

Ticker: OSI CN
Market cap: C\$137m

4Q20 Cash: C\$16m
Price: C\$1.31/sh

Project: Twin Hills
Country: Namibia

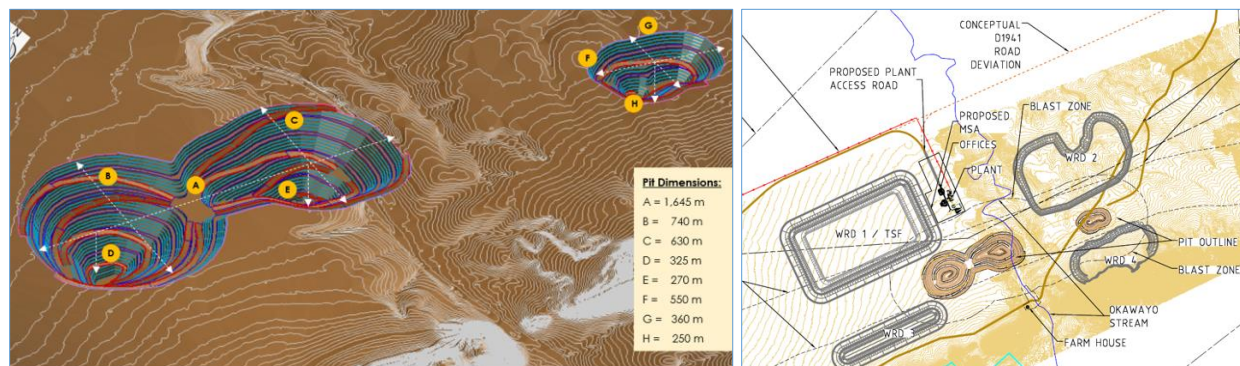
RECOMMEND. (unc): BUY

TARGET (up): C\$2.75/sh

RISK RATING: HIGH

Today's PEA, authored by African leaders Lycopodium, highlights the advantages of Namibia as clear open land with excellent infrastructure including port, sealed highway and grid power drives lowest quartile unit opex and capex. The simple open pit and vanilla CIL enables Osino to adopt a 0.3g/t cut-off, stockpiling lower grades, in a scenario similar to Australian peer Capricorn (CMM AU, A\$640m). This drove a larger inventory than we expected, with the lower grade offset by lower costs, with published post-tax NPV of C\$584m ~10% ahead of our forecast. Making no changes to the PEA scenario other than to account for 7% private minorities and attributing some exploration value drives our group NAV of C\$625m, putting the stock on an undiluted 0.14xNAV. As such, **we maintain our BUY rating and 0.6xNAV5%-1850 valuation, lifting our PT from C\$2.55/sh to C\$2.75/sh.** Whilst difficult to forecast, modelling 65% gearing and mine-build equity funding at 0.4xNAV drives a fully-funded fully-diluted NAV, net of all finance costs and central G&A, of >C\$4/sh approaching production. Ultimately, this is still only half our investment thesis. The second reason we like Osino is the ability to twin-track exploration. We see no better statistic than comparing the ~70km of drilling in today's PEA/MRE against ~50km underway with 10 rigs right now targeting a 1H22 MRE update. The nature of the ore body, being higher-grade shoots on plunging folds within a lower-grade cloud, leads us to expect grade improvements on infill as shoots are better defined. Combined this with only satellite drilling, and we fully expect the 2021 PFS to show an increase in endowment, and thus improved economics. With the team that has 'done it before' selling nearby Otjikoto to B2, Osino's rare combination of size, simplicity and growth plus belt control makes the stock a conviction name for us.

Figure 1. Pit and plant layout for proposed Twin Hills mine in Namibia



Source: Osino Resources

PEA confirms 'will be a mine' status with 1.5Moz inventory; 124koz pa Y1-6, scope to grow

Osino's maiden PEA outlines a 3.5Mtpa plant processing 1g/t ore at 5:1 strip for LOM 100koz pa, including 124koz pa in early years as stockpiling of lower grades is adopted, with AISC of US\$945/oz. The operation is a vanilla open pit with conventional CIL using standard 75um grind, with the dry climate meaning a three-stage grind is suitable, with water recycling planned to top up bore and pit dewatering sources, with potential to connect to grey-water pipelines. Grid power is envisaged, with a sealed road within 5km of site. The study was completed by African leader Lycopodium, with good infrastructure and open unpopulated land driving lowest quartile unit opex as well as capex (Figure 2). Published post-tax NPV_{5%-1850} of US\$467m comes with a 44% IRR and 2.1 year payback. The company currently has 10 drill rigs targeting a resource upgrade, after which a PFS is scheduled for 1H21. The PEA comes within two years of discovery. The company will optimise the mine design and production schedule in the PFS, potentially removing one of two ramps for lowered strip. Public consultations are to be held in 3Q21 ahead of an ESIA reported targeted for completion in 4Q21, with no flaws of high significance identified to date.

Table 1. PEA metrics against SCP estimates

Twin Hills (93.05%)	SCP old	PEA	Δ (%)		SCP old	PEA	Δ (%)
Mining inventory (Mt)	37.0	48.7	32%	Strip ratio (x)	3.5	5.0	43%
ROM grade (g/t)	1.20	0.98	-18%	LOM AISC (US\$/oz Au)	708	945	34%
Mining inventory AuEq (000oz)	1,427	1,535	8%	Total build capex (C\$m)	375	253	-33%
LOM recovery (%)	88.0%	90.9%	3%	Total sust. capex (C\$m)	51	49	-4%
LOM throughput (Mtpa)	3,895	3,500	-10%	Gold price (US\$/oz)	1,850	1,850	0%
Prod'n Au LOM (000oz pa)	133	99	-25%	USD / CAD	0.80	0.80	0%
ROM grade Y2-6 (g/t)	1.34	1.22	-9%	Discount (%)	5.0%	5.0%	0%
Production Y2-6 (000oz pa)	154	124	-20%	NPV post-tax (C\$m)	541	584	8%
Mining cost (US\$/t)	2.50	2.08	-17%	IRR post-tax (%)	31%	44%	42%
Processing cost (US\$/t)	11.50	8.97	-22%	Payback (years)	2.50	2.10	-16%
G&A (US\$/t)	3.00	3.00	0%				

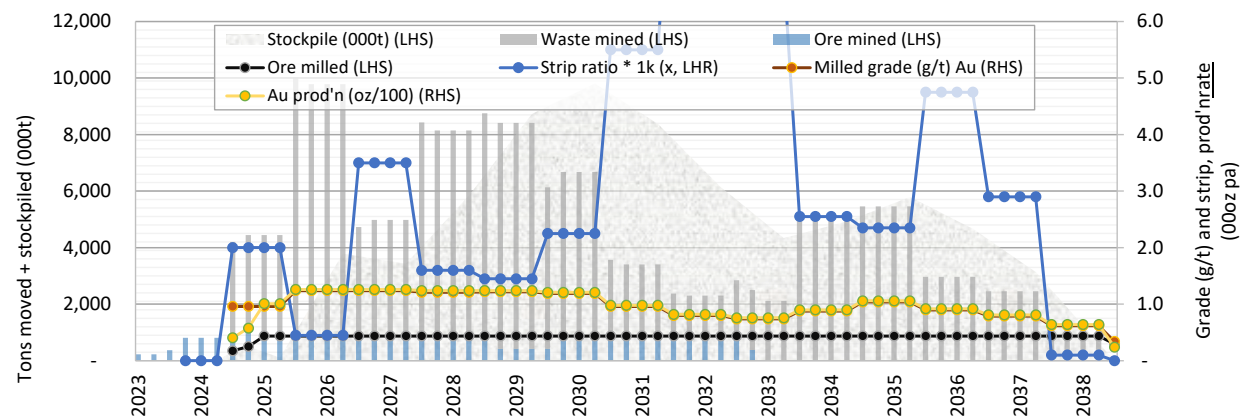
Source: SCP estimates, asset value only excl. 6.95% private minority

Our view: NPV beat as capex and opex savings offset smaller mill and lower grade

Resource & inventory: Firstly, Table 2 shows the 2% lift in ounces after restating the resource at 0.3g/t cut-off against prior 0.5g/t, offset by a small drop in grade. With the 43-101 recently lodged for the prior resource, we see no major hurdles; the resource modelling as composites, block sizes and constraining factors all appear sensible (Table 2B). The key here is the mining inventory, which came in 8% above our forecast at 1.5Moz, albeit at 18% lower grade than we forecast at 0.98g/t. Despite some stockpiling, early years do not see that aggressive scheduling of higher grade. That, plus grade-improvements from infill (of higher-grade shoots) could improve the economics in subsequent iterations. In fact, 69,063m of drilling has gone into the resource, yet 31,987m of infill and expansion drilling (of 50,000m total) has already been completed since the MRE cut-off, but is yet to be incorporated in the current MRE / PEA. **Stockpiling** has been adopted to front-load grade, with lower grades processed in later years, although this has not been done aggressively, with peak stockpiles of 'only' ~9Mt @ 0.6g/t for 175koz.

Table 2. (A) Restated resource at 0.3g/t against prior, and (B) mine plan

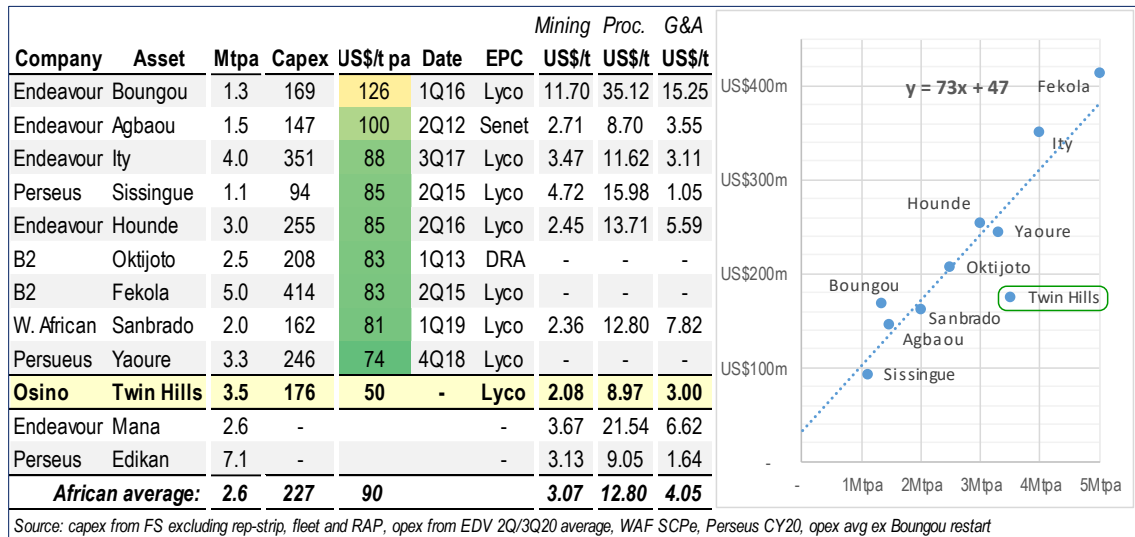
Twin Hills (100%) 2Q21	Tonnes (Mt)	Grade (g/t Au)	Ounces (000oz)	Modelling paramaters in 2Q21 maiden MRE		
M&I	14.0	0.98	0.44	Methodology	Ordinary Kriging, 2m composites	
Inferred	46.2	1.02	1.52	Parent block (m)	20 x 20 x 5m	
Total @ 0.3g/t cut-off	60.2	1.01	1.96	Cut-off (g/t)	0.3g/t, US\$1.85-2.00/t mining, US\$8.15/t proc.	
Δ to 2Q21 (@ 0.5g/t)	7%	-5%	2%	Process method	Vanilla CIL, 48-55 pit slope	
SCPe inventory: old	37.0	1.20	1.43	Whittle constraint	US\$, 1700/oz, 90% recovery	
PEA inventory	48.7	0.98	1.54	Source: Osino		
Δ SCPe	32%	-18%	8%			



Source: Osino, SCP

Economics: Over on a like-for-like US\$1,850/oz, today's PEA shows an 8% beat on NPV_{5%-1850} against our prior asset-only valuation. This was driven by an 8% beat on inventory, ~30% lower capex, and ~20% lower unit-opex, all of which offset grade of 1.0g/t against SCPe 1.2g/t, and a strip of 5:1 vs. our 3.5:1 estimate. In fact, we see the infrastructure advantages (and higher gold price) as driving the lower grade as infrastructure savings allow a lower cut-off grade (0.3g/t for resource vs. 0.5g/t previously), adding more ounces, but coming at lower grade and deeper, hence higher strip. As a point-in-time study, i.e. ahead of likely ounce growth, the study shows a sizeable and robust operation. We see no red-flag risks with 'big blob' ore zones, simple pit mining, vanilla metallurgy, and simple permitting ahead as capex / opex benefits from a lack of lakes / snow / jungle / wars / villages and more. This leaves unit mining, processing and G&A costs at the lower end, but in line with, peers. Capex for West Africa typically includes substantial infrastructure, power, and relocation costs – with all those absent the C\$253m capex for 3.5Mtpa is similarly lowest quartile (Figure 2). While easy to put this down to 'enthusiastic' inputs, we are pleased to see the Lycopodium has authored the report, the most credible EPC contractor in Africa in our view having completed 80% of the builds in our comparison table below.

Figure 2. Peer capex and opex with Lycopodium having completed the majority of African builds



Valuation

We model Twin Hills per the PEA, which drives our C\$586m NPV_{5%-1850}, in line with C\$584m published figure at 0.80 CAD/USD. We make no adjustments other than to incorporate government minorities, which drives our asset NPV at build start of C\$57m.

Table 3. PEA valuation against SCP (excluding minorities) and SCP (net 7% minorities)

Twin Hills (93.05%)	OSI	SCP	
	PEA	PEA /	SCP case
Mining inventory (Mt)	48.7	48.7	48.7
ROM grade (g/t)	0.98	0.98	0.98
Mining inventory AuEq (000oz)	1,535	1,535	1,535
LOM recovery (%)	90.9%	90.9%	90.9%
LOM throughput (Mtpa)	3,500	3,500	3,500
Prod'n Au LOM (000oz pa)	99	98	98
ROM grade Y2-6 (g/t)	1.22	1.22	1.22
Production Y2-6 (000oz pa)	124	124	124
Mining cost (US\$/t)	2.08	2.08	2.08
Processing cost (US\$/t)	8.97	8.97	8.97
G&A (US\$/t)	3.00	3.00	3.00

	OSI	SCP	
	PEA	PEA /	SCP case
Strip ratio (x)	5.0	5.0	5.0
LOM AISC (US\$/oz Au)	945	943	943
Total build capex (C\$m)	253	253	253
Total sust. capex (C\$m)	49	48	48
Gold price (US\$/oz)	1,850	1,850	1,850
USD / CAD	0.80	0.80	0.80
Discount (%)	5.0%	5.0%	5.0%
Private minority (%)	-	-	7.0%
NPV post-tax (C\$m)	584	580	540
IRR post-tax (%)	44%	35%	34%
Payback (years)	2.10	2.50	2.50

Source: SCP estimates, NPV net of 6.95% minority interest

Recommendation: maintain BUY rating, lift PT from C\$2.55 to C\$2.75/sh

A key tenant to our investment thesis is growing ounces. Nothing typifies this more than the drilling planned for this year of 50,000m against the ~70,000m in the existing MRE and PEA. To incorporate this upside, we add resource outside the mining inventory at US\$50/oz, plus a nominal +200koz @ US\$50/oz also. Adding cash and from ITM options, we maintain our 0.6xNAV multiple applied to the asset value discussed on the prior page, maintaining our BUY rating and lifting our PT from C\$4.55 to C\$4.75/sh.

Table 4 (A) SOTP valuation and (B) sensitivities

Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E	Company NAV: (C\$m, ungeared)*				
Gold price	1,850	1,850	1,850	1,850	1,850	Company NAV (C\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz \$2050oz
SOTP project valuation*						Discount rate: 9%	339	407	474	544 610
	C\$m	O/ship	NAVx	C\$/sh		Discount rate: 7%	394	469	543	620 694
Ungeared @ build start (3Q23)	540	100.0%	1.00x	3.99		Discount rate: 5%	459	542	625	710 793
Cash (1Q21)	15.9	100%	1.00x	0.12		Ungeared project IRR:	26%	30%	34%	38% 41%
Cash from options	30.4	100%	1.00x	0.22		Company NAV (C\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz \$2050oz
Resources ex inventory @ \$50/oz	26.3	100%	1.00x	0.19		Discount rate: 9%	2.51	3.01	3.51	4.02 4.51
Explor'n (SCPe 200koz @ \$50/oz)	12.5	100%	1.00x	0.09		Discount rate: 7%	2.91	3.47	4.02	4.58 5.13
Asset NAV5% US\$1850/oz	625			4.62		Discount rate: 5%	3.39	4.01	4.62	5.25 5.86
*Shares diluted for options mine build						*Project NPV, ex fin. costs and cent G&A, discounted to build start				
Market P/NAV5% Q20						0.14x				

Source: SCP estimates

Whilst difficult to forecast, modelling 65% gearing and mine-build equity funding at 0.4xNAV drives a fully-funded fully-diluted NAV, net of all finance costs and central G&A, of >C\$4/sh as production is approached (Table 5). Ultimately, this is still only half our investment thesis. The second reason we like Osino is the ability to twin-track exploration. We see no better statistic than comparing the ~70km of drilling in today's PEA/MRE against ~50km underway with no fewer than 10 rigs right now. The nature of the ore body, being higher-grade shoots on plunging folds within a lower-grade cloud, leads us to expect grade improvements on infill as shoots are better defined. Combined this with only satellite drill success we fully expect the 2021 PFS to show an increase in endowment and thus economics. With the team that has 'done it before' selling nearby Otjikoto to B2, Osino's rare combination of size, simplicity and growth plus belt control makes the stock a conviction name for us.

Table 5. (A) Funding assumptions and (B) group fully-funded fully-diluted NAV over time

Group NAV over time^	2Q21	2Q22	2Q23	2Q24	2Q25	Project: USES	Funding: SOURCES
Twin Hills NPV (C\$m)	481.6	505.7	532.3	628.0	866.2	Pre-DFS expl'n / G&A: C\$35m	Cash + pre first Au op.: C\$43m
G&A and fin. costs (C\$m)	(93.3)	(83.9)	(74.2)	(71.0)	(59.3)	Build capex: C\$253m	Pre-build equity: C\$15m
Net cash prior qtr (C\$m)	15.9	17.9	4.9	24.0	(189.2)	Fin. cost + WC over DFS: C\$18m	Equity @ 0.4xNAV: C\$85m
Cash from options (C\$m)	30.4	30.4	30.4	30.4	30.4	TOTAL USES: C\$306m	65% debt @ 8%: C\$164m
Nominal explo (C\$m)	38.8	38.8	38.8	38.8	38.8	Buffer / drill budget: C\$2m	TOTAL SOURCES: C\$307m
NAV FF FD (C\$m)	473	509	532	650	687		
Shares in issue (m)	135	147	147	169	169		
1xNAV5%/sh FF FD (C\$/sh)	3.50	3.47	3.63	3.85	4.07		

Source: SCP estimates

Why we like Osino Resources

- Vanilla pitable gold with >150koz pa potential with team that has done it before
- Osino's 7,160km² holdings offer near-resource and regional upside
- Namibia's ease of access for drilling, large holding, and rapid permitting

Catalysts

- CY21: 75,000m of drilling split between infill, satellites and some regional
- 1H22: MRE update
- SCPe CY22/23: DFS & build start
- SCPe CY25: First production

Research

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Ticker: OSI CN		Price / mkt cap: C\$1.31/sh, C\$137m				Project PNAV today: 0.14x		Asset: Twin Hills									
Author: Brock Salier		Rec / 0.6xNAV PT: BUY, C\$2.75/sh				1xNAV _{3Q24} FF FD: C\$3.85/sh		Country: Namibia									
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		60Mt	1.01g/t	1956koz						
SOTP project valuation*							PEA mining inventory		49Mt	0.98g/t	1535koz						
		C\$m	O/ship	NAVx	C\$/sh		Project: USES		Funding: SOURCES								
Ungeared @ build start (3Q23)		540	100.0%	1.00x	3.99		Pre-DFS expl'n / G&A:		C\$35m	Cash + pre first Au op.: C\$43m							
Cash (1Q21)		15.9	100%	1.00x	0.12		Build capex:		C\$253m	Pre-build equity: C\$15m							
Cash from options		30.4	100%	1.00x	0.22		Fin. cost + WC over DFS		C\$18m	Equity @ 0.4xNAV: C\$85m							
Resources ex inventory @ \$50/oz		26.3	100%	1.00x	0.19		TOTAL USES:		C\$306m	65% debt @ 8%: C\$164m							
Explor'n (SCPe 200koz @ \$50/oz)		12.5	100%	1.00x	0.09		Buffer / drill budget:		C\$2m	TOTAL SOURCES: C\$307m							
Asset NAV5% US\$1850/oz		625			4.62		Share data		Basic	FD with options	FD for build						
*Shares diluted for options mine build						Market P/NAV5% _{4Q20}	0.14x	Basic shares (m)		104.6	135.3	169					
Company NAV: (C\$m, ungeared)*								Ratio analysis		CY20A	CY21E	CY22E	CY23E	CY24E			
Company NAV (C\$m)						\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Average shares out (m)		146.7	166.2	168.9	168.9	168.9
Discount rate: 9%						339	407	474	544	610	EPS (C\$/sh)		-	-	-	-	-
Discount rate: 7%						394	469	543	620	694	CFPS (C\$/sh)		-	-	-	-	-
Discount rate: 5%						459	542	625	710	793	EV (C\$m)		182.8	196.5	213.2	166.4	399.6
Ungeared project IRR:						26%	30%	34%	38%	41%	FCF yield (%)		-	-	-	-	-
Company NAV (C\$/sh)						\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	PER (x)		-	-	-	-	-
Discount rate: 9%						2.51	3.01	3.51	4.02	4.51	P/CF (x)		-	-	-	-	-
Discount rate: 7%						2.91	3.47	4.02	4.58	5.13	EV/EBITDA (x)		-	-	-	-	-
Discount rate: 5%						3.39	4.01	4.62	5.25	5.86							
*Project NPV, ex fin. costs and cent G&A, discounted to build start																	
Group NAV over time^		2021	2022	2023	2024	2025	Net revenue (C\$m)		-	-	-	-	-	-	-	-	
Twin Hills NPV (C\$m)		481.6	505.7	532.3	628.0	866.2	COGS (C\$m)		-	-	-	-	-	-	-	-	
G&A and fin. costs (C\$m)		(93.3)	(83.9)	(74.2)	(71.0)	(59.3)	Gross profit (C\$m)		-	-	-	-	-	-	-	-	
Net cash prior qtr (C\$m)		15.9	17.9	4.9	24.0	(189.2)	D&A, attrib (C\$m)		0.1	0.1	-	-	-	-	-	-	
Cash from options (C\$m)		30.4	30.4	30.4	30.4	30.4	G&A + sh based costs (C\$m)		6.5	6.7	6.4	5.9	5.4				
Nominal explo (C\$m)		38.8	38.8	38.8	38.8	38.8	Finance cost (C\$m)		7.3	10.0	8.0	3.9	6.7				
NAV FF FD (C\$m)		473	509	532	650	687	Taxes (C\$m)		-	-	-	-	-	-	-	-	
Shares in issue (m)		135	147	147	169	169	Net income (C\$m)		(13.8)	(16.7)	(14.4)	(9.8)	(12.0)				
1xNAV5% _{sh} FF FD (C\$/sh)*		3.50	3.47	3.63	3.85	4.07	Cash flow, attrib.		CY20A	CY21E	CY22E	CY23E	CY24E				
Geared NAV at first pour, diluted for build, net G&A and fin. costs^							EBIT (C\$m)		(6.5)	(6.7)	(6.4)	(5.9)	(5.4)				
NAV at first gold (C\$m)		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Add back D&A (C\$m)		0.1	0.1	-	-	-				
Discount rate: 9%		413	493	572	653	731	Less tax + net interest (C\$m)		7.3	10.0	8.0	3.9	6.7				
Discount rate: 7%		455	540	625	712	796	Net change in wkg cap (C\$m)		(0.4)	0.2	-	(0.3)	-				
Discount rate: 5%		503	595	687	781	872	Other non-cash (C\$m)		(10.8)	(18.2)	(14.6)	(5.9)	(12.0)				
Geared project IRR:		23%	27%	31%	35%	38%	Cash flow ops (C\$m)		(10.3)	(14.6)	(13.0)	(8.2)	(10.7)				
NAV at first gold (C\$/sh)*		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	PP&E - build + sust. (C\$m)		0.8	0.2	-	30.0	222.5				
Discount rate: 9%		2.36	2.84	3.33	3.83	4.32	PP&E - expl'n (C\$m)		-	-	-	-	-				
Discount rate: 7%		2.62	3.14	3.67	4.21	4.74	Cash flow inv. (C\$m)		(0.8)	(0.2)	-	(30.0)	(222.5)				
Discount rate: 5%		2.92	3.49	4.07	4.66	5.24	Share issue (C\$m)		31.0	15.3	-	85.0	-				
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity																	
Production		Y1	Y2	Y3	Y4	Y5	Debt draw (repay) (C\$m)		0.0	0.2	-	-	164.1				
Gold production (000oz)		75	126	126	124	124	Cash flow fin. (C\$m)		31.0	15.5	-	85.0	164.1				
C1 cost (US\$/oz)		755	897	577	808	847	Net change in cash (C\$m)		19.9	0.7	(13.0)	46.8	(69.1)				
AISC cost (US\$/oz)		754	899	572	808	848	EBITDA (C\$m)		(13.7)	(16.7)	(14.4)	(9.8)	(5.2)				
AISC = C1 + ug sustaining capex, Y1 = CY25																	
							Balance sheet		CY20A	CY21E	CY22E	CY23E	CY24E				
							Cash (C\$m)		9.5	21.2	8.1	54.9	(14.1)				
							Acc rec., inv, prepaid (C\$m)		0.3	0.3	0.3	-	-				
							PP&E + other (C\$m)		13.6	3.1	3.1	33.1	255.6				
							Total assets (C\$m)		23	25	12	88	242				
							Debt (C\$m)		-	-	-	-	164.1				
							Accounts payable (C\$m)		1.4	2.2	2.2	2.2	2.2				
							Others (C\$m)		0.2	0.3	0.3	0.3	0.3				
							Total liabilities (C\$m)		1.6	2.5	2.5	2.5	166.6				
							Issued capital (C\$m)		54.3	71.3	72.6	159.0	160.3				
							Retained earnings (C\$m)		(31.8)	(48.2)	(62.6)	(72.4)	(84.5)				
							Liabilities + equity (C\$m)		23	25	12	88	242				

150koz

100koz

50koz

0koz

Gold prod'n (LHS, 000oz)

AISC (RHS, US\$/oz Au)

Y1

Y2

Y3

Y4

Y5

1000/oz

500/oz

0/oz

Source: SCP estimates

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

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