The Sydney Contrarian Financial Analysis

Stock Valuation Report

Oceanagold Corporation Limited (ASX: OGC)

Date	19/12/2018
Classification	Large Gold Miner
Current Price	$4.400
No. Issued Stocks (m)	618.0
Net Cash + Bullion ($ m)	-$144.98
Last Dividend Payment ($ p.a.)	$0.03
Market Capitalisation ($ m)	$2,719.23
Enterprise Value ($ m)	$2,864.21

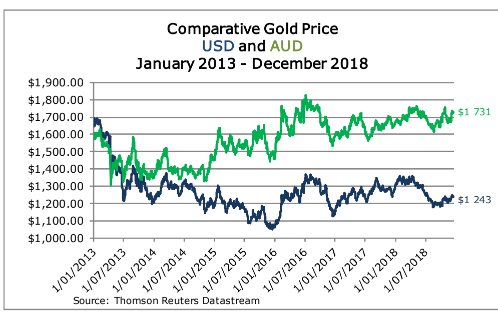
Ranking	**Undervalued**
Price Range	$3.73-$6.06
Annual Production Guidance (oz p.a.)	515 000-545 000
All-In Sustaining Cost Guidance ($/oz)	$980-$1 050
EV/AISC-Adjusted Production Guidance ($/oz)	$5,485.00
EV/AISC-Adjusted Production Range ($/oz)	$5 000-$7 000
Resources (oz)	8,680,000
Reserves (oz)	5,949,500

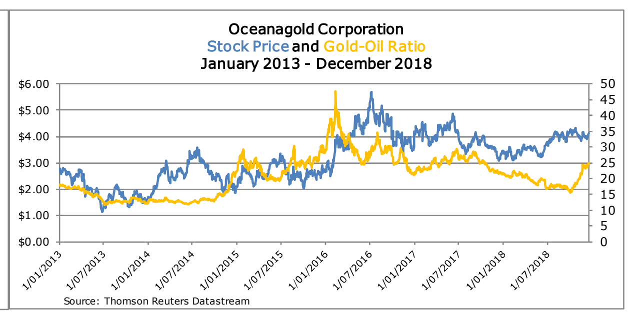
Summary

Oceanagold is one of the newest entrants on the ASX-listed large gold mining companies, joining the ranks of Newcrest Mining, Evolution Mining, Anglogold Ashanti and Northern Star Resources, with four operating mines across New Zealand (Macraes-Reefton and Waihi), Philippines (Didipio) and the United States (Haile) delivering over 500koz p.a. at All-in Sustaining Costs of around $1 000/oz. The company has upgraded their 2018 guidance from 480-530koz p.a. at the start of the year to 515-545koz p.a. in the third quarter. This level is around 6% below the all-time record production in 2017. Nevertheless, Oceanagold is now firmly in the large gold miner category, having acquired the Haile mine in 2016 and bringing that mine into commercial production.

Until September this year, the company's stock price has been steadily declining even though the company's operational performance and balance sheet appear to be sound. During 2018, they have generated positive cash flows from operations net of maintenance capital expenditure, increased their production guidance, delivered gold at around AISC of $1 000/oz during a period where many miners witnessed sharp rises in production costs and reduced their debt from $300m to approximately $250m. They anticipate higher production in their Haile mine in the near future.

Currently, the company's stock price places it in the lower end of the reasonable valuation range for an emerging large gold mining company. Even if Oceanagold is treated as a mid-tier mining company, the current price would place it at the upper end of the valuation range.



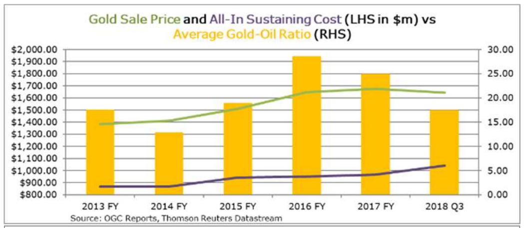


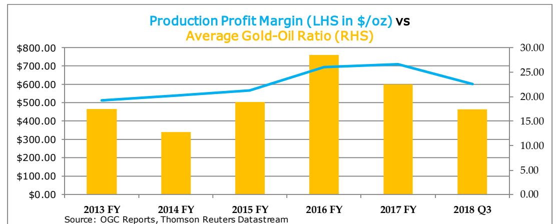
Prevailing Environment

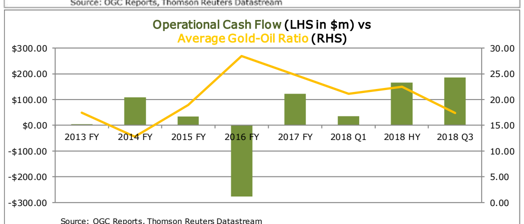
2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US$1 350 in January/February to US$1 180 in August/September. At the same time, crude oil price increased from US$60 to US$75 per barrel and only began to drop in early October to US$46 as at late December. 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.

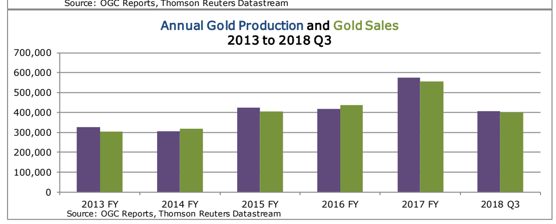
As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 26 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

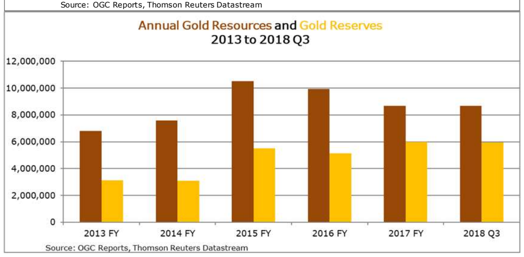
Operational and Financial Performance Charts











SWOT Analysis

Strengths • Robust operational performance with increasing production levels and low AISC. • Diversified exposure geographically allowing for better risk profile. Most of the mines are in stable regimes, except for Didipio in the Philippines.	**Weaknesses** • Substantial level of debt casting a shadow on the balance sheet as well as incurring significant interest expense and hindering further acquisitions.
Opportunities • Further expansion of their existing mines may deliver much needed increases in their resources and reserves so they can be comparable against peers. • Rising silver prices may deliver more by-product credits and reduce their AISC to below $900/oz (Didipio).	**Threats** • Unstable Filippino government policies may lead to delay or shutdown of Didipio mine. • New Zealand and the Philippines are both earthquake prone areas and almost 80% of their production comes from these two countries.

Peer Comparison