

27 June 2018

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SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.18↓

from A\$0.22

Price (27-Jun) A\$0.06

Ticker CMM-ASX

52-Week Range (A\$):	0.05 - 0.10
Avg Daily Vol (M) :	1.0
Market Cap (A\$M):	47.1
Shares Out. (M) :	747.9
Enterprise Value (A\$M):	42.8
Cash (A\$M):	4.3
Long-Term Debt (A\$M):	0.0
NAV /Shr (A\$):	0.18
NAV /Shr (5%) (A\$):	0.22
Major Shareholders:	Hawkes Point 19%

FYE Jun	2017A	2018E	2019E	2020E
Sales (A\$M)	0.0	0.0	0.0	135.7↓
Previous	-	-	-	136.1
EBITDA (A\$M)	(3.5)	(6.0)	(8.1)↑	57.2↓
Previous	-	-	(8.4)	61.0
Net Income (A\$M)	(3.3)	(5.9)	(9.5)↓	45.9↓
Previous	-	-	(9.4)	50.7
Gold Production (000oz)	0	0	0	75
All in Sustaining Cost (Gold) (US \$ /oz)	-	-	-	821



Priced as of close of business 27 June 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.

Lowering Target Price**De-risking continues at Karlawinda**

Optimisation Study validates our base case assumptions. Outcomes from the Karlawinda Optimisation Study have fallen in line with our expectations, with an updated Reserve (892koz vs CG est. 850koz) underpinning a potential 8.5 year mine life, producing ~97kozpa at an AISC of A\$1038/oz (CG est. ~100koz at an AISC A\$1049/oz). Encouragingly the capital requirement and strip ratio have remained relatively static compared to the October 2017 Feasibility Study, despite the enlarged Reserve and a number of improvements to the project. We see the installation of a combined SAG-Ball (SAB) grinding circuit from project commencement (previously Ball Mill with SAG added in year 2), and the smoothed material movements that optimise cashflow as supporting a more robust project. We note that in the Optimisation Study, CMM has assumed its mining costs on an owner-operator basis, which adds a further A\$48m to the mining equipment capital cost (LOM). We expect this would be leased (no up-front to CMM), with ~80% required at the commencement of mining and the balance during the peak material movement phase in the third year of production. However, in the interest of comfortable levels of gearing, we note that CMM has also commenced a competitive mining contract tender process, and a final decision on the preferred mining scenario (contract versus owner-operator) will be made once this tender process is completed (CG est. late July 2018). In our forecasts, we assume the company pursuing a mining contractor scenario, which in our view adds ~A\$45/oz to the AISC profile versus the outcomes in the Optimisation Study. As such our total assumed capital requirement (including working capital) is A\$150m and our revised LOM AISC's are A\$1083/oz. We note that with the higher through-put rates in the early years of the mine plan while on oxide ore (~4Mtpa vs CG est. 3.4Mt), resultant lower AISC's (CG est. ~A\$950/oz for the first two years) have improved up-front cashflow and largely offset (in an NPV sense) the incorporation of contractor mining costs in our forecasts.

Financing the last remaining hurdle. As part of the Optimisation Study update, the company has flagged that its entering the final stages of debt negotiations, with credit approved term sheets expected to be received during the SepQ'18. We have refined our project financing assumptions to a 60/40 basis (previously 50/50) based on the latest guidance from the company (55-65% debt) for the total A\$150m requirement. This will see the bank financing component total A\$90m, which should be secured in the SepQ'18, and would be a key positive step forward for the stock. The remaining A\$60m equity component (CG previously assumed A\$70m) we assume being completed in the 2H 2018.

Valuation and recommendation. Our A\$0.18/sh price target (previously A\$0.22/sh) has decreased, on incorporating slightly higher unit mining costs (assumes contract mining), but more so, from increased dilution in our funding assumptions (previously assumed raising at A\$0.08/sh). Our valuation is based on an NPV10% for the Karlawinda gold project, net of corporate and other adjustments and diluted for future financing. We continue to see CMM as one of the standout greenfield investment propositions in the Australian gold space, and maintain a SPEC BUY recommendation.

FINANCIAL SUMMARY

Capricorn Metals

ASX:CMM

Analyst: Tim McCormack
Date: 27/06/2018
Year End: June

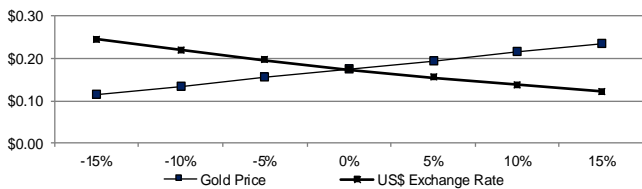
Rating: **SPEC BUY**
Target Price: **\$0.18**

Market Information		
Share Price	A\$	0.06
Market Capitalisation	A\$m	47.1
12 Month Hi	A\$	0.10
12 Month Lo	A\$	0.05
Average daily turnover (3 month)	m	0.702
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%	222.6	0.13
Exploration & Projects		40.0	0.02
Corporate		(22.9)	(0.01)
Forwards (inc spot deferred)		-	-
Cash & Bullion		4.3	0.00
Future Equity Raised		60.0	0.03
Debt		-	-
Unpaid Capital		-	-
TOTAL NAV		304.0	0.18
Price:NAV			0.36x
NAV at Spot US\$1,259/oz, AUDUSD \$0.74			0.13
Target Price			0.18

Assumptions	2017a	2018e	2019e	2020e
Gold Price (US\$/oz)	1,257	1,313	1,363	1,408
AUD:USD	0.752	0.796	0.793	0.787
Gold Price (A\$/oz)	1,672	1,649	1,720	1,789

Valuation Sensitivity



Production Metrics	2017a	2018e	2019e	2020e
Gold production (koz)	0	0	0	75
AISC (A\$/oz)	0	0	0	1,043

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				
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	135.7
Operating Costs	0.0	0.0	0.0	-65.4
Royalties	0.0	0.0	0.0	-4.1
Corporate & O'heads	-3.1	-4.0	-7.5	-6.0
Exploration (Expensed)	-0.6	-2.0	-0.6	-3.0
EBITDA	-3.5	-6.0	-8.1	57.2
Dep'n	0.0	0.0	0.0	-7.5
EBIT	-3.5	-6.0	-8.1	49.7
Net Interest	0.2	0.1	-1.4	-3.8
Tax	0.0	0.0	0.0	0.0
NPAT	-3.3	-5.9	-9.5	45.9
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-3.3	-5.9	-9.5	45.9

Cash Flow (A\$m)	2017a	2018e	2019e	2020e
Cash Receipts	0.0	0.0	0.0	135.7
Cash paid to suppliers & emp	-1.9	-4.0	-7.5	-75.5
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	0.1	0.1	-1.4	-3.8
Operating Cash Flow	-1.8	-3.9	-8.9	56.4
Exploration and Evaluation	-12.4	-6.0	-6.0	-6.0
Capex	0.0	0.0	-75.0	-69.0
Other	-1.5	-0.4	0.0	0.0
Investing Cash Flow	-13.9	-6.4	-81.0	-75.0
Debt Drawdown (repayment)	0.0	0.0	90.0	-15.0
Share capital	10.2	9.0	60.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.5	0.0	-3.0	0.0
Others	-0.1	0.0	0.0	0.0
Financing Cash Flow	9.5	9.0	147.0	-15.0
Opening Cash	11.8	5.5	4.3	67.4
Increase / (Decrease) in cash	-6.2	-1.3	57.1	-33.6
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	5.5	4.3	61.4	33.8

Balance Sheet (A\$m)	2017a	2018e	2019e	2020e
Cash + S/Term Deposits	5.5	4.3	67.4	33.8
Other current assets	5.3	0.0	0.5	45.0
Current Assets	10.9	4.3	67.9	78.8
Property, Plant & Equip.	0.4	0.4	75.4	136.9
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	25.0
Long Term Debt	0.0	0.0	75.0	50.0
Other Liabilities	0.5	-7.9	-4.6	29.1
Net Assets	30.1	33.2	83.8	129.7
Shareholders Funds	42.1	51.1	111.1	111.1
Reserves	2.3	2.3	2.3	2.3
Retained Earnings	-14.3	-20.2	-29.7	16.3
Total Equity	30.1	33.2	83.8	129.7

Ratios & Multiples	2017a	2018e	2019e	2020e
EBITDA Margin	nm	nm	nm	42%
EV/EBITDA	nm	nm	nm	2.6x
Op. Cashflow/Share	nm	nm	nm	\$0.03
P/CF	nm	nm	nm	1.9x
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%	35%
ROIC	-8%	-12%	-4%	31%
Debt/Equity	0%	0%	90%	39%
Net Interest Cover	nm	nm	-2.9x	11.5x
Book Value/share	\$0.05	\$0.04	\$0.05	\$0.08
Price/Book Value	1.2x	1.4x	1.3x	0.8x
EV/FCF	nm	nm	nm	-2.5x

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Investment Recommendation

Date and time of first dissemination: June 27, 2018, 22:14 ET

Date and time of production: June 27, 2018, 22:14 ET

Target Price / Valuation Methodology:

Capricorn Metals Limited - CMM

Our A\$0.18/sh price target is based on an NPV10% for the Karlawinda gold project, net of corporate and other adjustments. We have also assumed A\$60m in equity raised to complete the funding for the project (60:40 debt/equity) and our valuation is diluted to account for these assumptions.

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.

Distribution of Ratings:**Global Stock Ratings (as of 06/27/18)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	571	62.13%	42.56%
Hold	223	24.27%	26.46%
Sell	22	2.39%	18.18%
Speculative Buy	103	11.21%	66.02%
	919*	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

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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

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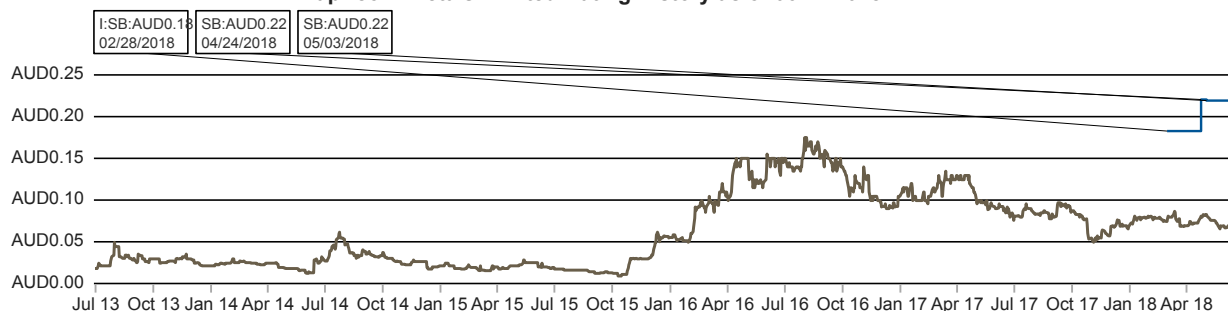
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Capricorn Metals Limited Rating History as of 06/27/2018

Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

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