

Geopacific Resources (GPR AU)

100kozpa vanilla open pit in PNG with strong new team

RECOMMENDATION: **BUY**

PRICE TARGET: **A\$1.95/sh**

RISK RATING: **HIGH**

SHARE DATA

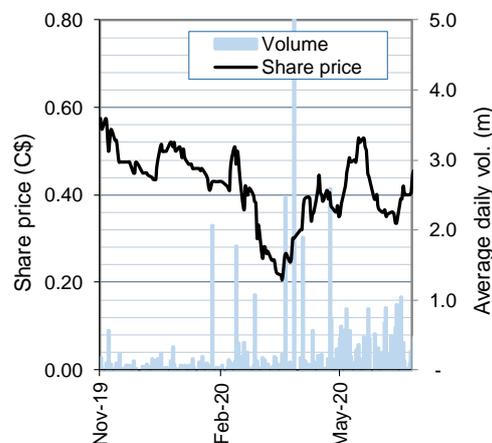
Shares (basic, FD, FF FD)	175 / 183 / 279
Share price (A\$/sh)	C\$0.56/sh
52-week high/low	A\$0.715 / A\$0.21
Market cap (A\$m)	98
Net cash 3Q20 (A\$m)	24
1.0xNAV5% @ US\$1850/oz (A\$m)*	568
1.0xNAV5% FD (A\$/sh)*	3.11
Project P/NAV today (x, FD)	0.18x
Average daily value (A\$000, 3M)	276

FINANCIALS

	CY22E	CY23E	CY24E
Gold sold (000oz)	51	115	106
Revenue (A\$m)	126	285	261
AISC (US\$/oz)	825	883	990
Income (A\$m)	45.9	112.3	74.7
EPS (A\$)	0.16	0.40	0.27
PER (x)	3.4x	1.4x	2.1x
CFPS (A\$)	-	0.51	0.36
P/CF (x)	-	1.1x	1.6x
EBITDA (A\$m)	76.8	171.8	141.4
EV/EBITDA (x)	3.0x	0.5x	(0.1)

TIME VALUE: 1850/oz^ 4Q20 4Q21 4Q22

1xNAV5% FF FD (A\$m)	439	537	581
1xNAV5% FF FD (A\$/sh)	2.40	1.93	2.08



Source: Fidessa; *diluted for options only ^and mine build

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Vanilla >100kozpa producer in PNG with new mine-builder CEO

Geopacific's Woodlark project is a vanilla open pit CIL in Papua New Guinea, with new CEO Tim Richards former GM of neighbour Simberi. The 1.04Moz reserve supports ~100koz pa through a 2.4Mtpa CIL. A revalidated DFS under Tim's leadership is scheduled this quarter, allowing finalisation of an agreed US\$100m debt package. The DFS budgeted ~US\$775/oz AISC as the 4:1 strip offsets the 1.1g/t grade for nine year mining and 14 year processing.

Project robust with conservative inputs, RAP speeds exploration

We prudently add ~14% to the DFS capex, increasing DFS mining costs by 40% and processing costs by 45% for a SCPe stressed case. We compare our DFS and stress case costs to St Barbara's Simberi mine, with stress-case AISC <US\$1,000/oz. Our point here is that one can 'kitchen sink' input assumptions and still see good upside. The silver lining of a village relocation, underway now, is that village sat between proposed pits. As access opens up first-ever drilling in a previously inaccessible area should drive reserve extensions.

Management team ideal for the opportunity

A key step-change is appointment of Tim Richards as CEO, adding operational strength to the PNG and governance background of Chairman Ian Clyne. Tim is a mining engineer with six-years as GM at neighbouring Simberi (acquired by St Barbara from Allied Gold), and emerging market experience, extending to prior roles as GM of the Amulsar mine build in Armenia and mine manager for Kinross at Tasiast. This adds to skills from Chairman Ian Clyne, prior CEO of the Bank of South Pacific Group. Further bench strength comes from NED Ian Murray, with a strong network as MD of Gold Road and DRD prior to that.

Recent debt package leaves project on cusp of build start

In October, a period of exclusivity was entered into with Sprott for a US\$100m facility, comprising US\$85m of project finance and a US\$15m callable stream. Senior debt is at LIBOR +6.25-7.25% with price participation over 100koz (7.5koz pq), paying the delta between US\$1,475/oz and spot. The US\$15m callable gold stream is paid in exchange for 70% payment on 3.4% of production to 30koz and 1.7% on remaining. Key CPs for drawdown are equity, permits, and construction contracts after detailed technical due diligence is completed.

Maintain BUY rating and A\$1.95/sh PT

Our Woodlark DCF is net of finance and G&A, modelling the debt and stream as published. While FD share count is difficult to forecast ahead of upcoming catalysts, we use 279m FD post an A\$70m equity raise. Our PT is based on 1xNAV5%-1850, not to show the value today but a potential 'exit value' approaching production. Based on our 4Q21 A\$537m NAV we maintain our BUY rating and A\$1.95/sh PT. While the trajectory between now and first pour may twist and turn, most scenarios see a 1xNAV of >A\$2/sh once in production, which underpins our investment thesis, and strong positive view on the name.

Ticker: GPR AU	Price / mkt cap: A\$0.56/sh, A\$98m	Project PNAV today: 0.18x	Asset: Woodlark Is.		
Author: Brock Salier	Rec / 1xNAV PT: BUY, A\$1.95/sh	1xNAV_{1Q21} FF FD: C\$2.40/sh	Country: Papua New Guinea		
Commodity price	CY20E CY21E CY22E CY23E CY24E	Resource / Reserve	AuEq (koz) AuEq (g/t)		
Gold price	1,819 1,870 1,861 1,853 1,850	Resource	1567koz 1.04g/t		
SOTP project valuation*		Reserve	1041koz 1.12g/t		
	A\$M O/ship NAVx A\$/sh	Funding: uses	Funding: sources		
Ungeared proj. @ build start (1Q21)	524 100% 1.00x 2.87	DFS capex A\$199m 3Q20 cash + pre-AU options	A\$30m		
Cash (3Q20)	24.4 100% 1.00x 0.13	SCPe contingency A\$17m	Mine debt @ 60% gearing A\$112m		
Cash from options	3.6 100% 1.00x 0.02	SCPe G&A + fin. cost to first Au	A\$5m Callable gold stream A\$20m		
Exploration 250koz @ US\$50/oz	16.4 100% 1.00x 0.09	SCPe working capital A\$13m	Build equity @ 30% premium A\$70m		
Asset NAV5% US\$1850/oz	568 3.11	Total uses A\$233m	Total proceeds A\$231m		
<i>*Shares diluted for options but not mine build Market P/NAV5% 3Q20 0.18x</i>		<i>*Cash from options expiring pre first pour Buffer: -A\$2m</i>			
Asset value: 1xNPV project @ build start (A\$m, ungeared)*					
Project NPV (A\$m)*	\$1750oz \$1850oz \$1950oz \$2050oz \$2150oz	Share data			
8.0% discount	379 444 509 574 638	Basic shares (m)	175.0	FD with build equity raise	278.7
6.5% discount	412 482 551 620 689	FD with options (m)	182.6		
5.0% discount	449 524 597 671 745	Ratio analysis	CY20E CY21E CY22E CY23E CY24E		
Ungeared project IRR:	48% 53% 58% 63% 68%	Average shares out (m)	145.8	265.7	278.7
NPV5 (A\$m)*	\$1750oz \$1850oz \$1950oz \$2050oz \$2150oz	EPS (A\$/sh)	-	-	0.16
Mining cost: A\$2.51/t	536 610 683 757 831	CFPS (A\$/sh)	-	-	0.51
Mining cost: A\$3.00/t	493 567 641 714 788	EV (A\$m)	57.8	146.3	227.6
Mining cost: A\$3.50/t	449 524 597 671 745	FCF yield (%)	-	-	90%
1xNAV5% (A\$/sh)	\$1750oz \$1850oz \$1950oz \$2050oz \$2150oz	PER (x)	-	-	3.4x
8.0% discount	2.32 2.68 3.03 3.39 3.74	P/CF (x)	-	-	1.1x
6.5% discount	2.50 2.88 3.26 3.64 4.02	EV/EBITDA (x)	-	-	3.0x
5.0% discount	2.70 3.11 3.52 3.92 4.32	Income statement			
<i>*Project level NPV, excl finance costs and central SGA, discounted to build start</i>					
Group valuation over time^	4Q20 4Q21 4Q22 4Q23 4Q24	Net revenue (A\$m)	-	-	126.4
Woodlark NPV (A\$m)	516.0 624.1 787.0 633.4 513.5	COGS (A\$m)	-	-	46.2
G&A and finance costs (A\$m)	(121.5) (125.0) (121.4) (97.5) (67.2)	Gross profit (A\$m)	-	-	80.2
Net cash prior qtr (A\$m)	24.4 18.3 (105.1) 40.4 148.8	D&A, attrib (A\$m)	-	-	13.3
Cash from options (A\$m)	3.6 3.6 3.6 3.6 3.6	Admin (A\$m)	4.1	3.4	3.4
Exploration 250koz @ US\$50/oz	16.4 16.4 16.4 16.4 16.4	Expensed exploration (A\$m)	0.1	-	-
NAV FF FD (A\$m)	439 537 581 596 615	Finance cost (A\$m)	(0.1)	(0.1)	17.6
Shares in issue (m)	182.6 278.7 278.7 278.7 278.7	Taxes (A\$m)	-	-	-
1xNAV5%/sh FF FD (A\$/sh)	2.40 1.93 2.08 2.14 2.21	Net income (A\$m)	(4.0)	(3.3)	45.9
P/NAV	0.23 0.29 0.27 0.26 0.25	Cash flow, attrib.	CY20E CY21E CY22E CY23E CY24E		
Geared company NAV diluted for mine build, net G&A and finance costs					
2Q22 1xNAV FF FD (A\$/sh)^	\$1750oz \$1850oz \$1950oz \$2050oz \$2150oz	EBIT (A\$m)	(4.2)	(3.4)	63.5
10.0% discount	1.58 1.79 2.00 2.21 2.42	Add back D&A (A\$m)	-	-	13.3
7.5% discount	1.69 1.92 2.15 2.38 2.61	Less tax + net interest (A\$m)	(0.1)	(0.1)	17.6
5.0% discount	1.83 2.08 2.33 2.58 2.83	Net change in wkg cap (A\$m)	-	1.2	(28.0)
Geared project IRR:	37% 41% 45% 49% 52%	Add back other non-cash (A\$m)	0.3	1.0	1.0
2Q22 1xNAV FF FD (A\$/sh)^	\$1750oz \$1850oz \$1950oz \$2050oz \$2150oz	Cash flow ops (A\$m)	(3.8)	(1.1)	32.2
Mining cost: A\$2.51/t	2.18 2.43 2.68 2.93 3.18	PP&E - build + sust. (A\$m)	(10.4)	(110.0)	(106.2)
Mining cost: A\$3.00/t	2.01 2.26 2.51 2.76 3.01	PP&E - expl'n (A\$m)	-	-	-
Mining cost: A\$3.50/t	1.83 2.08 2.33 2.58 2.83	Cash flow inv. (A\$m)	(10.4)	(110.0)	(106.2)
<i>^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity</i>					
Production	Y1 Y2 Y3 Y4 Y5	Share issue (A\$m)	-	70.0	-
Gold production (000oz)	112 108 104 103 94	Lease payments (A\$m)	-	-	-
C1 cost (US\$/oz)	621 761 818 925 1,028	Debt draw (repay) (A\$m)	-	19.7	111.8
AISC cost (US\$/oz)	684 825 883 990 1,095	Cash flow fin. (A\$m)	-	89.7	111.8
<i>AISC = C1 + ug sustaining capex, Y1 = 12M to Jun 2023</i>					
Balance sheet					
Production					
Y1 Y2 Y3 Y4 Y5					
Gold prod'n (LHS, 000oz) AISC (RHS, US\$/oz Au)					
500koz 400koz 300koz 200koz 100koz 0koz					
1100/oz 1000/oz 900/oz 800/oz 700/oz 600/oz					
Y1 Y2 Y3 Y4 Y5					
<i>Source: SCP estimates</i>					
EBITDA (A\$m)	(3.3)	76.8	172.1	141.9	127.7
Balance sheet	CY20E CY21E CY22E CY23E CY24E				
Cash (A\$m)	23.8	2.5	45.6	183.4	247.5
Acc rec., inv, prepaid (A\$m)	2.1	1.0	29.6	28.9	28.8
PP&E + other (A\$m)	52.5	162.5	255.4	227.4	202.9
Total assets (A\$m)	78.4	166.0	330.6	439.7	479.3
Debt (A\$m)	-	-	117.1	113.7	78.6
Accounts payable (A\$m)	9.7	9.8	10.4	10.3	10.3
Others (A\$m)	2.0	2.0	2.0	2.0	2.0
Total liabilities (A\$m)	11.7	11.9	129.6	126.1	91.0
Sh'hlds equity + wrnts (A\$m)	149.2	220.2	221.2	221.5	221.5
Retained earnings + rsvs (A\$m)	(82.5)	(66.1)	(20.2)	92.1	166.9
Liabilities + equity (A\$m)	78.4	166.0	330.6	439.7	479.3

Source: SCP estimates

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NEUTRAL: The stock's total returns are expected to be in line with the overall market

SELL: The stocks total returns are expected to be materially lower than the overall market

TENDER: The analyst recommends tendering shares to a formal tender offering

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NOT RATED ((N/R): The stock is not currently rated

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Summary of Recommendations as of November 2020	
BUY:	26
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	27

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