

Ticker: AYA CN
Market cap: C\$998m

Net cash: US\$32m (+US\$29m options)
Price: C\$10.45/sh

Project: Zgounder
Country: Morocco

RECOMMENDATION (unc): BUY

TARGET (up): C\$13.00/sh

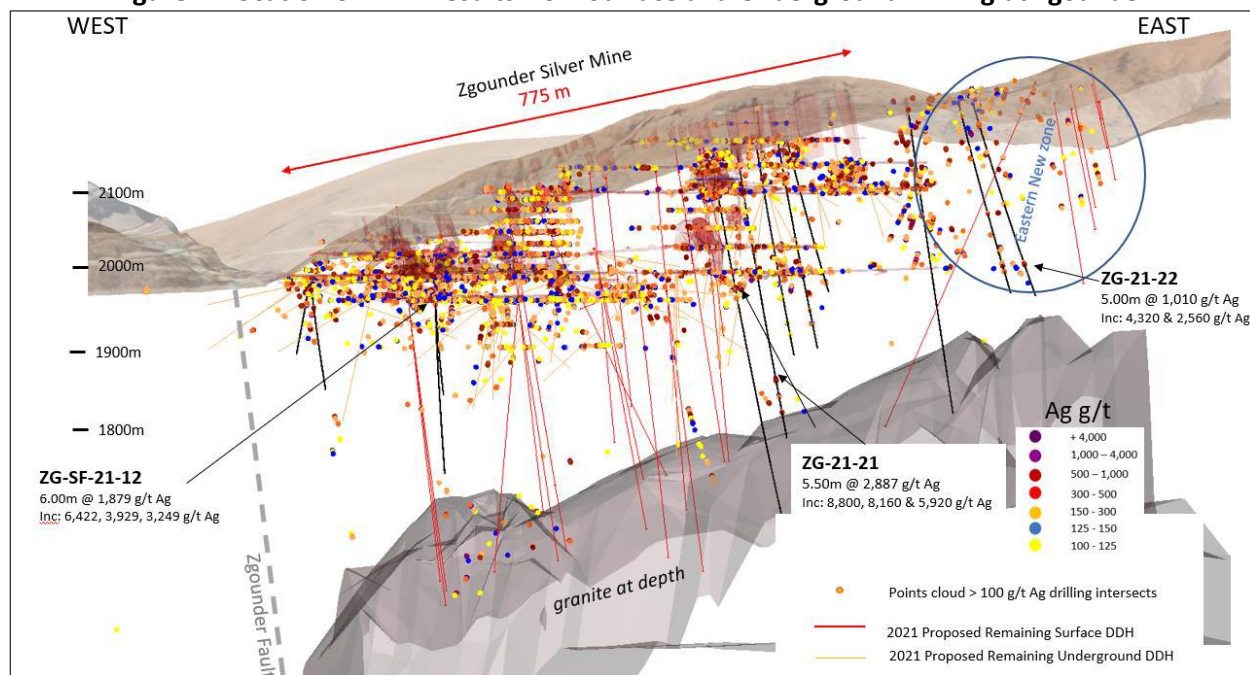
RISK RATING: HIGH

Today's drill results are important because they confirm depth extent in the Eastern new zone and at mineable widths and attractive grades. Assuming 300m of strike, 250m of depth and 5m width, we estimate this could add up to 30-35Moz when drilled to resource spacing, though we'd expect the resource grade to be lower with conservative but mine realistic dilution assumptions layered in. While this may or may not make this year's resource update, there is line of sight on the ounces and intercepts like today's **5m @ 1,010g/t Ag** confirm that the Eastern new zone is both broad and high grade. Also important, today's **5.5m @ 2,887g/t** along the current strike extent from 306.5m confirms high grade at depth and suggests that this year's resource update will incorporate much of Aya's 60-100Moz exploration target which is based on adding depth extent to the 775m current strike extent of the existing resource (ie, the Eastern Zone and other strike extensions are incremental to this target). We therefore increase our modelled mine inventory estimate to 130Moz from 100Moz, which we have incorporated into our modelled mine plan. **We maintain our BUY rating and increase our target price to C\$13.00/sh based on 2.0x NAV (prev 1.5x).** Stepping back, Aya has clearly gained traction and institutional level liquidity to pair with fast developing exploration results and operational improvement. With the rate of exploration, coming resource update and long-term mine plan at Zgounder, and a growth pipeline of assets in Morocco and Mauritania, Aya has the runway to become a mid-tier producer. We believe this both deserves to, and is likely to, trade at a premium to NAV and to the silver peer group.

New drilling confirms depth and mineability of Eastern new zone, upgrade TP and multiple

Aya announced further exploration results at Zgounder. ZG-21-22 intersected 5m at 1,010g/t Ag from 258m, confirming high grade mineralization at depth in the newly discovered Eastern Zone, where mineralization has been intercepted up to 300m in strike extension from the current resource. ZG-21-21 intersected 5.5m @ 2,887g/t from 306.5m downhole, again demonstrating that high grades along the current resource strike length have substantial expansion potential at depth. 26,800m of the 41,000m planned for 2021 has been completed with 8 rigs currently turning on site.

Figure 1. Location of DDH Results from Surface and Underground Drilling at Zgounder



Source: Aya Gold & Silver

Why we like Aya Gold & Silver

1. Proven management team led by Benoit La Salle (Semafo founder)
2. 100Moz resource target incorporates just current strike extent, with step outs as upside (SCPe additional 30Moz potential and growing).
3. Step out heavy 41,000m drilling program for 2021
4. Operational turnaround achieving scale at 1.2Mozpa current run rate and pathway to SCPe 6Mozpa pure-play silver production.

Catalysts

1. 2021: Completion of 700tpd plant upgrades
2. 2H21: Updated resource and reserve and 2,000tpd feasibility study
3. Mid-2024: SCPe 2,000tpd run rate

Research

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Ticker: AYA CN		Price / mkt cap: C\$10.45/sh, C\$998m				Market P/NAV: 1.61x		Assets: Zgounder			
J Chan / B Gaspar		Rec / PT: BUY / C\$13.00				1xNAV ₂₀₂₀ FD: C\$6.48/sh		Country: Morocco			
Group-level SOTP valuation						Share data					
1Q21		2Q21E				Basic shares (m): 95.5		FD + options (m): 109.2		FD + FF 109.2	
		US\$m	O/ship	NAVx	C\$/sh	Commodity price		CY20E	CY21E	CY22E	CY23E
Zgounder NPV 2Q21E		450	100%	1.0x	5.16	Silver price (US\$/oz)		20.8	24.0	24.0	24.0
Central SG&A & fin costs 2Q21E		(20)	-	1.0x	(0.23)	Ratio analysis		CY20E	CY21E	CY22E	CY23E
Ounces outside mine plan (\$50/oz AuEq)		-	100%	1.0x	-	FD shares out (m)		109.2	109.2	109.2	109.2
Other assets (\$0/oz AuEq)		77		1.0x	0.88	EPS (US\$/sh)		(0.016)	0.030	0.080	0.025
Cash and restr. cash 1Q21		32	-	1.0x	0.36	CFPS before w/c (US\$/sh)		0.02	0.10	0.17	0.08
Debt 1Q21		(0)	-	1.0x	(0.00)	FCFPS pre growth spend (US\$/sh)		(0.00)	0.08	0.16	0.07
ITM options		28	-	1.0x	0.32	FCF/sh (US\$/sh)		(0.03)	(0.00)	(0.06)	(0.25)
1xNAV5% US\$24/oz		566			6.48	EV (US\$m)		671	749	708	750
Target multiples		Multiple			C\$/sh	FCF yield - pre growth spend (%)		neg	0.9%	2.0%	0.9%
Target P/NAV Multiple		2.0x			13.00	FCF yield (%)		neg	neg	neg	0.7%
Target price					13.00	PER (x)		(394.5)	237.8x	82.5x	293.3x
1xNAV sensitivity to gold price and discount / NAV multiple						P/CF (x)		266.7x	71.1x	39.6x	86.6x
1xNAV Zgounder (US\$m)		\$15oz	\$20oz	\$24oz	\$30oz	\$35oz	EV/EBITDA (x)		6,641.8x	95.6x	43.4x
7% discount		48	224	364	574	750	Income statement		CY20E	CY21E	CY22E
5% discount		63	278	450	709	924	Revenue (US\$m)		14	29	42
3% discount		80	349	564	886	1,155	COGS (US\$m)		(8)	(14)	(19)
Valuation (C\$/sh)		\$15oz	\$20oz	\$24oz	\$30oz	\$35oz	Gross profit (US\$m)		6	15	22
1.5xNAV		3.00	6.80	9.70	14.20	17.90	Expenses (US\$m)		(2)	(2)	(3)
2.0xNAV		4.10	9.00	13.00	18.90	23.80	Impairment & other (US\$m)		-	-	-
2.5xNAV		5.10	11.30	16.20	23.60	29.80	Net finance costs (US\$m)		1.3	(0.0)	-
Valuation over time						1Q20E	1Q21E	1Q22E	1Q23E	1Q24E	
Mines NPV (US\$m)		450	472	494	524	569	Tax (US\$m)		(0.9)	(0.0)	(0.1)
Cntrl G&A & fin costs (US\$m)		(26)	(23)	(19)	(13)	(48)	Minority interest (US\$m)		(0.5)	(1.3)	-
Net cash at 1Q (US\$m)		30	23	14	51	67	Net income attr. (US\$m)		3.9	11.6	19.4
Other Assets + Options		104	104	104	104	104	EBITDA		(1.8)	3.2	8.8
1xNAV (US\$m)		559	577	594	666	693	Cash flow		CY20E	CY21E	CY22E
P/NAV (x):		1.63x	1.58x	1.54x	1.37x	1.32x	Profit/(loss) after tax (US\$m)		(2)	3	9
1xNAV share px FD (C\$/sh)		6.41	6.60	6.81	7.63	7.93	Add non-cash items (US\$m)		4	8	9
ROI to equity holder (% pa)		-39%	-37%	-19%	-10%	-7%	Less wkg cap / other (US\$m)		(1)	(1)	(2)
1.2xNAV share px FD (C\$/sh)		7.69	7.93	8.17	9.16	9.52	Cash flow ops (US\$m)		1	10	16
ROI to equity holder (% pa)		-26%	-24%	-12%	-4%	-2%	PP&E (US\$m)		(2)	(21)	(25)
Resource / Reserve		Mt	Moz Ag	Moz Au	EV/oz Ag	EV/oz AgEq	Other (US\$m)		0	-	-
Measured, ind. & inf. - Zgounder		4.73	44.8		11.5	19.1	Cash flow inv. (US\$m)		(6)	(11)	(25)
SCPe Mine inventory - Zgounder		14.13	130.0		6.6	6.6	Debt draw (repayment) (US\$m)		(0.1)	25.0	25.0
Other assets - M&I&I		22.69	18.6	1,295			Equity issuance (US\$m)		20.0	-	-
Total M&I&I		27.42	63.4	1,295	13.5	5.3	Other (US\$m)		(1.6)	-	-
Production (100%)		CY19A	CY20E	CY21E	CY22E	CY23E	Cash flow fin. (US\$m)		18.3	25.0	25.0
Zgounder (000oz Ag)		452	690	1,411	2,072	2,177	Net change post forex (US\$m)		13	24	16
Zgounder cash cost (US\$/oz)		6.68	9.67	9.22	8.29	11.07	Balance sheet		CY20E	CY21E	CY22E
Zgounder AISC (US\$/oz)		18.83	11.82	11.90	9.70	12.99	Cash (US\$m)		33	51	67
Group (000oz Ag)		452	690	1,411	2,072	2,177	Accounts receivable (US\$m)		4	4	6
Group cash cost (US\$/oz)		7.84	12.09	10.00	9.31	12.31	Inventories (US\$m)		2	4	6
Group AISC (US\$/oz)		21.46	22.52	16.66	12.59	14.83	PPE & exploration (US\$m)		30	39	56
C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/development							Other (US\$m)		2	12	12
Production (koz Ag)							Total assets (US\$m)		72	110	148
US\$40/oz							Debt (US\$m)		0	25	50
US\$30/oz							Other liabilities (US\$m)		10	12	14
US\$20/oz							Shareholders equity (US\$m)		112	119	121
US\$10/oz							Retained earnings (US\$m)		(51)	(47)	(39)
US\$0/oz							Minority int. & other (US\$m)		1	1	1
							Liabilities+equity (US\$m)		72	110	148

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TENDER:	0
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TOTAL	44

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