

Ticker: GGD CN **Cash:** US\$73m **Project:** Los Ricos / Parral
Market cap: C\$855m **Price:** C\$3.10/sh **Country:** Mexico: Jalisco / Chihuahua
RECOMMEND. (unc): BUY **TARGET** (up): C\$4.20/sh **RISK RATING:** HIGH

Parral is a remarkably resilient operation – this was the cornerstone asset of the company when silver was US\$30/oz at build-start, and only became maligned when silver bottomed out at ~US\$14/oz from 2018-1H20. The operation is working like clockwork, beat our estimates, with US\$5.5m FCF potentially pointing to lower unit costs too. Of course the main prize is Los Ricos, with the most activity being drilling at the north. At that end, the ‘rig farm’ is well able to continue given the C\$73m cash. We make minor adjustments to our model to reflect the consistent strong production at Parral, and **maintain our BUY rating, lifting our 0.8xNAV_{5%-1850-24} PT from C\$4.10/sh to C\$4.20/sh**. This is based on a DCF valuation for Los Ricos South using 72Moz @ 189g/t AgEq, and 125Moz @ US\$2.50/oz AgEq for Los Ricos North, a number looking beatable, and quickly given the 100,000m drilling underway. A year-end MRE on Los Ricos North should crystalize the value of this asset, as well as the drill rig with multitudes of new targets still to be drilled. Adding 2H21 discovery drilling on Los Ricos North, and a resumption of drilling on Los Ricos South in due course, GoGold remains a conviction ‘real’ silver name in a peer group rife with high market caps, complex polymet. metallurgy, and unanswered mining and metallurgical questions.

Table 1. Parral production against prior quarter and SCP forecast



Source: Company data, SCP estimates

Parral 2Q production 575koz AgEq vs. 425koz SCPe forecast: US\$5.5m FCF takes cash to US\$73m

Production of 575koz AgEq comprises ~55% silver (315koz Ag, 3.2koz Au, 120t Cu), taking the asset to ten consecutive positive FCF quarters now (Ag was <US\$15/oz in 4Q18). The asset generated ~US\$5.5m FCF, combining with the US\$25m equity raise in 2Q21 to end the quarter with over US\$73m.

Why we like GoGold

- Self-funds G&A and a portion of exploration from Parral, with options to extend to new dumps
- ‘Hidden’ silver company with Los Ricos predominantly silver
- Los Ricos an easily mineable open pit, on a single vein, extending to depth
- Los Ricos North drilled targets could support a standalone operation of similar size
- Undrilled Los Rico North targets could support multiples of Los Ricos South’s size

Catalysts

- 2021: 100,000m of drilling at Los Ricos North
- 4Q21: Los Ricos North maiden MRE
- 2H21: Los Ricos South strike drilling

Research

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Ticker: GGD CN	Price / mkt cap: C310c/sh, C\$855m	Group P/NAV today: 0.68x	Asset: L. Ricos / Parral
Author: B Salier	Recommendation: BUY	Price target: C\$4.2/sh	Country: Mexico

Commodity price	CY19A	CY20A	CY21E	CY22E	CY23E	Reserve / mining inventory	Ag Eq	Au Eq
Gold price	1,379	1,748	1,789	1,819	1,850	Parral (SCP mine plan)	32Moz 63.5g/t	358koz 0.00g/t
Silver price	15.8	19.25	25.83	25.50	24.00	Los Ricos (SCPe)	72Moz 189g/t	816koz 2.14g/t
						Esmeralda (not modelled)	14Moz 72g/t	155koz 0.82g/t

Group-level SOTP valuation					Share data				
	US\$m	O/ship	NAVx	C\$/sh*	Basic shares (m)	FD with options (m):			
NPV Parral (3Q21)	194.5	100%	1.0x	0.96	275.7	288.8			
NPV Los Ricos South (build start)	402.2	100%	0.8x	1.59					
Esmeralda nominal (US\$50/oz Au)	7.8	100%	1.0x	0.04					
Los Ricos North 125Moz @ US\$150/oz	312.5	100%	1.0x	1.55					
NPV central & finance costs	(66.9)	100%	1.0x	(0.33)					
Cash (2Q21)	73.0	100%	1.0x	0.36					
Cash from options	4.0	100%	1.0x	0.02					
1xNAV5% 1Q21 US\$1850/oz	927			4.19					

Group NAV (US\$m)						Income statement^						
	Ag:	SCp	spot			CY19A	CY20A	CY21E	CY22E	CY23E		
Group 1xNAV (US\$m)	Ag:	\$23.0oz	\$24.0oz	\$25.0oz	\$26.0oz	\$27.0oz						
11% discount		757	776	795	815	834	Revenue, attrib (US\$m)	32.4	44.2	54.9	52.3	204.2
8% discount		823	845	868	890	912	COGS, attrib (US\$m)	23.1	25.5	24.5	24.1	95.3
5% discount		904	930	956	983	1,009	D&A, attrib (US\$m)	5.9	3.6	6.6	7.6	20.4
Ungeared project IRR:		51%	53%	55%	57%	59%	Gross profit, attrib (US\$m)	3.1	15.2	23.7	20.6	88.5

Group NAV (C\$/sh)*						Cash flow^						
	Ag:	\$23.0oz	\$24.0oz	\$25.0oz	\$26.0oz	\$27.0oz	CY19A	CY20A	CY21E	CY22E	CY23E	
11% discount		3.49	3.57	3.65	3.73	3.81	EBITDA (US\$m)	5.9	12.0	19.6	18.0	73.2
8% discount		3.76	3.85	3.95	4.04	4.14	Less working Δ capital (US\$m)	(12.6)	(0.5)	(2.0)	0.9	(12.5)
5% discount		4.09	4.20	4.31	4.42	4.53	Less finance costs (US\$m)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)

Los Ricos assumptions						Cash flow ops (US\$m)					
	Mt	AuEq (g/AgEq)	g/AgEq (ko)	AgEq (Moz)		CY19A	CY20A	CY21E	CY22E	CY23E	
NI43-101 pit resource (M&I&I)	12.1	2.13	186	829	73	PP&E - build (US\$m)	(3.0)	(1.0)	(30.5)	(101.3)	(2.0)
NI43-101 UG resource (M&I&I)	1.1	3.56	312	126	11	Exploration (US\$m)	(4.2)	(15.9)	(8.2)	(0.0)	(0.0)
SCPe pit inventory	11.0	2.05	180	720	63	Asset sales (US\$m)	9.6	-	-	-	-
SCPe UG inventory	0.9	1.16	296	96	8	Cash flow inv. (US\$m)	2.5	(16.9)	(38.7)	(101.3)	(2.1)

Los Ricos NPV @ 3Q21 build start^ capex and opex sensitivity						Balance sheet^						
NPV at build start (US\$m)						CY19A	CY20A	CY21E	CY22E	CY23E		
-20% chg sustaining capex		423	421	419	417	415	Cash (US\$m)	5.0	56.4	112.2	30.1	89.3
0% chg sustaining capex		406	404	402	400	398	Acc rec. + inv. (US\$m)	29.9	31.2	33.7	33.0	51.8
20% chg sustaining capex		389	387	385	383	381	PPE (US\$m)	27.0	64.4	88.3	182.0	163.7

NPV at build start (US\$m)*						Cash flow fin. (US\$m)						
	Ag:	-20%	-10%	0% UG	10%	20%	CY19A	CY20A	CY21E	CY22E	CY23E	
-20% chg pit \$/t		434	424	414	404	394	Share issue (US\$m)	-	54.3	79.8	-	-
0% chg pit \$/t		422	412	402	392	382	Debt draw (repay) (US\$m)	(0.6)	(1.2)	-	-	-
20% chg pit \$/t		410	400	390	380	370	Cash flow fin. (US\$m)	(0.6)	53.1	79.8	-	-

Production (Y1 from 3Q20)						Total assets (US\$m)					
	CY19A	CY20E	CY21E	CY22E	CY23E	CY19A	CY20A	CY21E	CY22E	CY23E	
Parral prod'n (Moz AgEq)	2.0	2.3	2.1	2.0	2.1	Cash (US\$m)	5.0	56.4	112.2	30.1	89.3
Los Ricos prod'n (Moz AgEq)	-	-	-	-	6.4	Acc rec. + inv. (US\$m)	29.9	31.2	33.7	33.0	51.8
C1 cost (US\$/oz AgEq)	11.33	11.21	11.55	11.76	11.28	PPE (US\$m)	27.0	64.4	88.3	182.0	163.7
AISC cost (US\$/oz AgEq)	13.92	13.56	14.15	14.18	12.80	Exploration (US\$m)	14.4	26.7	38.9	38.9	38.9
C3 cost (US\$/oz AgEq)	15.48	14.30	15.63	15.87	15.89	Others (US\$m)	12.0	13.5	14.0	14.0	14.0

Production (Y1 from 3Q20)						Liabilities + equity (US\$m)					
	CY19A	CY20E	CY21E	CY22E	CY23E	CY19A	CY20A	CY21E	CY22E	CY23E	
Parral prod'n (Moz AgEq)	2.0	2.3	2.1	2.0	2.1	Cash (US\$m)	5.0	56.4	112.2	30.1	89.3
Los Ricos prod'n (Moz AgEq)	-	-	-	-	6.4	Debt (US\$m)	5.4	3.2	2.8	2.8	2.8
C1 cost (US\$/oz AgEq)	11.33	11.21	11.55	11.76	11.28	Accnts payable (US\$m)	7.2	7.6	8.1	8.1	14.5
AISC cost (US\$/oz AgEq)	13.92	13.56	14.15	14.18	12.80	Def. tax, closure, other (US\$m)	2.0	3.0	2.7	2.7	2.7
C3 cost (US\$/oz AgEq)	15.48	14.30	15.63	15.87	15.89	Total liabilities (US\$m)	14.5	13.7	13.6	13.6	19.9

Source: SCP estimates; *diluted for options, but not for Los Ricos mine build; ^excludes Los Ricos

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NOT RATED:	0
TOTAL	44

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