

## The Sydney Contrarian Financial Analysis Stock Valuation Report Blackham Resources Limited (ASX: BLK)

Date	17/12/2018
Classification	Junior Gold Miner
Current Price	\$0.041
No. Issued Stocks (m)	1,340.9
Net Cash + Bullion (\$ m)	-\$11.25
Last Dividend Payment (\$ p.a.)	\$0.00
Market Capitalisation (\$ m)	\$54.98
Enterprise Value (\$ m)	\$66.23

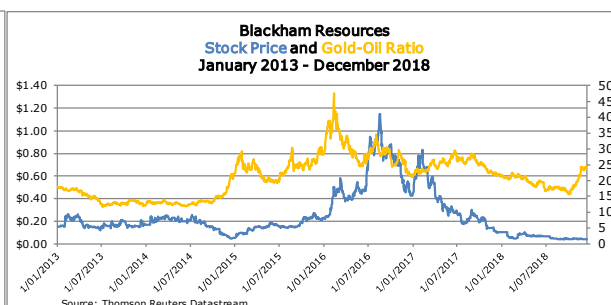
Ranking	Fair Value
Price Range	\$0.023-\$0.087
Annual Production Guidance (oz p.a.)	77 000-89 000
All-In Sustaining Cost Guidance (\$/oz)	\$1 250-\$1 450
EV/AISC-Adjusted Production Guidance (\$/oz)	\$1,077.00
EV/AISC-Adjusted Production Range (\$/oz)	\$800-\$1 800
Resources (oz)	6,715,000
Reserves (oz)	1,530,000

### Summary

Blackham Resources is an emerging junior mining company with a substantial resources base of 6.7Moz at their Matilda-Wiluna gold mine, acquired in 2014 for a small payment when Apex Resources went into receivership. While this acquisition appeared to be a good deal at the time and management had high hopes of delivering low cost gold from this mine, the last 12 months have proven difficult as their funding plans with Pacific Road fell through at the end of December 2017. The disappointment resulted in the stock price dropping sharply and a highly dilutive funding package with Orion, MACA and Pybar was executed instead. Currently, the company has a modest cash and bullion balance of \$8.7m and debt of \$20m as at September 2018. On 25<sup>th</sup> September, they announced that they have entered into a \$23m convertible debt package with Lind Partners, with \$7.5m cash drawn down immediately to replenish their cash balance. Further drawdown is conditional upon the company meeting a \$80m market capitalisation condition and approval from shareholders and Lind Partners.

Production over the past financial year was just over 70koz and was plagued by high All-In Sustaining Cost, being as high as \$2 239/oz and \$2 063/oz for the 2018 Q1 and HY, respectively. However, the AISC has since dropped to \$1 500-1 600/oz range and management expects the AISC to be in the range of \$1 250-1 450/oz for 2019.

Blackham Resources is currently a highly speculative company as it has merits of a high resources and reserves base, improving production in the recent six months and substantial future growth potential. However, poor decision making regarding how funding for the development of the Matilda-Wiluna mine to commercial production by focusing too much on debt rather than equity capital and operational delays have driven its stock price to near record low levels. The equity base is now very diluted and there is still at least 534m options that are exercisable at \$0.08 by 31<sup>st</sup> January 2019 that may keep its stock price at depressed levels. Fortunately, the potential tailwinds for the company is a higher gold to oil ratio that may allow them to produce lower cost gold and pay off their debt, reducing the need for further equity dilution.

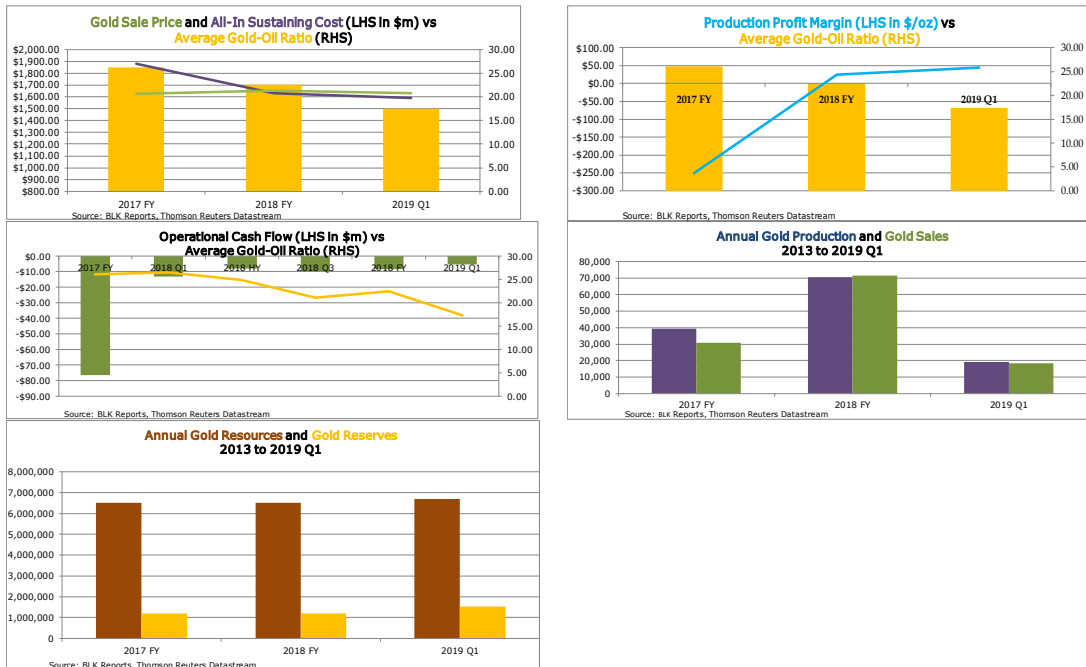


### Prevailing Environment

2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US\$1 350 in January/February to US\$1 180 in August/September. At the same time, crude oil price increased from US\$60 to US\$75 per barrel and only began to drop in early October to US\$52 as at December. As a result, many gold mining companies faced narrower profit margins and cash flow generation. However, for companies with Australian operations, a weakening Australian dollar slightly offset this pressure through hedging gold sales.

As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 24 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

### Operational and Financial Performance Charts



## SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>• Substantial reserves and resources in the Matilda-Wiluna mine to support future mining.</li><li>• Improvement in efficiency of production over the last six months, despite low production volume.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>• Management blunders in the funding of the mine prior to commercial production resulted in substantial dilution of equity and sharp decline in stock price.</li><li>• Cash reserves are thin and reliance on debt funding on the fly reflect management may be too optimistic and wishful in their decision making.</li></ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>• As the Matilda-Wiluna mine gains momentum, economies of scale may deliver better results.</li><li>• Development of both underground pits and open-cut may lead to expanded production volume, leading to re-rating of the company.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>• The Matilda-Wiluna mine claimed the scalp of Apex Minerals, the previous owner.</li><li>• Further delays in operations may lead to further funding headache as their funding package requires them to satisfy market capitalisation minimum for further drawdown.</li><li>•</li></ul>

## Peer Comparison

