The Sydney Contrarian Financial Analysis

Stock Valuation Report

Perseus Mining Limited (ASX: PRU)

Date	4/04/2019
Classification	Mid-Tier Gold Miner
Current Price	$0.455
No. Issued Stocks (m)	1,035.0
Net Cash + Bullion ($ m)	$9.06
Last Dividend Payment ($ p.a.)	$0.000
Market Capitalisation ($ m)	$470.91
Enterprise Value ($ m)	$461.85

Ranking	**Very Undervalued**
Price Range	$0.48-$0.94
Annual Production Guidance (oz p.a.)	271 000-291 000
All-In Sustaining Cost Guidance ($/oz)	$1 295-$1 400
EV/AISC-Adjusted Production Guidance ($/oz)	$1,911.00
EV/AISC-Adjusted Production Range ($/oz)	$2 200-$4 000
Resources (oz)	7,280,000
Reserves (oz)	3,464,000

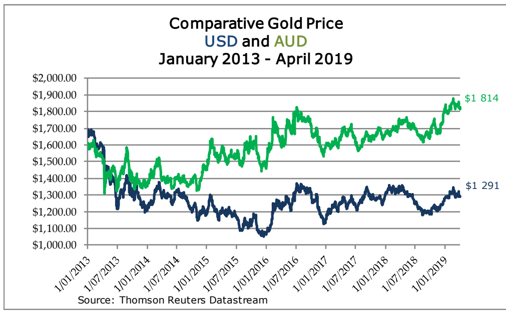
Summary

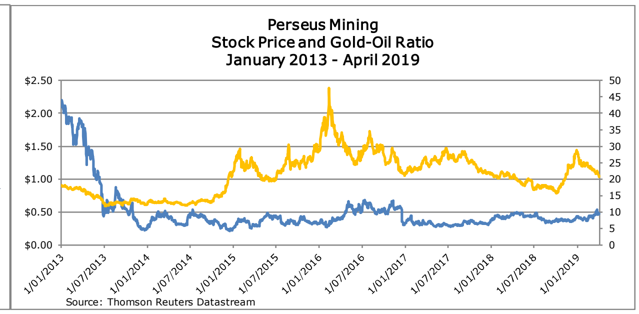
Perseus Mining released a brief March quarterly production update on 5th April 2019, producing over the March quarter 67 144oz of gold (Dec quarter: 68 078oz), with 44 680oz at Edikan and 22 464oz at Sissingue (Dec quarter: 50 141oz at Edikan and 17 937oz at Sissingue). This is in the lower end of the forecasted range of 65-75koz for the quarter. For the 2019 financial year, Perseus has produced 207 691oz, and they claim to be on track to meet their 2019 guidance of 271-291koz of gold. This implies their June quarter production has to exceed 63 500oz, which would be even lower than their current quarter. To exceed their guidance, they will have to produce over 83 000oz of gold, which they have previously managed to achieve for the June 2018 quarter.

Since declaring commercial production at Sissingue in the March 2018 quarter, the company has entered into a new phase as their annual production is securely above 250koz p.a. Furthermore, the company has become steadier in generating positive cash flows and reducing their existing debt levels. Operating costs are yet to see a substantial reduction, remaining in the A$1 400-1 500/oz, as the Edikan mine experience equipment failure leading to lower throughput in the December 2018 quarter. Furthermore, the Edikan mine has been subject to poor gold recovery rates ranging from 75-80%, which offset their relatively good strip ratio levels. The Sissingue mine, on a positive note, has demonstrated better gold recovery rates and have been producing gold at lower cost. However, this mine has reserves below 400koz and is expected to have a mine life of around 6 years, notwithstanding further exploration being conducted.

The company currently has over A$92m of cash and bullion and A$68.8m in borrowings. Their financial position is in good hands after taking into account the substantial expenditures in bringing the Sissingue mine into operation. They are in late stages of obtaining approval for US$200m (A$280m) of financing for the development of their 1.5Moz reserve Yaoure mine. This mine is expected to have begun its construction phase in the March 2019 quarter, commencing production in around late 2020 and bringing the company's annual production to 500koz. Still, with the past track records of projected time to production, a realistic timeframe may be in 2021-2022.

The current stock price of $0.455 implies an enterprise value of $462m. Considering the current increased interest on the precious metals mining companies, the lower end of the fair valuation range has been upgraded by 10% to EV/AISC-Adjusted Production of $2 200-$4 000. This incorporates also the annual production target is above 250koz and approaching 300koz. Going forward, the company is expected to continue to generate further cash flows from operations and will be able to fund their Yaoure mine development with a modest equity capital raising. Based on all these factors, the company is still in the Very Undervalued category.





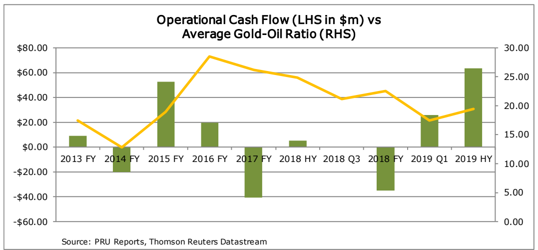
Prevailing Environment

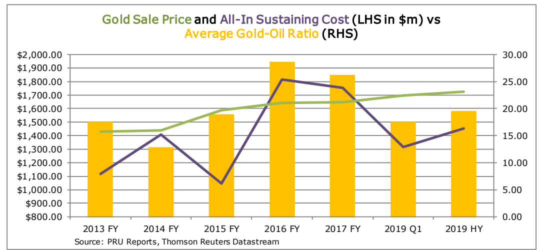
The gold price has performed strongly over 2019 as a result of a significant rise in the gold price that arose from both the US Federal Reserve raising the Federal Funds Rate by 0.25% to the 2.25-2.5% range, and thereafter in the March 2019 FOMC meeting declaring that they will not be raising the rates for the rest of this year. In conjunction with this, a number of events have also occurred that have not been linked to the resultant rise in general asset market prices, including precious metals. In mid-January 2019, the People's Bank of China has announced a record stimulus of US$1.1 trillion aimed at keeping the Chinese banks from running out of liquidity and to delay an imminent asset market pullback. The Reserve Bank of Australia has changed their monetary policy position from a moderately hawkish stance to a dovish stance since the Sydney and Melbourne property markets are showing increasing weakness. This has led to the decline of the Australian dollar relative to the US dollar. After touching an all-time historical record of around A$1 880/oz on 20th-21st February, the gold price has edged downwards in early March as a result of increasing optimism regarding the US economy and also the effects of additional liquidity flowing to the markets.

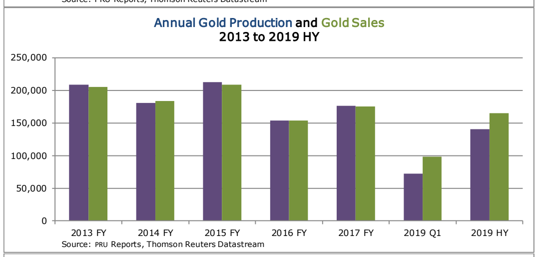
More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio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

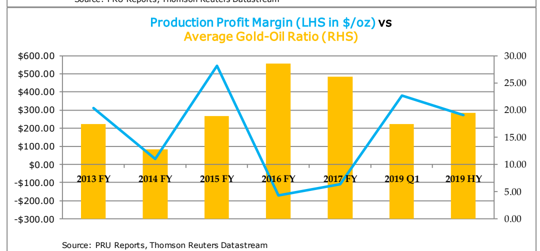
The crude oil price has gradually increased over 2019, starting at US$46/bbl and rising now to US$62/bbl. The rise in crude oil prices has been a result of increasing Middle East tensions and also demand from the northern winter, which was particularly severe. The gold-oil ratio has declined from 28 to 20.6 over the past three months, returning the gold mining companies' operations to more long-term normal levels. This may result in reduction in operating cash flows and profit generation for most gold mining companies.

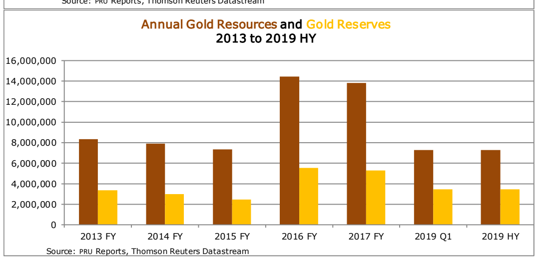
Operational and Financial Performance Charts

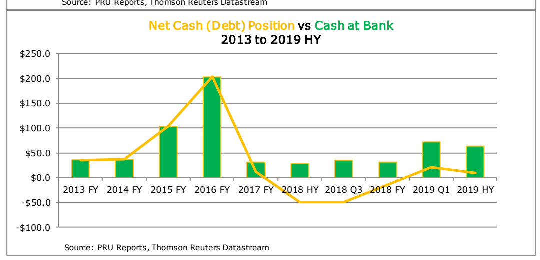








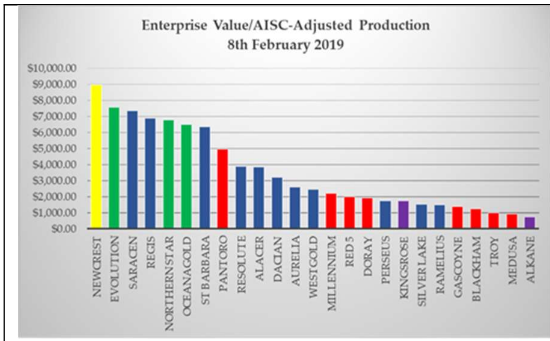


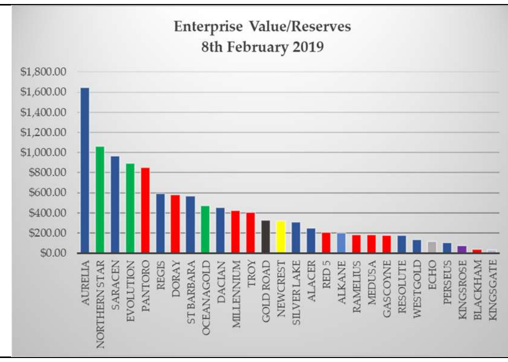


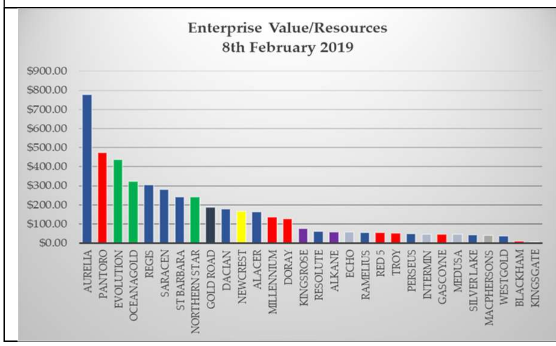
SWOT Analysis

Strengths	**Weaknesses**
• Improving cash position and operating margins in the context of more stable gold production from its two operating mines. • Gold production levels are conducive to a re-rating.	• Edikan mine operations still unsatisfactory in terms of gold recovery and operational reliability.
Opportunities	**Threats**
• Increasing gold price will further improve operations margin. • Yaoure mine development provides an opportunity to increase annual gold production by at least 100koz within the next two to three years.	• Sovereign risks may increase as West Africa faces further social and political tensions.

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.