

Ticker: NHK CN

4Q20 cash: C\$16m

Project: Indin Lake Project

Market cap: C\$60m

Price: C\$0.99/sh

Country: Canada, NWT

RECOMMEND. (unc): BUY

TARGET (unc): C\$2.55/sh

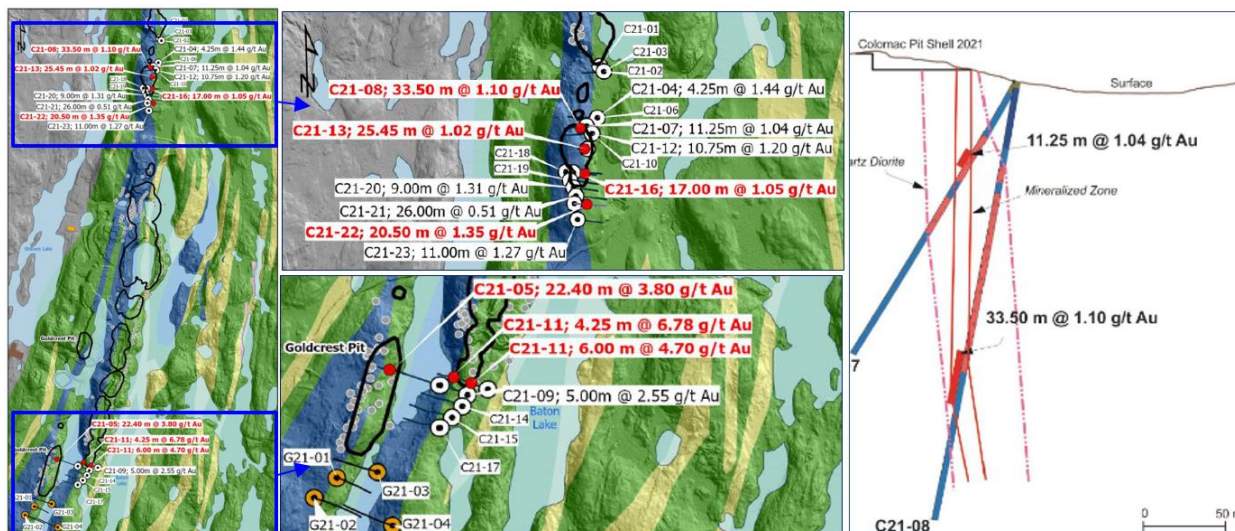
RISK RATING: SPECULATIVE

Today's news reflects Nighthawk doing just what they said they would do. Top down this means : (i) drilling along strike around Colomac (today's news), before going (ii) regional on historic Cass' historic 250koz @ 2.7g/t satellite, then (iii) drilling regional shallow greenfield targets such as Fishhook on the southern area, and JPK and Laurie Lake at the north. Today's drilling north of Colomac was designed to infill between satellite pits bounded by a lack of drilling, and did just that with 17m @ 1.05g/t, 33.5m @ 1.1g/t and 25m @ 1.0g/t lower grade, but being ~60-150m below surface this is offset by lower strip. Drilling south unexpectedly hit much higher grades, exemplified by 1m @ 427g/t Au from 308m, but also broader hits like 22.4m @ 3.8g/t from 325m. Net net we see useful if not step-change ounce additions in the north, with some hits worthy of follow up in the south. What we really like here is that this is just one piece of the puzzle – the 'fun bit' comes with regional drilling, and rigs are already sitting at Cass before heading regionally. Similarly lab turnaround is at acceptably 6-8 weeks, meaning that now the 'pipeline is full' we should see more regular drill news through to Christmas. We maintain our **BUY rating and C\$2.55/sh PT based on 0.25xNAV_{5%-1850}**, adding only a nominal C\$10m to exploration. We get excited because the potential for even 100-200koz at 2-3g/t or even 5-6g/t in BIF hosted material is high and very material. Add that to some kind of UG around the historic 56m @ 13.5g/t at Zone 1.5, and this stock looks undervalued as it is for now, with more-next-year thesis alive and well.

Strike extensions hit 22.4m @ 3.8g/t, adding shallow ounces and deeper high grade

Nighthawk reported 19 holes drilled on Colomac northern extensions, and nine holes on southern extensions / Goldcrest. Northern drilling returned highlights of 33.5 @ 1.1g/t, 25m @ 1.0g/t, and 17m @ 1.05g/t. Southern extensions returned narrower higher grade hits including 4.2m @ 6.8g/t from 304m and 6m @ 4.7g/t from 155m, but also 22.4m @ 3.8g/t from 325m.

Figure 1. (A) Plan of northern and southern extension results and (B) section through northern drilling



Source: Nighthawk Gold

Why we like Nighthawk Gold:

- Control of >900km² of underexplored Archean greenstone belt
- 200,000m drilling to take 1Moz pittable to SCPe 1.5Moz pittable quickly
- New management team and expedited timeline adds greenfield optionality
- UG resource has extremely high-grade sub-sets to be evaluated

- Maiden PEA in coming 12M to define strip, scheduling and stockpiling potential

Catalysts

- 3Q21: Drill results from historic Cass deposit (250koz @ 2.7gt/)
- 2H21: Drill results from regional drilling Fishhook / JPK / Laurie Lake
- 4Q21: Followup strike drilling around Colomac
- CY23: SCPe final investment decision
- CY25: SCPe first gold

Research

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Ticker: NHK CN	Price / mkt cap: C\$1.31/sh, C\$71m	Project PNAV today: 0.15x	Asset: Indin Lake
Author: Brock Salier	Rec/0.25xNAV PT: BUY, C\$2.55/sh	1xNAV_{SQ24} FF FD: C\$5.67/sh	Country: Canada, N

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	50Mt	1.88g/t	3035koz
Share data	Basic	FD with options	FD for build			SCP mining inventory	21Mt	1.59g/t	1097koz
Basic shares (m)	54.2	62.9		99		Project: USES			
SOTP project valuation*						Funding: SOURCE			
	C\$m	O/ship	NAVx	C\$/sh		Pre-DFS exploration / G&A:	C\$40m	Cash:	
Ungeared @ build start (1Q24)	500	100%	0.25x	1.99		Build capex:	C\$250m	DFS equity @ 30% prem.:	
Cash 4Q20	15.9	100%	1.00x	0.25		Fin. cost + WC over DFS	C\$21m	Build equity @ 0.5xNAV:	
Cash from options	10.6	100%	1.00x	0.17		TOTAL USES:	C\$311m	65% geared debt @ 8%:	
Exploration nominal	10.0	100%	1.00x	0.16		Buffer / drill budget:	C\$0m	TOTAL SOURCES:	
Asset NAV5% US\$1850/oz	537			2.57		Ratio analysis			
<i>*Shares diluted for options mine build</i>						Average shares out (m)	54.2	54.2	54.2
<i>Market P/NAV5%_{4Q20} 0.15x</i>						EPS (C\$/sh)	-	-	-
Asset value: 1xNPV project @ build start (C\$m, ungeared)*						CFPS (C\$/sh)	-	-	2.94
Project NPV (C\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	EV (C\$m)	64.5	55.4	66.3
Discount rate: 9%	312	370	428	486	543	FCF yield (%)	-	-	224%
Discount rate: 7%	354	417	479	541	604	PER (x)	-	-	-
Discount rate: 5%	402	469	537	604	672	P/CF (x)	-	-	0.4x
Ungeared project IRR:	0%	0%	0%	0%	0%	EV/EBITDA (x)	-	-	-
Project NPV (C\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Income statement			
Discount rate: 9%	1.68	1.91	2.14	2.37	2.60	Net revenue (C\$m)	-	-	-
Discount rate: 7%	1.84	2.09	2.34	2.59	2.84	COGS (C\$m)	-	-	-
Discount rate: 5%	2.03	2.30	2.57	2.84	3.11	Gross profit (C\$m)			
<i>*Project NPV, ex fin. costs and cent G&A, discounted to build start</i>						D&A, attrib (C\$m)	-	-	-
Group NAV over time^						G&A + sh based costs (C\$m)	2.4	2.4	4.5
Colomac NPV (C\$m)	-	448.9	471.4	500.2	704.5	Finance cost (C\$m)	10.3	9.0	2.4
G&A and finance costs (C\$m)	-	(81.2)	(73.5)	(65.5)	(61.6)	Taxes (C\$m)	-	-	-
Net cash prior qtr (C\$m)	8.3	6.5	15.6	4.7	(40.0)	Net income (C\$m)			
Cash from options (C\$m)	10.6	10.6	10.6	10.6	10.6	Cash flow, attrib.	CY20E	CY21E	CY22E
Resource / exlo nom. (C\$m)	10.0	10.0	10.0	10.0	10.0	EBIT (C\$m)	(2.4)	(2.4)	(4.5)
NAV FF FD (C\$m)	29	395	434	460	624	Add back D&A (C\$m)	-	-	-
Shares in issue (m)	54	69	81	81	106	Less tax / net interest (C\$m)	10.3	9.0	2.4
1xNAV5%/sh FF FD (C\$/sh)*	0.53	5.69	5.35	5.67	5.91	Net change wkg cap (C\$m)	-	-	1.3
Geared NAV at first pour, diluted for build, net G&A and fin. costs						Other non-cash (C\$m)	(20.1)	(17.5)	(6.8)
NAV at first gold (C\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Cash flow ops (C\$m)			
Discount rate: 9%	410	474	537	601	664	PP&E - build + sust. (C\$m)	-	-	(166.7)
Discount rate: 7%	444	511	578	645	712	PP&E - expl'n (C\$m)	-	-	-
Discount rate: 5%	481	552	624	695	766	Cash flow inv. (C\$m)			
Geared project IRR:	0%	0%	0%	0%	0%	Share issue (C\$m)	10.4	20.0	125.0
NAV at first gold (C\$/sh)*	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Debt draw (repay) (C\$m)	-	-	100.0
Discount rate: 9%	3.33	4.06	4.80	5.55	6.31	Cash flow fin. (C\$m)			
Discount rate: 7%	3.75	4.53	5.32	6.12	6.92	Net change in cash (C\$m)	(1.8)	9.1	(10.9)
Discount rate: 5%	4.23	5.06	5.91	6.76	7.61	EBITDA (C\$m)	(12.7)	(11.4)	(4.5)
<i>^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity</i>						Balance sheet			
Production						Cash (C\$m)	6.5	15.6	60.0
Gold production (000oz)	Y1	Y2	Y3	Y4	Y5	Acc rec., inv, prepaid (C\$m)	0.2	0.2	0.2
AISC cost (US\$/oz)	969	987	987	987	987	PP&E + other (C\$m)	16.7	16.7	178.7
<i>AISC = C1 + ug sustaining capex, Y1 from SQ25</i>						Total assets (C\$m)			
<div> <div>Gold prod'n (LHS, 000oz)</div> <div>AISC (RHS, US\$/oz Au)</div> </div>						Debt (C\$m)	-	-	100.0
						Accounts payable (C\$m)	1.6	1.6	0.3
						Others (C\$m)	4.5	4.5	4.5
						Total liabilities (C\$m)	6.1	6.1	104.9
						Issued capital (C\$m)	133.9	154.4	280.3
						Retained earnings (C\$m)	(116.6)	(128.0)	(146.2)
						Liabilities + equity (C\$m)			
							23	33	239

Source: SCP estimates

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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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