

Ticker: AYA CN

Net cash: US\$32m (+US\$29m options)

Project: Zgounder

Market cap: C\$938m

Price: C\$9.82 /sh

Country: Morocco

RECOMMENDATION (unc): BUY

TARGET (unc): C\$13.00/sh

RISK RATING: HIGH

Aya continues to rack up impressive operational progress with another record quarter at Zgounder. Production is well above the guidance run rate and head grade at 297g/t has been both consistent and above guidance. While the major catalyst for the stock are drilling, the upcoming H2 resource update, and the long term mine plan update, more so than quarterly production, Benoit and team have already established a track record of achieving and beating their stated targets which is a key indicator for a young company. **We maintain our BUY rating and C\$13.00/sh price target based on 2.0x NAV.** We move up our full year production estimate to 1.6Moz, comfortably above guidance of 1.2Moz based on 275g/t.

Another record quarter at Zgounder as production remains comfortably above guidance rate

Aya announced Q2 production of 439koz Ag, well above our estimate of 317koz and the guidance run rate of 300koz per quarter (1.2Moz for the year). Head grade continued to outperform guidance at 297g/t, in line with Q1 and well above guidance of 258g/t for the year. Throughput continued its upward trajectory with 86% availability and 84.2% recovery for the flotation plant and 93% availability and 81.9% recovery for the cyanidation plant. Q2 financials are scheduled for release on 13 August before market open.

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

	Actual				SCPe	QoQ	Vs SCPe
	3Q20	4Q20	1Q21	2Q21	1Q21	% chg	% chg
Tonnes processed (kt)	26.0	52.1	48.5	56.3	45.0	16%	25%
Average grade (g/t Ag)	216.9	309.0	295.0	297.0	258.0	1%	15%
Flotation recovery (%)	nmf	81%	82%	84%	85%	3%	(1%)
Cyanidation recovery (%)	nmf	80%	84%	79%	85%	(6%)	(7%)
Average recovery (%) ⁽¹⁾	63%	79%	85%	82%	85%	(4%)	(4%)
Silver ingots produced (koz)	113.7	193.3	190.6	174.8	158.6	(8%)	10%
Silver in concentrate (koz)	--	214.7	198.5	264.4	158.6	33%	67%
Total silver produced (koz)	113.7	408.0	389.1	439.1	317.3	13%	38%

Source: Aya Gold & Silver, SCPe

(1) Silver produced vs silver contained; may differ from published recovery due to silver in circuit stocking/destocking

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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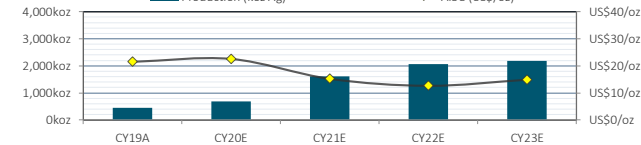
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Ticker: AYA CN		Price / mkt cap: C\$9.82/sh, C\$938m			Market P/NAV: 1.56x		Assets: Zgounder		
J Chan / B Gaspar		Rec / PT: BUY / C\$13.00			1xNAV ₂₀₂₀ FD: C\$6.28/sh		Country: Morocco		
Group-level SOTP valuation					Share data				
	1Q21	2Q21E							
	US\$m	O/ship	NAVx	C\$/sh	Basic shares (m): 95.5				
Zgounder NPV 2Q21E	433	100%	1.0x	4.95	FD + options (m): 109.2				
Central SG&A & fin costs 2Q21E	(21)	-	1.0x	(0.24)	FD + FF 109.2				
Ounces outside mine plan (\$50/oz AuEq)	-	100%	1.0x	-	Commodity price				
Other assets (\$50/oz AuEq)	77		1.0x	0.88	CY20E	CY21E	CY22E	CY23E	
Cash and restr. cash 1Q21	32	-	1.0x	0.36	20.8	24.0	24.0	24.0	
Debt 1Q21	(0)	-	1.0x	(0.00)	Silver price (US\$/oz)				
ITM options	28	-	1.0x	0.32	CY20E	CY21E	CY22E	CY23E	
1xNAV5% US\$24/oz	548			6.28	109.2	109.2	109.2	109.2	
Target multiples	Multiple			C\$/sh	Ratio analysis				
Target P/NAV Multiple	2.0x			13.00	FD shares out (m)				
Target price				13.00	EPS (US\$/sh)				
1xNAV sensitivity to gold price and discount / NAV multiple					0.016	0.051	0.080	0.026	
1xNAV Zgounder (US\$m)	\$15oz	\$20oz	\$24oz	\$30oz	CFPS before w/c (US\$/sh)				
7% discount	48	217	353	556	FCFPS pre growth spend (US\$/sh)				
5% discount	63	268	433	679	FCF/sh (US\$/sh)				
3% discount	80	333	536	840	EV (US\$m)				
Valuation (C\$/sh)	\$15oz	\$20oz	\$24oz	\$30oz	629	701	662	699	
1.5xNAV	3.00	6.60	9.40	13.70	FCF yield - pre growth spend (%)				
2.0xNAV	4.00	8.80	12.60	18.20	neg	1.4%	2.2%	1.0%	
2.5xNAV	5.10	11.00	15.70	22.80	FCF yield (%)				
Valuation over time	1Q20E	1Q21E	1Q22E	1Q23E	neg	0.3%	neg	0.7%	
Mines NPV (US\$m)	433	453	472	501	PER (x)				
Cntrl G&A & fin costs (US\$m)	(26)	(23)	(18)	(14)	(371.3)	129.7x	77.5x	267.8x	
Net cash at 1Q (US\$m)	30	25	17	54	P/CF (x)				
Other Assets + Options	105	105	105	105	251.0x	52.1x	37.2x	82.1x	
1xNAV (US\$m)	541	560	575	645	EV/EBITDA (x)				
P/NAV (x):	1.59x	1.53x	1.49x	1.33x	6,233.5x	64.2x	40.6x	39.0x	
1xNAV share px FD (C\$/sh)	6.19	6.41	6.59	7.39	Income statement				
ROI to equity holder (% pa)	-3.7%	-3.5%	-1.8%	-9%	CY20E	CY21E	CY22E	CY23E	
1.2xNAV share px FD (C\$/sh)	7.43	7.69	7.90	8.87	Revenue (US\$m)				
ROI to equity holder (% pa)	-2.4%	-2.2%	-1.0%	-3%	14	33	42	49	
Resource / Reserve	Mt	Moz Ag	Moz Au	EV/oz Ag	COGS (US\$m)				
Measured, ind. & inf. - Zgounder	4.73	44.8		10.8	(8)	(15)	(19)	(27)	
SCPe Mine inventory - Zgounder	13.05	120.0		6.7	Gross profit (US\$m)				
Other assets - M&I&I	22.69	18.6	1,295		6	18	22	22	
Total M&I&I	27.42	63.4	1,295	12.7	Expenses (US\$m)				
Production (100%)	CY19A	CY20E	CY21E	CY22E	(2)	(2)	(3)	(3)	
Zgounder (000oz Ag)	452	690	1,611	2,072	Impairment & other (US\$m)				
Zgounder cash cost (US\$/oz)	6.68	9.67	8.55	8.29	1.3	(0.0)	-	(6.0)	
Zgounder AISC (US\$/oz)	18.83	11.82	11.00	9.70	Tax (US\$m)				
Group (000oz Ag)	452	690	1,611	2,072	(0.9)	(0.1)	(0.1)	(2.7)	
Group cash cost (US\$/oz)	7.84	12.09	9.34	9.31	Minority interest (US\$m)				
Group AISC (US\$/oz)	21.46	22.52	15.17	12.59	(0.5)	(1.7)	-	(0.6)	
C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/development					Net income attr. (US\$m)				
Production (koz Ag)					3.9	14.3	19.4	9.9	
					EBITDA				
					(1.8)	5.6	8.8	2.8	
					Cash flow				
					CY20E	CY21E	CY22E	CY23E	
					Profit/(loss) after tax (US\$m)				
					(2)	6	9	3	
					Add non-cash items (US\$m)				
					4	8	9	6	
					Less wkg cap / other (US\$m)				
					(1)	(2)	(1)	42	
					Cash flow ops (US\$m)				
					1	12	17	51	
					PP&E (US\$m)				
					(2)	(11)	(25)	(36)	
					Other (US\$m)				
					0	-	-	-	
					Cash flow inv. (US\$m)				
					(6)	(11)	(25)	(36)	
					Debt draw (repayment) (US\$m)				
					(0.1)	25.0	25.0	(20.0)	
					Equity issuance (US\$m)				
					20.0	-	-	21.7	
					Other (US\$m)				
					(1.6)	-	-	-	
					Cash flow fin. (US\$m)				
					18.3	25.0	25.0	1.7	
					Net change post forex (US\$m)				
					13	26	17	17	
					Balance sheet				
					CY20E	CY21E	CY22E	CY22E	
					Cash (US\$m)				
					33	53	70	87	
					Accounts receivable (US\$m)				
					4	5	6	7	
					Inventories (US\$m)				
					2	5	6	7	
					PPE & exploration (US\$m)				
					30	38	56	86	
					Other (US\$m)				
					2	12	12	12	
					Total assets (US\$m)				
					72	112	150	199	
					Debt (US\$m)				
					0	25	50	30	
					Other liabilities (US\$m)				
					10	12	14	58	
					Shareholders equity (US\$m)				
					112	119	121	143	
					Retained earnings (US\$m)				
					(51)	(45)	(36)	(33)	
					Minority int. & other (US\$m)				
					1	1	1	1	
					Liabilities+equity (US\$m)				
					72	112	150	199	

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C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/development



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Summary of recommendations as of July 2021	
BUY:	44
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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