The Sydney Contrarian Financial Analysis

Stock Valuation Report

Millennium Minerals Limited (ASX: MOY)

Date	19/03/2019
Classification	Junior Gold Miner
Current Price	$0.170
No. Issued Stocks (m)	794.4
After Rights Issue (m)	888.1
Net Cash + Bullion ($ m)	$14.92
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$150.98
Enterprise Value ($ m)	$136.06

Ranking	**Slightly Overvalued**
Price Range	$0.091-$0.207
Annual Production Guidance (oz p.a.)	90 000-100 000
All-In Sustaining Cost Guidance ($/oz)	$1 300-$1 375
EV/AISC-Adjusted Production Guidance ($/oz)	$1,916.00
EV/AISC-Adjusted Production Range ($/oz)	$1 000-$2 200
Resources (oz)	1,159,100
Reserves (oz)	375,300
* Based on assumption of full takeup of rights	

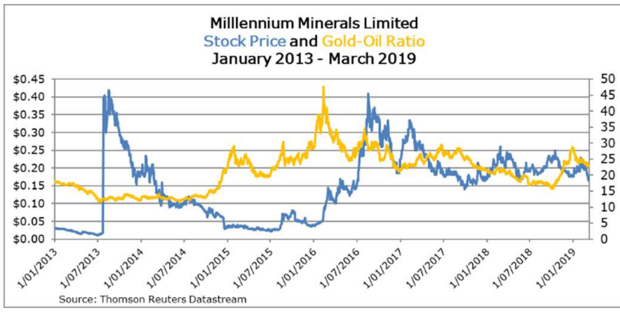
Summary

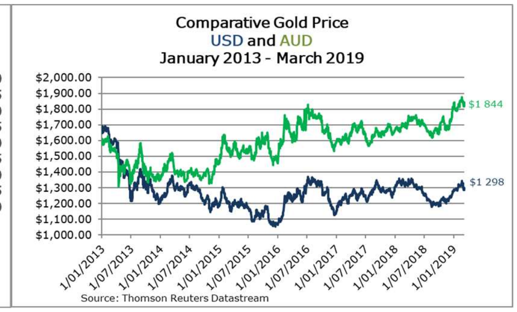
Millennium Minerals is a junior gold mining company with one operating mine, Nullagine, in the East Pilbara Region in Western Australia. The company has recently announced a $15m 1-for-8.8 rights issue at 16.5c to raise funds to repay their existing debt and also for funding the development of the Golden Gate underground mine and processing plant, the exploration of nearby gold deposits and pave way for the company to become a mid-tier producing company in the future.

The Nullagine mine has been producing since September 2012, with commercial production declared in January 2013, with production volume averaging 70 000-90 000oz p.a. during this period. The company has had a rough journey during this period, renegotiating their debt liabilities incurred in the construction of the Nullagine mine to production in mid-2013 and late-2015. The Nullagine mine is a relatively high cost mine with AISC averaging $1 300-$1 500/oz in the past two years, with the 2018 June quarter exceeding $2 000/oz as a result of low production volume. However, the company has now confirmed they have stabilised production to an annualised rate of 100 000oz and this will likely see lower AISC going forward. Management guidance for 2019 is 90 000-100 000oz production at AISC $1 300-$1 375 and 2020 production 110 000-120 000oz at AISC $1 200/oz.

The company has been able to replenish and increase their ore reserves since the 2015 financial year after taking into account depletion from mining. This is an encouraging sign, even if the rate is quite slow. The Nullagine mine currently reports 375 000oz reserves and 1.16Moz resources, with potential for further increases as a result of their exploration ventures. Even as production increases, the company appears to be showing signs that they are able to replenish their reserves and resources.

At present, the company's stock price relative to their production volume and costs suggests they are slightly overvalued. However, if we consider the 2020 management forecast, this places the company's valuation closer to the EV/AISC-Adjusted Production to $1 700-$1 750 range. Should the company continue to increase their production, they may be re-rated upwards.



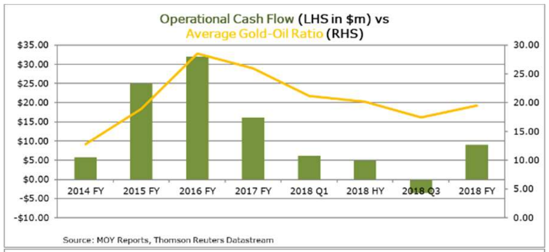


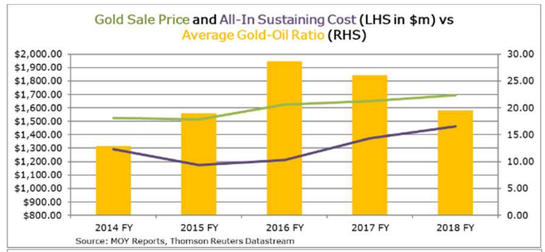
Prevailing Environment
The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation 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 20th February 2019 at $1 878/oz. Two major factors are at play in causing the Australian dollar to remain in the 70-72c range, thus resulting in the gold price in AUD terms to approach the all-time record high. They are the Reserve Bank of Australia announcing in the February meeting that 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.

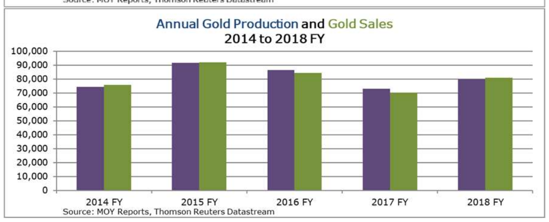
More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio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

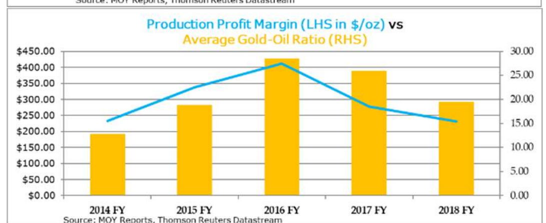
In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US$40/bbl to US$52-54/bbl, resulting in the gold-oil ratio pulling back to 24. The oil price has recently rallied above US$55/bbl.

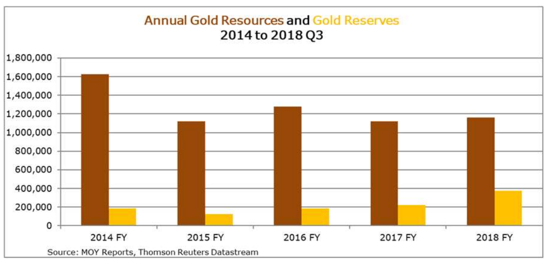
Operational and Financial Performance Charts

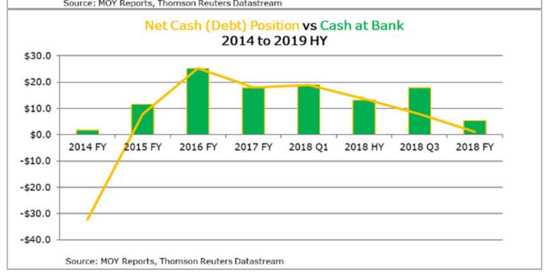








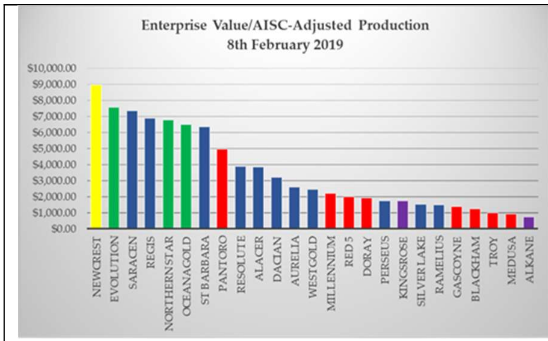


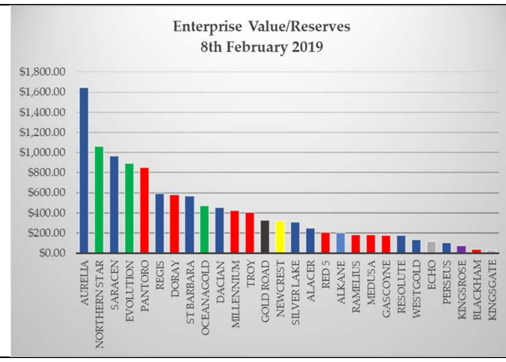


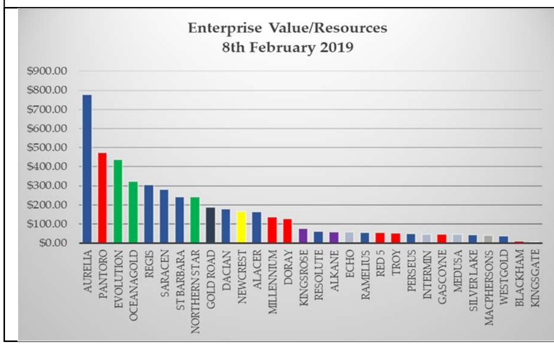
SWOT Analysis

Strengths	Weaknesses
• Steady growth in production and on track to increase 100koz p.a.	• Negative trend in company's net cash position over the past three years as a result of increasing production costs and spending on exploration and development.
Opportunities	**Threats**
• Expansion of Golden Gate Processing Plant to further increase the company's future production capacity, reserves and resources. • Gold price movements in recent times underpin current development plans.	• Further bottlenecking in development plans and production process will drain the cash balance, notwithstanding the current rights issue.

Peer Comparison







Glossary

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.

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 measure 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 **EV/AISC-Adjusted Production Range** 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.