
Ticker: PGM CN /LN **SCPe cash:** C\$23m **Project:** Madsen
Market cap: C\$539m **Price:** C\$1.31/sh **Country:** Canada, Red Lake

RECOMMEND. (unc): BUY TARGET (unc): C\$2.05/sh RISK RATING: HIGH

Commercial production is a reassuring milestone we think given 577tpd in June has evidently now lifted to nameplate. Looking forward, to achieve this pre the August-schedules East Ramp brings additional ore on line and presents the opportunity to operate at above nameplate in 2H21 while staying within the annualised 800tpd permit limit. **We maintain our BUY rating and C\$2.05/sh PT** based on 35koz this year lifting to 81koz next year then to 110koz by CY24. Two things control the share price going forward – asset quality and share count. The commercial production milestone is useful to the former, albeit qualitative ahead of full operating metrics. Going forward working capital remains the key unknown to us with the last full set of financials some 4M behind us. Commercial production doesn't relate to costs and grades so we would expect full de-risking to come later in the year, with useful flow-funded drilling ahead of that.

Commercial production declared

Effective August 1 PureGold has declared commercial production, with the mine, as well as plant, at or rapidly approaching 800tpd on a sustainable basis.

Why we like Pure Gold

1. Existing 1Moz @ 9g/t reserve in favourable jurisdiction
2. 80koz pa DFS lifts to 110koz pa with satellite 271koz @ 6.7g/t mineable in PEA
3. Permitting precedent to expand mill from DFS 800tpd to 1,089tpd, but potential 1,600tpd
4. Exploration upside: Wedge satellite(s), high-grade 8 Zone up-dip and down-dip

Catalysts

1. Late 2Q21: commercial production and CY21 guidance
2. 2H21: access to drill 8 Zone from underground
3. SCPE 2022: Expansion sizing and design

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Ticker: PGM CN	Price / mkt cap: C\$1.31 C\$540m	Market P/NAV 0.69x	Asset: Madsen
Author: B Salier	Rec / 1.0xNAV PT: BUY C\$2.00	PT / 1xNAV_{Q321} FF FD: C\$2.08/sh	Country: Ontario, Canada

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price (US\$/oz)	1,519	1,806	1,825	1,847	1,850

SOTP project valuation				
	C\$m	O/ship	NAVx	C\$/sh
Madsen (3Q21)	951	100%	1.0x	2.06
Cash (1Q21)	(79.5)	-	1.0x	(0.17)
Central costs	(32.0)	-	1.0x	(0.07)
Cash from options	41.4	-	1.0x	0.09
1xNAV5% 2Q21 US\$1850/oz	881			1.91

* Shares diluted for options and mine build Market P/NAV_{5%} 0.69x

Project NPV @ build start (C\$m, ungeared)*					
NPV (+350koz, C\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	759	829	897	963	1,038
7% discount	828	904	978	1,050	1,132
5% discount	908	991	1,072	1,150	1,240
Ungeared project IRR:	38%	40%	43%	45%	48%
NAV5% (C\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
Sat ounces 7g/t: 271koz	908	991	1,072	1,150	1,240
Sat ounces 7g/t: 371koz	941	1,025	1,108	1,189	1,280
Sat ounces 7g/t: 471koz	974	1,060	1,145	1,228	1,321

*Project level NPV, excl. grp SG&A & fin. cost, discounted to build start

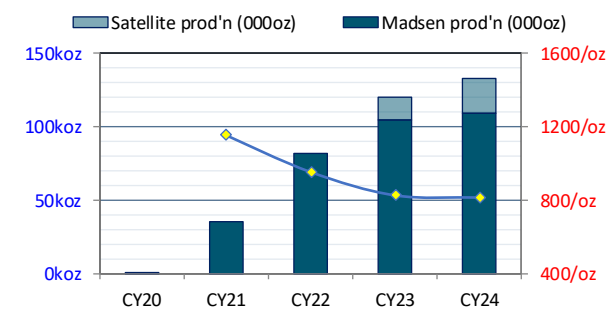
SOTP company valuation^					
	3Q21	3Q22	3Q23	3Q24	3Q25
Madsen - group (C\$m)	951	990	980	941	809
Central costs (C\$m)	(32.0)	(29.9)	(20.6)	(16.4)	(5.8)
Net cash prior qtr (C\$m)	(90.0)	(86.4)	(42.7)	61.6	186.1
Cash from options (C\$m)	41.4	41.4	41.4	41.4	41.4
NAV (C\$m)	871	915	958	1,027	1,031
1xNAV5%/sh FF FD (C\$/sh)	1.89	1.98	2.08	2.23	2.23
ROI (% pa)		51%	26%	19%	14%

Exit value: 1xNAV/sh company @ 2Q21 post ramp up (C\$m, geared)^					
1xNAV (C\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	1.54	1.70	1.86	2.01	2.18
7% discount	1.67	1.85	2.01	2.18	2.36
5% discount	1.83	2.01	2.19	2.37	2.57
1xNAV5% (\$1850/oz, C\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
Sat ounces 7g/t: 271koz	1.83	2.01	2.19	2.37	2.57
Sat ounces 7g/t: 371koz	1.90	2.09	2.28	2.46	2.66
Sat ounces 7g/t: 471koz	1.98	2.17	2.36	2.54	2.75

^Project NPV less grp SG&A & fin. cost, +net cash, 30% equity at spot

Production					
	CY20	CY21	CY22	CY23	CY24
Madsen prod'n (000oz)	0.9	35.3	81.3	104.6	109.4
Satellite prod'n (000oz)	-	-	-	15	23
C1 cost (US\$/oz)	-	673	645	580	579
AISC cost (US\$/oz)	-	1,152	953	827	815
C3 cost (US\$/oz)	-	833	827	810	826

AISC = C1 + sustaining capex, C3 = C1 + depreciation



Source: SCP estimates

Resources	Au (koz)	Au (g/t)	Rsvs	Au (koz)	Au (g/t)
Madsen global	2,098koz	8.93g/t	Madsen	1,000koz	9.0g/t
Satellites global	431koz	7.6g/t			

Share data			
Basic shares (m)	412.2	FD for options / warrants (m)	461.6

Total uses		Total sources	
3Q20 FS capex	C\$141m	Current cash (C\$m)	C\$57m
Publish spend to 3Q20	-C\$102m	Undrawn debt (C\$m)	C\$44m
Residual capex	C\$39m	Undrawn stream (C\$m)	C\$0m
SCPe 1H21 capitalised opex	C\$30m	Total funding available (C\$m)	C\$100m
SCPe 1H21 sustaining UG dev	C\$7m		
Cash finance costs (C\$m)	C\$2m		
Wkg cap pre commercial prod	C\$22m		

Residual spend 4Q20 onward		Buffer (C\$m)	
C\$100m			C\$1m

Ratio analysis					
	CY19A	CY20A	CY21E	CY22E	CY23E
Average shares out (m)	461.6	461.6	461.6	461.6	461.6
EPS (C\$/sh)	(0.03)	(0.04)	0.02	0.19	0.25
CFPS before w/c (C\$/sh)	(0.08)	(0.28)	(0.26)	0.06	0.19
EV (C\$m)	553.5	651.1	708.8	680.4	592.4
FCF yield (%)	-	-	-	4%	15%
PER (x)	-	-	64.3x	6.8x	5.2x
P/CF (x)	-	-	-	23.3x	6.8x
EV/EBITDA (x)	-	-	38.3x	5.9x	3.7x

Income statement					
	CY19A	CY20A	CY21E	CY22E	CY23E
Revenue (C\$m)	-	-	54.9	180.4	234.6
COGS (C\$m)	-	-	29.7	65.6	75.8

Gross profit (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
D&A (C\$m)	0.1	0.2	6.4	18.5	30.1
Admin + share comp (C\$m)	7.2	11.5	3.5	2.0	2.0
Finance cost (C\$m)	(0.5)	(0.6)	0.9	5.8	9.5
Expl'n + eval'n (C\$m)	8.9	6.6	7.1	-	-
Tax (C\$m)	-	0.8	(2.0)	-	-

Net income (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	(15.7)	(18.5)	9.4	88.6	117.2

Cash flow statement					
	CY19A	CY20A	CY21E	CY22E	CY23E
EBITDA (C\$m)	(20.7)	(3.0)	18.5	114.9	158.9
Less tax (C\$m)	-	(0.8)	2.0	-	-
Less finance costs (C\$m)	0.5	0.6	(0.9)	(5.8)	(9.5)
Less change in wrk cap (C\$m)	0.1	(5.2)	(40.0)	(2.5)	0.3

Cash flow ops (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	(20.1)	(8.4)	(20.3)	106.6	149.6

PP&E - build / maint (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	(14.7)	(113.9)	(57.5)	(78.2)	(61.6)

Cash flow inv. (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	(14.7)	(113.9)	(57.5)	(78.2)	(61.6)

Share issue (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	52.7	34.8	18.7	-	-

Debt draw (repay) (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	13.0	72.9	25.0	21.9	(28.2)

Cash flow fin. (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	65.7	107.7	43.7	21.9	(28.2)

Net change in cash (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	30.9	(14.7)	(34.1)	50.3	59.8

Balance sheet					
	CY19A	CY20A	CY21E	CY22E	CY23E
Cash (C\$m)	70.3	44.9	6.8	57.1	116.9
Acc rec + inventories (C\$m)	1.0	7.8	33.0	36.6	37.9
PPE + exploration (C\$m)	48.8	192.9	228.2	287.9	319.3
Other (C\$m)	2.0	2.9	2.3	2.3	2.3

Total assets (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	130.5	248.5	270.2	383.8	476.4

Debt (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	19.0	91.3	110.9	132.8	104.6

Acc pay + others (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	61.9	93.5	77.7	78.8	80.4

Total liabilities (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	80.9	188.0	193.7	216.8	190.2

Share capital account (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	156.8	192.9	197.6	199.5	201.5

Retained earnings + rsrvs (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	(107.2)	(132.4)	(121.1)	(32.5)	84.8

Total equity (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	49.6	60.5	76.5	167.1	286.3

Liabilities + equity (C\$m)					
	CY19A	CY20A	CY21E	CY22E	CY23E
	130.5	248.5	270.2	383.8	476.4

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

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