

Ticker: RIO CN	Cash: US\$27.5m	Project: Fenix
Market cap: C\$155m	Price: C\$0.63/sh	Country: Chile
RECOMMENDATION (unc): BUY	PRICE TARGET (up): C\$2.00/sh	RISK RATING: HIGH

Rio2's announced finance package should fully fund Fenix at significantly lower dilution than we previously estimated, and is accretive to our estimates. Moreover, it allows Rio2's management to shift focus towards project development. In our view, development and operations are the key strengths of Rio2's management team, as evidenced by their successful track record at Rio Alto. Rio Alto built the La Arena heap leach mine as a low capex operation (US\$50m) and successfully scaled it from 10ktpd to 36ktpd from cash flow to reach a 200kozpa production rate. Stepping back, we believe a similar outcome is achievable at Fenix, which has a higher grade 1.8Moz initial mine inventory, with a 5Moz total resource that can be developed over time, as conditions warrant. **We maintain our BUY rating and raise our target multiple to 0.90x NAV_{5%-1850} for fully funded status, which increases our PT to C\$2.00/sh (prev 0.75x, PT C\$1.60/sh).** Looking ahead, we expect the next catalysts are detailed engineering, commencement of early works, and permitting. Rio2's management team have re-scoped Fenix into a low capex, scalable project and have delivered project finance in line with their stated intention to commence project development in 2021. We estimate that Rio2 is trading at 0.3x NAV_{5%-1850} and 0.4x at spot, which offers significant potential for positive re-rating for permit completion, project development, and production.

US\$125-135m financing package funds Fenix build

Rio2 announced a US\$125-135m funding package to finance construction of Fenix. The key components are:

- 1. US\$50m gold stream with Wheaton Precious Metals:** Non-binding term sheet signed. WPM will pay US\$25m on closing and US\$25m subject to conditions including EIA receipt. WPM will purchase i) 6% of gold production until 90koz has been delivered, then ii) 4% of production until 140koz has been delivered, then iii) 3.5% of production thereafter. WPM will pay 18% of the spot gold price until total paid consideration has reached US\$50m, then WPM will pay 22% of the spot price for gold purchased.
- 2. US\$50-60m project debt facility:** BNP has been mandated as bookrunner and lead arranger. The facility is expected to have a principle grace period in line with the build and ramp up, and a tailored amortization profile.
- 3. C\$25m equity raise plus US\$5m WPM equity participation:** The raise closed today. 46.2m shares were issued at C\$0.65/sh for C\$30m gross proceeds.

Impact on our estimates: The finance package has two impacts on our NAVPS estimate which results in a 6.6% increase in our fully funded NAVPS_{5%-1850} estimate to C\$2.24/sh from C\$2.10/sh. **I) Lower share count:** New SCPe 251.1m fully funded and fully diluted shares outstanding, 19% fewer than our previous estimate of 308.8m, which assumed US\$60m raised at C\$0.77/sh. **II) NAV:** SCPe -US\$33m impact on NAV_{5%-1850}.

Why we like Rio 2

1. Long life 90-100kozpa mine plan underpins valuation
2. Expansion potential to up to 300kozpa offers scalability to gold price
3. Management team has a proven track record of operational delivery and value creation
4. Cheap entry valuation for a technically vanilla heap leach project

Catalysts

- Financing package: 2H21
- EIS Approval: 1H22
- Pre-construction permits 3Q22
- First gold pour: 2H22

Research

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Ticker: RIO CN		Price / mkt cap: C\$0.63/sh, C\$155m				Project PNAV today: 0.28x		Asset: Fenix					
Author: J Chan / B Gaspar		Rec / 0.9xNAV PT: BUY, C\$2.00/sh				1xNAV _{1Q21} FF FD: C\$2.24/sh		Country: Chile					
Commodity price		CY20E	CY21E	CY22E	CY23E	CY24E	Resources and resevs		Tons (Mt) Au (koz)	Au (g/t)			
Gold price		1,771	1,796	1,786	1,828	1,850	Total Resource		547Mt	6373koz	0.36g/t		
SOTP project valuation*						SCP 3Q20 mining inventory		115Mt		1825koz	0.49g/t		
		US\$m	O/ship	NAVx	C\$/sh		Funding: uses		Funding: sources				
Ungeared proj. @ build start (1Q22)		427	100%	1.00x	2.15		PFS including cont. capex		US\$111m	SCPe 4Q20 cash + options	US\$28m		
2014 PFS inventory		149	100%	0.20x	0.15		SCPe G&A + fin. cost to 1st Au		US\$15m	Mine debt @ 44% gearing	US\$60m		
G&A, stream & finance costs		(126)	100%	1.00x	(0.64)		SCPe working capital		US\$10m	Build equity raised	US\$24m		
Cash @ 1Q21		27.5	100%	1.00x	0.14					Stream	US\$50m		
Cash from options		2	100%	1.00x	0.01								
Additional ounces @ US\$25/oz		83	100%	1.00x	0.42		Total uses		US\$137m	Total proceeds	US\$162m		
Asset NAV5% US\$1850/oz		564			2.24		*Cash from options expiring pre first pour			Buffer:	US\$25m		
Above diluted for options not mine build			Market P/NAV5% 1Q21		0.23x		Share data						
Asset NAV5% US\$1850/oz fully financed		564			2.24		Basic shares (m)		245.7	FD with build equity raise	251.1		
							FD with options (m)		251.1				
Asset value: 1xNPV project @ build start (C\$m, ungeared)						Ratio analysis		CY20E	CY21E	CY22E	CY23E	CY24E	
Project NPV (C\$m)*		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Average shares out (m)		185.9	199.6	234.2	245.7	245.7
10.0% discount		196	249	302	354	407	EPS (US\$/sh)		-	-	-	0.25	0.21
7.5% discount		237	297	358	418	478	CFPS (US\$/sh)		-	-	-	0.02	0.20
5.0% discount		287	357	427	498	568	EV (US\$m)		114.8	134.6	139.0	175.7	146.9
1xNAV5% (C\$/sh)		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	FCF yield (%)		-	-	-	3%	32%
10.0% discount		1.37	1.62	1.87	2.12	2.37	PER (x)		-	-	-	2.6x	3.0x
7.5% discount		1.47	1.76	2.04	2.33	2.61	P/CF (x)		-	-	-	34.6x	3.1x
5.0% discount		1.58	1.91	2.24	2.57	2.90	EV/EBITDA (x)		-	-	-	2.1x	1.6x
Build start NPV5%-1850		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Income statement		CY20E	CY21E	CY22E	CY23E	CY24E
Water cost: US\$0.75/t		349	419	490	560	630	Net revenue (US\$m)		-	-	-	148.4	192.1
Water cost: US\$1.00/t		335	405	475	545	615	COGS (US\$m)		-	-	-	(61.0)	(94.4)
Water cost: US\$1.52/t		305	375	446	516	586	Gross profit (US\$m)		-	-	-	87.4	97.7
Water cost: US\$1.84/t		287	357	427	498	568	D&A, attrib (US\$m)		(0.1)	(0.0)	-	(7.1)	(10.9)
Water cost: US\$2.00/t		278	348	418	488	558	Admin (US\$m)		(8.1)	(6.0)	(6.0)	(4.5)	(5.0)
Build start NPV5%-1850		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Expensed exploration (US\$m)		(0.3)	(0.0)	-	-	-
Mining cost**: US\$1.50/t		366	437	507	577	647	Finance cost (US\$m)		-	(0.4)	(3.8)	(6.1)	(1.7)
Mining cost**: US\$1.82/t		330	400	471	541	611	Taxes (US\$m)		-	-	-	(5.0)	(23.0)
Mining cost**: US\$2.00/t		310	380	450	520	590	Net income (US\$m)		(9.0)	(8.0)	(9.8)	60.3	51.5
Mining cost**: US\$2.20/t		287	357	427	498	568	Cash flow, attrib.		CY20E	CY21E	CY22E	CY23E	CY24E
Mining cost**: US\$2.50/t		253	323	394	464	534	EBIT (US\$m)		(12.0)	(6.6)	(6.0)	75.9	81.9
							Add back D&A (US\$m)		0.1	0.0	-	7.1	10.9
							Less tax + interest (US\$m)		-	(0.4)	(3.8)	(11.2)	(24.7)
							Wkg cap inc (dec) (US\$m)		(1.2)	(2.3)	0.5	(10.7)	(3.7)
							Add back other (US\$m)		2.3	(0.2)	3.8	7.3	(9.5)
							Cash flow ops (US\$m)		(10.8)	(9.4)	(5.5)	53.8	54.8
							PP&E - build + sust. (US\$m)		(0.3)	-	(88.0)	(49.3)	(4.5)
							PP&E - expl'n (US\$m)		(8.4)	(1.2)	-	-	-
							Cash flow inv. (US\$m)		3.1	(0.5)	(88.0)	(49.3)	(4.5)
							Share issue (US\$m)		5.1	28.6	-	-	3.0
							Stream (US\$m)		-	25.0	25.0	-	-
							Debt draw (repay) (US\$m)		-	12.0	48.0	(35.3)	(28.9)
							Cash flow fin. (US\$m)		5.1	65.6	73.0	(35.3)	(25.9)
							Net change in cash (US\$m)		(2.6)	55.7	(20.5)	(30.8)	24.4
							EBITDA (US\$m)		(2.1)	(6.0)	16.6	85.0	92.7
							Balance sheet		CY20E	CY21E	CY22E	CY23E	CY24E
							Cash (US\$m)		2.6	3.5	72.7	8.0	7.9
							Acc rec., inv, prepaid (US\$m)		1.0	0.4	0.4	16.0	22.4
							PP&E + other (US\$m)		70.0	125.0	123.4	199.5	217.7
							Total assets (US\$m)		73.6	128.9	196.4	223.5	248.0
							Debt (US\$m)		0.3	12.4	64.1	28.9	-
							Stream (US\$m)		-	25.0	50.0	47.1	43.3
							Accounts payable (US\$m)		2.2	0.9	-	5.3	8.2
							Others (US\$m)		3.9	3.0	4.4	4.0	3.9
							Total liabilities (US\$m)		6.4	41.2	118.5	85.2	55.3
							Sh'hlds equity + wrnts (US\$m)		95.8	124.3	124.3	124.3	127.3
							Retained earn'gs + rsvs (US\$m)		(28.5)	(36.6)	(46.4)	13.9	65.4
							Liabilities + equity (US\$m)		73.6	128.9	196.4	223.5	248.0

120koz

100koz

80koz

60koz

40koz

20koz

0koz

Prod'n (koz, LHS)

AISC (RHS, US\$/oz Au)

Y1

Y2

Y3

Y4

Y5

1200/oz

1100/oz

1000/oz

900/oz

800/oz

700/oz

600/oz

AISC = C1 + ug sustaining capex, Y1 = 12M to Jun 2023					
Production					
Y1	Y2	Y3	Y4	Y5	
80	104	104	104	102	
816	957	958	961	1,047	
1,156	1,001	1,002	1,004	1,091	

Source: SCP estimates

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BUY:	45
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	45

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