

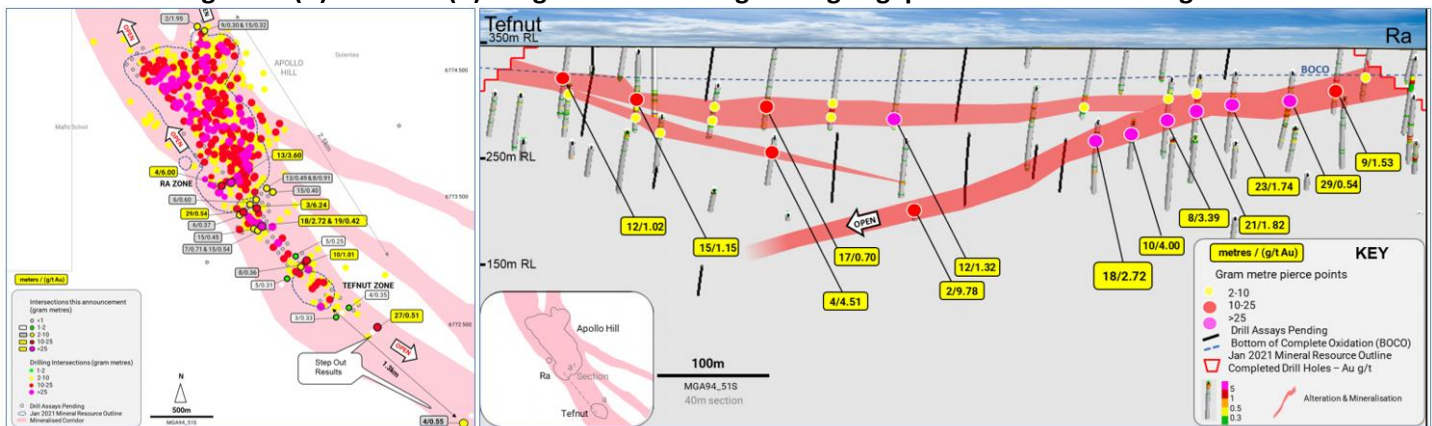
Ticker: STN AU **Cash:** A\$10m **Project:** Apollo Hill
Market cap: A\$52m **Price:** A\$0.46/sh **Country:** Australia, WA
RECC. (unc): BUY **PT (unc):** A\$1.10/sh **RISK RATING:** SPECULATIVE

Today's drilling is useful, perhaps more than that given the tenor of headline hits, but remains only one piece of the puzzle here. In short, based on drilling to date, we think the existing 944koz should lift >1.1Moz in the upcoming MRE, potentially with a little further upside from the 6,000m of grade-control drilling underway. This fulfills one of the three pillars of Saturn for us: exploration upside. With >1000km² of prime Leonora greenstone belt we are confident this will continue to grow steadily, not the least with greenfield targets scheduled to be drilled in 2H21. However, two other short-dated aspects could provide step-changes too, being (i) 2H21 metallurgical work on this odd non-sulphide fine/free gold asset could support a heap-leach which could enable immediate 'will be a mine' reserves. Secondly and the most tantalizing driver, are the maiden assays from drilling now underway on the bonanza grade West Wyalong asset in NSW where 439koz was mined at 36g/t before closure during WWI at just 274m below surface. As such, we **maintain our BUY rating and 0.5xNAV_{5%-1850} A\$1.10/sh PT**. With grade-control, near-mine, regional, and NSW drilling in the coming 6M, a MRE update, and A\$10m cash, CY21 is set to be an exciting year for Saturn.

Drilling along strike

Drill highlights from the gap area between the Apollo Hill Main pit and southern Tefnut satellite have returned highlights of 18m @ 2.7g/t from 89m and 13m @ 3.6g/t from 141m. Drilling under the Ra Zone MRE (SE corner of main pit) hit 8m @ 5.6g/t and 4m @ 6g/t. Finally drilling south of the Tefnut satellite hit 27m @ 0.51g/t and 4m @ 0.55g/t up to 1.35km south of existing resources.

Figure 1. (A) Plan and (B) Long section showing drilling in gap zone south of existing MRE



Source: Saturn

Why we like Saturn

1. Base load SCPE ~650koz high-margin pitable around existing 944koz @ 0.8g/t M&I&Inf
2. Extremely high recoveries support potential for heap-leach
3. Southern / northern strike extensions near-pit have potential to lift >1Moz
4. A\$10m cash and lean team to target 1,000km² license in Leonora-Laverton
5. West Wyalong JV to see first drilling: 439koz mined at 36g/t to only 275m

Catalysts

1. 2H21: West Wyalong maiden drill results
2. 3Q21: 6,000m grade control drilling on 15m spaced lines
3. 4Q21: metallurgical test work on heap leach
4. 2H21: Regional exploration to drill 5-6 greenfield targets

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|---|--|--------------------------------------|----------|----------|----------|--------------------------------------|--------------------------------|-------------------------|---------------------------------|----------------------------|--------|
| Ticker: STN AU | | Price / mkt cap: A\$0.465/sh, A\$52m | | | | Project PNAV today: 0.22x | | Asset: Apollo Hill | | | |
| Author: Brock Salier | | Rec / 0.5xNAV PT BUY, A\$1.1/sh | | | | 1xNAV3Q24 FF FD: C\$1.27/sh | | Country: Australia (WA) | | | |
| Commodity price | | CY21E | CY22E | CY23E | CY24E | CY25E | Resource / Reserve | | Tonnes | Grade | Ounces |
| Gold price | | 1,850 | 1,850 | 1,850 | 1,850 | 1,850 | Resource | | 25Mt | 0.99g/t | 781koz |
| SOTP project valuation* | | | | | | SCP mining inventory | | 31Mt | 0.80g/t | 800koz | |
| | | A\$m | O/ship | NAVx | A\$/sh | Project: USES | | | Funding: SOURCES | | |
| Ungeared @ build start (3Q23) | | 233 | 100% | 1.00x | 1.97 | Pre-DFS exploration / G&A: A\$26m | | | Pre-build equity: A\$26m | | |
| Cash 1Q21 | | 10.3 | 100% | 1.00x | 0.09 | Build capex: A\$170m | | | Build equity @ 0.4xNAV: A\$100m | | |
| Cash from options | | 1.7 | 100% | 1.00x | 0.01 | Finace costs and working cap: A\$32m | | | Build debt @ 8%: A\$102m | | |
| West Wyalong (nominal) | | 10.0 | 100% | 1.00x | 0.08 | TOTAL USES: A\$228m | | | TOTAL SOURCES: A\$228m | | |
| Asset NAV5% US\$1850/oz | | 255 | | | | 2.15 | Share data | | Basic | FD with optionFD for build | |
| *Shares diluted for options but not mine build | | | | | | Market P/NAV5% 3Q20 | | 0.22x | | | |
| Asset value: 1xNPV project @ build start (A\$m, ungeared, 35Mt ROM)* | | | | | | Ratio analysis | | | | | |
| Project NPV (A\$m)* | | \$1650oz | \$1750oz | \$1850oz | \$1950oz | \$2050oz | Average shares out (m) | | 139.6 | 245.4 | 260.5 |
| 9.0% discount | | 77 | 124 | 171 | 217 | 264 | EPS (A\$/sh) | | - | - | - |
| 7.0% discount | | 99 | 149 | 200 | 250 | 301 | CFPS (A\$/sh) | | - | - | - |
| 5.0% discount | | 124 | 178 | 233 | 287 | 342 | EV (A\$m) | | 52.4 | 110.6 | 114.6 |
| Ungeared project IRR: | | 17% | 21% | 26% | 30% | 35% | FCF yield (%) | | - | - | - |
| | | 0.90Moz | 0.95Moz | 1.00Moz | 1.05Moz | 1.10Moz | PER (x) | | - | - | - |
| NPV5 (A\$m)* | | 0.9g/t | 1.0g/t | 1.0g/t | 1.1g/t | 1.1g/t | P/CF (x) | | - | - | - |
| Mining cost: A\$2.43/t^ | | 473 | 536 | 600 | 663 | 723 | EV/EBITDA (x) | | - | - | - |
| Mining cost: A\$3.25/t | | 386 | 449 | 512 | 575 | 635 | Income statement | | | | |
| Mining cost: A\$3.50/t | | 359 | 422 | 485 | 548 | 608 | CY20E | CY21E | CY22E | CY23E | CY24E |
| *Project NPV, ex fin. costs and cent G&A, d'cnt to build start; ^CMM DFS figure | | | | | | Net revenue (A\$m) | | - | - | - | - |
| Group valuation over time^ | | | | | | COGS (A\$m) | | - | - | - | - |
| Apollo Hill NPV (A\$m) | | 205.8 | 216.1 | 228.6 | 322.1 | 443.9 | Gross profit (A\$m) | | - | - | - |
| G&A and finance costs (A\$m) | | (47.8) | (48.4) | (49.1) | (47.8) | (40.9) | D&A, attrib (A\$m) | | - | - | - |
| Net cash prior qtr (A\$m) | | 10.3 | 11.0 | 4.3 | 26.5 | (84.0) | G&A + sh based costs (A\$m) | | 3.1 | 1.6 | 1.6 |
| Cash from options (A\$m) | | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | Finance cost (A\$m) | | 0.5 | (0.0) | (0.0) |
| West Wyalong nom. (A\$m) | | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | Taxes (A\$m) | | - | - | - |
| NAV FF FD (A\$m) | | 180 | 190 | 196 | 313 | 331 | Net income (A\$m) | | (3.6) | (1.6) | (1.6) |
| Shares in issue (m) | | 109 | 140 | 140 | 260 | 260 | Cash flow, attrib. | | CY20E | CY21E | CY22E |
| 1xNAV5%/sh FF FD (A\$/sh) | | 1.66 | 1.36 | 1.40 | 1.20 | 1.27 | EBIT (A\$m) | | (3.1) | (1.6) | (1.6) |
| Geared build-start NAV diluted for mine build, net G&A and finance cos | | | | | | Add back D&A (A\$m) | | - | - | - | - |
| 3Q23 1xNAV FF FD (A\$/sh)^ | | \$1650oz | \$1750oz | \$1850oz | \$1950oz | \$2050oz | Less tax + net interest (A\$m) | | 0.5 | (0.0) | (0.0) |
| 9.0% discount | | 0.34 | 0.58 | 0.85 | 1.14 | 1.44 | Net change in wkg cap (A\$m) | | - | - | - |
| 7.0% discount | | 0.43 | 0.71 | 1.01 | 1.32 | 1.65 | Other non-cash (A\$m) | | 0.9 | (0.0) | 0.0 |
| 5.0% discount | | 0.55 | 0.85 | 1.18 | 1.53 | 1.88 | Cash flow ops (A\$m) | | (1.7) | (1.7) | (1.6) |
| Geared project IRR: | | 15% | 20% | 24% | 29% | 33% | PP&E - build + sust. (A\$m) | | 0.0 | 0.0 | - |
| | | 0.90Moz | 0.95Moz | 1.00Moz | 1.05Moz | 1.10Moz | PP&E - expl'n (A\$m) | | 7.5 | 7.3 | 7.3 |
| 3Q23 1xNAV FF FD (A\$/sh)^ | | 0.9g/t | 1.0g/t | 1.0g/t | 1.1g/t | 1.1g/t | Cash flow inv. (A\$m) | | (7.6) | (7.4) | (7.3) |
| Mining cost: A\$2.43/t | | 2.76 | 3.19 | 3.63 | 4.07 | 4.49 | Share issue (A\$m) | | 18.3 | 0.1 | 12.0 |
| Mining cost: A\$3.25/t | | 2.17 | 2.59 | 3.02 | 3.46 | 3.88 | Debt draw (repay) (A\$m) | | - | - | - |
| Mining cost: A\$3.50/t | | 1.99 | 2.41 | 2.84 | 3.27 | 3.69 | Cash flow fin. (A\$m) | | 18.3 | 0.1 | 12.0 |
| *Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity | | | | | | Net change in cash (A\$m) | | 9.0 | (8.9) | 3.0 | 50.9 |
| Production | | | | | | EBITDA (A\$m) | | (2.8) | (1.6) | (1.6) | (2.8) |
| Y1 | | Y2 | Y3 | Y4 | Y5 | Balance sheet | | CY20E | CY21E | CY22E | CY23E |
| Gold production (000oz) | | 86 | 98 | 98 | 98 | 98 | Cash (A\$m) | | 12.5 | 3.5 | 6.5 |
| C1 cost (US\$/oz) | | 1,136 | 1,136 | 1,136 | 1,136 | 1,136 | Acc rec., inv, prepaid (A\$m) | | 0.2 | 0.2 | 0.2 |
| AISC cost (US\$/oz) | | 1,241 | 1,233 | 1,233 | 1,233 | 1,233 | PP&E + other (A\$m) | | 17.6 | 25.0 | 32.3 |
| AISC = C1 + ug sustaining capex, Y1 = CY25 | | | | | | Total assets (A\$m) | | 30 | 29 | 39 | 137 |
| 125koz | | | | | | Debt (A\$m) | | - | - | - | 102.0 |
| 100koz | | | | | | Accounts payable (A\$m) | | 0.8 | 0.8 | 0.8 | 1.1 |
| 75koz | | | | | | Others (A\$m) | | - | - | - | - |
| 50koz | | | | | | Total liabilities (A\$m) | | 0.8 | 0.8 | 0.8 | 1.1 |
| 25koz | | | | | | Issued capital (A\$m) | | 36.6 | 36.7 | 48.7 | 148.7 |
| 0koz | | | | | | Retained earnings (A\$m) | | (6.8) | (8.4) | (10.1) | (12.8) |
| Y1 | | | | | | Liabilities + equity (A\$m) | | 31 | 29 | 39 | 137 |
| Y2 | | | | | | | | | | | 232 |
| Y3 | | | | | | | | | | | |
| Y4 | | | | | | | | | | | |
| Y5 | | | | | | | | | | | |

Source: SCP estimates

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| NOT RATED: | 0 |
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