The Sydney Contrarian Financial Analysis

Stock Valuation Report

Resolute Mining Limited (ASX: RSG)

Date	22/02/2019
Classification	Mid-Tier Gold Miner
Current Price	$1.135
No. Issued Stocks (m)	757.5
Net Cash + Bullion ($ m)	-$129.01
Last Dividend Payment ($ p.a.)	$0.02
Market Capitalisation ($ m)	$859.78
Enterprise Value ($ m)	$988.78

Ranking	**Slightly Overvalued**
Price Range	$0.49-$1.24
Annual Production Guidance (oz p.a.) ***Estimated***	280 000-320 000
All-In Sustaining Cost Guidance ($/oz) ***Estimated***	$1 200-$1 400
EV/AISC-Adjusted Production Guidance ($/oz)	$4,285.00
EV/AISC-Adjusted Production Range ($/oz)	$2 500-4 000
Resources (oz)	14,810,000
Reserves (oz)	5,070,000

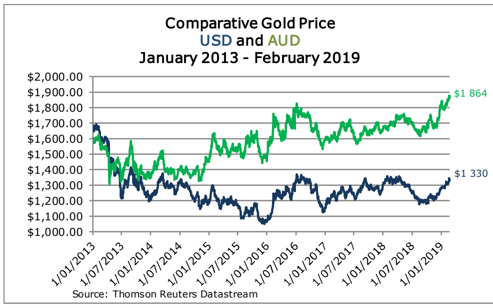
Summary

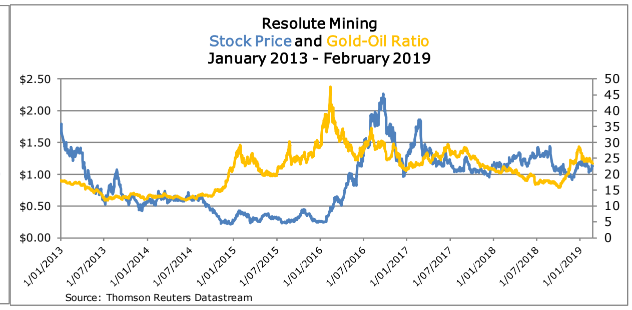
Resolute Mining has released their 2019 half-year results after market close on Friday 22nd February. The company reported a Net Loss After Tax of $5.32m, revenue of $222.77m and gross operating profit of $24.45m. This compares with a 2018 full year Net Profit After Tax of $77.84m, revenue of $445.56m and gross operating profit of $69.32m. The half-year production was 129 199oz gold at AISC $1 449/oz, with the Syama sulfide operation under-delivering at 37 256oz at AISC $1 627/oz while the Syama oxide operation delivered at a record of 56 503oz at AISC $992/oz and the Ravenswood mine delivered 35 890oz at AISC $1 853/oz. The results for this half-year leaves the company behind the schedule in context of their 2019 guidance of 300 000oz at AISC $1 280/oz.

The progress on the Syama sulfide underground mine development appears to be moving to the stage of consolidation, with major construction and spending behind them. The next stage is to improve the recovery rate of the Syama sulfide ore in order to increase production, as well as to process the gold in circuit, valued at around $134m, into gold bullion for sale. Project 85 is almost complete as of December 2018 according to the management briefing for the 2019 Q2. The Ravenswood mine has begun to produce from the open-pit deposits at Nolan East although the Mount Wright mine is also producing ore. AISC for Ravenswood is high largely due to low grade ore being processed.

To place into context for a fair view of how the company has been performing, the expansion projects and their costings need to be considered. The development budget for the Syama underground project was initially slated to be US$95m (approx. A$128m) for pre-production capital expenditure with pre-production operating expense being US$13m (approx. A$20m). This project was expanded in scope, as announced in July 2018, to incorporate an expanded resource base and longer mine life. Thus, the budget increased with the pre-production capital expenditure to be US$116m (approx. A$157m), pre-production operating expense to be US$11m (approx. A$14m) and ramp-up capital of US$97m (approx. A$130m). For the Ravenswood expansion project, the expected expenditure would be A$134m. Overall, the total expenditure on the expansion projects on their mines are over $400m. The company management initially stated that this would be funded by their cash reserves (amounting over A$250m in 2016 financial year end) and operating cash flows. However, at the current stage, the company is in a net debt position of almost A$130m. This equates to a cash position turnaround of almost A$400m. The operating cash flows have been underwhelming over the past 2 years owing to processing delay and planned temporary shutdowns in both mines.

A substantial amount of cash has been expended and as the CEO John Wellborn said in the Q2 briefing, the company is now reaching the “show me” stage. Therefore, based on the current performance and management guidance, the company is slightly overvalued. This is due to the results delivered thus far and also the company’s net debt position. However, the company may be able to undergo a re-rating as the Syama underground mine operations gain momentum and the gold-in-circuit is converted into bullion and sold for cash, thus reducing their net debt.





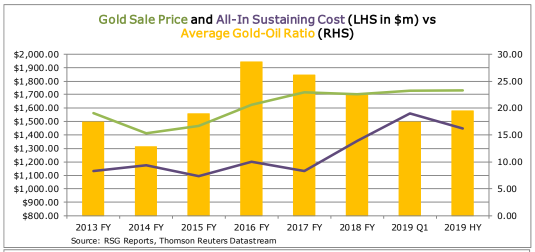
Prevailing Environment

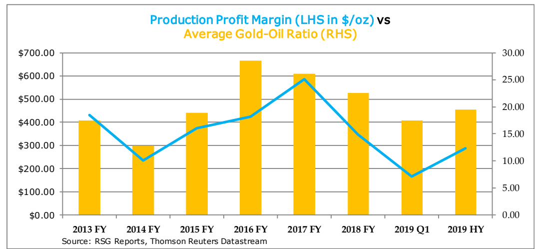
The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation of the slowdown in the 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 20th February 2019 at $1 878/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.

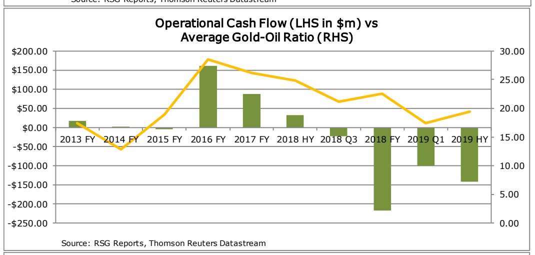
More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio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

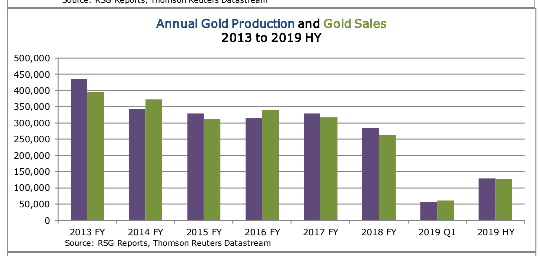
In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US$40/bbl to US$52-54/bbl, resulting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

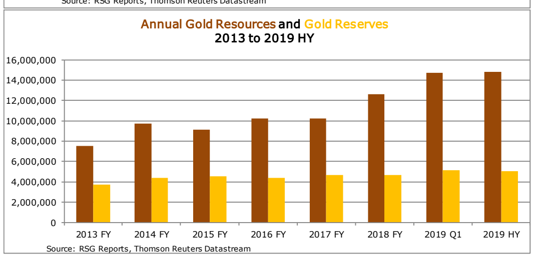
Operational and Financial Performance Charts

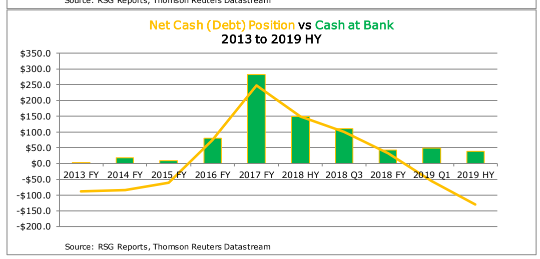












SWOT Analysis

Strengths	**Weaknesses**
• Company has undertaken substantial capital development to expand their existing operations, with an aim to increase gold production to over 350 000oz p.a. in the near future. • The Syama and Ravenswood mines are expected to have a mine life exceeding 10 years. • Resources and reserves have increased net of depletion over the last 4 years, showing exploration success.	• Company has been underperforming in terms of lower gold production (280 000oz in 2018 financial year) with increasing AISC compared to prior the development projects ($1 355/oz overall in 2018). • Cash reserves have dwindled and the company has borrowed US$150m in the recent quarter, suggesting they were unable to fully fund from their cash reserves and operating cash flows as originally planned.
Opportunities	**Threats**
• With the Syama mine expansion largely completed, the company can generate cash flows to finance the restarting of their Bibiani mine, giving them three operating mines.	• Further delays and bottlenecks in the Syama mine will jeopardise their debt position. • High rainfall in both Queensland and Mali can further hamper operations.

Peer Comparison