 m, including 4 m @ 4.1 g/t Au from 12 m
- 4 m @ 1.6 g/t Au from 40 m

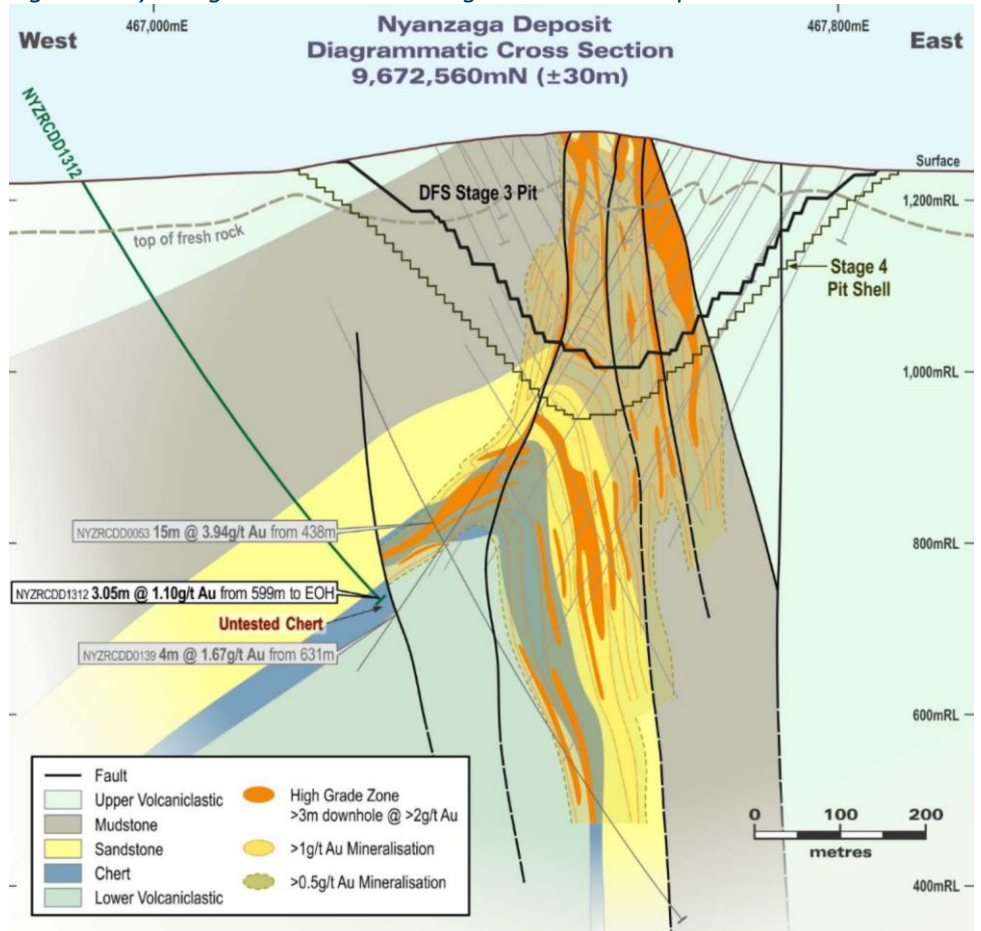
Regional drilling has provided geological context that will aid future programmes

Geologically, target felsic and intermediate intrusives were intersected which helps to build the geological picture away from Nyanzaga. OreCorp interprets these intrusives as a potential heat and metal source for gold mineralisation in the area. In general, ore grade intercepts in reconnaissance drilling are always a bonus. Further work required across the board here to determine whether these results will flesh out into meaningful mineralisation but positive signs nonetheless.

A geotechnical hole has intersected a mineralised modelled offset of the main mine chert

A geotechnical hole was also completed recently, collared west of Nyanzaga the hole drilled back in towards the deposit to assess the geotechnical characteristics of the area where the proposed decline would sit. This hole was extended to test an interpreted offset of the main mine chert. The chert and mineralisation (3 m @ 1.1 g/t Au from 599 m) were intercepted at the bottom of the hole, which was abandoned due to technical difficulties, OreCorp intends to re-enter the hole.

Figure 3: Nyanzaga cross section with geotechnical hole position outlined



Source: ORR

We expect future drilling from underground to identify upside to the current mine plan

Again, not an intercept that OreCorp would be looking to add into a mine plan on its own, but it could be the tip of the iceberg. Barring the extension hitting bonanza grade, it is unlikely that follow up drilling of this zone will be justified from surface, once underground there will be ample platforms to explore extensions more efficiently. It does however continue to demonstrate that Nyanzaga has room to grow beyond its current 3Mozs.

Argonaut Mining Scenario and Valuation

Our mining scenario is [unchanged from previous assumptions](#), outlined below.

We assume pre-production capex of US\$455M

In our modelling we assume total pre-production capital expenditure of US\$455M. This includes all pre-production mining, processing facility, and associated infrastructure.

For processing we assume a treatment cost of US\$11.7/t of ore, in-line with OreCorp's DFS assumption. We have used OreCorp's estimated gold recovery of 88% in our scenario.

Assumed grade and tonnage from underground and open-pit mining is in-line with physicals outlined in the DFS. For open pit mining we assume a strip ratio of 3.3:1, as we've accounted for the pre-strip in our pre-production capex.

We derive a LOM average AISC of US\$950/oz

Factoring in assumed operating costs we derive a LOM average AISC of US\$950/oz, in-line with OreCorp's estimate.

We have lowered our internal exchange rate estimate to \$0.70 AUD:USD

Argonaut has used internal gold price estimates which average US\$1750 across the life of the project, and an AUD to USD currency conversion rate of \$0.70, prior \$0.725.

Using an 8% real after-tax discount rate we value the Nyanzaga Project at A\$706M

Using an 8% real after-tax discount rate we value the Nyanzaga Project at A\$706M, or \$1.78 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\$110M, or \$0.28 per share. We have also assumed a 7.3% royalty payable to the Tanzanian government on all doré shipped, and a 30% corporate tax rate. Under a recent proposal by the Tanzanian government, OreCorp may be able to reduce this royalty rate by 2% if it delivers into Tanzanian refineries.

We assume a total pre-production funding requirement of A\$720M. We assume a 70:30 debt to equity split to fund pre-production capital requirements. Or A\$504M in debt and A\$216M in equity. This results in equity dilution in present value terms of A\$348M to our valuation.

We have also assigned a nominal exploration valuation to Nyanzaga equal to 20% of the project's post tax valuation (inclusive of government 16% free-carry interest), or A\$119M. Recent exploration success both near-mine and regionally hints towards future growth, we anticipate the underground to be drilled once platforms are established. We consider this to be a conservative estimate of the exploration upside at Nyanzaga.

As a sum of parts we value OreCorp at A\$357M, or \$0.90 per share

As a sum of parts Argonaut values OreCorp at A\$357M, or \$0.90 per share. This valuation includes Argonaut's mining scenario for the Nyanzaga project, a valuation of the Tanzanian Government's free-carry interest, a nominal exploration valuation for Nyanzaga, current cash and equivalents, corporate overheads and equity dilution.

Table 1: OreCorp Valuation Summary.

Valuation summary	A\$M	A\$/sh
Nyanzaga project 8% real after tax	706	1.78
Tanzania Government 16% Free-Carry Interest	-110	-0.28
Exploration, Nyanzaga	119	0.30
Corporate overheads	-36	-0.09
Cash	26	0.06
Debt	0	0.00
Hedging	0	0.00
Option/equity dilution	-348	-0.88
NAV	357	0.90

Source: Argonaut

We still see the ability to secure funding as the main risk to this project

Key risks to Valuation

Previously, we'd flagged local fiscal policy and in-country security as the main risk to the project, while this remains a risk, positive news out of country is increasing our confidence in ongoing stability. The main risk to the project now in our view is its ability to secure funding.

At the current share-price, raising equity would result in significant dilution to existing shareholders

At the current share price, on our numbers outlined above, if OreCorp were to raise 30% of our assumed pre-production funding requirement it would result in A\$348M in equity dilution to our valuation. We would not expect OreCorp to raise this quantum of equity at these prices. There is potential for the project to carry more debt, or sale of a royalty may also reduce debt/equity required.

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 0.70 AUD:USD across the life of the project.

We assume total pre-production capital expenditure of US\$455M. OreCorp's DFS was costed after a period of significant inflation. At this stage it is unclear whether this inflation has peaked and will begin to retreat, or whether cost escalations will continue.

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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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