Australian Gold Fund Valuation and SWOT Analysis

Stock Valuation Report

Ramelius Resources (ASX: RMS)

Date	9/05/2019
Classification	Mid-Tier Gold Miner
Current Price	$0.835
No. Issued Stocks (m)	656.4
Net Cash + Bullion + 0.5 x GIC ($ m)	$104.70
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$548.07
Enterprise Value ($ m)	$443.37

Ranking	**Undervalued**
Price Range	$0.75-$1.11
Annual Production Guidance (oz p.a.)	190 000-210 000oz
All-In Sustaining Cost Guidance ($/oz)	$1 175-$1 225
EV/AISC-Adjusted Production Guidance ($/oz)	$2,424.00
EV/AISC-Adjusted Production Range ($/oz)	$2 500-$3 500
Resources (oz)	4,406,525
Reserves (oz)	1,333,900

Summary

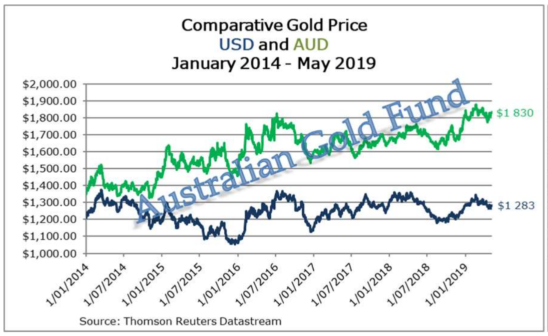
Ramelius Resources is an established mid-tier mining company that is continuing its path of growth with the completion of the Explaurum and Marda gold project acquisitions. The company's stock price experienced a meteoric rise of 82% over the quarter, as investors found confidence in the company's December quarter performance and a positive outlook on their future with increasing production levels and new mines coming into production. The company expected a speed bump this quarter as the Edna May Greenfinch project is awaiting approval, with the actual production coming at 45 286oz at AISC of $1 210/oz, at the lower end of the guidance range of 45 000-50 000oz at AISC $1 150-$1 250/oz. The June quarter guidance is expected to be around 45 000-50 000oz at AISC $1 200/oz, surprisingly with Edna May expecting an AISC of $1 000-$1 100/oz. The 2019 full year guidance is updated at 190-210koz at AISC $1 175-$1 225/oz, the AISC range being narrowed. Despite the cash balance decreasing to $104.7m from $109.8m, this is after including $19.1m spent on one-off acquisitions of the remaining Explaurum stocks and the Marda gold project. When the one-off cash costs are removed, the company delivered another quarter of strong operating cash flow generation of $17.6m. This goes against the trend experienced by most gold producers for this quarter and is a commendable result.

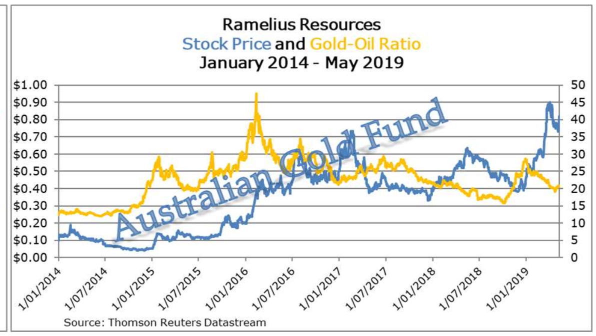
The company navigated through the March quarter satisfactorily, delivering 27 542oz from the Mount Magnet and Vivien mines and 17 744oz at the Edna May mine. The Mount Magnet processing plant was operating at a lower rate this quarter and this led to a reduced rate of production, despite strong recovery rates. Mining activity at the Shannons underground mine has commenced and is expected to proceed during the June quarter, which is expected to increase the AISC but deliver higher grade ore in the period to come. This comes at a good time as the high-grade Vivien gold gradually depletes of its ore. As for the Edna May operations, the underground pit has commenced production with grades approaching 5g/t. However, this quarter saw substantially reduced mining activity with only 5 421t of ore mined, while the average ore mined each quarter is around 270kt. Ore processing was around the same rate as previous quarters , but the processed ore grade was around 18% lower at 0.88g/t. Despite this, the AISC for the quarter fell from $1 365/oz to $1 309/oz. With the Greenfinch open-cut project approval to be confirmed in the June quarter, the Edna May mine is expected to overcome a hurdle that has left many investors in doubt as to whether the acquisition was worth it. Management may be given another tick of approval to their track record of profitable acquisitions.

Going forward, the Marda project is being developed further in the June quarter and the ore is expected to be delivered to the Edna May mine for processing. The Tampia Hill mine acquired from Explaurum will undergo further exploration and development, with production expected in 2020. Substantial capital expenditure of $13.2m is expected in the June quarter on various projects at Mount Magnet and $4.7m will be set aside for the Edna May underground mine. With production in the June quarter expected to be around the same level as this quarter, the cash balance is expected to increase modestly. The company expects to deliver 230-250koz p.a. in the 2020 financial year, and this does not include

Tampia Hill. With Tampia Hill, this may be increased to around 300koz p.a. depending on the scope of the mining operations that the management intends to undertake.

Taking into account the March quarter saw substantial progress made in their plans to grow, the valuation range has been upgraded to EV/AISC-Adjusted Production of $2 500-$3 500, up from $2 000-$3 000. This implies a fair value range of $0.75-$1.11. At the current price of $0.835, the company is currently undervalued. When the Marda gold project begins to produce and the Edna May operations gain momentum, the company may be due for another upgrade.



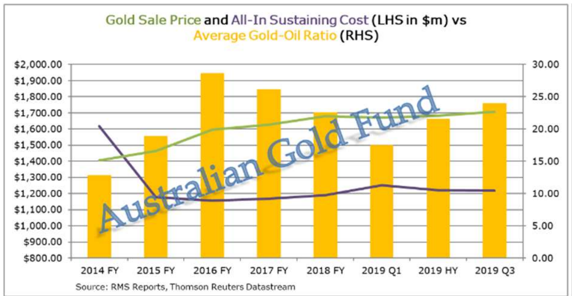


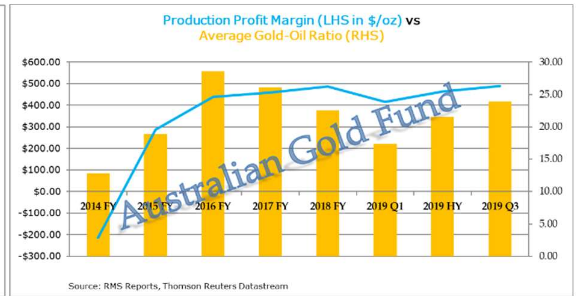
Prevailing Environment

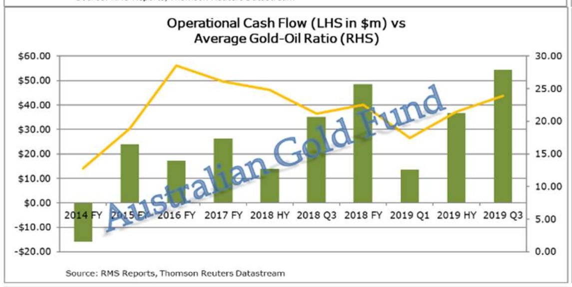
The March quarter has been a challenging one for many gold mining companies despite the gold price trading in the US$1 280-1 345/oz and A$1 790-1 880/oz range. Part of this is caused by the oil price rising 33% from US$45/bbl to US$60/bbl during the quarter, leading to the gold to oil ratio placing some pressure on costs. Since the December 2018 rate rise by the US Federal Reserve that brings the Federal Funds Rate to 2.25-2.5%, the gold price rose to over US$1 300/oz and reached as high as US$1 345/oz in late February. The corresponding rise in the oil price came as a result of higher demand during the northern hemisphere winter as well as increasing geopolitical tension in the Middle East. Furthermore, the oil price rose partly due to reduction in the US inventory. The gold to oil ratio for the March quarter started at a strong 28.3 and gradually fell to 21.5 at the end of the quarter, resulting in an average gold to oil ratio of 23.9 during this period.

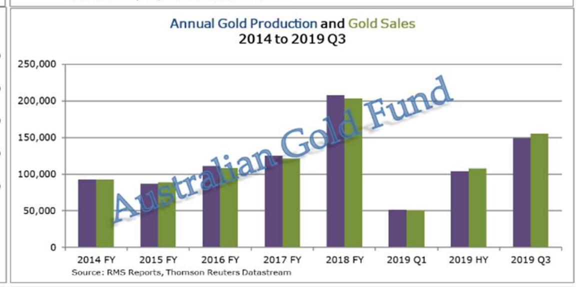
Since the end of the March quarter, the gold price has further weakened while the oil price has increased. The gold to oil ratio has fallen to the 20-21 mark, but there are signs that the gold price is nearing a bottom while the oil price is falling. The months of April and May tend to be cyclical bear periods for gold, with June and July seeing its price recover. This may be repeated in 2019 as the global stock markets are again approaching a peak.

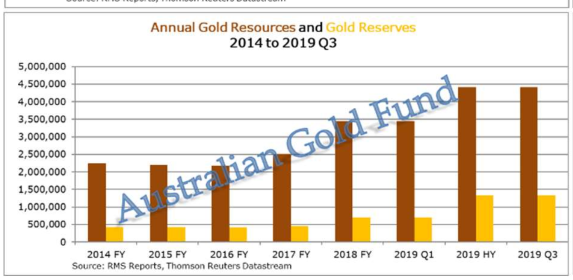
Operational and Financial Performance Charts

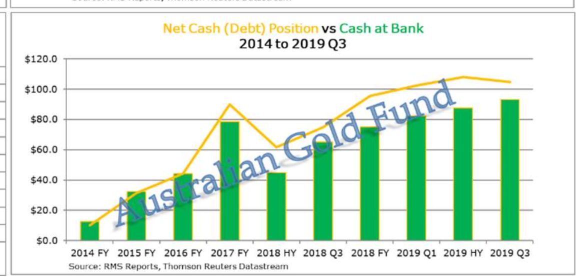








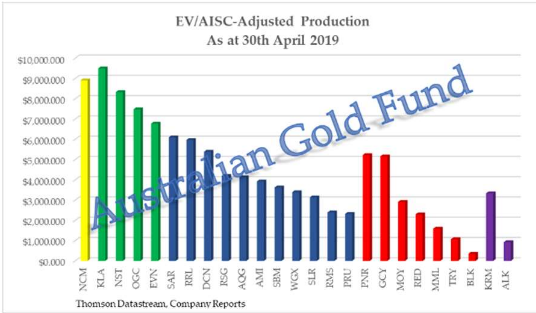


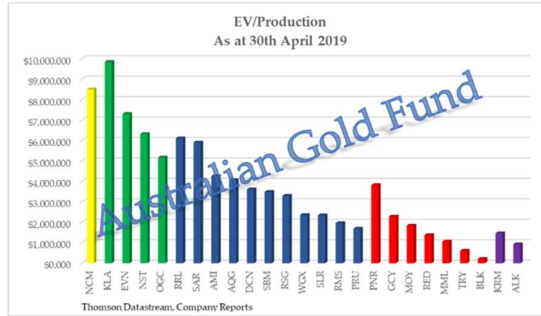


SWOT Analysis

Strengths	**Weaknesses**
• The company is on a path to grow substantially to deliver higher grade ore at larger volumes through its acquisitions and development. • Strong cash balance funded by profitable mine operations, allowing for mine development without needing to rely on equity capital raising or debt financing.	• Two mines, Vivien and Marda, operate in areas that require ore to be trucked a long distance to the processing plant, thus increasing AISC.
Opportunities	**Threats**
• The Edna May mine expansion may deliver further increases in production as well as ore reserves, especially the underground pits. • The Tampia Hill project scope is yet to be confirmed, but the outlook is positive given that the development cost is around $50m to production.	• The company's ore reserves have increased but more of that is through acquisitions. Replenishment of reserves depleted through mining in their existing projects have been mainly neutral. This may suggest further growth has to come from acquisitions, sometimes at premiums.

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.

Disclaimer

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