



SPEC BUY

Current Price \$0.05
Valuation \$0.13

Thursday, 12 January 2023

Ausgold Limited (AUC)

Definitive Initiative

Analyst | Royce Haese

Quick Read

Gold equities in general have seen a strong start to 2023. With a steady flow of news expected over the year and one of very few near-term large-scale gold development projects in WA, Ausgold is well poised to capitalise on a buoyant market. We adjust our long-term internal gold price (US\$1800/oz, prior US\$1750/oz). Our valuation improves to 13cps, prior 11cps. We maintain our Speculative Buy recommendation.

Definitive Initiative

DFS Underway: Ausgold has commenced Definitive level studies on its Katanning Gold Project. Key areas the study update will focus on include: Incorporation of an updated Resource Estimate following an ongoing 25 km drill programme, optimisation of the mining schedule, completion and integration of further metallurgical testwork to increase confidence and refine the processing flowsheet, and investigation into whether the deposit will support a larger-scale project.

Release of the updated study is scheduled for Q3 this calendar year. An updated Resource Estimate is scheduled for Q3 also. Ausgold also plans to make a final investment decision in the second half of the year and commence project financing discussions. Previously the Definitive study was scheduled for late Q4 this year.

Financing remains a key risk to the project, potential cost inflations could impact the ability to fund the project. We feel that costs have at least plateaued since the first study was completed in August, so we are not expecting a large mark-up, but this does remain a risk. Another key risk is the ability of Ausgold to secure the farmland the project is located on. The project is on granted mining leases, so risk to eventual development is low, however a clean path forward is beneficial to all stakeholders, so we look for further news on this front from the Company

Three exploration streams are underway in parallel to the study work: Near-mine exploration, which may add incremental ounces to the mine plan, regional gold exploration, which may identify satellite projects for future development, and lithium exploration. Results for this work will be reported throughout the first half of the year.

Argonaut's Mining Scenario and Valuation: Our long term gold price assumption increases to US\$1800/oz and our long term AUD:USD exchange rate assumption drops to 0.7. These changes improve our project level valuation. Otherwise, our mining assumptions remain unchanged

Recommendation

We maintain our Spec Buy recommendation.

Code:	AUC		
Sector:	Metals and Mining		
* All figures in AUD unless stated otherwise			
Shares on Issue (M):	2,029		
Market Cap (\$M):	101		
cash	9		
debt	0		
Net cash (\$M Sep 2022)	9		
Enterprise value (\$M):	93		
52 wk High/Low (ps):	\$0.09	\$0.04	
12m av. daily vol. (Mshs):	2.38		
Key Metrics			
	FY25e	FY26e	FY27e
P/E (x)	2.8	1.6	2.6
EV/EBITDA (x)	-31.0	-15.5	0.8
Financials:			
	FY23e	FY24e	FY25e
Revenue (\$M)	0	0	209
EBIT (\$M)	-3	-6	98
NPAT (A\$M)	-3	-15	70
Net assets (\$M)	19	78	126
Op CF (\$M)	-3	-15	99
Per share data:			
EPS (c)	1.8	3.1	1.9
Dividend (cps)	-	-	-
Yield (%)	-	-	-
CF/Share (cps)	2.5	4.6	2.3
Prod (koz Au)	0	0	81



Please refer to important disclosures at the end of the report (from page 6)



Ausgold Limited

Equities Research

Analyst: Royce Haese

Recommendation Speculative Buy
Current Price \$0.05
Valuation \$0.13

Sector Metals & Mining
Issued Capital (Mshs) 2,029
Market Cap (M) \$101

Thursday, 12 January 2023

Profit & loss (\$M) 30 June	2023E	2024E	2025E	2026E
Sales Revenue	0	0	209	363
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	-86	-141
- Royalties	0	0	-5	-9
- Corporate & administration	-3	-6	-6	-6
Total Costs	-3	-6	-97	-156
EBITDA	-3	-6	111	206
margin	0%	0%	54%	57%
- D&A	0	0	-13	-25
EBIT	-3	-6	98	182
+ Finance Income/Expense	0	-9	-12	-11
PBT	-3	-15	86	171
- Tax expense	0	0	-16	-51
- Impairments and other	0	0	0	0
NPAT	-3	-15	70	120

Cash flow (\$M)	2023E	2024E	2025E	2026E
+ Revenue	0	0	209	363
- Cash costs	-3	-6	-97	-156
- Forwards	0	0	0	0
-Tax payments	0	0	0	-16
+ Interest & other	0	-9	-12	-11
Operating activities	-3	-15	99	179
- Property, plant, mine devel.	0	-201	-28	-3
- Exploration	-6	-6	-6	-6
- Deferred Consideration	0	0	0	0
Investment activities	-6	-207	-34	-9
+ Borrowings	0	175	-10	-20
- Dividends	0	0	0	0
+ Equity	10	75	0	0
Financing activities	10	250	-10	-20
Cash change	1	27	55	151

Balance sheet	2023E	2024E	2025E	2026E
Cash & bullion	11	38	94	244
Other Current Assets	0	0	0	0
Total current assets	11	38	94	244
Property, plant & equip.	11	218	239	223
Investments/other	0	0	0	0
Total non-curr. assets	11	218	239	223
Total assets	22	256	332	467
Trade payables	2	2	21	21
Short term borrowings	0	10	20	20
Other	2	2	21	21
Total curr. liabilities	3	14	61	61
Long term borrowings	0	165	145	125
Other	0	0	0	0
Total non-curr. liabil.	0	165	145	125
Total liabilities	3	179	206	186
Net assets	19	78	126	281

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Shares	2023E	2024E	2025E	2026E
New shs issued/exerciseable	222	1667	0	0
Average issue price	0.045	0.045	0.000	0.000
Ordinary shares - end	2252	3918	3918	3918
Diluted shares - end	2252	3918	3918	3918

Financial ratios		2025E	2026E	2027E	2028E
GCFPS	AC	2.5	4.6	2.3	2.6
CFR	X	0.0	0.0	0.0	0.0
EPS	AC	1.8	3.1	1.9	1.9
PER	X	2.8	1.6	2.6	2.6
DPS	AC	-	-	-	-
Yield	%	-	-	-	-
Interest cover	x	8.1	16.5	13.0	14.9
ROCE	%	41%	82%	61%	67%
ROE	%	68%	61%	33%	27%
Gearing	%	115%	45%	30%	20%

Operations summary	2025E	2026E	2027E	2028E
Katanning Gold Project				
Ore processed (Mt)	1.7	3.0	3.0	3.0
Head grade (g/t)	1.70	1.63	1.38	1.38
Met. recovery	90%	90%	90%	90%
Gold prodn (koz)	81	141	119	119
Cost per milled tonne (A\$/t)	52	47	48	48
Cash costs pre royalty (A\$/oz)	1062	1003	1204	1205
Sustaining capital (\$M)	3	3	3	2
All in sustaining costs (A\$/oz)	1153	1087	1291	1290
Growth capital (\$M)	31	6	6	3
CAIC (A\$/oz)	1263	1280	1757	1714

Price assumptions		2025E	2026E	2027E	2028E
AUDUSD		0.700	0.700	0.700	0.700
Gold	USD	1800	1800	1800	1800

Valuation summary	A\$M	A\$/sh
Katanning Gold Project 7% real after tax	408	0.20
Exploration	82	0.04
Corporate Overheads	-38	-0.02
Cash and bullion	9	0.00
Debt	0	0.00
Tax benefit	25	0.01
Hedging	0	0.00
Option/equity dilution	-211	-0.10
NAV	273	0.13

Directors, management	
Richard Lockwood	Non-Executive Chairman
Matthew Greentree	Managing Director
Denis Rakich	Executive Director
Geoff Jones	Non-Executive Director
Neal Fearis	Non-Executive Director
Timothy Kestell	Non-Executive Director

Top shareholders	M shs	%
Dundee Corp.	253.8	12.5
Jupiter Asset Management	125.0	6.2

Resources May '22	Mt	g/t Au	Kozs	Mkt cap/oz
Katanning Gold Project	56.0	1.21	2,160	47
Measured	19.0	1.31	800	
Indicated	26.8	1.14	984	
Inferred	9.5	1.03	370	

Argonaut model Jan '23	Mt	g/t Au	Kozs	
TOTAL INVENTORY	32.1	1.25	1,290	78.7
Katanning	32.1	1.25	1,290	

Definitive Initiative

Exploration

Ausgold has commenced a 25 km multi-rig drill programme

Late last year Ausgold announced that it had commenced a 25 km multi-rig drill programme, with some of the more conceptual drilling to be EIS co-funded. As part of this regional work it also committed to completing a review of the projects lithium potential. The three workflows include:

At Katanning, drilling will aim to expand upon and look for potential repeats of the main Jinkas system

Extensional Gold Drilling:

- At the Katanning Gold Project, drilling will aim to expand the existing 2.2Moz project, looking for potential extensions and/or repeats of the Jinkas system in all directions
- A combination of Diamond, RC and AC drilling will be utilised
- Along strike to the north and south, areas with previously limited drilling will be tested for extensions
- An aircore programme is planned to test for parallel structures east and west of Jinkas, historical work has shown prospective mafic geology with gold anomalism, with limited follow up

Early-stage drilling will collect reconnaissance data across numerous targets in Ausgold's large land holding

Regional Gold Drilling:

- Reconnaissance drill testing over the Stanley Thrust, a 125 km long structure ~25 km east of the Katanning Gold Project, previous best result was 8.5 m @ 33.0 g/t Au from 37.7 m
- Aircore follow up at Duggan, previous best result of 7 m @ 4.1 g/t Au from 19 m
- First-pass drill testing over Gundaring, a prospect 40 m NW of the Katanning Gold Project with gold-in-soil anomalism
- At Lake Magenta historical gold-in-soil anomalism will be followed up with aircore drilling

Recent government work has identified lithium potential in the southwest

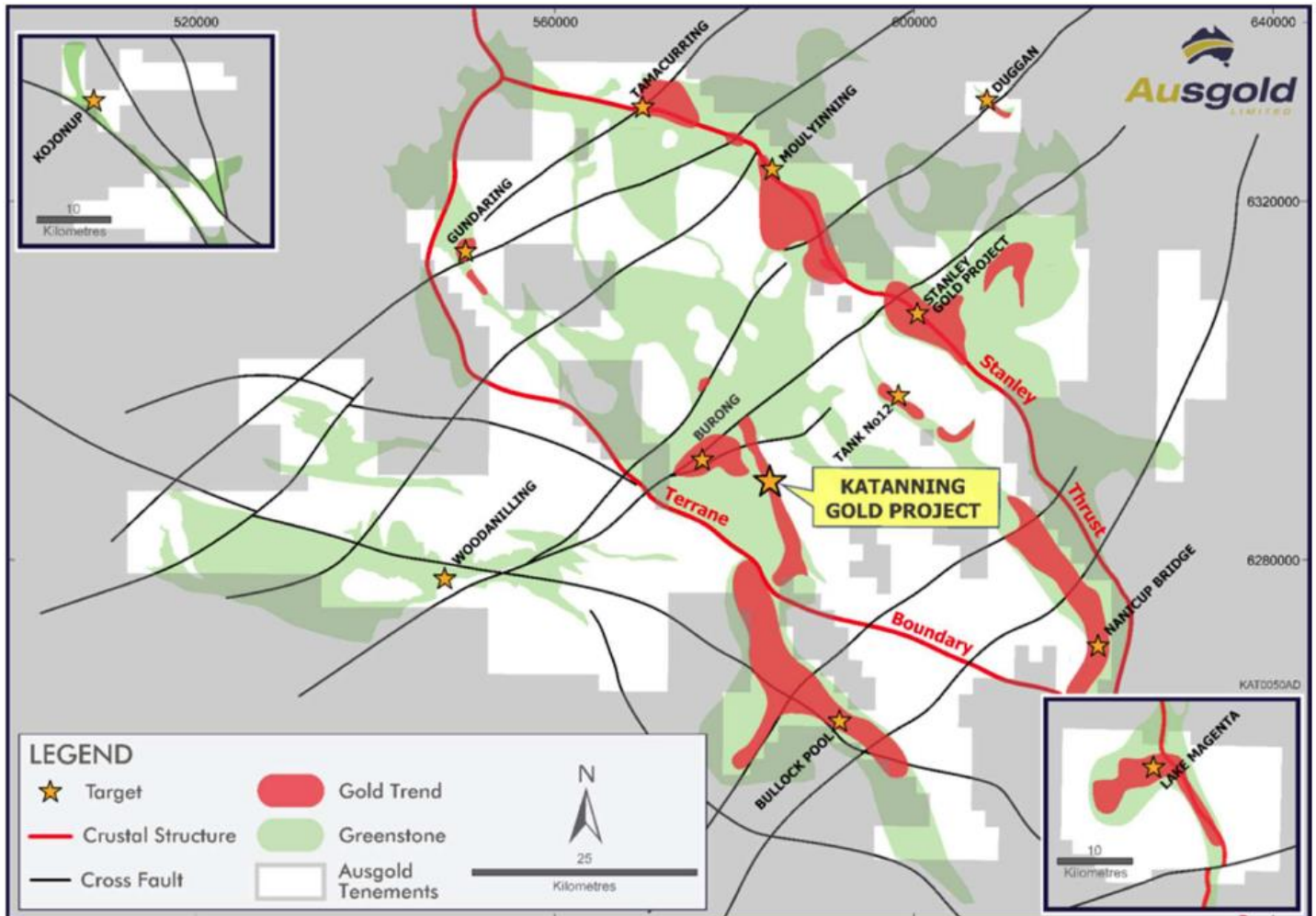
Lithium Potential Assessment

- A recent CSIRO study flagged significant lithium in soil anomalism in the vicinity of Ausgold's tenure, with the strongest anomalism coincident with Ausgold's Lake Magenta prospect
- Ausgold has completed surface mapping and re-logged diamond holes and has outlined 16 pegmatite intrusives with anomalous lithium
- Rock chip sampling of outcrop has been completed with assay results pending
- Aircore drilling will be utilised to test for lithium bearing potential of these pegmatites

A Resource update is planned for the third quarter of this calendar year. We expect this to mostly incorporate extensional drilling. Testing of the regional targets is likely too early-stage to see inclusion in the next Resource update.

Over the past few years Ausgold has shown diligent Resource definition work at the central Katanning Gold Project, we look forward to seeing what applying the Company learnings across the central zone to the regional targets could turn up.

Figure 1: Ausgold’s land-holding with mapped greenstones and identified gold anomalous zones outlined.



Source: AUC

The physicals utilised in our mining scenario remain unchanged at this stage

We now assume a long-term gold price of US\$1800/oz

Argonaut’s Mining Scenario and Valuation

At this stage we do not factor in any of the potential changes to the project resulting from the ongoing Definitive level study work to our mining scenario used as a basis for valuation. As the study progresses, we will incorporate news flow into our assumptions. Please [see prior research for mining scenario assumptions](#).

Argonaut has increased its long-term internal gold price assumption from US\$1750/oz to US\$1800/oz. Since our latest Ausgold Research was published we have also reduced our assumed long-term AUD:USD exchange rate from 0.725:1 to 0.7:1 AUD:USD. Applying these updated assumptions to our mining scenario improves our project level NPV₇ to \$408M, prior \$330M.

Our valuation is leveraged to both the gold price and exchange rate, at spot gold and exchange rate (US\$1880/oz and 0.69 AUD:USD) our project level valuation improves to \$483M.

Table 1: Argonaut's Katanning Gold Project NPV₇ under various gold price and AUD:USD assumptions.

		Gold Price (US\$)					
		1700	1750	1800	1850	1900	1950
AUD:USD	0.75	258	291	323	356	389	422
	0.725	296	330	364	398	432	466
	0.70	337	373	408	443	478	513
	0.675	382	418	455	491	528	564
	0.65	429	467	505	543	581	619

Source: Argonaut

Table 2: Argonaut's Ausgold valuation summary.

Valuation summary	A\$M	A\$/sh
Katanning Gold Project 7% real after tax	408	0.20
Exploration	82	0.04
Corporate Overheads	-38	-0.02
Cash and bullion	9	0.00
Debt	0	0.00
Tax benefit	25	0.01
Hedging	0	0.00
Option/equity dilution	-211	-0.10
NAV	273	0.13

Source: Argonaut

Key Risks to Valuation

Risk remains that costs continue to escalate industry-wide which would have a negative impact to project valuation

Ausgold's PFS which we have used to inform our model assumptions was completed based upon current tendered rates for mining, construction and processing. As is well documented most inputs for all miners have increased significantly over the past 18 months due to diesel/steel prices and a stretched labour market. There is risk here that costs continue to escalate.

Ausgold's DFS will investigate project improvement opportunities, none of which is factored into our mining-scenario. There is also potential for diesel prices/the labour market to improve, which could materially reduce Ausgold's cost assumptions.

Another key risk is the potential to develop within West Australia's Great Southern wheatbelt region. The project is located on arable farmland ~40 km northwest of the town of Katanning and as such there is potential for increase environmental scrutiny on project development. The project is located on granted mining leases, and has been mined historically. Ausgold has established an office in Katanning and is actively engaging with stakeholders. These factors reduce this risk in our view.

We have assumed processing recoveries of 90%. Ausgold is investigating whether this can be improved. If recovery of 93% was able to be achieved then our project level NPV would improve from \$408M to \$450M. If the processing facility underperforms at 87% then our project level NPV reduces to \$366M.

Funding availability remains a key risk to project development

We have assumed a 70:30 debt to equity split to fund construction in our model. There is no guarantee that either method of funding would be available to Ausgold to build the Katanning Gold Project, as the project advances we will continue review our financing assumptions.



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Argonaut acted as Lead Manager to the Placement to raise \$16M in March 2022 and received fees commensurate with this service. Argonaut holds or controls 30M options exercisable at \$0.06 expiring 31 March 2025.

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