Australian Gold Fund Valuation and SWOT Analysis

Silver Standard Resources Mining (ASX: SSR)

Date	9/04/2021
Classification	Large Gold Miner
Current Price	$20.490
No. Issued Stocks (m)	222.5
Net Cash + Bullion + 0.5 x GIC ($ m)	$668.15
Last Dividend Payment ($ p.a.)	$0.064
Market Capitalisation ($ m)	$4,558.25
Enterprise Value ($ m)	$3,890.10

Operating Performance Metrics	
2021 Annual Gold Production Guidance	720 000-800 000oz
2021 All-In Sustaining Cost Guidance ($/oz)	$1 400-$1 550
2020 Operating Margin (Sale Price less AISC)	$1,160.50
Resources (oz)	18,343,000
Reserves (oz)	8,905,050
Financial Year Cumulative Production (oz)	577,655
Production as % of 2020 Annual Guidance	134.34%
2020 Financial Year Cumulative AISC ($/oz)	$1,432.32

Valuation Metrics	
Price Range	$19.71-$33.83
Overall Ranking	Undervalued
Current EV/AISC-Adjusted Production	$7,550.00
EV/AISC-Adjusted Production Range	$8 000-$12 000
Ranking	Undervalued
EV/Resources	$212.08
Ranking	Very Undervalued
EV/Reserves	$436.84
Ranking	Undervalued

Summary

Silver Standard Resources Mining (ASX: SSR) is listed on the Toronto Stock Exchange and it joined the Australian Stock Exchange upon its takeover of Alacer Gold Corporation (ASX: AQG), forming a large diversified precious and base metals producing company with operations in North America, South America and the Middle East. The company is a large producer with annual production at 720 000-800 000oz equivalent at AISC of around A$1 400-$1 550/oz (US$1 050-$1 110/oz).

We have decided to take the full-year of Alacer Gold and the second half of Silver Standard's production in our performance evaluation of the company for 2020. Silver Standard ended the year producing 577 655oz at AISC of A$1 432.32 (US$1 138/oz), with the Copler mine (Alacer) delivering 76 841oz at A$1 155/oz in the oxide operations and 214 678oz at A$1 047/oz in the sulfide operations, the Marigold mine (SSR) delivering 126 078oz at A$1 570/oz for the second half of 2020, the Seabee mine (SSR) delivering 52 164oz at A$1 194/oz and the Puna silver mine (SSR) delivered 3 445 000oz of silver at A$19.50/oz. Operations in the North and South Americas are returning to levels pre-Wuhan virus outbreak levels in the fourth quarter with volume increasing and economies of scale returning.

The takeover of Alacer Gold by Silver Standard appears logical in creating a company with more diversified geographical locations. We believe that Alacer Gold shareholders gained more in this merger as a result of being able to be exposed to production from more secure jurisdictions in the US in the Marigold and Seabee mines. That being said, Silver Standard shareholders gained from a long-life Copler mine that is expected to produce for another 20 years. Furthermore, the company is not just dependent on gold but they also produce around 6-7Moz of silver, 6-8Mt of zinc and 15-20Mt of lead p.a. The Copler sulfide operations appear to be on track to increase processing by around 30% with the completion of its flotation circuit that is expected to be completed by mid-year. With rising inflation, the WallStBets Silver movement taking momentum as well as Eric Sprott setting up the PSLV trust, the silver price could be set to rally in the future and this could provide further tailwinds for Silver Standard.

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The company has also increased their Reserves and Resources at the end of the year net of depletion. The Reserves increased to 8.91Moz gold equivalent from 7.7Moz in the comparable previous period while Resources increased to 18.3Moz gold equivalent that is up from 13.2Moz in the comparable previous year. This provides substantial base for future production. The grades have only fallen slightly in the properties, which appears to be the trend for most mining companies. The company has substantial cash reserves that can be deployed either in exploration or through acquisitions of neighbouring properties or new mines.

The company's balance sheet is very strong with around A$1.12 billion in cash, A$56m in bullion and just under A$510m in borrowings, giving their net cash position of around A$670m. This is a substantial war chest for a company with a market capitalisation of around A$4.6 billion. Having seen precious metals prices being hit hard for the last six months and many mining companies seeing their stock prices decline as much as 50%, this may place Silver Standard in a position to acquire small cap companies to either immediately add to their production or their resources base. The company has declared an unfranked dividend of US$0.05 or A$0.0641 on 19th February that was paid on 1st April. The prospect of further dividend payments appears promising.

Trading now at $20.49 with the 2021 production guidance at 720 000-800 000oz at AISC range of A$1 400-$1 550/oz, Silver Standard currently is priced at EV/AISC-Adjusted Production of around $7 550, EV/Reserves $437/oz and EV/Resource $212/oz. The company's expected profit margin from production is expected to be around A$900-$1 100/oz assuming that this year's gold price will be around A$2 400-$2 500/oz. The company only hedged its exposure to diesel prices with all metal sales being conducted at spot price, allowing for them maximum sensitivity to changes in the spot prices. Few producing companies dare to do this and we consider it an advantage. We believe the company should be able to fetch a range of $8 000-$12 000/oz under the EV/AISC-Adjusted Production metric. This implies Silver Standard appears to be undervalued. We understand a possibility of its undervaluation beyond the low precious metals price may be due to the Copler mine being in Turkey, a country that is increasingly causing international investor angst due to the autocratic Erdogan regime. Despite this, with its diversified operations with leverage on silver prices as well as a substantial cash reserves, we find this an attractive investment. We have recently added more to our portfolio holdings.

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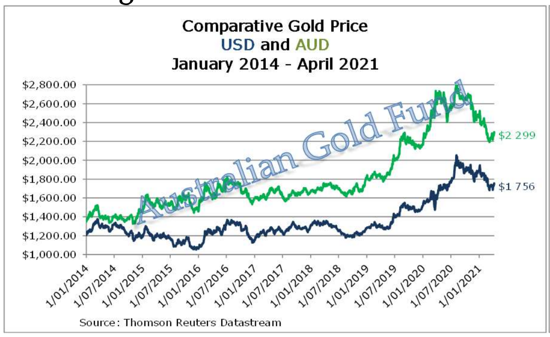
Prevailing Environment

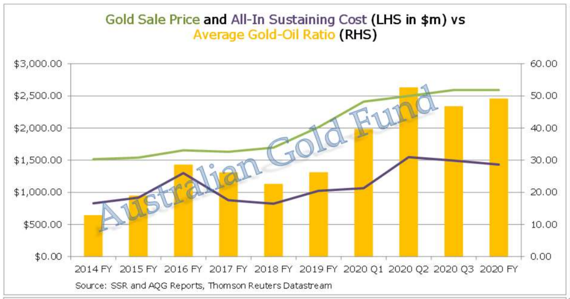


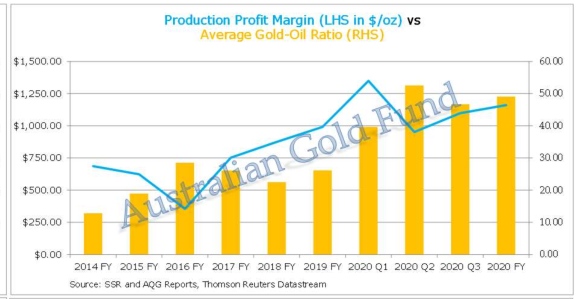
The recent six months have seen the gold price decline after having reached a peak in mid-2020 in the context of massive central bank cash printing and government spending to encourage economic activity during the Wuhan virus outbreak worldwide. The seasonal decline in the gold price from mid-September to mid-December continued into January 2021 as the Biden administration was inaugurated. Interestingly the market expected a higher stimulus package from the Biden administration than the $1.9 trillion that is currently agreed upon. On top of that, the cryptocurrency market appears to have attracted a lot of investors and hence this may have left the precious metals market stagnant.

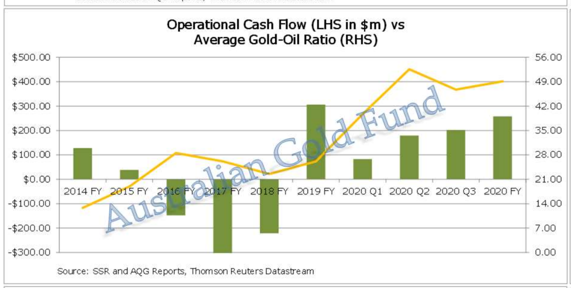
Given the unprecedented unusualness of events that have emerged worldwide the last year, we believe that events should not be taken at face value. We hold to the belief that the financial system is currently being heavily controlled by central banks and financial institutions intent on maintaining the illusion of status quo in the backdrop of their desired plan of "The Great Reset" to be implemented by the World Economic Forum. However, we believe that the sharp rise in the cryptocurrencies market, the need for Treasury Secretary Janet Yellen to intervene on behalf of hedge funds to regulate against investors seeking to short-squeeze selected stocks in the market led by WallStreetBets, are examples of how their plan will not be successful.

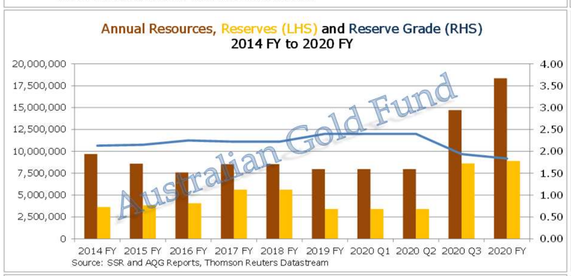
The Australian dollar has strengthened by around 8% against the US dollar over the past six months but is appearing to turn aro and hence the gold price is trading around the $2 300-$2 400/oz mark. The crude oil price has surprisingly jumped almost 35% over the last six months, though much of the rise occurred from December onwards as the world began to believe that President Trump was unable to overturn the election results that appeared to favour Joe Biden. Given that the Biden administration campaigned heavily on climate change and green energy, the US oil production industry would suffer when he assumed office. The reduction in oil supply by the US and increasing reliance once more of the Middle East has contributed to the rising oil price. In turn, higher oil prices and the gold price being relatively stagnant have led to gold mining companies not being able to enjoy as accommodative operating environment than they had in the past year. That being said, the gold-oil ratio is still over 30, providing conditions that are still conducive to supernormal profits for mining companies.

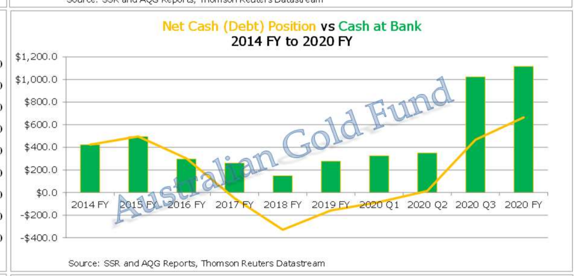
Operational and Financial Performance Charts

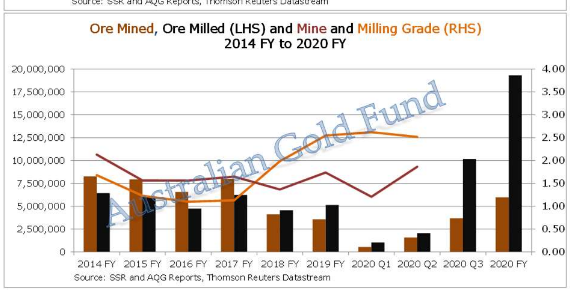


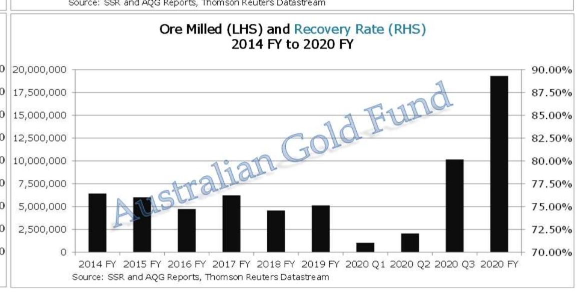












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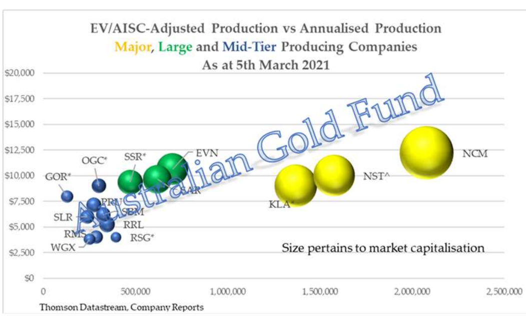
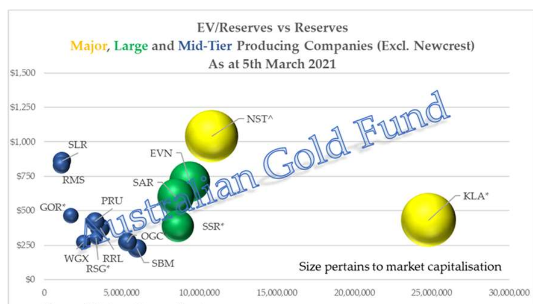
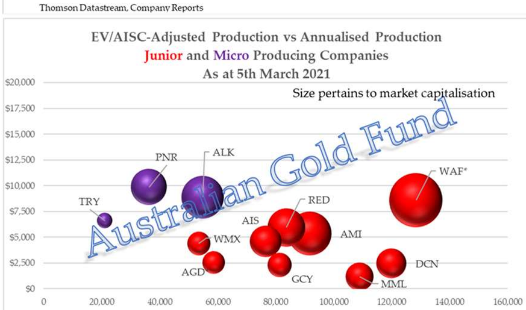
SWOT Analysis

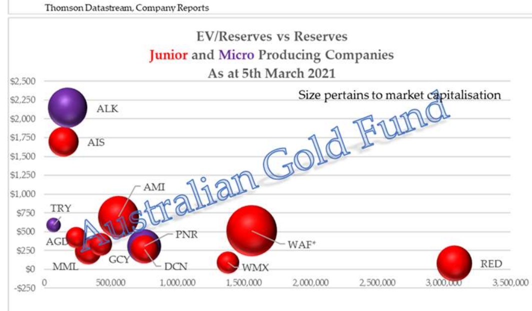
Strengths	**Weaknesses**
• Well-renowned company with substantial mine-life across its operations. • The mines are relatively low-cost in the industry, generating substantial operating cashflows. • Management has a strong reputation of delivering results. • Unhedged production offering maximum sensitivity to the spot markets.	• The Copler mine that accounts for almost 40% of the company's production operates in an increasingly unfavourable jurisdiction.
Opportunities	**Threats**
• Substantial cash reserves allow the company to undertake further expansion or organic growth through exploration and increase in its reserves and resources base. • Diversified metals exposure allows company to capitalise on the post-outbreak monetary and fiscal expansion conducted worldwide.	• Sovereign risk in Turkey and Argentina could lead to mine closure or seizure and hence lower production. • Substantial downturn in precious and base metals prices could cause operating cashflows to decline.

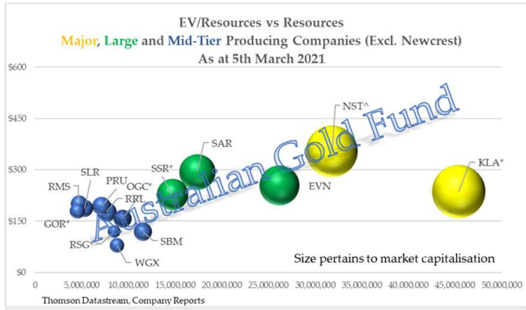
Peer Comparison










EV/Resources vs Resources
Major, Large and Mid-Tier Producing Companies (Excl. Newcrest)
As at 5th March 2021
$600
$450
$300
$150
$0
0
5,000,000
10,000,000
15,000,000
20,000,000
25,000,000
30,000,000
35,000,000
40,000,000
45,000,000
50,000,000
NST^
SAR
KLA*
SSR*
SLR
PRU
OGC*
RMS
RRL
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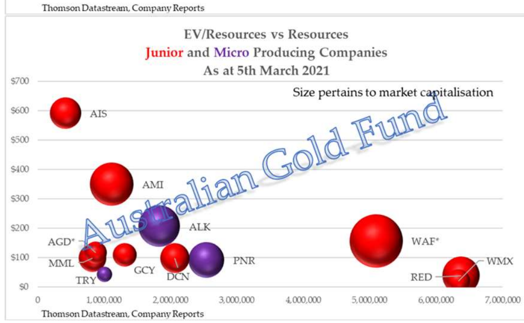
GOR*
RSG
SBM
WGX
Size pertains to market capitalisation
Australian Gold Fund
Thomson Datastream, Company Reports


EV/Resources vs Resources
Junior and Micro Producing Companies
As at 5th March 2021
Size pertains to market capitalisation
$700
$600
$500
$400
$300
$200
$100
$0
0
1,000,000
2,000,000
3,000,000
4,000,000
5,000,000
6,000,000
7,000,000
AIS
AMI
ALK
AGD*
WAF*
MML
GCY
PNR
WMX
TRY
DCN
RED
Australian Gold Fund
Thomson Datastream, Company Reports

Valuation Thesis

Our key valuation metric is the **EV/AISC-Adjusted Annual Production** as we have found in our empirical study that the market valuation is most aligned to this metric, as opposed to earnings, resources and reserves. We also prefer a multiples method over the typical Discounted Cashflow Method for valuation because we understand that beyond even one year of projection, everything is highly speculative – whether it is the management outlook on production and costs as well as the gold price and broader economic drivers. To allow for comparison across all classes of producers, our metric can standardise by the company's scope of production as we observe that the market values the companies with higher production with a greater multiple. However, we scale production by AISC because we believe that not all ounces are equal. Companies that can produce gold at lower cost are naturally more profitable and deserve a higher multiple of their production and other operational or financial performance measures. We use the following classes for the different tiers of gold producing companies – **A** (major producer – 1Moz p.a. or more), **B** (large producer – 0.5-1Moz p.a.), **C** (mid-tier producer – 150 000-500 000oz p.a.), **D** (junior producer – 50 000-150 000oz p.a.) and **E** (micro producer – less than 50 000oz p.a.).

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). This metric quantifies the market value of the company's assets deployed in the company's operations. The **AISC-Adjusted Annual Production** calculated as the annual production of gold per oz divided by the AISC adjusted by a factor of 1 000. The factor of 1 000 is arbitrarily chosen as a way to standardise the final metric. As an illustration, if a company produces 250 000oz p.a. at AISC of $1 250, the AISC-adjusted production is 200 000.

When determining the production ranges in our valuation metric, we take the management guidance as this is based on their access to information relating to their operations and progress. We believe that the market will use the guidance figures to base their valuation and investment decisions. This may not always be optimal given that some management may have their bias in reporting their outlook, as well as having a track record of announcing surprises. In such cases, we seek to qualify this in our SWOT analysis and adjust it in our EV/AISC-Adjusted Production multiple.

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.

We recognise that many analysts consider discretionary forecasts and adjustments on the company's production level, ore grade, cost levels, resources and reserves and economic

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factors into their valuation. We have studied many of these reports and recognise their merits. However, our view is that such subjective adjustments are dubious in terms of additional accuracy of their estimations. This is because with mining companies, both internal and external drivers that affect the company's future performance are unpredictable. Furthermore, we understand that while a company with substantial resources and reserves have potential to convert into substantial value in future, this is contingent on the successes in building the infrastructure, extracting the ore from the ground and processing it in a cost-effective manner. We recognise the criticism by many regarding our approach, but we have tried and tested our valuation against the actual price performance as well as through our own investment performance. We let these results speak for themselves.

Given the rise in gold price in the recent three months, we see reason to re-rate the gold mining companies' valuation metrics upwards to reflect their improving profitability as well as increased enthusiasm from investors. As a rough guide, the fair value ranges for different mining company classes are as follows:

Major and Large Companies *- $8 000-$12 000/oz*

Mid-Tier Companies *- $4 000-$7 000/oz*

Micro and Junior Companies *- $1 500-$4 000/oz*

We also add that after reviewing our reports, we have found another metric that may inform the fair value ranges, namely the Operating Margin. The Operating Margin is the difference between the Gold Sale Price per oz and the AISC. A higher Operating Margin implies higher cashflow generation. We have also found that the market appears to take this into account when determining the price they will pay to purchase the stocks. We found that there is a link between the Operating Margin and our EV/AISC-Adjusted Production in that 8-12 times the Operating Margin gives a reasonable EV/AISC-Adjusted Production.

Glossary

The **All-in Sustaining Cost (AISC)** is a measure adopted by the World Gold Council as a standardised measure of production costs. This cost includes typically the **Cash Cost** associated with the direct production (extraction, transportation, processing and refining costs, staff salary and wages and relevant corporate costs) as well as **Sustaining Expenditure** that may include maintenance of mine equipment and infrastructure, insurance and administration costs over its production life. Companies may still have discretion in apportioning their expenses.

The **Net Cash/Debt** is the net amount of cash and bullion the company holds after their borrowings and interest-bearing debt are paid. This represents the liquidity position of the company, although this measure does not consider whether the debt is current (due within the next twelve months) or not. A company in a significant net debt position is owing more than they currently have in cash and bullion, which may potentially put them in financial distress if the debt is due soon.

The **Net Cashflow from Operations Excluding Maintenance Capital Expenditure** measures to what extent the company can generate cashflows from its operations after paying for its operating costs as well as Cash Paid for Purchases of Property, Plant and Equipment and the Cash Paid for Development Expenditure in the Investing Cashflows section of the Statement of Cash Flows. It does not include Cash Paid for Exploration and Evaluation, which is assumed to be growth capital expenditure. This is by no means a stable and comparable measure as different companies may have discretionary interpretation of what constitutes as Operating Activities and Investing Activities or Development, Exploration and Evaluation expenditures.

Disclaimer

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Declaration of Interest

The Australian Gold Fund and its directors currently own Silver Standard stocks and may trade them subsequent to the report being published on their website. We do not receive any income or benefits from the company as a result of our report.

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