

24 April 2018

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SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.22↑

from A\$0.18

Price (23-Apr) A\$0.08

Ticker CMM-ASX

52-Week Range (A\$):	0.05 - 0.12
Avg Daily Vol (M) :	1.0
Market Cap (A\$M):	60.6
Shares Out. (M) :	747.9
Enterprise Value (A\$M):	50.0
Cash (A\$M):	10.6
Long-Term Debt (A\$M):	0.0
NAV /Shr (A\$):	0.22
NAV /Shr (5%) (A\$):	0.27
Major Shareholders:	Hawkes Point 19%

FYE Jun	2017A	2018E	2019E	2020E
Sales (A\$M)	0.0	0.0	0.0	136.0↑
Previous	-	-	-	133.6
EBITDA (A\$M)	(3.5)	(6.0)	(8.4)	60.9↑
Previous	-	-	-	58.6
Net Income (A\$M)	(3.3)	(5.9)	(9.4)	50.7↑
Previous	-	-	-	48.1
EV/EBITDA (x)	(15.6)	(9.3)	(10.8)	1.0
Gold Production (000oz)	0	0	0	75
All in Sustaining Cost (Gold) (US \$/oz)	-	-	-	788



Priced as of close of business 23 April 2018

Canaccord Genuity (Australia) Limited has received a fee as the Lead Manager and Bookrunner to the Capricorn Metals Ltd capital raising announced on 30 November 2017.

Raising Target Price**Rapidly approaching a development decision**

Fixed price, turnkey contract delivers material capex saving. CMM has announced GR Engineering (GNG : ASX : A\$1.41 | Not rated) as the preferred contractor for the design and construction of its proposed Karlawinda gold plant (and associated infrastructure). The contract is for construction of a 3Mtpa processing facility (in line with Feasibility Study), and positively, the lump sum, turnkey price of A\$93.1m represents a reduction of 23% versus estimates in the 2017 Feasibility Study. Impressively, the updated capex also incorporates a number of modifications, the most notable being the installation of a combined SAG-Ball (SAB) grinding circuit from project commencement (previously Ball Mill with SAG added in year 2). We foreshadowed this in our [initiation note](#), and ultimately see this as a pragmatic approach that will increase the production flexibility and efficiency at the operation. We also highlight that GNG is a leading WA-based engineering firm, with an excellent reputation for timely project delivery on budget. GNG recently completed construction of Dacian Gold's Mt Morgans processing facility, and is on track to compete a similar-scale facility at Gascoyne Resources' Dalgarranga project in the JunQ'18.

Reserve update the next catalyst to build on the initial Feasibility Study. While CMM has completed a Feasibility Study outlining a 6.5-year mine life (Reserve based), we expect a pending Reserve update (CG est. JunQ'18) to underpin a longer production scenario, and as such, assume an ~8 year mine life in our modelling. This implies only a modest increase to the current Reserve from 713koz to ~850koz, which is the basis for our assumed production rate of ~100kozpa at an AISC ~A\$1,050/oz. We note that with the highest-margin production in the initial years (mine plan includes higher grade laterite), together with the capex reductions and the genuine possibility for exploration to drive further Resource and Reserve growth, the project is becoming increasingly robust as it approaches a development and financing decision.

Development decision expected in the 2H C2018. With CMM ticking off a number of key project catalysts in the JunQ'18, we expect the company to make a development decision in the 1H FY19. In funding the project development, working capital and exploration requirements, we have assumed a 50:50 debt/ equity split raising a total of A\$130m (previously A\$140m), noting that CMM currently has ~A\$10m in cash (no debt). We have allowed exploration expenditure of between A\$5-10m pa through FY19/20, which in our view could materially improve the base-case project, should drilling prove successful at a number of early stage targets within trucking distance from the proposed plant site.

Valuation and recommendation. Our A\$0.22/sh price target (previously A\$0.18/sh) has increased on incorporating lower capex, improved funding and updated forward curve gold price assumptions (+1.8% 2018-2022, +3.6% long term). Our valuation is based on an NPV10% for the Karlawinda gold project, net of corporate and other adjustments and diluted for future financing. With the likes of Dacian Gold (DCN : ASX : A\$2.85 | SPEC BUY, Tim McCormack), Gold Road (GOR : ASX: \$0.80 | SPEC BUY, Patrick Chang) and Gascoyne Resources (GCY : ASX : A\$0.53 | Not rated) funded and in construction/ramp up, attention is turning to who's next in the gold development pipeline, and we see CMM as one of the standout greenfield investment propositions. SPEC BUY recommendation maintained.

FINANCIAL SUMMARY

Capricorn Metals

ASX:CMM

Analyst: Tim McCormack
Date: 23/04/2018
Year End: June

Rating:

SPEC BUY

Target Price:

\$0.22

Market Information

Share Price	A\$	0.08
Market Capitalisation	A\$m	60.6
12 Month Hi	A\$	0.12
12 Month Lo	A\$	0.05
Average daily turnover (3 month)	m	0.931
Issued Capital	m	747.94
Options	m	56.70
Fully Diluted for ITM options	m	747.94

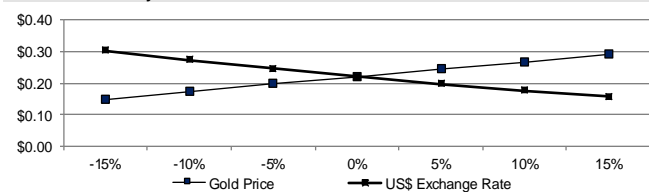
Valuation diluted for funding

	A\$m	A\$/share
Karlawinda NPV @ 10%	249.1	0.16
Exploration & Projects	35.0	0.02
Corporate	(26.6)	(0.02)
Forwards (inc spot deferred)	-	-
Cash & Bullion	10.6	0.01
Future Equity Raised	65.0	0.04
Debt	-	-
Unpaid Capital	-	-
TOTAL NAV	333.1	0.22
Price:NAV		0.37x
NAV at Spot US\$1,330/oz, AUDUSD \$0.77		0.18
Target Price		0.22

Assumptions

	2017a	2018e	2019e	2020e
Gold Price (US\$/oz)	1,257	1,313	1,363	1,408
AUD:USD	0.752	0.790	0.781	0.785
Gold Price (A\$/oz)	1,672	1,662	1,744	1,795

Valuation Sensitivity



Production Metrics

	2017a	2018e	2019e	2020e
Gold production (koz)	0	0	0	75
AISC (A\$/oz)	0	0	0	1,004

Resources & Reserves

	Mt	Grade	Moz
Resources			
Measured	8.3	1.3	0.33
Indicated	22.6	1.1	0.77
Inferred	7.3	1.0	0.23
Total	38.2	1.1	1.33

Reserves

	Mt	Grade	Moz
Proved	0.0	0.00	0.0
Probable	21.0	1.06	0.71
Reserves	21.0	1.06	0.72

Directors & Management

Name	Position
Heath Hellewell	Executive Chairman
Stuart Pether	Non-Executive Director
Peter Langworthy	Non-Executive Director
Debra Bakker	Non-Executive Director
Peter Thompson	Chief Operating Officer
Jonathon Shellabear	Chief Financial Officer

Substantial Shareholders

	%
Hawke's Point	19.0%
Centrepeak Resources Group	6.0%

Source: CMM & Canaccord Genuity estimates

Company Description

CMM's key asset is the Karlawinda gold project, located in the Pilbara region of Western Australia. A Feasibility Study completed in 2017 demonstrated solid development merit and with expected Resource and Reserve upgrades this year, we should see the projects fundamentals improve in the 1H 2018. We see the project supporting a ~100kozpa production profile for 8 years, and expect to see a development decision in the 2H 2018.

Profit & Loss (A\$m)	2017a	2018e	2019e	2020e
Revenue	0.2	0.0	0.0	136.0
Operating Costs	0.0	0.0	0.0	-61.4
Royalties	0.0	0.0	0.0	-3.4
Corporate & O'heads	-3.1	-4.0	-7.8	-7.2
Exploration (Expensed)	-0.6	-2.0	-0.6	-3.0
EBITDA	-3.5	-6.0	-8.4	60.9
Dep'n	0.0	0.0	0.0	-7.5
EBIT	-3.5	-6.0	-8.4	53.4
Net Interest	0.2	0.1	-1.0	-2.7
Tax	0.0	0.0	0.0	0.0
NPAT	-3.3	-5.9	-9.4	50.7
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-3.3	-5.9	-9.4	50.7

Cash Flow (A\$m)	2017a	2018e	2019e	2020e
Cash Receipts	0.0	0.0	0.0	136.0
Cash paid to suppliers & emp	-1.9	-4.0	-7.8	-72.0
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	0.1	0.1	-1.0	-2.7
Operating Cash Flow	-1.8	-3.9	-8.8	61.3
Exploration and Evaluation	-12.4	-6.0	-6.0	-6.0
Capex	0.0	0.0	-85.0	-38.0
Other	-1.5	0.0	0.0	0.0
Investing Cash Flow	-13.9	-6.0	-91.0	-44.0
Debt Drawdown (repayment)	0.0	0.0	65.0	-15.0
Share capital	10.2	9.0	65.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.5	0.0	0.0	0.0
Others	-0.1	0.0	0.0	0.0
Financing Cash Flow	9.5	9.0	130.0	-15.0
Opening Cash	11.8	5.5	4.7	34.9
Increase / (Decrease) in cash	-6.2	-0.9	30.2	2.3
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	5.5	4.7	34.9	37.2

Balance Sheet (A\$m)	2017a	2018e	2019e	2020e
Cash + S/Term Deposits	5.5	4.7	34.9	37.2
Other current assets	5.3	0.0	0.3	45.0
Current Assets	10.9	4.7	35.3	82.2
Property, Plant & Equip.	0.4	0.4	85.4	115.8
Exploration & Develop.	20.7	20.7	26.1	29.1
Other Non-current Assets	0.0	0.0	0.0	0.0
Payables	1.3	0.1	0.1	10.9
Short Term debt	0.0	0.0	15.0	20.0
Long Term Debt	0.0	0.0	50.0	30.0
Other Liabilities	0.5	-7.5	-7.3	26.6
Net Assets	30.1	33.2	88.9	139.6
Shareholders Funds	42.1	51.1	116.1	116.1
Reserves	2.3	2.3	2.3	2.3
Retained Earnings	-14.3	-20.2	-29.6	21.2
Total Equity	30.1	33.2	88.9	139.6

Ratios & Multiples	2017a	2018e	2019e	2020e
EBITDA Margin	nm	nm	nm	45%
EV/EBITDA	nm	nm	nm	2.2x
Op. Cashflow/Share	nm	nm	nm	\$0.04
P/CF	nm	nm	nm	2.0x
EPS	nm	nm	nm	\$0.03
EPS Growth	nm	nm	nm	nm
PER	nm	nm	nm	2.4x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-11%	-18%	-11%	36%
ROIC	-8%	-12%	-5%	37%
Debt/Equity	0%	0%	56%	21%
Net Interest Cover	nm	nm	-4.2x	17.2x
Book Value/share	\$0.05	\$0.04	\$0.06	\$0.09
Price/Book Value	1.5x	1.8x	1.4x	0.9x
EV/FCF	nm	nm	nm	3.5x

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Investment Recommendation

Date and time of first dissemination: April 23, 2018, 16:05 ET

Date and time of production: April 23, 2018, 07:12 ET

Target Price / Valuation Methodology:

Capricorn Metals Limited - CMM

Our A\$0.22/sh price target is based on an NPV10% for the Karlawinda gold project, net of corporate and other adjustments. We have also assumed A\$65m in equity raised to complete the funding for the project (50:50 debt/equity) and our valuation is diluted to account for these assumptions.

Dacian Gold Limited - DCN

We base our valuation on a DCF analysis (NPV10%) of the Mt Morgans gold project, net of corporate and other adjustments and diluted for assumed future financing.

Gold Road Resources Limited - GOR

Our A\$0.85 price target is based on 1x forward curve NPV8% for the development assets net of corporate and other adjustments.

Risks to achieving Target Price / Valuation:

Capricorn Metals Limited - CMM

The risks below are inherent in the metals and mining industry and one or all could impact our valuation and therefore our SPECULATIVE BUY rating.

Funding risk

As a pre-production company with no material income, CMM is reliant on equity and debt markets to fund Feasibility Studies and development of its karlawinda gold project. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risk

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of Inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical, seismic activity and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

As with any mining Company, CMM is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

Dacian Gold Limited - DCN

Funding risk

As a pre-production Company with no material income, DCN is reliant on equity and debt markets to fund feasibility studies and development of the Mt Morgans project. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

Once in production, the Company will be subject to risks such as plant/equipment breakdowns, metallurgical (some pyrrhotite at Westralia), seismic activity and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

The Company is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macro-economic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

Gold Road Resources Limited - GOR

Gruyere is located in a remote region and there is very limited infrastructure, with most facilities needing to be constructed on site. The adoption of gas pipeline will reduce logistics requirements (i.e. trucking diesel).

GOR's Yamarna tenement is understood to cover several Aboriginal heritage sites. None of the sites are on the recently granted ML. This risk is mitigated with the recent signing of Native Title agreement.

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. We note the mine plan comprises ~2 years of Measured material and does not comprise Inferred Resource. This enhances our confidence in the Mineral Resources and Reserves, particularly in the early years. No assurance can be given that exploration will delineate further minable Reserves. We have ascribed a value of ~A\$87m for exploration upside in our valuation.

The company as a gold developer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 04/23/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	570	61.16%	40.35%
Hold	239	25.64%	25.52%
Sell	18	1.93%	11.11%
Speculative Buy	105	11.27%	61.90%
	932*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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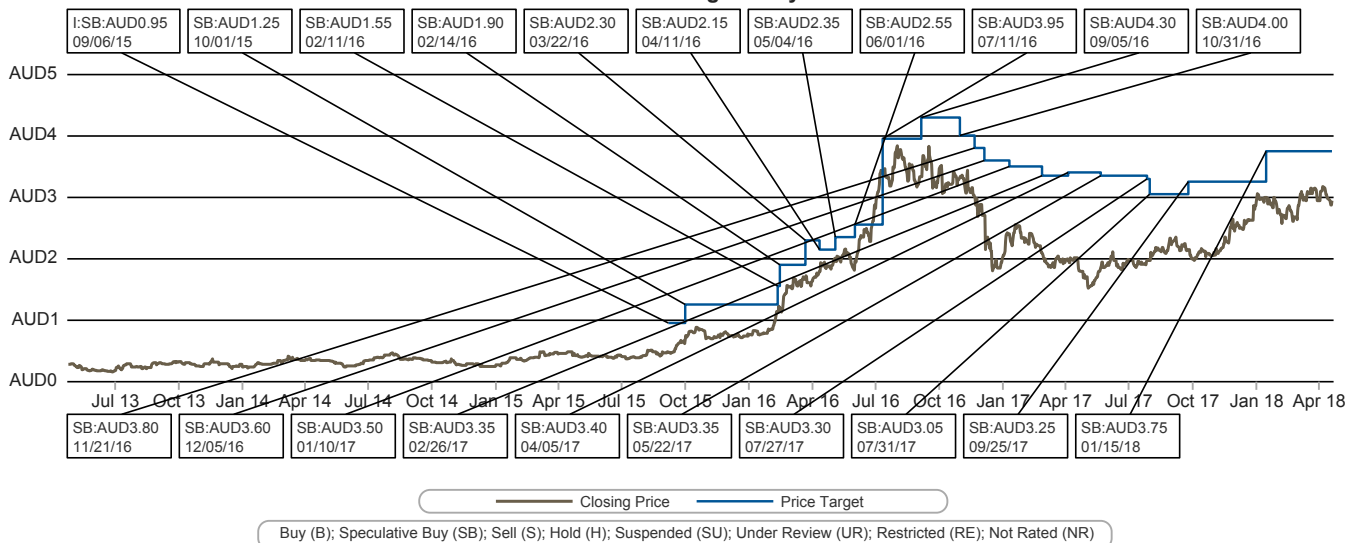
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An analyst has visited the material operations of Gold Road Resources Limited. No payment was received for the related travel costs.

Capricorn Metals Limited Rating History as of 04/20/2018



Dacian Gold Limited Rating History as of 04/19/2018



Gold Road Resources Limited Rating History as of 04/19/2018



Past performance

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