

SPEC BUY

Current Price \$0.078
Target Price \$0.12

Ticker: RNS
Sector: Materials

Shares on Issue (m): 389.9
Market Cap (\$m): 30.4
Cash Estimate (\$m): 6.5
Enterprise Value (\$m): 23.9

52 wk High/Low: \$0.11 \$0.05
12m Av Daily Vol (m): 0.43

Mineral Inventory (100% basis)

	Mt	g/t	Moz
Reserves	-	-	-
Resources	15.6	2.4	1.2

EV / Reserve \$/oz -
EV / Resource 20

Directors:

Alan Campbell Non-Executive Chairman
Justin Tremain Managing Director
David Kelly Non-Executive Director

Substantial Shareholders:

OZ Minerals 12.5%
JA Advisory 11.4%
Ingalls & Snyder 9.9%

Share Price Graph



Wednesday, 29 October 2014

Renaissance Minerals

Confirming an economic case

Analysts | Patrick Chang | Matthew Keane

Quick Read

Renaissance Minerals (RNS) released results from its Scoping Study (SS), confirming an economic case at Okvau. The results were mostly in-line with Argonaut's expectation, with the exception of strip ratio and overall inventory (see page 2). The project parameters are expected to improve with further drilling and optimisation. Assuming a debt / equity ratio of 60 / 40, Argonaut's valuation for RNS is 12c. The delineation of additional ounces within the Okvau district, which Argonaut considers highly likely, will significantly enhance project economics. The stock remains one of Argonaut's preferred gold explorers. Speculative Buy recommendation maintained.

Event & Impact | Positive

A feasible project: The Scoping Study results were based on a 100% Indicated Resource in a single pit (Okvau) and are largely in-line with Argonaut's expectation. Highlights include:

- 1.5Mtpa throughput, 2.3g/t head grade, 87% recoveries
- Payback of 2.5 years (based on US\$1,250/oz gold price)
- 93koz Au pa production profile, 7-8 years mine life
- US\$133m capex (inclusive of US\$10m contingencies)
- Strip ratio of 5.7:1 (v Argonaut estimate 4:1)

Larger inventory but higher strip: The stripping ratio was higher than Argonaut's estimate of ~4:1, partly due to the pit being pushed deeper than anticipated. This resulted in a larger inventory of 794koz (based on 100% Indicated Resources). The first two stages of the pit contain 536koz and have a modest overall strip ratio of 3.7:1, ensuring robust economics in the first few years. Whilst the higher inventory partially compensated for the increased strip, RNS could add significant value by making additional discoveries, thereby delaying the more marginal Stage 3 cut back.

Exploration remains value driver: There is potential for multi-million ounce deposits in the Eastern Cambodia Igneous Province. This new gold region remains largely untested by modern, systematic methods since the virgin discovery was made in 2006. The regional potential is supported by exploration work completed to date, in particular extensive gold-in-soil anomalies and analogies to large deposits in other known intrusive related gold belts worldwide. The Company's exploration strategy in the near term involves extensional drilling at Okvau, testing of regional prospects (e.g. Samnang, Area 1, and Okvau North) as well as target generation.

Recommendation

Speculative Buy recommendation maintained.

Study demonstrates economic case

Scoping Study results are largely in-line...

Overall in-line

The Scoping Study was based on the Indicated Resource of 1.1Moz @ 2.3g/t (JORC04). Overall, the Study parameters are largely in-line with Argonaut's estimate (see Table 1).

...producing 93koz pa for ~8 years, based on a throughput of 1.5Mtpa...

Table 1: Scoping Study parameters v Argonaut estimate

Project parameters and costs (Scoping v Argonaut estimate)				
Metric	Unit	Scoping Study parameter	Argonaut estimate	
Strip ratio	:	5.7:1*	4:1	
Grade	g/t	2.30	2.40	
Primary Grind	µm	106	150	
Regrind	µm	15	15	
Mass pull	%	-	10	
Overall recoveries	%	87	87	
Throughput	Mtpa	1.5	1.25	
Production	kozpa	93	84	
Startup capex	US\$m	133	120-150	
Mining cost	US\$/t	4.1	4.0	
Processing cost (based on diesel)	US\$/t	16.7	25.0	
Admin / support / corporate	US\$/t	3.1	5.0	
Total unit cost	US\$/t	47.2	50.0	
C1 Cash Cost	US\$/oz	735.0	744.7	
"All-in" Sustaining Cost (AISC)	US\$/oz	783.0	887.7	

* includes Stage 3 which is at a much higher strip of ~9.6:1

Source: Argonaut

...at a head grade of 2.3g/t and overall recoveries of 87%...

Staged pit

...the pit will be staged with the first two providing a quicker payback...

Mining will be in three stages with parameters set out below. The low strip of Stage 1 and 2 (536koz combined @ 3.7:1 strip ratio) should ensure robust economics in the early years and a quicker payback period (2.5 years).

Table 2: Open pit metrics

	Stage 1	Stage 2	Stage 3	Final Pit
Vertical Depth	~140 metres	~180 metres	~240 metres	~240 metres
Waste Material	10.8Mt	15.9Mt	36.1Mt	62.8Mt
Mill Feed Material	3.5Mt	3.7Mt	3.7Mt	11.0Mt
Total Material	14.3Mt	19.6Mt	39.9Mt	73.7Mt
Strip Ratio	3.1:1	4.3:1	9.6:1	5.7:1
Average Head Grade	2.4g/t	2.3g/t	2.1g/t	2.3g/t
Contained Gold	266,000oz	270,000oz	258,000oz	794,000oz

Source: RNS

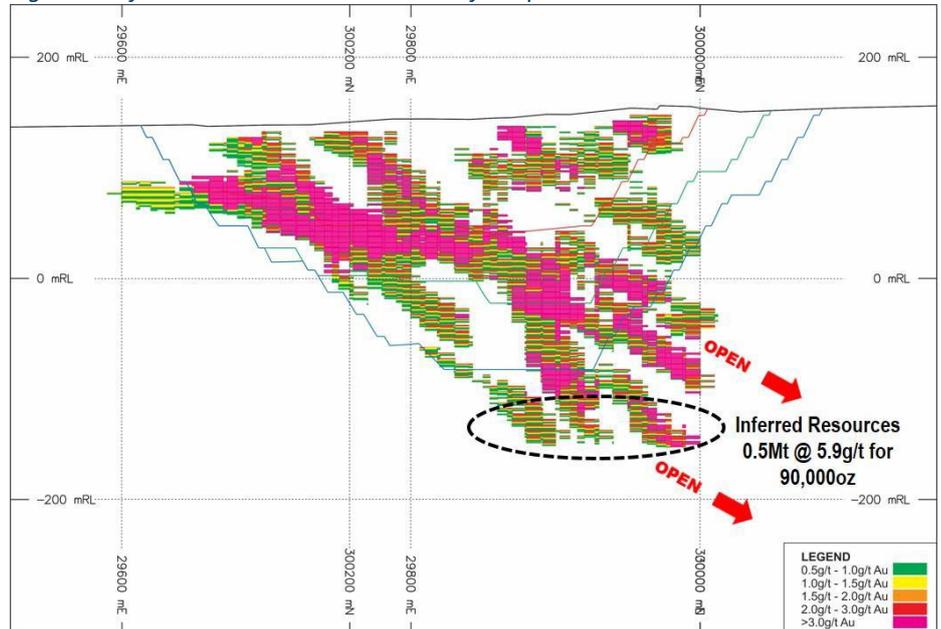
...the lower grade, higher strip Stage 3 will be deferred with exploration success...

On Argonaut's estimate, at a lower grade of 2.1g/t and a higher strip of 9.6:1, the Stage 3 pit appears marginal. However, significant opportunities exist for the Company to delineate additional ounces from the Okvau area, as well as regional prospects to push out the last cut-back. This cut-back is estimated to commence in year 5.

One benefit of a deeper pit is the access to the high grade Inferred material at the bottom of the pit (90koz @ 5.9g/t). This falls outside the current mine plan and could potentially be mined underground (see Figure 1).

...facilitates quicker access to high grade, potentially underground material...

Figure 1: Inferred material at the bottom of the pit

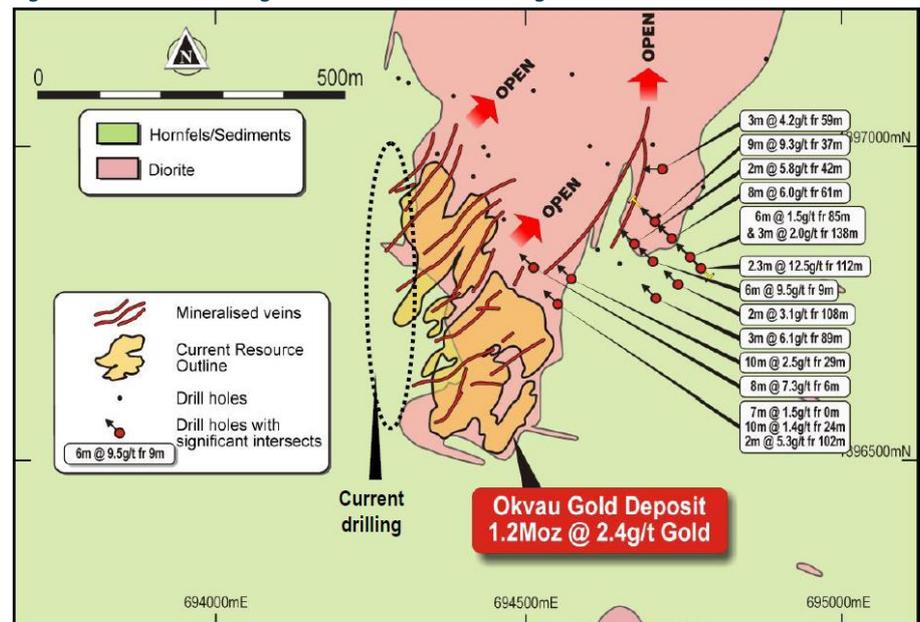


Source: RNS

Overall strip could improve with ongoing drilling...

With ongoing drilling, the overall strip could further reduce. For instance, drilling at the western margin at Okvau could delineate up-dip mineralisation that was previously classified as waste due to a lack of drilling.

Figure 2: Current drilling to test the western margin



Source: RNS

...success at delineating material at the western margin could convert waste to ore...

Processing

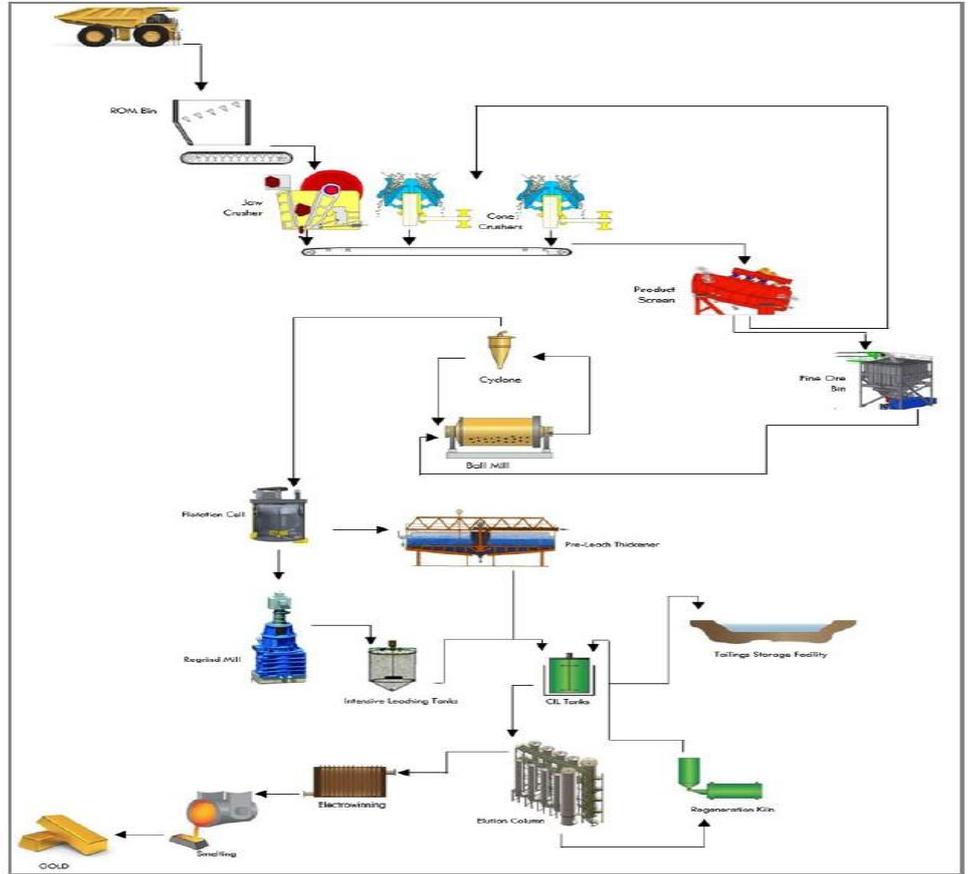
Two stage process involving a floatation and re-grind...

The processing plant has a throughput of 1.5Mtpa (v Argonaut estimate 1.25Mt). The process involves coarse grinding and flotation, fine grinding of a low mass concentrate and conventional cyanide leaching of concentrate and flotation tails.

...overall recoveries estimated at 87%...

A primary grind size of 106µm (v Argonaut estimate 150µm) and a concentrate regrind size of 15µm (in-line) were used in the Study.

Figure 3: Proposed process flow sheet



...primary grind at 106µm, regrind at 15µm...

Source: RNS

Valuation

Valuation of 12c on a funded basis...

Based on the study parameters, Argonaut’s valuation is 12c (on a funded basis). Our valuation is based on a capex of A\$180m and assuming a debt / equity funding split of 60 / 40. Equity raising is assumed at a price of 8c.

We have assumed a unit processing cost of US\$20/t (v Scoping Study US\$16.7/t), based on a 12c/kwh grid power cost. Our unit mining cost estimate is in-line with the Scoping Study number.

...based on a 60/40 debt / equity split

Table 3: Valuation

Summary Valuation		
Renaissance Minerals	A\$m	\$ps
Okvau	126	0.11
Okvau Regional Exploration	20	0.02
Corporate	-13	-0.01
Unpaid Capital	0	0.00
Cash	7	0.01
Debt	0	0.00
Total @ 10.0% Discount Rate	140	0.12

Source: Argonaut

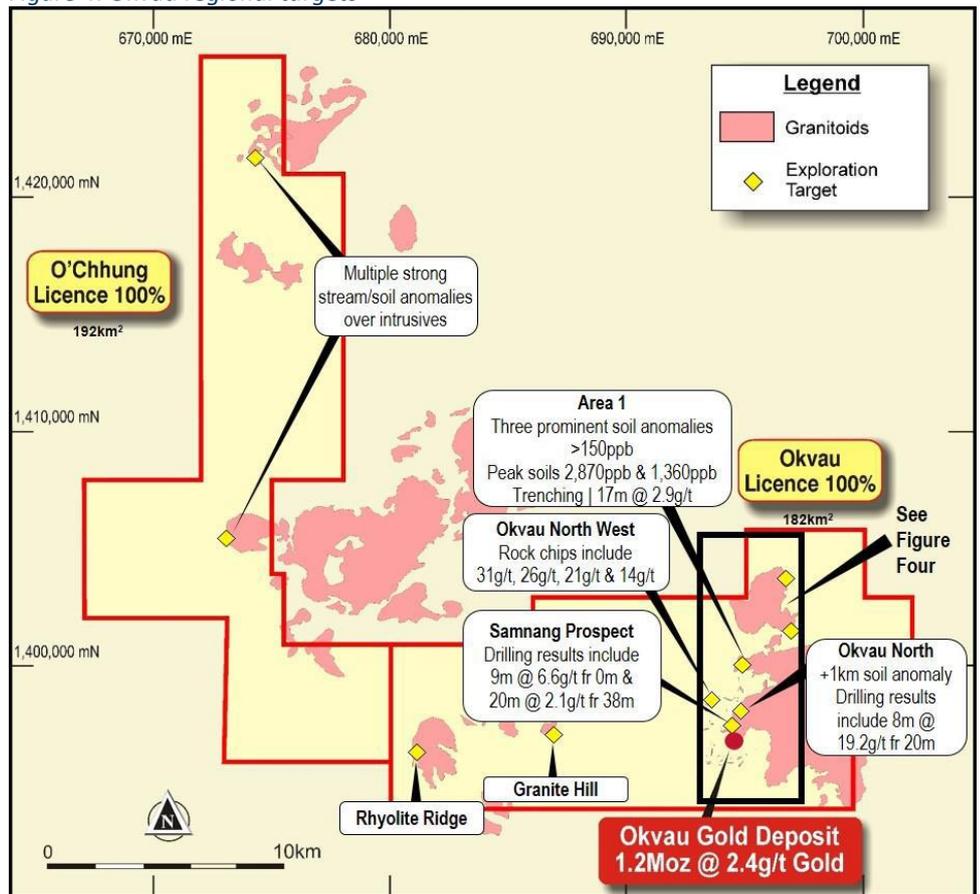
Realising regional prospectivity

Under-explored province with multi-million ounce potential...

There is potential for multi-million ounce deposits in the Eastern Cambodia Igneous Province. This new gold region remains largely untested by modern, systematic methods since the virgin discovery was made in 2006. The regional potential is supported by the exploration work completed to date, in particular extensive gold-in-soil anomalies and analogies to large deposits in other known intrusive related gold belts worldwide.

...supported by extensive gold-in-soil anomalies...

Figure 4: Okvau regional targets



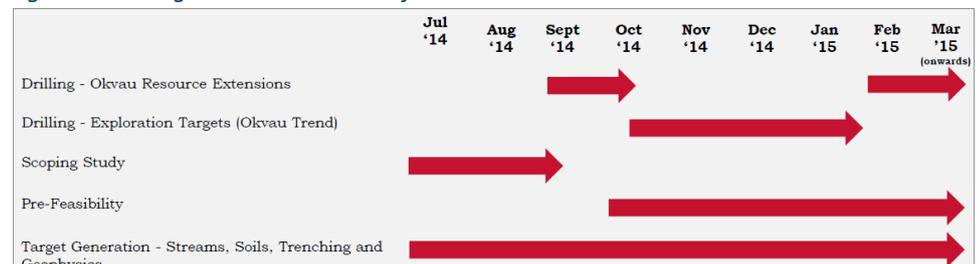
...with discovery of Okvau made in 2006

Source: RNS

RNS is conducting drilling and early stage generative work...

RNS is undertaking both drilling (15,000m program) and early stage target generation working, ensuring a pipeline of prospects and news flow in the coming months. Regional targets include Samnang, Area 1, Okvau North, Area 3 and Area 6.

Figure 5: Drilling schedule and news flow



...ensuring news flow and a pipeline of projects

Source: RNS

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 ichristie@argonaut.com

Philipp Kin | Analyst, Oil & Gas Research
+61 8 9224 6864 pkin@argonaut.com

Patrick Chang | Analyst, Metals & Mining Research
+61 8 9224 6835 pchang@argonaut.com

Emily Reilly | Analyst, Industrial Research
+61 8 9224 6809 ereilly@argonaut.com

Matthew Keane | Analyst, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Troy Irvin | Director, Institutional Research Sales
+61 8 9224 6871 tirvin@argonaut.com

Bryan Johnson | Director, Institutional Research Sales
+61 8 9224 6834 bjohnson@argonaut.com

Damian Rooney | Senior Institutional Dealer
+61 8 9224 6862 drooney@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwilloughby@argonaut.com

INSTITUTIONAL SALES - HONG KONG:

Travis Smithson | Managing Director - Asia
+852 9832 0852 tsmithson@argonaut.com

Glen Gordon | Institutional Research Sales
+852 3557 4874 ggordon@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Executive Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Mark Sandford | Dealer, Private Clients
+61 8 9224 6868 msandford@argonaut.com

Charles Veall | Dealer, Private Clients
+61 8 9224 6840 cveall@argonaut.com

Important Disclosure

Argonaut has acted as Corporate Adviser to RNS within the past 12 months. Argonaut acted as Joint Lead Manager to the Placement that raised \$6M in July 2014 and will receive fees commensurate with this service. Argonaut currently owns and/or controls 2M RNS options exercisable at \$0.25 on or before 28 February 2016.

Information Disclosure

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") or by Argonaut Securities (Asia) Limited ("ASAL") for the use of the clients of ASPL, ASAL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited. ASAL has a licence (AXO 052) to Deal and Advise in Securities and Advise on Corporate Finance in Hong Kong with its activities regulated by the Securities and Futures Ordinance ("SFO") administered by the Securities and Futures Commission ("SFC") of Hong Kong.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL and ASAL have made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, ASAL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL and ASAL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's and / or ASAL's overall revenues.

Hong Kong Distribution Disclosure

This material is being distributed in Hong Kong by Argonaut Securities (Asia) Limited which is licensed (AXO 052) and regulated by the Hong Kong Securities and Futures Commission. Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in the Hong Kong office should be contacted at Argonaut Securities (Asia) Limited of Unit 701, 7/F, Henley Building, 5 Queen's Road Central, Hong Kong, telephone (852) 3557 48000.

Copyright

© 2014. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited and / or Argonaut Securities (Asia) Limited. Argonaut Securities Pty Limited and Argonaut Securities (Asia) Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.