The Sydney Contrarian Financial Analysis

Stock Valuation Report
Alacer Gold Corporation (ASX: AQG)

Date	1/11/2019
Classification	Mid-Tier Gold Miner
Current Price	$7.150
No. Issued Stocks (m)	294.7
Net Cash + Bullion + 0.5 x GIC ($ m)	-$160.96
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$2,106.98
Enterprise Value ($ m)	$2,267.94
Resources (oz)	8,527,000
Reserves (oz)	5,614,917

Ranking	**Fair Value**
Price Range	$4.40-$7.88
Annual Production Guidance (oz p.a.)	306 000-344 000
All-In Sustaining Cost Guidance ($/oz)	$970-$1 050
EV/AISC-Adjusted Production Guidance ($/oz)	$7,092.00
EV/AISC-Adjusted Production Range ($/oz)	$5 000-$7 000
EV/Resources ($/oz)	$265.97
EV/Reserves ($/oz)	$403.91

Summary

Alacer Gold Corporation is now on a steady path of growth after reaching commercial production with the Copler sulfide processing plant. The company has further upgraded their 2019 production guidance of the Copler mine upwards to 380 000-430 000oz (of which 80% is attributable to Alacer Gold, equating to 306 000-344 000oz), at an AISC of US$675-$725/oz or A$970-$1 050/oz. The company has generated strong operating cashflows over the quarter totalling around US$100.7m (A$147m), and a net increase in cash over the quarter totalling US$66.1m (A$96.5m). Alacer's cash balance is now A$214.8m, bullion worth A$11.9m and debt worth $429.6m, implying a net debt of A$202.9m. Compared to the half-year net debt of A$317.6m, the company reduced the net debt by around A$115m in a quarter.

For the quarter, the Copler sulfide plant produced 67 838oz (54 270oz attributable to Alacer) at AISC A$920/oz and the Copler oxide plant produced 33 436oz (26 749oz) at AISC A$1 015/oz. Production for the oxide plant has declined over the quarter (June quarter 34 250oz at AISC A$869/oz) while the production for the sulfide plant has increased over the quarter (June quarter 45 349oz at AISC A$820/oz). Oxide ore mining has seen a sharp decline in the grade from 1.76g/t to 1.36g/t, but significantly higher than the grades from 2018 when it was below 1g/t. Processing capacity at the oxide plant is at similar levels as the previous quarter but the ore grade fell from 1.52g/t to 1.43g/t. The company has also been mining oxide ore from the Cakmaktepe mine, concluding Phase 1 with 1.6Mt extracted from this deposit. For the sulfide ore mining, this has ramped up again this quarter, with over 200kt mined this quarter. The processing capacity has similarly increased to almost 460kt this quarter as initial issues encountered while the plant was being commissioned appears to be resolved. A major shutdown of autoclave 2 is scheduled in early 2020 instead of during this year. The sulfide ore stockpile is currently 7.3Mt at an average grade of 2.91g/t for 686 000oz of gold. The processing ore grade for the quarter is 4.99g/t compared to 2.85g/t of mined ore.

The Copler mine has now advanced to the next stage of operations with management upgrading the Copler oxide production for the year to 150 000-160 000oz, up from 125 000-145 000oz in the previous quarter. The Copler sulfide production remains at 230 000-270 000oz for the year. Management has indicated that they will continue to ramp up operations next year. Presently, the company is targeting completion of the Phase 1 heap leach pad expansion that will cost US$12m (A$17.5m) and will allow for 6Mt p.a. capacity for the Copler oxide plant.

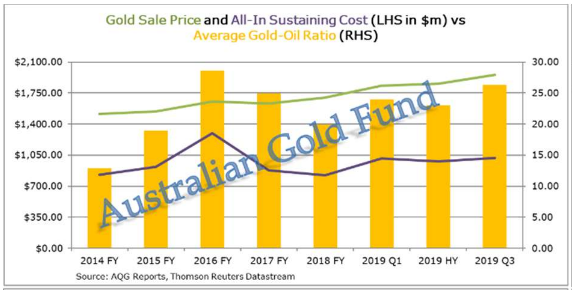
From a financial performance perspective, Alacer Gold Corporation experienced an excellent quarter with substantial increase in their cash and bullion balance increased by A$115m. The company reduced its debt by US$17m (A$24.8m) over the quarter. With the effect of the weakening Australian dollar, net debt is now A$202.9m, down from A$317.6m in the half-year. The company sold 97 441oz of gold at A$2 155/oz, or 77 953oz attributable to Alacer Gold Corporation. The price fetched in this quarter is quite impressive and is expected to continue given the central banks have reversed course and reduced interest rates since the middle of the year.

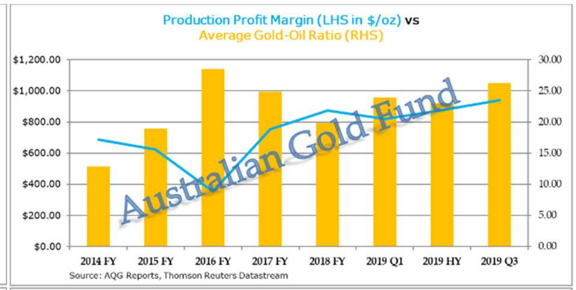
Taking into account the strong operational performance and impressive cashflow generating capabilities for Alacer Gold Corporation in the context of a more accommodative environment for gold mining companies, we believe that the company should be re-rated at a similar level as Regis Resources and Saracen Mineral Holdings. The current stock price of $7.15 sits above the median range in our analysis, but does not yet render them to be overvalued. Further catalysts for a review in its valuation would be changes in the gold price, further milestones achieved as well as any potential changes in the political stability in Turkey.

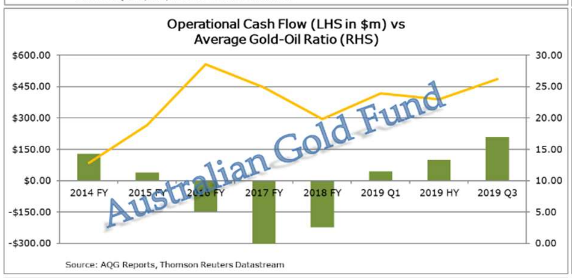
Prevailing Environment
The gold price has remained above US$1 400/oz or A$2 000/oz since end of May 2019 when the central banks around the world abandoned their strategy to normalise their monetary policy but resumed reducing rates in light of further signs of economic weakness. The chronic effects of the financial system being dependent (even addicted) to liquidity and stimulus have definitely shown itself to be all but reversible. Developed nations are seeing their economies register low to zero and even negative GDP growth, with recession becoming increasingly a reality in the future. While certain government and economic experts inform via mainstream media that such conditions are a result of the US-China trade wars, this seems to fly in the face of the stock market movements becoming increasingly disconnected with developments in negotiations. At the same time, the US Federal Reserve has cut the Federal Funds Rate three times since end of July from 2.25-2.5% to 1.5-1.75%. Thus, the Federal Reserve has cut rates in each of the three meetings they have held and it is expected that they will continue to cut rates in the future. Furthermore, the US Federal Reserve has announced further currency creation to purchase non-performing loans but deny calling it "quantitative easing" even though everything about what they are doing points to it.

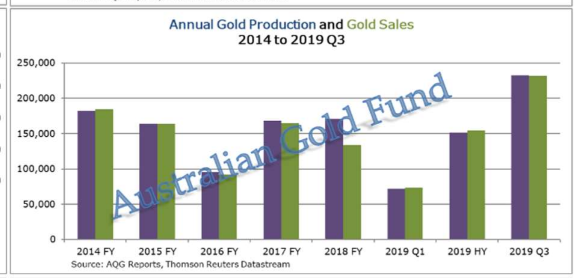
In Australia, the Reserve Bank has cut interest rates three times since June 2019 with the latest cut in October bringing the 24-Hour Cash Rate to 0.75%. The Australian economy has continued to show signs of weakness after the Federal Election on the back of lower wage growth, property prices falling and also substantially subdued demand from Chinese investors. However, in the recent month, given the continual decline in borrowing costs arising from the RBA interest rate cuts, property prices have seen a small recovery. The Australian dollar has retreated to less than US70c and is expected to remain at that level, and even fall further should the Chinese economy further weaken as a result of their banking sector showing signs of implosion from bad debt. All these point to further strength in the gold price and potential weakness in the oil price, which has been trading below US$55/bbl.

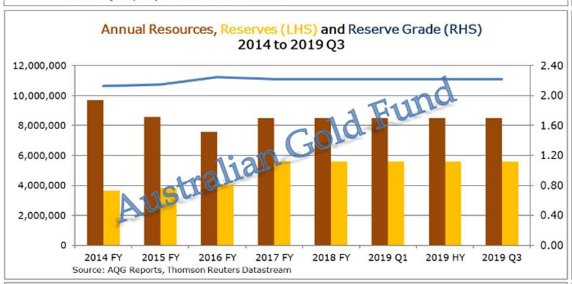
Operational and Financial Performance Charts

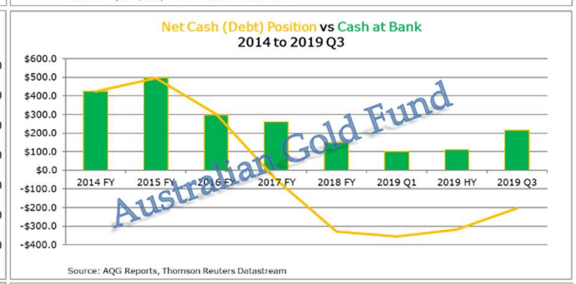


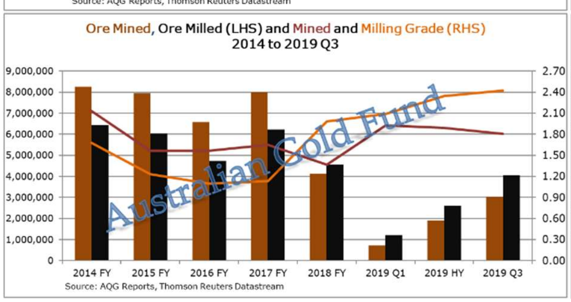


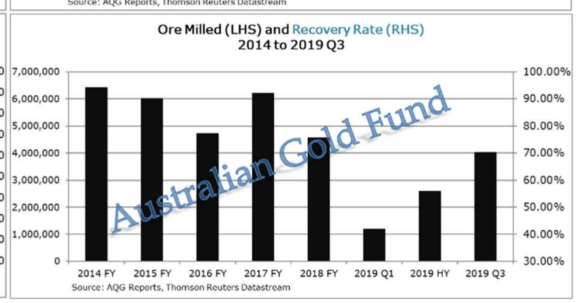








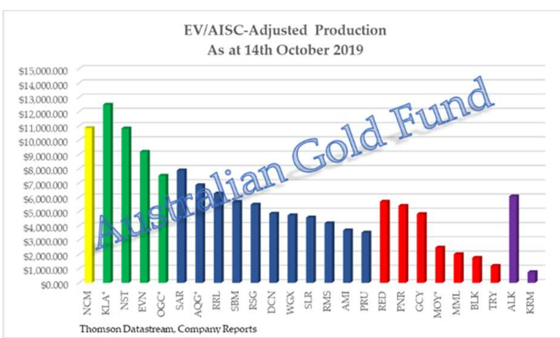


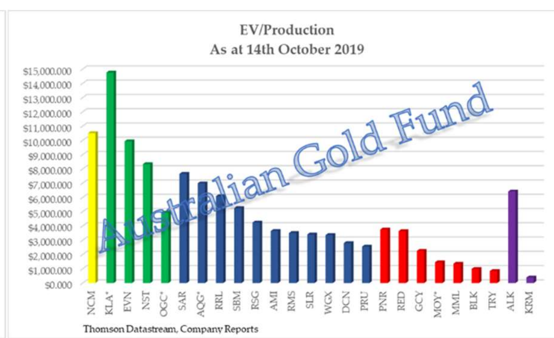


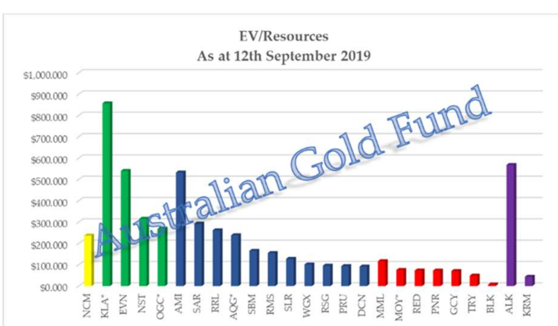
SWOT Analysis

Strengths	**Weaknesses**
• Momentum achieved in the Copler sulfide processing plant, paving the path to become a large gold mining company in the near future. • Concentrated shareholding meaning greater leverage in the stock price to deliver outperforming returns. • Copler mine offers low cost operations with at least 20 years of production life.	• Turkey is a politically volatile country and diplomatic relationship with Australia may be a risk factor should the region become further destabilised. • Concentration risk given that the company's production comes from one large operating mine.
Opportunities	**Threats**
• Further expansion and development of their processing facilities will lead to continual growth and cashflow generation. • Acquisition opportunities may emerge as their balance sheet becomes further deleveraged.	• Geopolitical conflict and internal unrest in the Middle East and also within Turkey can lead to suspension in mine operations or damage to their facilities.

Peer Comparison







Glossary

The gold mining companies are classified based on their production level on an annual basis. The classification used in this report is as follows – **A** (major producer – 1Moz p.a. or more), **B** (large producer – 0.5-1Moz p.a.), **C** (mid-tier producer – 150 000-500 000oz p.a.), **D** (junior producer – 50 000-150 000oz p.a.) and **E** (micro producer – less than 50 000oz p.a.).

The **All-in Sustaining Cost (AISC)** is a measure adopted by the World Gold Council as a standardised measure of production costs. This cost includes typically the **Cash Cost** associated with the direct production (extraction, transportation, processing and refining costs, staff salary and wages and relevant corporate costs) as well as **Sustaining Expenditure** that may include maintenance of mine equipment and infrastructure, insurance and administration costs over its production life. Companies may still have discretion in apportioning their expenses.

The **EV/AISC-Adjusted Annual Production** is a *comparative measure* used for valuing companies in this report and can be used to determine relative value. The enterprise value is the sum of the market value of equity (stock price multiplied by number of issued stocks) and net debt (total borrowings less cash and gold bullion, but excluding gold in circuit and ore stockpiles). The AISC-adjusted annual production is measure whereby the annual production of gold per oz is divided by the AISC adjusted by a factor of 1 000. The intuition behind this measure is to value the company by taking into account annual production but giving favourable treatment for lower AISC and penalising for higher AISC. The factor of 1 000 is arbitrarily chosen. As an illustration, if a company produces 250 000oz p.a. at AISC of $1 250, the AISC-adjusted production is 200 000.

The metric is used to determine the Price Range for the company. This range takes into account the baseline range depending on the company's classification, as determined by the annual gold production level. The range can be adjusted upwards or downwards based on other factors that are presented in the SWOT Analysis section.

Given the rise in gold price in the recent three months, we see reason to re-rate the gold mining companies' valuation metrics upwards to reflect their improving profitability as well as increased enthusiasm from investors. As a rough guide, the fair value ranges for different mining company classes are as follows:

Major and Large Companies *- $8 000-$11 000/oz*

Mid-Tier Companies *- $3 000-$6 000/oz*

Micro and Junior Companies *- $1 500-$2 500/oz*

The metric is by no means perfect and other factors should be considered including reserve and resource life, projected production volume and costs, management quality and geographic location. Further, it is of a retrospective nature, focusing on past performance and this may not be a good indicator for future performance.

The **Net Cash/Debt** is the net amount of cash and bullion the company holds after their borrowings and interest-bearing debt are paid. This represents the liquidity position of the company, although this measure does not consider whether the debt is current (due within the next twelve months) or not. A company in a significant net debt position is owing more than they currently have in cash and bullion, which may potentially put them in financial distress if the debt is due soon.

The **Net Cashflow from Operations Excluding Maintenance Capital Expenditure** measures to what extent the company can generate cashflows from its operations after paying for its operating costs as well as Cash Paid for Purchases of Property, Plant and Equipment and the Cash Paid for Development Expenditure in the Investing Cashflows section of the Statement of Cash Flows. It does not include Cash Paid for Exploration and Evaluation, which is assumed to be growth capital expenditure. This is by no means a stable and comparable measure as different companies may have discretionary interpretation of what constitutes as Operating Activities and Investing Activities or Development, Exploration and Evaluation expenditures.

The **Price Range** determines a reasonable range for which the company stock price should be trading at. This range is relatively wide as it considers the *margin of safety*. A company whose stock price is currently outside the fair value range is significantly over or undervalued and investors should look more deeply into the company's operations, financial performance and recent market announcements. This range should not be taken as the sole driver for investment decisions, but as a starting point for further research to identify the potential causes for the current stock price.

Disclaimer

Declaration of Interest

The Australian Gold Fund and its directors currently hold Alacer Gold Corporation stocks and may purchase prior to or subsequent to the report being published on their website. We do not receive any income or benefits from the company as a result of our report.