

Ticker: GGD CN **Cash:** US\$73m **Project:** Los Ricos / Parral
Market cap: C\$816m **Price:** C\$2.94/sh **Country:** Mexico: Jalisco / Chihuahua

RECOMMEND. (unc): BUY TARGET (unc): C\$4.20/sh RISK RATING: HIGH

Parral FCF lifts higher QoQ to US\$7.5m during the quarter to continue funding exploration at LRN / LRS. Beating our estimates by on production by 24%, Parral produced 575.4koz AgEq at US\$16.9/oz AISC, in line with the previous quarter. Whilst the FCF from Parral is an excellent sweetener, our focus is still on exploration, as GoGold is unique among larger peer pre-producers as the only developer (a) still building ounces, (b) with pure precious rather than lower payability polymetallic, (c) a mix of ‘mega grade’ veins and wider medium-grade haloes, (d) not relying on floating oxides, and (e) with a combination of pitable and UG extensions. We expect the 3Q21 MRE on Los Ricos North to act as a material share price driver. As such, **we maintain our BUY rating and 0.8xNAV_{5%-1850-24} C\$4.20/sh PT**. This is based on a DCF valuation for Los Ricos South using 72Moz @ 189g/t AgEq, and 125Moz @ US\$2.50/oz AgEq for Los Ricos North.

Another quarter of solid free cash flow from Parral @ US\$7.5m and SCPe production beat

Quarter ending June 30th **production** of 575.4koz AgEq was an 24% beat on our SCPe 462koz, up 6% QoQ. ~480kt stacked during the quarter implies recovery in line with the previous quarter. Copper production was higher +58% QoQ at 120t and +20% from our estimates of 100t while silver production was up slightly at 316koz compared to 303koz last quarter. **Costs** are in line QoQ with US\$16.9/oz AISC and US\$13.3/oz cash costs (Ag equivalent). Financially Parral generated US\$7.5m in **free cash flow** (+19% QoQ), combining with the US\$25m equity raise in 2Q21 to end the quarter with over US\$73m.

Table 1. Parral 2Q21 results showing QoQ and SCPe new vs old

Operations	1Q21A	2Q21E	2Q21A	QoQ	vs. SCPe
Group AgEq produced (koz)*	543.6	462.2	575.4	6%	24%
Group AISC (US\$/oz)	16.3	14.5	17.0	4%	17%
Parral ore stacked (000t)	417	400	480	15%	20%
Parral recoverable stacked grade AgEq (g/t)	48.6	35.3	57.1	17%	61%
Parral Ag recovery (%)	58%	58%	61%	5%	5%
Parral Au recovery (%)	65%	65%	65%	0%	-
Copper production (tons)*	76	100	120	58%	20%
Parral C1 (US\$/oz)	12.8	11.8	13.3	4%	12%

Source: SCP estimates, company data, *at US\$1,850/oz Au, US\$24/oz Ag, spot 430c/lb Cu

Why we like GoGold

- Self-funds G&A and a portion of exploration from Parral, with options to extend to new dumps
- ‘Hidden’ silver company with Los Ricos predominantly silver
- Los Ricos an easily mineable open pit, on a single vein, extending to depth
- Los Ricos North drilled targets could support a standalone operation of similar size
- Undrilled Los Rico North targets could support multiples of Los Ricos South’s size

Catalysts

- 2021: 100,000m of drilling at Los Ricos North
- 4Q21: Los Ricos North maiden MRE
- 2H21: Los Ricos South strike drilling

Research

Brock Salier (London) M: +44 7400 666 913 bsalier@sprott.com

Justin Chan (London) M: +44 7554 784 688 jchan@sprott.com

Brandon Gaspar (Toronto) M: +1 437 533 3142 bgaspar@sprott.com

Eleanor Magdzinski (Toronto) M: +1 705 669 7456 emagdzinski@sprott.com

Ticker: GGD CN	Price / mkt cap: C294c/sh, C\$816m	Group P/NAV today: 0.64x			Asset: L. Ricos / Parral							
Author: B Sailer	Recommendation: BUY	Price target: C\$4.2/sh			Country: Mexico							
Commodity price	CY19A	CY20A	CY21E	CY22E	CY23E	Reserve / mining inventory	Ag Eq	Au Eq				
Gold price	1,379	1,748	1,792	1,819	1,850	Parral (SCP mine plan)	32Moz	63.3g/t	358koz	0.00g/t		
Silver price	15.8	19.25	25.80	25.50	24.00	Los Ricos (SCPe)	72Moz	189g/t	816koz	2.14g/t		
Group-level SOTP valuation						Esmeralda (not modelled)	14Moz	72g/t	155koz	0.82g/t		
		US\$m	O/ship	NAVx	C\$/sh*	Share data						
NPV Parral (3Q21)		172.6	100%	1.0x	0.84	Basic shares (m)	277.7		FD with options (m):	292.3		
NPV Los Ricos South (build start)		402.2	100%	0.8x	1.57	Ratio analysis^						
Esmeralda nominal (US\$50/oz Au)		7.8	100%	1.0x	0.04	CY19A	CY20A	CY21E	CY22E	CY23E		
Los Ricos North 125Moz @ US\$150/oz		312.5	100%	1.0x	1.53	Average shares out (m)	186.9	240.2	288.1	329.7	329.7	
NPV central & finance costs		(36.6)	100%	1.0x	(0.18)	EPS (USc/sh)	0.6	4.3	3.3	3.4	16.3	
Cash (2Q21)		73.5	100%	1.0x	0.36	CFPS before w/c (USc/sh)	4	(1)	(6)	(24)	22	
Cash from options		7.2	100%	1.0x	0.04	EV (US\$m)	91.3	514.8	627.8	752.3	690.9	
1xNAV5% 1Q21 US\$1850/oz		939			4.20	FCF margin (%)	-17%	-7%	-40%	-164%	31%	
Group NAV (US\$m)		SCP			spot		Income statement^					
	Au:	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	CY19A	CY20A	CY21E	CY22E	CY23E	
Group 1xNAV (US\$m)	Ag:	\$23.0oz	\$24.0oz	\$25.0oz	\$26.0oz	\$27.0oz	Revenue, attrib (US\$m)	32.4	44.2	53.7	48.7	200.7
11% discount		784	804	823	843	862	COGS, attrib (US\$m)	23.1	25.5	26.8	24.1	95.3
8% discount		853	875	898	920	942	D&A, attrib (US\$m)	5.9	3.6	6.0	7.3	20.1
5% discount		937	963	989	1,016	1,042	Gross profit, attrib (US\$m)					
Ungeared project IRR:		51%	53%	55%	57%	59%	3.1	15.1	20.9	17.3	85.3	
	Au:	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Admin (US\$m)	(4.6)	(4.9)	(5.7)	(3.8)	(3.8)
Group NAV (C\$/sh)*	Ag:	\$23.0oz	\$24.0oz	\$25.0oz	\$26.0oz	\$27.0oz	Finance cost (US\$m)	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)
11% discount		3.58	3.66	3.74	3.82	3.90	Expln, royalty, deriv., forex (US\$m)	(0.8)	(1.0)	(1.3)	(0.7)	(0.7)
8% discount		3.86	3.95	4.05	4.14	4.23	Tax (US\$m)	-	-	(1.1)	(1.7)	(27.1)
5% discount		4.21	4.31	4.42	4.53	4.64	Net income, attrib (US\$m)					
							1.2	10.2	9.6	11.1	53.6	
Los Ricos assumptions		Mt	AuEq (g/t)	AgEq (g/t)	AuEq (koz)	AgEq(Moz)	Cash flow^					
NI43-101 pit resource (M&I&I)	12.1	2.13	186	829	73	EBITDA (US\$m)	5.9	12.0	14.8	17.9	73.2	
NI43-101 UG resource (M&I&I)	1.1	3.56	312	126	11	Less working Δ capital (US\$m)	(12.6)	(0.5)	(2.0)	1.2	(12.5)	
SCPe pit inventory	11.0	2.05	180	720	63	Less finance costs (US\$m)	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	
SCPe UG inventory	0.9	1.16	296	96	8	Less tax paid (US\$m)	-	-	(1.1)	(1.7)	(27.1)	
Los Ricos NPV @ 3Q21 build start^ capex and opex sensitivity							Add back other (US\$m)	(1.0)	2.4	7.1	3.9	29.9
NPV at build start (US\$m)	-20%	-10%	0% build	10%	20%	Cash flow ops (US\$m)						
-20% chg sustaining capex	423	421	419	417	415	(7.9)	13.6	18.8	21.3	63.5		
0% chg sustaining capex	406	404	402	400	398	PP&E - build (US\$m)	(3.0)	(1.0)	(28.0)	(101.3)	(2.0)	
20% chg sustaining capex	389	387	385	383	381	Exploration (US\$m)	(4.2)	(15.9)	(12.2)	(0.0)	(0.0)	
NPV at build start (US\$m)*	-20%	-10%	0% UG	10%	20%	Asset sales (US\$m)	9.6	-	-	-	-	
-20% chg pit \$/t	434	424	414	404	394	Cash flow inv. (US\$m)						
0% chg pit \$/t	422	412	402	392	382	2.5	(16.9)	(40.2)	(101.3)	(2.1)		
20% chg pit \$/t	410	400	390	380	370	Share issue (US\$m)	-	54.3	82.0	-	-	
Production (Y1 from 3Q20)							(0.6)	53.1	81.5	-	-	
	CY19A	CY20A	CY21E	CY22E	CY23E	Cash flow fin. (US\$m)						
Parral prod'n (Moz AgEq)	2.0	2.3	2.1	1.9	1.9	(6.0)	49.8	60.1	(80.0)	61.4		
Los Ricos prod'n (Moz AgEq)	-	-	-	-	6.4	Balance sheet^						
C1 cost (US\$/oz AgEq)	11.33	11.21	12.88	12.63	11.47	CY19A	CY20A	CY21E	CY22E	CY23E		
AISC cost (US\$/oz AgEq)	13.92	13.56	15.92	15.22	13.35	Cash (US\$m)	5.0	56.4	112.2	32.2	93.6	
C3 cost (US\$/oz AgEq)	15.48	14.33	17.18	16.83	16.81	Acc rec. + inv. (US\$m)	29.9	31.2	34.2	33.5	52.3	
<i>AISC = C1 + ug sustaining capex, C3 = AISC + depreciation</i>							PPE (US\$m)	27.0	64.4	86.2	180.2	162.1
<i>12Moz</i>							Exploration (US\$m)	14.4	26.7	43.7	43.7	43.7
<i>30/oz</i>							Others (US\$m)	12.0	13.5	15.3	15.3	15.3
<i>10Moz</i>							Total assets (US\$m)					
<i>8Moz</i>							88	192	292	305	367	
<i>6Moz</i>							Debt (US\$m)	5.4	3.2	2.7	2.7	2.7
<i>4Moz</i>							Accnts payable (US\$m)	7.2	7.6	8.6	8.6	14.9
<i>2Moz</i>							Def. tax, closure, other (US\$m)	2.0	3.0	6.1	6.1	6.1
<i>0Moz</i>							Total liabilities (US\$m)	14.5	13.7	17.4	17.4	23.8
<i>0/oz</i>							Shareholders equity (US\$m)	148.0	203.6	286.7	286.7	286.7
<i>0/oz</i>							Contributed surplus (US\$m)	8.1	8.6	9.7	9.7	9.7
<i>0/oz</i>							Retained earnings (US\$m)	(82.4)	(33.7)	(23.4)	(12.3)	41.4
<i>0/oz</i>							Liabilities + equity (US\$m)					
<i>0/oz</i>							88	192	290	302	362	

Source: SCP estimates; *diluted for options, but not for Los Ricos mine build; ^excludes Los Ricos

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TENDER:	0
NOT RATED:	0
TOTAL	45

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