

Capricorn Metals Ltd

(CMM \$0.08) Speculative Buy



| Analyst | Date | Price Target |
|----------------|------------------------------|--------------|
| Andrew Clayton | 10 th August 2017 | \$0.18/sh |

Maiden Reserve of 713koz

Investment case

Maiden reserves of 713koz representing a 70% conversion of the Indicated resource is a pleasing result and in line with our forecast. The low strip ratio (2.9:1) in the early years should allow for quick capital payback and potentially low AISC (<\$900/oz). As a single, virgin open pit with ore thickness up to 50m, this should be a relatively simple development proposition. Our valuation remains at \$0.18/sh based on some broad assumptions that should be confirmed in the DFS in Sept. Lack of quality, domestic emerging gold producers should see CMM re rate as it development hurdles are met and we retain our Speculative Buy recommendation.

Key points

- Maiden reserve of 21mt @ 1.06 g/t Au for 713koz has been defined at Bibra - a pleasing outcome.
- This represents a conversion of ~70% of the 1moz Indicated Resource.
- A gold price of A\$1,500/oz was used with a variable cut off grade of between 0.4 - 0.47 g/t Au.
- Very low strip ratio of 2.9:1 for Stage one pit (177koz) and LOM strip of 4.7:1. Stage one pit is predominantly laterite and oxide mineralisation at a slightly higher grade of 1.10 g/t than the overall reserve grade.
- This should lead to low AISC for this Stage one pit - potentially <\$900/oz allowing for quick capital pay back/debt.
- Reserves are based on a 3mtpa CIP plant producing ~ 100koz pa over an initial mine life of 7 yrs.
- Infrastructure is good as its only 55km S-W of Newman. Power options include site based diesel fired power or transmitted from Newman via a 63km, 66KV powerline.
- A mining licence covers Bibra and CMM has negotiated a Land Access Agreement.
- The DFS is slated to be released in Sept'17.

Analysis

CMM has made rapid progress since the merger with Greenmount in Feb'16. It now boast reserves higher than the initial inferred resource of 650koz. It has completed +75,000m of drilling and is on the cusp of delivering a DFS which we believe will demonstrate a very robust project.

The reserve estimate was in line with our forecast and a pleasing outcome. The assumed gold price is conservative and the technical parameters all appear reasonable.

The key attractions are the simplicity of the operation as a virgin deposit, strong continuity of mineralisation both along strike and down dip and the exploration upside. Whilst the grade is modest, the low strip ratio, especially in the early years should result in very competitive operating costs with its peer group of developers.

We estimate capital cost of A\$120-130m for a 3mtpa plant and forecast AISC of A\$1,000-1,100/oz. However, in the early years, the low strip could see AISC of <\$900/oz generating margins of +\$700/oz at current gold prices (~\$70m EBITDA pa). This should allow for quick capital payback/debt repayment.

| Capricorn Metals Ltd | Year End 30 June | |
|-------------------------|------------------|----------|
| Share Price | \$0.08 | A\$/sh |
| Issued Capital | | |
| FP Ord | 572 | m |
| Options (\$0.15) | 40.6 | m |
| Options (\$0.50) | 0.4 | m |
| Total Dil. FPOrd | 612.3 | m |
| Market Capitalisation | \$49 | m |
| Enterprise Value | \$44 | m |
| Debt | \$- | m |
| Cash | \$5 | m |
| Hedging | \$- | m |

Directors

| | |
|-----------------|-----------|
| Heath Hellewell | Exec Chrm |
| Guy LeClezio | NE Dir |
| Stuart Pether | NE Dir |

Shareholders

| | |
|--------------|--------|
| Centrepeak | 19.10% |
| Hawkes Point | 14.90% |
| Dir & Mgt | 13.70% |

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Share Price Chart



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The higher grade and oxide component could result in higher throughput and production of say 115-120koz pa in the early years.

The recent results at Potrush give confidence that further ounces will be defined and higher gold prices would push the pit deeper with some 300koz down dip of the ore reserves/pit optimisation.

Our risk adjusted valuation remains at \$0.18/sh based on the above assumptions and subject to confirmation from the DFS. There remains a dearth of emerging domestic gold producers and we expect that once CMM deliver its DFS and move towards development the stock will be re rated.

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