

Emerald Resources NL

(EMR \$0.042) Speculative Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	24 th May 2017	\$0.09/sh

Company update

Investment case

Recent price weakness (-20%) post the release of a very positive DFS has created a genuine buying opportunity in our preferred emerging gold development story. We expect the EISA to be granted shortly, paving the way for the Mining Licence and Mineral Investment Agreement. The company remains confident that construction can start in 4th Q CY'17 with first gold in late CY'18/early CY'19. Our valuation remains at \$0.09/sh; offering a >100% return at current prices and we maintain our Speculative Buy.

Key points

- Since EMR released its DFS on the 1st of May'17, the stock has fallen ~ 20%. This is a surprise after a very positive DFS showing significant improvements on the PFS and a post tax IRR of 40%.
- This has created a genuine buying opportunity for exposure to our preferred gold development story. It has a proven development team and successful track record of development and significant owners of the company (30%).
- EMR is now trading at a >50% discount to our NAV of \$0.09/sh.
- We expect the Environment and Social Impact Assessment ('EISA') to be granted shortly, paving the way for the Mining Licence and Mineral Investment Agreement. This would be a key share price catalyst.
- The Okvau DFS shows a very robust project capable of producing 106koz pa @ AISC of US\$731/oz for +7 yrs with initial capital requirement of US\$98m (incl US\$7m for pre-production mining)
- Maiden reserves of 907koz @ 2.0 g/t Au represent a 90% conversion of the 1.0moz indicated resource – an excellent outcome. It is also 9.3% higher than the '830koz in pit mining inventory' used in the PFS.
- In our 'emerging gold producers' note on the 5th of May, we noted that EMR is cheap against its peers on a fully developed EV per reserves oz, production oz and Life of Mine Cashflow. Its recent price fall against its peers makes it even greater value.
- EMR is different from many junior companies in that management had a substantial interest in the company. The Directors currently hold around 30%, having invested significant money into the company. There has been no free performance shares/options etc with genuine 'skin in the game'.
- In addition, the in house capabilities of EMR means it will assemble its own internal construction team rather an outsource to an engineering firm (as many of its peers do) as the key members of have been actively involved in project development in Australia and Overseas.
- We maintain our Speculative Buy. It has delivered a very robust DFS with compelling economics and returns. The capital cost is very 'do able' for a company this size. Importantly it has the team to take this all the way through to production and recent price weakness has created a genuine buying opportunity in a quality emerging gold producer.

Emerald Resources NL	Year End 30 June	
Share Price	0.04	A\$/sh
Price Target	0.09	A\$/sh
Valuation	0.09	A\$/sh
	(npv 10%)	

Shares on issue	2106	m, diluted *
Market Capitalisation	88	A\$m
Enterprise Value	78	A\$m
Debt	0	A\$m
Cash	10	A\$m
Largest Shareholder		Dir & Mgt 28%

Production F/Cast	2017f	2018f	2019f
Attrib. Prod'n (koz)	0	0	81
Cash Cost (A\$/oz)	na	n/a	585
Total Cost (A\$/oz)	na	n/a	857

Assumptions	2017f	2018f	2019f
Gold US\$/oz	1259	1325	1350
AUDUSD	0.75	0.76	0.76

Key Financials	2017f	2018f	2019f
Revenue (A\$m)	1	3	110
EBITDA (A\$m)	-2	-5	57
NPAT (A\$m)	-1	-5	22
Cashflow (A\$m)	-3	-180	57

CFPS (Ac)	0	-4	1
P/CFPS (x)	na	na	3.1

EPS (Ac)	0	0	1
EPS growth (%)	na	na	na
PER (x)	na	na	4.7

EV:EBITDA (x)	-39.2	-15.7	1.4
EV:EBIT (x)	-39.2	-15.7	2.2

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	73%	24%	11%
Interest Cover (x)	na	na	11.4

Share Price Chart



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This analyst declares that he has a beneficial interest in Emerald Resources NL.

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Market Statistics			Year End 30 June		
Share Price	\$0.042	A\$/sh	Directors		
Issued Capital			S Lee	Chr'n	
FP Ord	2,106.0	m*	M Hart	MD	
			R Stanley	NE Dir	
Total Dil. FPOrd	2,106.0	m	R Williams	NE Dir	
			J Tremain	Exec Dir	
Market Capitalisation	\$88	m	Shareholders		
Enterprise Value	\$78	m	Dir & Mgt	29%	
Debt	\$-	m	Ingalls & Synder	10%	
Cash	\$10	m			

Asset Valuation		A\$m	A\$/sh
Okvau gold project		245	0.08
Hedging		-	-
Corporate		(46)	(0.01)
Okvau Exploration		20	0.01
Unpaid Capital		60	0.02
Debt		-	-
Cash		10	0.00
Total		289	0.090

F/Cast Production (A\$m)	2017f	2018f	2019f	2020f	2021f	
Okvau (100%)	koz	0	0	81	108	107
Avg Cash Cost	US\$/oz	na	n/a	585	585	640
Avg Total Cost	US\$/oz	na	n/a	857	860	924
Avg All in Costs		n/a	n/a	769	769	843

Avg Spot Price	US\$/oz	1,259	1,325	1,350	1,350	1,350
Avg Price Rec'd	US\$/oz	1,259	1,325	1,350	1,350	1,350

Ratio Analysis (A\$m)	2017f	2018f	2019f	2020f	2021f
CF (A\$m)	(3)	(180)	57	82	78
CF / Sh (Ac/sh)	(0)	(4)	1	2	2
CF Ratio (x)	na	na	3.1	2.2	2.3
Earnings (A\$m)	(1)	(7)	29	43	39
EPS (Ac/sh)	(0)	(0)	1	1	1
EPS Growth (%)	na	na	na	49%	-10%
Earnings Ratio (x)	na	na	4.7	3.1	3.5

E'prise Val. (A\$m)	169	170	148	92	38
EV : EBITDA (x)	(39.2)	(15.7)	1.4	1.0	1.1
EV : EBIT (x)	(39.2)	(15.7)	2.2	1.6	1.9

Net Debt / ND+Eq (%)	73%	24%	11%	na	na
Interest Cover (x)	na	na	11.4	42.5	na
EBIT Margin (%)	na	na	32%	33%	28%
ROE (%)	-6%	-5%	19%	23%	18%
ROA (%)	-2%	-3%	18%	21%	16%

Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio (x)	-	-	-	-	-
Div. Yield (%)	0%	0%	0%	0%	0%
Div. Franking (%)	0%	0%	0%	0%	0%

Profit and Loss (A\$m)	2017f	2018f	2019f	2020f	2021f
Gold Revenue	0	0	109	146	144
Hedging Revenue	0	-	-	-	-
Interest Revenue	1	3	1	3	6
Other Revenue	-	-	-	-	-
TOTAL REVENUE	1	3	110	149	150
Operating Costs	0	0	47	63	68
Dep/Amort	0	0	22	30	30
W/O & Provisions	-	-	-	-	-
Corp O/H	2	5	5	5	5
EBITDA	(2)	(5)	57	78	71
EBIT	(2)	(5)	35	48	41
Interest Expense	-	5	5	5	5
NPBT	(1)	(7)	31	46	42
Tax	(0)	(2)	9	14	13
Minorities	-	-	-	-	-
NET PROFIT	(1)	(5)	22	32	29
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(1)	(5)	22	32	29

Cash Flow (A\$m)	2017f	2018f	2019f	2020f	2021f
Net Profit	(1)	(5)	22	32	29
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	22	30	30
+ Provisions	-	-	-	-	-
+ Tax Expense	(0)	(2)	9	14	13
- Tax Paid	(0)	(2)	7	11	10
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(1)	(5)	46	65	62

-Capex + Development	2	132	3	3	3
-Exploration	1	4	6	6	6
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	5	-	-	-	-
Investing Cashflow	1	(135)	(9)	(9)	(9)
+Equity Issues	-	60	-	-	-
+Loan D'down/Receivable	-	80	-	-	-
-Other (share buy back)	0	0	0	0	0
-Loan Repayment	-	-	-	-	-
-Dividends	-	-	-	-	-
Financing Cashflow	-	140	-	-	-

Period Sur (Def)	(0)	(1)	37	56	54
Cash Balance	15	15	52	108	162

Balance Sheet (A\$m)	2017f	2018f	2019f	2020f	2021f
Assets					
Cash	15	15	52	108	162
Current Receivables	5	5	5	5	5
Other Current Assets	10	10	10	10	10
Non-Current Assets	52	152	132	105	76
Total Assets	83	182	199	228	253
Liabilities					
Borrowings	50	50	66	66	66
Current Accounts Payable	5	5	5	5	5
Other Liabilities	15	15	15	15	15
Total Liabilities	70	70	86	86	86
Net Assets	13	112	113	142	167

Reserves and Resources

	Reserves		Resources			
	mt	g/t	koz	mt	g/t	koz
Okvau (100%)	14.3	2.0	907	15.8	2.2	1,130
Total (koz)			907			1130
EV per oz			86			69

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Contact Details

Euroz Securities Limited +61 8 9488 1400

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Julian Lake - Associate Analyst	+61 8 9488 1470

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Brian Bates - Executive Director	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Grove - Associate Director	+61 8 9488 1410
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Duncan Relf - Investment Adviser	+61 8 9346 0322
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Richard Gardner - Investment Adviser	+61 8 9488 1444
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

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