The Sydney Contrarian Financial Analysis

Stock Valuation Report

Resolute Mining Limited (ASX: RSG)

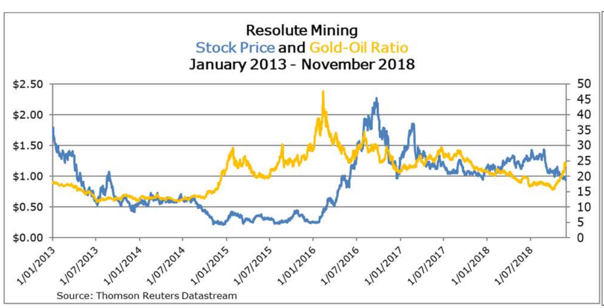
Date	28/11/2018
Classification	Mid-Tier Gold Miner
Current Price	$0.915
No. Issued Stocks (m)	757.5
Net Cash + Bullion ($ m)	-$55.80
Last Dividend Payment ($ p.a.)	$0.02
Market Capitalisation ($ m)	$693.12
Enterprise Value ($ m)	$748.92

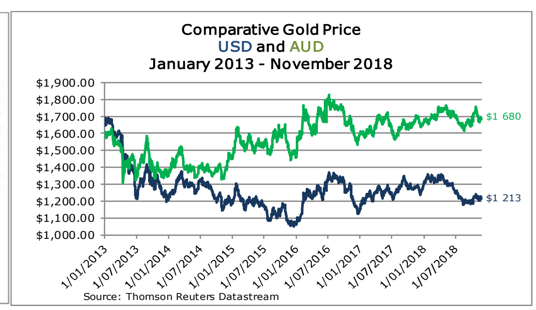
Ranking	**Fair Value**
Price Range	$0.55-$1.35
Annual Production Guidance (oz p.a.)	300 000
All-In Sustaining Cost Guidance ($/oz)	$1,280.00
EV/AISC-Adjusted Production Guidance ($/oz)	$3,195.41
EV/AISC-Adjusted Production Range ($/oz)	$2 000-4 000
Resources (oz)	14,715,600
Reserves (oz)	5,156,000

Summary

Resolute Mining has spent the last two years undertaking substantial capital expenditure (amounting over $250m) to expand their Syama underground mine in Mali and the Ravenswood mine in Australia. One of the major developments includes creating the first fully automated underground mine in Syama, with production commencing in December 2018. Gold production and all-in sustaining cost for 2018 FY were 284koz and $1 355/oz, below the 300koz p.a.and $1 280/oz initially forecasted at start of the financial year. The September 2019 quarter production was disappointing, 55koz with AISC at $1 560/oz. The company expects production to increase to 400koz in 2020 and 500koz by 2022. During the past two years, the company has moved from a net cash position of almost $250m to net debt of $55m. This has led to substantial disappointment among investors and the stock price has fallen 60% from its peak in September 2016. Despite the cash reserves falling sharply, Resolute Mining has maintained their dividend payment at $0.02.

Going forward, the automated mine will be watched closely to see whether the production level in both Syama and Ravenswood will rise and AISC will fall substantially, signalling project success. Furthermore, an almost 40% increase in resources and 10% of reserves in the past year (net of depletion) provides strong basis for longer term growth. The current price of $0.915 is considered fair value in the context of its price range of $0.55-1.35, but the upside potential is substantial contingent on better economies of scale and a building up of its cash reserves from improved operating efficiency.



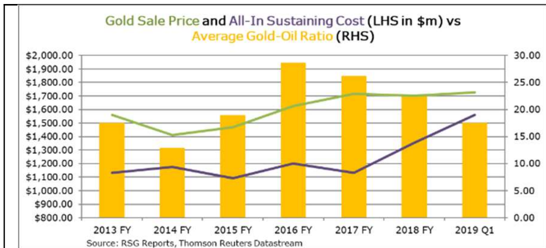


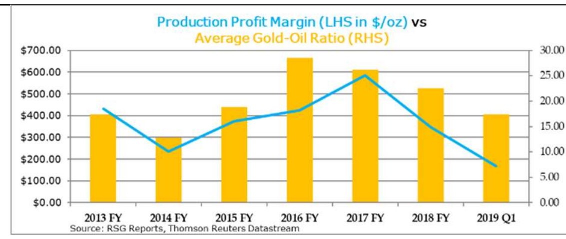
Prevailing Environment

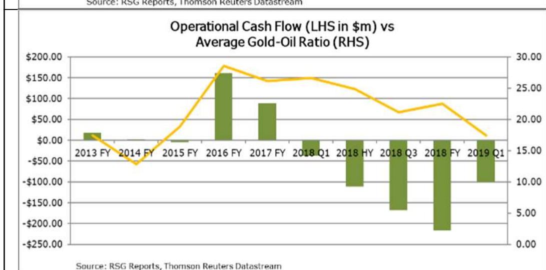
2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US$1 350 in January/February to US$1 180 in August/September. At the same time, crude oil price increased from US$60 to US$75 per barrel and only began to drop in early October to US$50 now. As a result, many gold mining companies faced narrower profit margins and cash flow generation. However, for companies with Australian operations such as Northern Star, a weakening Australian dollar slightly offset this pressure through hedging gold sales.

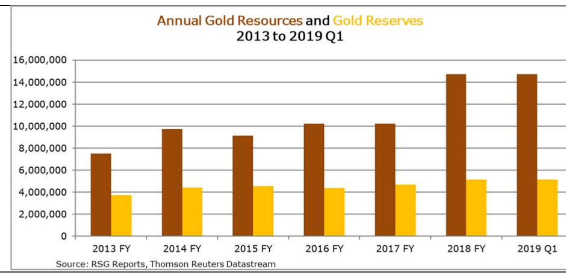
As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 24 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

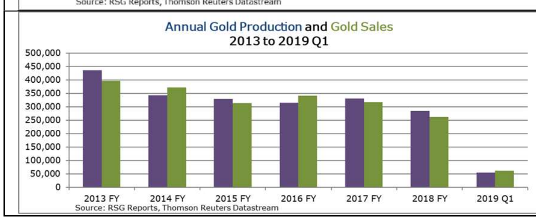
Operational and Financial Performance Charts











SWOT Analysis

Strengths • Astute management with capability to identify longer term expansion opportunities. • Clear pathway to higher production and lower costs with substantial capital projects.	**Weaknesses** • Long-standing cash burn and weak cash flow margins have frustrated investors.
Opportunities • Automated underground mining at Syama and expanded Ravenswood mine may deliver better production results. • Resolute's stakes in mining explorers may deliver returns should these companies report exploration successes.	**Threats** • Political and social unrest in Central and West Africa may threaten the Syama mine operations. • Further delays or operational complications in Syama may wear down investor patience.

Peer Comparison