

Ticker: SKE CN
Market cap: C\$858m

SCPe cash: C\$85m
Price: C\$13.82/sh

Project: Eskay Creek
Country: Canada, BC

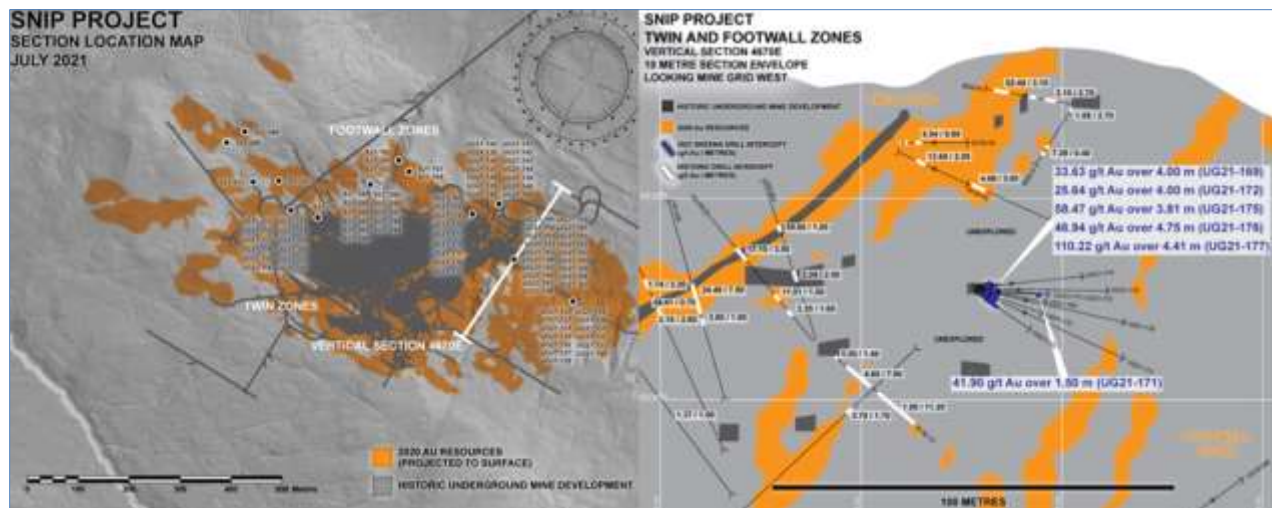
RECOMMEND. (unc): BUY

TARGET (unc): C\$17.20/sh

RISK RATING: HIGH

Today's results from Snip are impressive, with 4.4m @ 110g/t and also 3.8-4.7m @ 30-45g/t that continue to point to big ounce additions here from various assorted drilling. Even better is that many of these holes hit high-grade veins missed by previous operators, with today's vein clusters immediately adjacent to existing development. With the pro-forma cash of ~\$85m in the treasury to drill here now, perhaps there is something much bigger than a subsidiary blending source and >50koz pa. Also, we note a potential buyback play at hand, HOC can earn 60% by spending 2x SKE spend, (\$16m spend by 2018 + since) expiring in 4Q21. We **maintain our BUY rating and C\$ 17.20/sh PT based on a 0.8xNAV_{5%-1850-24}**. This includes 2.7Moz of Eskay Creek resources outside our modelled 3Moz AuEq mining inventory at an attributed US\$50/oz. In our view, the premium is warranted given the potential bump to >400koz pa with Snip / historic waste / satellites, all in a tier 1 jurisdiction. Exploration should now proceed in parallel with the ~1Q22 FS where we would look for payability. Thereafter we think the recent Tahltan investment bodes well for cooperative permitting, which could see build start before the 2024 base case.

Figure 1. Snip project (A) plan view and (B) vertical section showing recent drill results



Source: Skeena

Footwall drilling at Snip returns 4.4m @ 110g/t from new high-grade vein clusters

Results from the Phase 3 infill and exploration program at Snip highlighted **4.4m @ 110g/t, 4.75m @ 46.9g/t and 3.8m @ 58.5g/t** intersected only metres into the hole collared from the 412 level underground drift in the FW zone. This new mineralized zone is open for expansion up-dip 25m, >100 m down-dip and 40m to the west. Other highlights include **3.8m @ 30.7g/t, 4m @ 33.6g/t and 4.5m @ 48.4g/t**.

Why we like Skeena Resources

- Large high-grade open pit with SCPe >500koz upside potential in coming 12-18M
- Shift in market dynamics allows concentrate sales for lower capex
- Optionality from high-grade Snip mine nearby to blend concentrate or add ounces
- Catalyst heavy with drilling, metallurgy, PFS and DFS in coming 18M

Catalysts

- CY21: Regional drilling
- 2Q21: Permitting update
- 1Q22: BFS including expanded resource

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Ticker: SKE CN	Price / mkt cap: C\$13.82/sh, C\$858	Project PNAV today: 0.67x	Asset: Eskay Creek / Snip
Author: B Salier / B Gaspar	Rec / 0.8xNAV PT BUY, C\$17.2/sh	1xNAV_{1Q21} FF FD: C\$20.62/sh	Country: Canada: BC

Commodity price	CY18A	CY19A	CY20E	CY21E	CY22E	Resource / Reserve	AuEq (koz)	AuEq (g/t)
Gold price	1,850	1,850	1,850	1,850	1,850	Pittable resource	5425koz	4.17g/t
SOTP project valuation*						Underground resource	224koz	5.41g/t
	C\$m	O/ship	NAVx	C\$/sh		Snip	646koz	13.60g/t

	C\$m	O/ship	NAVx	C\$/sh	Funding: uses	Funding: sources
Ungeared proj. @ build start (2Q22)	1,444	100%	1.00x	20.32	PFS capex C\$303m	SCPe 1Q21 cash + options cash* C\$32m
Cash 1Q21 + raise	85	100%	1.00x	1.20	SCPe G&A to 1st Au + ABX \$ C\$15m	1Q21 raise C\$58m
Cash from options	10	100%	1.00x	0.14	SCPe pre-production expl'n C\$11m	Mine debt @ 60% gearing C\$212m
Eskay Ck resources ex reserve @US\$50/oz	137	100%	1.00x	1.93	SCPe finance costs + wkg cap C\$69m	Mine build equity at 30% prem. C\$100m
Snip (US\$75/oz)	61	100%	1.00x	0.86	Total uses C\$398m	Total proceeds C\$401m
Asset NAV5% C\$1850/oz	1,737			24.5		Buffer C\$3m

*Shares diluted for options but not mine build Market P/NAV5%_{1Q21} 0.61x *Cash from options expiring pre first pour

Asset value: 1xNPV project @ build start (C\$m, ungeared)*

Project NPV (C\$m)*	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Share data
10.0% discount	1,224	1,323	1,422	1,521	1,575	Basic shares (m) 62.1
7.5% discount	1,365	1,477	1,588	1,699	1,762	FD with build equity raise 76.6
5.0% discount	1,533	1,659	1,784	1,909	1,984	FD with options (m) 71.0
Ungeared project IRR:	87%	94%	100%	106%	105%	Ratio analysis

Project NPV (C\$m)*	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Average shares out (m)
3.7g/t AuEq	1,286	1,368	1,481	1,594	1,707	91.3
4.1g/t AuEq	1,533	1,659	1,784	1,909	1,984	107.3
4.5g/t AuEq	1,811	1,949	2,036	2,170	2,304	137.6
NPV5 (C\$m)*	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	141.3
Payability: 67%	1,286	1,368	1,481	1,594	1,707	143.6
Payability: 74%	1,533	1,659	1,784	1,909	1,984	EPS (C\$/sh) -
Payability: 82%	1,811	1,949	2,036	2,170	2,304	CFPS (C\$/sh) -

*Project level NPV, excl finance costs and central SGA, discounted to build start

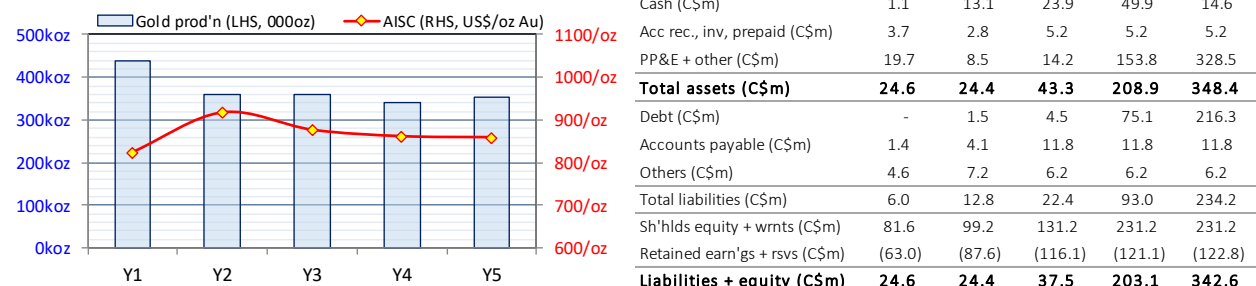
Group valuation over time^	2Q21	2Q22	2Q23	2Q24	2Q25	Income statement
Eskay Creek (C\$m)	1,392	1,493	1,721	1,858	1,524	Net revenue (C\$m) -
Net cash prior qtr (C\$m)	85	(9)	(65)	(127)	265	Gross profit (C\$m) -
G&A and finance costs (C\$m)	(84)	(83)	(80)	(68)	(50)	D&A, attrib (C\$m) 0.2
Cash from options (C\$m)	10	10	10	10	10	Admin (C\$m) 4.3
Snip	61	61	61	61	61	Expensed exploration (C\$m) 11.5
NAV FF FD (C\$m)	1,465	1,473	1,648	1,735	1,811	Finance cost (C\$m) (0.0)
1xNAV _{5%} /sh FF FD (C\$/sh)	20.62^	20.74^	21.52*	22.65*	23.65*	Royalty (C\$m) -
Equity ROI from spot (% pa)	50%	34%	28%	24%	24%	Forex, other (C\$m) (0.5)

Geared company NAV diluted for mine build, net G&A and finance costs	2Q22 1xNAV FF FD (C\$/sh)^	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Cash flow, attrib.
10.0% discount	15.39	16.82	18.25	19.68	20.45	20.45	EBIT (C\$m) (15.5)
7.5% discount	16.92	18.48	20.04	21.60	22.49	22.49	Add back D&A (C\$m) 0.2
5.0% discount	18.69	20.40	22.11	23.83	24.85	24.85	Less tax + net interest (C\$m) (0.0)
Geared project IRR:	79%	85%	91%	97%	96%	96%	Net change in wkg cap (C\$m) (1.4)
2Q22 1xNAV FF FD (C\$/sh)^	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	2150oz	Add back other non-cash (C\$m) 1.6
Payability: 67%	15.27	16.38	17.92	19.46	21.00	21.00	Cash flow ops (C\$m) (15.1)
Payability: 74%	18.69	20.40	22.11	23.83	24.85	24.85	PP&E - build + sust. (C\$m) 3.2
Payability: 82%	22.54	24.43	25.60	27.44	29.28	29.28	PP&E - expl'n (C\$m) -

^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity

Production	Y1	Y2	Y3	Y4	Y5	Cash flow inv. (C\$m)
Gold production (000oz)	439	360	359	339	354	3.2
C1 cost (US\$/oz)	810	880	844	831	815	0.4
AISC cost (US\$/oz)	825	917	876	861	859	-

AISC = C1 + ug sustaining capex, Y1 = 12M to Dec 2024



Source: SCP estimates

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BUY:	44
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SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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