The Sydney Contrarian Financial Analysis

Stock Valuation Report

Alacer Gold Corporation (ASX: AQG)

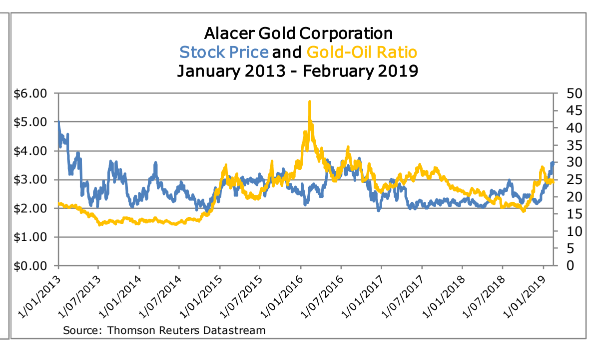
Date	15/02/2019
Classification	Mid-Tier Gold Miner
Current Price	$3.590
No. Issued Stocks (m)	293.8
Net Cash + Bullion ($ m)	-$328.48
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$1,054.89
Enterprise Value ($ m)	$1,383.36

Ranking	**Fair Value**
Price Range	$2.10-4.36
Annual Production Guidance (oz p.a.)	320 000-380 000
All-In Sustaining Cost Guidance ($/oz)	$945-1 015
EV/AISC-Adjusted Production Guidance ($/oz)	$3,832.00
EV/AISC-Adjusted Production Range ($/oz)	$3 000-4 000
Resources (oz)	8,527,000
Reserves (oz)	5,614,917

Summary

Alacer Gold is an ASX and TSX-listed gold mining company with a major operation in Turkey, the Copler mine. The Copler mine has been producing around 160 000-220 000oz p.a. attributable to Alacer for the last seven years. However, this is about to change as the Copler sulfide processing plant has commenced production of the large sulfide stockpiles that the company has accumulated. The cost of the project is reported to be US$664m, over $800m. Post-commission, the Copler sulfide plant produced around 22 000oz in December and is expected to produce 230 000-270 000oz for 2019. Including their Copler oxide operations, the 2019 production guidance is 320 000-380 000oz at AISC $945-$1 000/oz (converted from USD to AUD). The company is now entering into a new stage, entering into the ranks of a mid-tier producing company with low cost production. Based on the management production guidance, the valuation would justify it being upgraded compared with the past 5 years. At the current price of $3.59, this sits at the upper-middle range using our valuation metrics. The stock is deemed fairly valued although there may be upside potential should the company's production proceed smoothly and they reduce their debt load. Further re-rating may be possible conditional on their guidance being achieved.

The Copler mine has a large deposit of around 5.6Moz of reserves and 8.5Moz resources, with an expected 20+ years of production life based on their projections. This makes it a world class deposit by both the amount of minerals as well as expected mining life. The mine has been operating at below average AISC, which should generate generous cash flows for the company. However, investors should take note of the risk of their operations being located in Turkey, an increasingly authoritarian regime. In the last three years, this country has seen the Erdogan regime impose martial law and arbitrary arrests of dissidents as well as blacking out media. This risk should not be overshadowed by the positive operating performance of Alacer Gold.



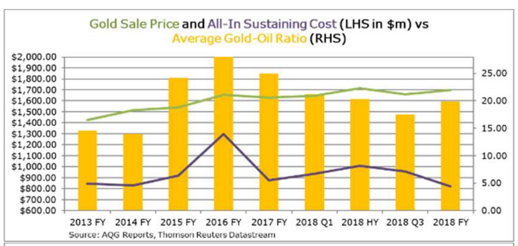
Prevailing Environment

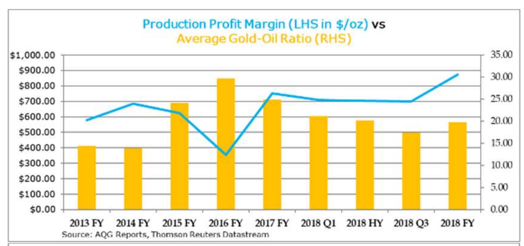
The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation of the slowdown in the property markets in Australia leading to expectations of the Australian economy weakening going forward. Most noteworthy is the gold price in AUD terms was at a record high in intraday trading on 3rd January 2019 at $1 855/oz as the Australian dollar fell temporarily below US70c. Following the Reserve Bank of Australia February meeting where they announced they are uncertain about whether to raise or lower the cash rate and the Royal Commission on Banking final report being released implying further pulling back on credit lending, the Australian dollar has dropped sharply and thus the gold price in AUD terms has rallied to approach the all-time record high.

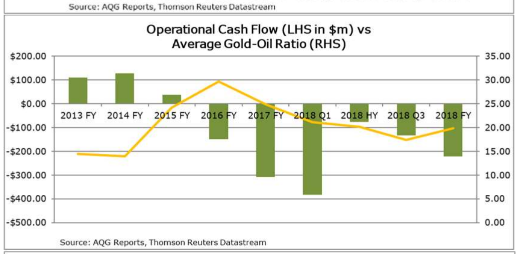
More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio usually results in higher profitability and cash flow generation for gold mining companies.

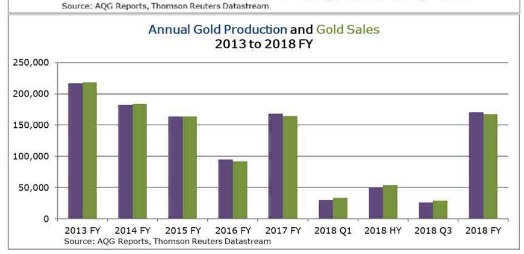
In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US$40/bbl to US$52-54/bbl, resulting in the gold-oil ratio pulling back to 24.

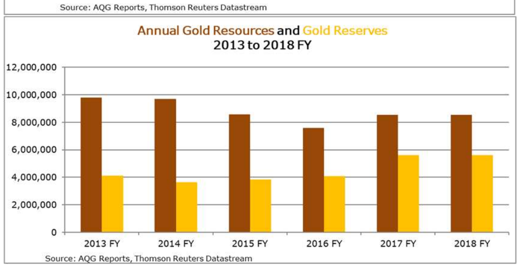
Operational and Financial Performance Charts











SWOT Analysis

Strengths	**Weaknesses**
• Game-changing transformation with the commissioning of the Copler sulfide processing plant, with long mining life expected to exceed 20 years. • Low-cost operations with significant cash generating capability.	• Concentration of operations in Turkey, an authoritarian regime. This can be risky as an operational or political shock can cripple the company in the matter of months. • Large net debt position.
Opportunities	**Threats**
• Post-commissioning of the Copler sulfide mine, they can devote funds into diversifying their operations and exposure in other countries and mines. • Low-cost production will allow for faster reduction of their current debt.	• Changes in the Turkish and the broader Middle Eastern environment can threaten operations, even mine ownership.

Peer Comparison