The Sydney Contrarian Financial Analysis

Stock Valuation Report

Ramelius Resources Limited (ASX: RMS)

Date	20/02/2019
Classification	Mid-Tier Gold Miner
Current Price	$0.600
No. Issued Stocks (m)	640.6
Net Cash + Bullion ($ m)	$108.10
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$384.36
Enterprise Value ($ m)	$276.26

Ranking	**Very Undervalued**
Price Range	$0.64-$1.02
Annual Production Guidance (oz p.a.)	190 000-210 000
All-In Sustaining Cost Guidance ($/oz)	$1 150-$1 250
EV/AISC-Adjusted Production Guidance ($/oz)	$1,660.00
EV/AISC-Adjusted Production Range ($/oz)	$2 000-$3 000
Resources (oz)	4,406,525
Reserves (oz)	1,333,900

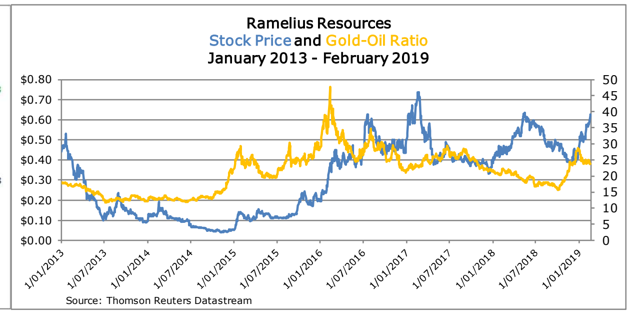
Summary

Ramelius Resources released their 2019 half-yearly results today, reporting NPAT of $4.78m (down 65% from 2018 HY of $13.55m) despite revenue increasing 26% to $181.85m. The company produced 104 051oz gold, a 14% increase from 2018 HY. The gold grade processed decreased to 1.4g/t from 1.88g/t, and AISC for the half-year was $1 220/oz, up from $1 167/oz for 2018 HY. Cash and bullion have increased to $108.1m as at 31 December 2018, which excludes subsequent cash payments to Explaurum shareholders which should amount to $4.7m and the Marda project acquisition of $11m.

The production guidance was downgraded to 190 000-210 000oz in November 2018 as it became apparent that the Edna May Greenfinch open cut deposit approval will be delayed, although the company will commence development of the Edna May underground deposit. Disturbingly, the company wrote off 200 000oz of reserves attributable to the Edna May underground mine last September, and the Resources and Reserves Statement release caused investors to lose confidence. Fortunately, management did allay shareholder scepticism through the announced acquisition of the Marda project in mid-September (completed last week) and Explaurum (albeit undertaken in a clumsy manner as the company made two revisions on the offer conditions).

Going forward, the March quarter is expected to be underwhelming with quarterly production of 45-50koz at AISC of $1 150-$1 250 resulting from Edna May delivering approximately 12 500oz at AISC $1 550-$1 650/oz excluding the Greenfinch deposit. Mount Magnet is expected to ramp up production and the company is expected to expend $23.3m in the March quarter on exploration and development focused on Mount Magnet and Edna May underground as well as $15.7m on completing the acquisitions of Explaurum and Marda. In the June quarter, another $26.1m is expected to be spent, bringing the total exploration and development expenditure to $73.3m and acquisitions of $28.6m. The company has also announced their dividend policy of minimum 1c per stock payable on condition of $50m cash reserves and 5 year reserve life.

With management delivering the 2020 production guidance of 230 000-250 000oz, they appear to be very confident that their acquisitions will allow them to grow further. This guidance is assuming Marda is producing but excludes the Tampia mine (Explaurum). In short, the March quarter may be a speed hump and then they may be off to the races afterward.



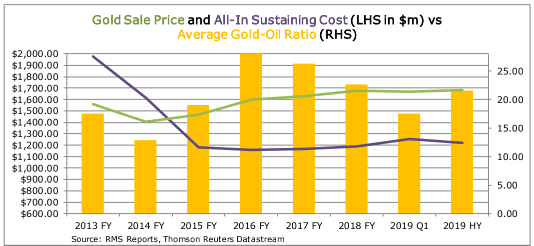
Prevailing Environment

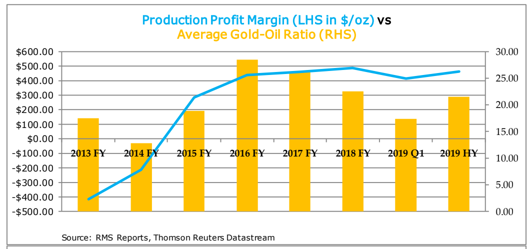
The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation of the slowdown in the 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 19th February 2019 at $1 870/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.

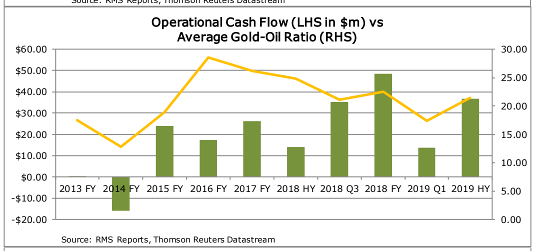
More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio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

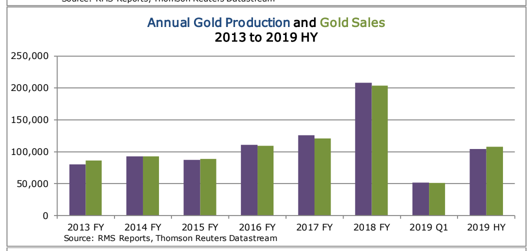
In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US$40/bbl to US$52-54/bbl, resulting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

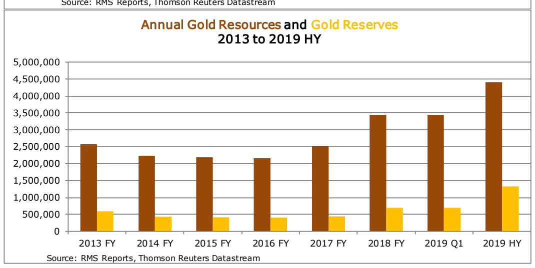
Operational and Financial Performance Charts

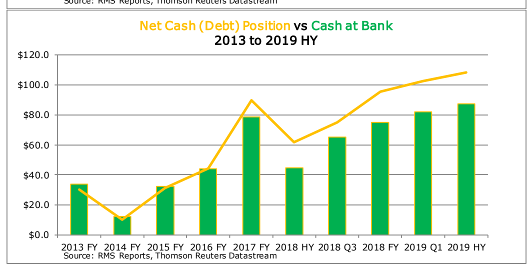












SWOT Analysis

Strengths	**Weaknesses**
• On a path to growing their production to approach the mid 200 000oz p.a. range, which may justify a future stock price re-rating. • The Mount Magnet flagship mine is a low-cost cash generator with growth potential. • Healthy cash balance with potential dividend stream underpinned by growing production.	• Investors have priced this stock at a deep discount to its peers, suggesting there is still doubt about the company delivering to justify better valuation. • Management's handling of the Explaurum takeover bid was clumsy at best.
Opportunities	**Threats**
• Production is expected to increase significantly from the development of Edna May Underground, Tampia and Explaurum.	• Slowdown or delays with Edna May Greenfinch. • Marda and Tampia do not have processing plants and trucking costs overruns could threaten profit margins.

Peer Comparison