

Ticker: RIO CN**1Q21 Cash:** US\$3.5m**Project:** Fenix**Market cap:** C\$147m**Price:** C\$0.77/sh**Country:** Chile

RECOMMENDATION (unc): BUY

PRICE TARGET (unc): C\$1.60/sh

RISK RATING: HIGH

Today's ROM leach met tests confirm the viability of ROM leaching, which should result in opex savings on processing (no crushing) and rehandling, and capex savings with no crusher build required. The leach results were very positive with 75.1% Au recoveries over 81 days, but equally important from a working capital perspective, 60% Au recovery in the first 30 days of leaching. The move to a ROM leach should further de-risk Fenix by lowering capex, simplifying operations and potentially improving throughput by removing the constraint of crusher availability. We lower our capex estimate by US\$10m to US\$110m, in line with the PFS but maintain our opex assumptions for now. **We maintain our BUY rating and 0.75x NAV_{5%-1850} C\$1.60/sh PT.** Looking ahead, we expect the next catalysts to be detailed engineering and conclusion of a finance package, given that project design and evaluation are well advanced. Stepping back, Rio2's proven management team have re-scoped Fenix into a low capex, scalable project that can move into production quickly with production expansion options over time.

Positive ROM leach met tests suggest opex and capex savings

Rio2 announced positive ROM leach trial results for its Fenix Gold Project in Chile. Recoveries were 75.1% Au and 12.4% over 80 days including 60% gold recovery within 30 days. The trial was conducted on a 426t sample and grading 0.46g/t Au and 0.43g/t Ag, in line with Fenix's reserve grade of 0.49g/t. The water used in the trial was sourced from the Nueva Atacama water retreatment facility. Reagent consumption was below the PFS assumptions at 0.18kg/t of cyanide and 2.95kg/t of lime compared to 0.4kg/t and 4kg/t in the PFS, respectively. Copper in the pregnant solution averaged 12ppm, which Rio2 does not expect to impede the adsorption process.

Our view:

Given the high recoveries (75%, in line with our prior recovery estimate which assumed crushing) ROM leaching improves the project from both a cost and logistics perspective. The gyratory crusher can be removed from the capex scope, saving US\$20m in initial cost, per prior company guidance. ROM leaching also removes crushing processing (less power consumption, less maintenance and better availability) and at least one ore rehandle which could result in higher throughput. We estimate these savings could amount to US\$0.50-1.00/t, which is material for a ~0.5g/t reserve grade project. For now, given the inflationary environment, we maintain our operating cost assumptions and reduce our capex estimates by US\$10m to US\$111m, in line with the PFS until a further detailed engineering and costing estimate is made.

Why we like Rio 2

1. Long life 90-100kozpa mine plan underpins valuation
2. Expansion potential to up to 300kozpa offers scalability to gold price
3. Management team has a proven track record of operational delivery and value creation
4. Cheap entry valuation for a technically vanilla heap leach project

Catalysts

- Financing package: 2H21
- EIS Approval: 1H22
- Pre-construction permits 3Q22
- First gold pour: 2H22

Research

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Ticker: RIO CN	Price / mkt cap: C\$0.77/sh, C\$147m	Project PNAV today: 0.28x	Asset: Fenix
Author: J Chan / B Salier	Rec / 0.75xNAV PT: BUY, C\$1.60/sh	1xNAV_{1Q21} FF FD: C\$1.86/sh	Country: Chile

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E	Resources and resevs	Tons (Mt) Au (koz)	Au (g/t)			
Gold price	1,779	1,850	1,850	1,850	1,850	Total Resource	547Mt	6373koz	0.36g/t		
SOTP project valuation*						SCP 3Q20 mining inventory	115Mt	1825koz	0.49g/t		
	US\$m	O/ship	NAVx	C\$/sh		Funding: uses	Funding: sources				
Ungear'd proj. @ build start (1Q22)	427	100%	1.00x	2.64		PFS including cont. capex	US\$111m	SCPe 4Q20 cash + options	US\$4m		
2014 PFS inventory	149	100%	0.20x	0.18		SCPe G&A + fin. cost to 1st Au	US\$23m	Mine debt @ 60% gearing	US\$90m		
G&A and finance costs	(97)	100%	1.00x	(0.60)		SCPe working capital	US\$14m	Build equity at 40%	US\$60m		
Cash @ 4Q20	3.5	100%	1.00x	0.02		Total uses	US\$148m	Total proceeds	US\$154m		
Cash from options	5	100%	1.00x	0.03		*Cash from options expiring pre first pour Buffer: US\$6m					
Additional ounces @ US\$25/oz	83	100%	1.00x	0.51		Share data					
Asset NAV5% US\$1850/oz	572			2.79		Basic shares (m)	190.7	FD with build equity raise	303.4		
Above diluted for options not mine build Market P/NAV5% 1Q21 0.24x						FD with options (m)	205.2				
Asset NAV5% US\$1850/oz fully financed	632			2.14		Ratio analysis					
Asset value: 1xNPV project @ build start (C\$m, ungeared)						Average shares out (m)	185.9	199.6	277.3	297.9	299.3
Project NPV (C\$m)*	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	EPS (US\$/sh)	-	-	-	0.21	0.19
10.0% discount	201	254	307	359	412	CFPS (US\$/sh)	-	-	-	-	0.08
7.5% discount	244	305	365	426	486	EV (US\$m)	140.8	150.4	169.9	282.3	240.3
5.0% discount	298	368	438	509	579	FCF yield (%)	-	-	-	-	10%
1xNAV5% (C\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	PER (x)	-	-	-	3.7x	4.1x
10.0% discount	1.09	1.33	1.57	1.82	2.07	P/CF (x)	-	-	-	-	10.1x
7.5% discount	1.27	1.55	1.83	2.12	2.40	EV/EBITDA (x)	-	-	-	5.4x	8.0x
5.0% discount	1.50	1.83	2.16	2.49	2.82	Income statement					
Build start NPV5%-1850	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Net revenue (US\$m)	-	-	-	37.1	159.3
Water cost: US\$0.75/t	360	430	501	571	641	COGS (US\$m)	-	-	-	(15.2)	(69.3)
Water cost: US\$1.00/t	346	416	486	556	626	Gross profit (US\$m)	-	-	-	21.9	90.0
Water cost: US\$1.52/t	316	386	457	527	597	D&A, attrib (US\$m)	(0.1)	(0.0)	-	(1.3)	(8.5)
Water cost: US\$1.84/t	298	368	438	509	579	Admin (US\$m)	(7.8)	(4.2)	(13.1)	0.9	55.3
Water cost: US\$2.00/t	289	359	429	499	569	Expensed exploration (US\$m)	(0.2)	(0.0)	-	-	-
Build start NPV5%-1850	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Finance cost (US\$m)	0.1	0.0	(1.1)	(8.0)	(7.6)
Mining cost**: US\$1.50/t	377	448	518	588	658	Taxes (US\$m)	-	-	-	-	(10.4)
Mining cost**: US\$1.82/t	341	411	481	552	622	Net income (US\$m)	(9.0)	(8.2)	(11.6)	61.8	56.5
Mining cost**: US\$2.00/t	321	391	461	531	601	Cash flow, attrib.	CY20E	CY21E	CY22E	CY23E	CY24E
Mining cost**: US\$2.20/t	298	368	438	509	579	EBIT (US\$m)	(8.9)	(8.2)	(12.7)	53.8	38.5
Mining cost**: US\$2.50/t	264	334	404	475	545	Add back D&A (US\$m)	(0.1)	(0.0)	-	(1.3)	(8.5)

*Project level NPV, excl finance costs and central SGA, discounted to build start
 ** Mining costs per tonne excluding rehandle

Group val'n over time*	4Q20	4Q21	4Q22	4Q23	4Q24
Fenix NPV (C\$m)	322.9	570.0	601.9	748.2	753.1
G&A and finance costs (C\$m)	(58.8)	(122.3)	(121.8)	(119.4)	(106.8)
Net cash prior qtr (C\$m)	2.9	3.3	43.6	(52.9)	(9.9)
Cash from options (C\$m)	5.2	5.2	5.2	5.2	5.2
Exploration 310koz @ US\$50/	83.2	83.2	83.2	83.2	83.2
NAV FF FD (C\$m)	355	539	612	664	725
Shares in issue (m)	190.7	199.6	297.9	297.9	299.7
1xNAV5%/sh FF FD (C\$/sh)	1.86	2.70	2.06	2.23	2.42
Equity ROI from spot (me pa)		251%	63%	43%	33%
1.2xNAV5%/sh FF FD (C\$/sh)	2.24	3.24	2.47	2.68	2.90

Production	Y1	Y2	Y3	Y4	Y5
Gold production (000oz)	80	104	104	104	102
TCC (US\$/oz)	816	957	958	961	1,047
AISC cost (US\$/oz)	1,156	1,001	1,002	1,004	1,091

AISC = C1 + ug sustaining capex, Y1 = 12M to Jun 2023

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (US\$m)	2.6	3.5	80.7	30.6	19.2
Acc rec., inv, prepaid (US\$m)	1.0	0.4	0.4	16.0	22.4
PP&E + other (US\$m)	70.0	69.6	91.4	184.9	198.0
Total assets (US\$m)	73.6	73.5	172.4	231.5	239.6
Debt (US\$m)	0.3	0.2	37.1	83.5	29.1
Accounts payable (US\$m)	2.2	0.9	-	5.3	8.2
Others (US\$m)	3.9	3.9	3.9	3.9	3.9
Total liabilities (US\$m)	6.4	5.0	41.0	92.7	41.1
Sh'hlds equity + wrnts (US\$m)	95.8	100.3	170.3	170.3	171.5
Retained earnings + rsvs (US\$m)	(28.5)	(31.8)	(38.9)	(31.5)	26.9
Liabilities + equity (US\$m)	73.6	73.5	172.4	231.5	239.6

Source: SCP estimates

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BUY:	42
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	42

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