

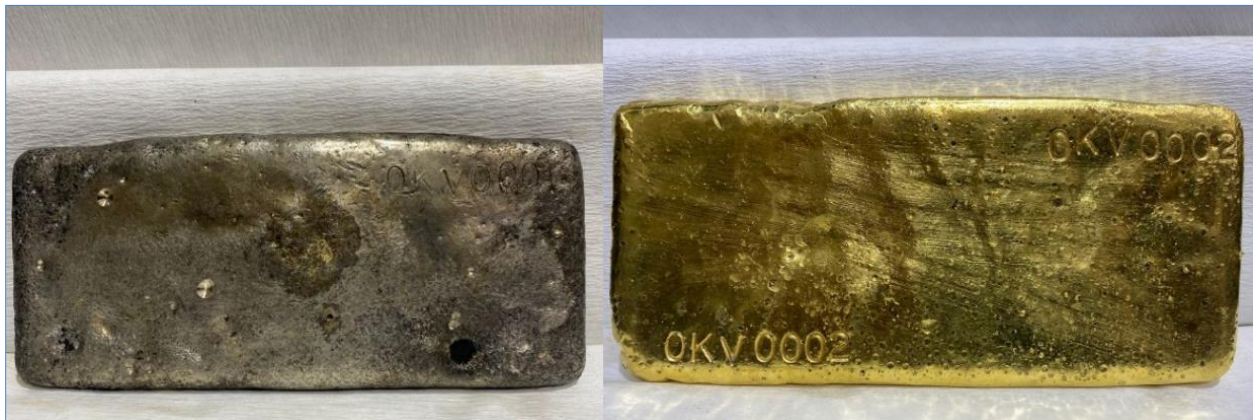
Ticker: EMR AU	Net cash: (A\$31m)	Project: Okvau
Market cap: A\$464m	Price: A\$0.90/sh	Country: Cambodia
<i>RECOMMEND. (unc): BUY TARGET (unc): A\$1.35/sh RISK RATING: HIGH</i>		

Today’s maiden gold pour is more than a typical ‘milestone’ for a development project. What makes it more impressive is that Emerald has built a 2Mtpa mill for under half peers on time and on budget during a global pandemic—for us, and we advise investors, this should firmly trigger ones ‘hand-to-wallet-reflex’. Commissioning is progressing well and shifting to the fine grind circuit; the advantage of the circuit is float-regrind for sulphides, but whole tail gets a CIL leach so a) no issue on oxide/transition/fresh, and b) can start life on oxides now for quicker build (today) and faster ore-through-mill in early years too. Today’s news will be followed by (i) near-mine drilling to lift reserves, with a high likelihood of (ii) an UG, ahead of (iii) ~US\$3-6m pa exploration regionally – which is already underway – on strategic >1,200km² first-mover holdings. As such, **we maintain our BUY rating and 1.2xNAV_{5%-1850} 135c/sh PT**. At 2g/t, Okvau is already far above peers such as Capricorn (0.9g/t), and we see excellent potential for the project to beat the BFS metrics. Looking ahead, Emerald is targeting expansion via M&A in Australia, which if achieved would enable franking credits on dividends for higher premium, plus a second mine of course. As peers also approach commercial production, investor’s thoughts should look beyond ‘will it work’ to ‘what next’, and Emerald’s unmatched ability to build-cheaper gives them a strong advantage in that regard.

First gold pour delivered on time and on budget; Okvau on track to be >100koz pa producer

Emerald has announced commissioning of its gold room, with the **first gold pour** producing two gold bars weighing a combined 8.6kg, **on time and on budget**. Commissioning activities at Okvau are well advanced as focus shifts to commissioning the fine grind float circuit and adding higher grade sulphide ore to the process plant over coming weeks. **Emerald maintains guidance of 100-110,000oz pa** from Okvau, in line with the feasibility.

Figure 1. First two gold bars poured during commissioning at Okvau, weighing a combined 8.6kg



Source: Emerald

Why we like Emerald

- Vanilla open-pit CIL
- Management built six mines on time and on budget at Equigold and Regis
- Management aligned with holders as A\$19m equity invested
- Acquisition debt facility, and ‘low capex’ IP of management, should enable growth via M&A
- Strategic landholding in Cambodia offers substantial organic upside

Catalysts

- 2Q21: Regional drilling at Snoul (~25km NW of Okvau) then Okthung/Preak Klong (9km south)
- 2H21: First exploration recently granted Memot licence (historic mechanised artisanal operation)

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Ticker: EMR AU	Price / mkt cap: A90c/sh, A\$464m	Group P/NAV today: 0.81x	Country: Cambodia
Author: B Salier/ B Gaspar	Rec/1.2xNAV5% PT: BUY, A\$135c/sh	1xNAV5%_{1Q21} FF FD: A\$114.6c/sh	Asset: Okvau

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price	1,761	1,825	1,840	1,848	1,850

Group-level SOTP valuation					
Jun 21					
	A\$m	US\$m	O/ship	NAVx	A\$c/sh*
NPV Okvau - 2Q21	674	526	100%	1.2x	152.48
NPV central & finance costs	(97.9)	(76.3)	-	1.2x	(22.13)
Net cash prior quarter	(31.0)	(24.2)	-	1.2x	(7.02)
Cash from options	9.2	7.2	-	1.2x	2.07
Nominal expl'n	38.5	30	-	1.2x	8.70
1.2xNAV5% 2Q21 US\$1850/oz		463			134

Asset value: 1xNAV (US\$m, geared)*					
Group NAV (US\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	383	414	445	477	508
7% discount	404	437	470	504	537
5% discount	427	463	498	533	569
Ungeared project IRR:	55%	58%	60%	62%	64%
Group NAV1450 (US\$m)	76% rec	80% rec	84% rec	88% rec	92% rec
9% discount	337	375	414	453	491
7% discount	357	397	437	478	518
5% discount	378	420	463	505	548
Ungeared project IRR:	62%	68%	74%	80%	86%

*Company NAV net finance costs and SG&A, discounted to 2Q21

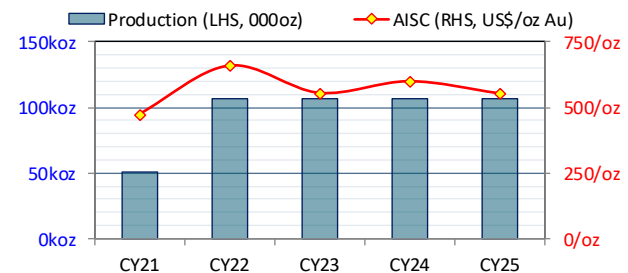
Group NAV5% over time	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25
Okvau incl. fin. cost + G&A (US\$m)	449	470	416	357	290
Net cash prior quarter	(24.2)	(23.9)	47.9	121.4	200.6
Cash from options (US\$m)	7.2	7.2	7.2	7.2	7.2
Nominal expl'n (US\$m)	20	20	20	20	20
NAV (US\$m)	452	474	491	506	517
1.2xNAV5%/sh FF FD (Ac/sh)	131.1	137.5	142.7	146.9	150.2
ROI (% pa)		52%	26%	18%	14%

1.2xNAV/sh @ SQ20 vs gold, discount, recoveries (US\$m, geared)*					
2Q21 1.2xNAV (A\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
11% discount	113	122	132	141	151
8% discount	119	129	139	149	160
5% discount	127	138	148	159	170
2Q21 1.2xNAV (A\$/sh)	76% rec	80% rec	84% rec	88% rec	92% rec
11% discount	99	111	122	134	145
8% discount	105	117	129	141	154
5% discount	112	125	138	150	163

^Project NPV less central SG&A & finance cost, plus net cash at the time

Production (Y1 from 3Q20)	CY21	CY22	CY23	CY24	CY25
Production (000oz)	51	107	107	107	107
C1 cost (US\$/oz)	828	705	706	706	706
AISC cost (US\$/oz)	956	817	818	818	818
C3 cost (US\$/oz)	1,124	989	990	990	990

AISC = C1 + ug sustaining capex, C3 = C1 + depreciation



Source: SCP estimates; *net of 60 day payable line from contractor; ^assuming debt PIK during build

Resource	Au (koz)	Au (g/t)	Reserve	Au (koz)	Au (g/t)
Okvau M&I & Inf	1,141koz	2.01g/t	Okvau P&F	907koz	2.0g/t

Share data			
Basic shares (m)	515	Spot share price (A\$/c/sh)	90
FD with options (m)	531		

Sources and uses of funds				Buffer (US\$m): 5.7	
Build capex + strip (US\$m)	98.0	Mine build equity (US\$m)	-		
Drilling / working cap (US\$m)*	7.3	Mine build debt (US\$m)	-		
G&A during build (US\$m)	2.7	Cash at 4Q20 (US\$m)	59.9		
Spend to 4Q20 (US\$m)	(53.8)	Sources: 1Q21 onward (US\$m)	59.9		
Uses: 1Q21 onward (US\$m)	54.2	Unrealised FX losses (US\$m)	8.3		

Ratio analysis	CY19A	CY20E	CY21E	CY22E	CY23E
Average shares out (m)	305	524	530	530	530
EPS (A\$/c/sh)	(1.64)	(4.53)	3.48	12.75	13.17
CFPS (A\$/c/sh)	(4.32)	(14.77)	(8.20)	15.53	17.70
EV (A\$m)	263.7	435.5	486.4	404.1	310.3
FCF yield (%)	-	-	-	17%	20%
PER (x)	-	-	25.9x	7.1x	6.8x
P/CF (x)	-	-	-	5.8x	5.1x
EV/EBITDA (x)	-	2,177.6x	8.1x	2.8x	2.1x

Income statement	CY19A	CY20E	CY21E	CY22E	CY23E
Revenue (A\$m)	0.1	0.2	119.6	252.3	253.4
COGS incl. royalty (A\$m)	-	-	(59.3)	(108.1)	(108.2)
D&A (A\$m)	(0.0)	(0.0)	(13.9)	(27.6)	(27.6)
Gross profit (A\$m)	0.1	0.2	46.4	116.7	117.7
Finance cost (A\$m)	(0.0)	(0.6)	(17.1)	(21.4)	(19.5)
Exploration (A\$m)	(2.8)	(4.7)	(1.3)	-	-
Admin + other (A\$m)	(2.3)	(18.6)	(4.7)	(4.7)	(4.8)
Tax (A\$m)	-	-	(4.9)	(22.9)	(23.7)
Net income (A\$m)	(5.0)	(23.7)	18.4	67.6	69.8
EBITDA (A\$m)	0.1	0.2	60.2	144.2	145.2

Cash flow statement	CY19A	CY20E	CY21E	CY22E	CY23E
Receipts from gold sales (A\$m)	-	0.2	119.6	252.3	253.4
Payments to suppl./empl. (A\$m)	(8.0)	(2.4)	(80.2)	(133.8)	(132.0)
Change in working cap. (A\$m)	-	3.7	(17.4)	(9.3)	(0.1)
Others (A\$m)	(2.9)	(4.7)	(6.2)	(22.9)	(23.7)
Cash flow ops (A\$m)	(10.9)	(3.2)	15.8	86.2	97.7
PP&E (A\$m)	(2.3)	(74.3)	(59.2)	(3.9)	(3.9)
Cash flow inv. (A\$m)	(2.3)	(74.3)	(59.2)	(3.9)	(3.9)
Net share issue proceeds (A\$m)	(0.6)	78.3	-	-	-
Debt draw (repay) (A\$m)	-	92.9	(5.9)	(23.7)	(23.7)
Cash flow fin. (A\$m)	(0.6)	171.1	(5.9)	(23.7)	(23.7)
Net change in cash (A\$m)	(13.8)	93.7	(49.4)	58.6	70.1

Balance sheet	CY19A	CY20E	CY21E	CY22E	CY23E
Cash (A\$m)	10.7	79.6	26.9	85.5	155.6
Acc rec. + inv. (A\$m)	0.4	2.1	26.3	29.2	29.3
PPE (A\$m)	41.3	110.0	157.2	133.6	110.0
Others (A\$m)	0.0	0.3	0.3	0.3	0.4
Total assets (A\$m)	52	192	211	249	295
Debt (A\$m)	-	43.2	36.4	12.7	(10.9)
Accnts payable (A\$m)	2.7	7.6	14.3	8.0	8.0
Total liabilities (A\$m)	2.7	50.8	50.7	20.7	(3.0)
Shareholders equity (A\$m)	115.8	196.1	196.5	196.9	197.3
Retained earnings (A\$m)	1.2	0.3	0.3	0.3	0.3
Reserves (A\$m)	(67.4)	(90.1)	(71.6)	(4.1)	65.7
Liabilities + equity (A\$m)	52	192	211	249	295

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

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