

Ticker: ESM CN

Market cap: C\$65m

RECOMMEND. (unc): BUY

Net cash: US\$5m

Price: C\$0.38/sh

TARGET (unc): C\$1.35/sh

Project: Rovina Valley

Country: Romania

RISK RATING: HIGH

Euro Sun continues to show permitting progress with yesterday's announcement of filing of the PUZ (zoning application) with the County of Hunedoara. Moreover, the company is delivering on what it said it would do, including the eleven public information sessions held from late June, in line with ESM's prior guidance of Q3. Stepping back, at 0.1x NAV, even if permitting does take longer, the re-rate between ESM's current multiple and that of a permitted project (~0.6-0.8x in our view) means ESM offers excellent risk adjusted returns from here. The receipt of the ratified Mining License in 2018 and the numerous project design decisions ESM has taken to optimize ESG outcomes (no cyanide, dry stack tailings, <10 household relocation, replanting and forest supplementation). **We maintain our BUY rating, and C\$1.35/sh PT based on 0.75x NAV** 5%-1850-3.50-

Figure 1. (A) Remaining permitting process and (B) Rovina Valley project design tradeoffs that prioritize environmental outcomes



Source: Euro Sun,

Permitting Update: PUZ filed with County of Hunedoara

Euro Sun's announced filing of the PUZ (zoning application) with the County of Hunedoara which involves rezoning the project area for industrial activity from its current designation for pastoral and forest lands. The Environmental Protection Agency (EPA) for the county continues to receive inputs related to the Strategic Environmental Assessment, the other key work stream associated with the PUZ permit. Eleven public information sessions have been held since 26 June, in line with ESM's guidance for the sessions to be held in Q3. The sessions included disclosure and education of the project and mine design including: no cyanide or wet tailings, the replanting of the project areas and ESM's intention to add 300% to forest areas to compensate for affected project areas.

Why we like Euro Sun

1. Lowest cost developer globally on EV/Resource and EV/production basis
2. Rare gold-primary porphyry developer that benefits from >35% copper revenue at spot
3. Ratified mining license with optimized ESG project design: tailings dry stack, <10 household relocation, no cyanide. Avoids key issues that plagues Certej (tailings, cyanide) and Rosa Montana (relocation).
4. Located in the EU in a mining area

Catalysts

- 2H21: Completion of PUZ and EIA licensing submissions

- 1H22: SCPe assumed completion of permits and pre-mine finance
- 2H22: SCP modelled build start
- 1H25: SCP modelled first production

Research

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Ticker: ESM CN		Price / mkt cap: C\$0.38/sh, C\$65m		Market P/NAV: 0.09x		Assets: Rovina Valley Project	
Author: J Chan / B Gaspar		Rec / 0.75xNAV PT: BUY / C\$1.35		1xNAV₂₀₂₀ FD: C\$8.50/sh		Country: Romania	
Group-level SOTP valuation		1Q21	2Q21	FD		Resource / Reserve	
		US\$m	O/ship	NAVx	C\$/sh	Mt	000oz
Rovina Valley NPV 2Q21		630	100%	1.0x	4.11	420	7,336
Central SG&A & fin costs 2Q21		(176)	-	1.0x	(1.15)	133	1,827
Exploration (\$25/oz)		187	100%	1.0x	1.22	634	9,646
Cash and restr. cash + ITM option cash		10	-	1.0x	0.07	208	2,695
Debt		(0)	-	1.0x	(0.00)		
1xNAV5% US\$1850/oz - FD pre build		651			4.25	Share data	
Equity raised for mine build		195				Basic shares (m): 171.3	
1xNAV5% US\$1850/oz - fully funded		846			1.81	FD shares (m): 191.4	
Target P/NAV multiple					0.75x	FD + FF	
Price target (C\$/sh) fully funded, fully diluted					1.36	467.3	
1xNAV sensitivity to gold price and discount / NAV multiple						Funding: uses	
1xNAV asset (US\$m)		\$1500oz	\$1700oz	\$1850oz	\$2000oz	Funding: sources	
7% discount		265	387	478	569	DFS capex US\$399m	
5% discount		379	523	630	738	SCPe contingency US\$67m	
3% discount		528	699	827	955	SCPe G&A + fin. cost to first Au US\$40m	
Valuation (C\$/sh)		\$1500oz	\$1700oz	\$1850oz	\$2000oz	SCPe working capital US\$0m	
0.50xNAV		0.49	0.72	0.91	1.10	Total uses US\$506m	
0.75xNAV		0.74	1.08	1.36	1.65	Total proceeds US\$512m	
1.00xNAV		0.98	1.44	1.81	2.20	<i>*Cash from ITM options</i>	
Valuation over time		1Q21E	1Q22E	1Q23E	1Q24E	Commodity price	
Mines NPV (US\$m)		611	645	678	942	Gold price (US\$/oz)	
Cntrl G&A & fin costs (US\$m)		(173)	(177)	(183)	(170)	Copper price (US\$/lb)	
Net cash at 1Q (US\$m)		3	200	(39)	(269)	Ratio analysis	
1xNAV (US\$m)		441	668	455	503	FD shares out (m)	
1xNAV share px FD + FF (C\$/sh)		1.18	1.79	1.22	1.34	EPS (US\$/sh)	
P/NAV (x):		0.32x	0.21x	0.31x	0.28x	CFPS before w/c (US\$/sh)	
ROI to equity holder (% pa)		210%	117%	47%	37%	EV (US\$m)	
1.2xNAV share px FD (C\$/sh)		1.41	2.14	1.46	1.61	FCF yield (%)	
ROI to equity holder (% pa)		272%	138%	57%	44%	ROCE	
Geared company NAV diluted for mine build, net G&A and finance costs						PER (x)	
2Q22 1xNAV FF FD (C\$/sh)^		\$1500oz	\$1700oz	\$1850oz	\$2000oz	P/CF (x)	
9.0% discount		0.36	0.56	0.73	0.91	EV/EBITDA (x)	
7.0% discount		0.51	0.77	0.99	1.22	Income statement	
5.0% discount		0.74	1.08	1.36	1.65	Revenue (US\$m)	
Geared project IRR:		16%	20%	22%	25%	COGS (US\$m)	
2Q22 1xNAV FF FD (C\$/sh)^		\$1500oz	\$1700oz	\$1850oz	\$2000oz	Gross profit (US\$m)	
20.0% increase in cost per tonne		0.35	0.64	0.89	1.16	Expenses (US\$m)	
10.0% increase in cost per tonne		0.54	0.85	1.12	1.40	Impairment & other (US\$m)	
0.0% increase in cost per tonne		0.74	1.08	1.36	1.65	Net finance costs (US\$m)	
2Q22 1xNAV FF FD (C\$/sh)^		\$1500oz	\$1700oz	\$1850oz	\$2000oz	Tax (US\$m)	
10.0% change in grade		1.16	1.57	1.90	2.24	Minority interest (US\$m)	
0.0% change in grade		0.74	1.08	1.36	1.65	Net income attr. (US\$m)	
-10.0% change in grade		0.37	0.64	0.86	1.10	Cash flow	
						Profit/(loss) after tax (US\$m)	
						Add non-cash items (US\$m)	
						Less wkg cap / other (US\$m)	
						Cash flow ops (US\$m)	
						PP&E (US\$m)	
						Other (US\$m)	
						Cash flow inv. (US\$m)	
						Debt draw (repayment) (US\$m)	
						Equity issuance (US\$m)	
						Other (US\$m)	
						Cash flow fin. (US\$m)	
						Net change post forex (US\$m)	
						Balance sheet	
						Cash (US\$m)	
						Accounts receivable (US\$m)	
						Inventories (US\$m)	
						PPE & exploration (US\$m)	
						Other (US\$m)	
						Total assets (US\$m)	
						Debt (US\$m)	
						Other liabilities (US\$m)	
						Shareholders equity (US\$m)	
						Retained earnings (US\$m)	
						Minority int. & other (US\$m)	
						Liabilities+equity (US\$m)	

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

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