

Ticker: AYA CN

Net cash: US\$36m

Project: Zgounder

Market cap: C\$1,113m

Price: C\$11.51/sh

Country: Morocco

RECOMMENDATION (unc): BUY

TARGET (unc): C\$13.00/sh

RISK RATING: HIGH

What has made Aya one of the best performing silver companies this year has been exploration and growth potential. In that context, quarterly financials are not a major driver for the stock, but today's 2Q21 financials highlight that CEO Benoit La Salle and his team are installing operational discipline and execution to match Zgounder's geological endowment. With 2Q21 production of 439koz Ag (a quarterly record for the operation) already released, Aya continued to show cost of goods sold well controlled at ~US\$9.44/oz produced excluding depreciation. Operating cash flow grew again to US\$5.5m or US\$13.1/oz. Margins are very healthy at ~50% operating cash flow margin, and suggest that Zgounder can be a major cash flow generator and high margin producer post expansion. This is a rarity in the silver producer universe, as most of the existing operations are mature and face declining grades and increasing mining depths and haul distances. **We maintain our BUY rating and C\$13.00 price target based on 2.0x NAV_{5%-24/oz}.**

Another quarter of financial improvement sees operating cash flow grow to \$13.1/oz

Financials: Aya announced financial results for Q1 with production of 439koz already released. Stripping out depreciation, COGS was US\$9.44/oz produced, showing that costs remain very well controlled. Operations generated US\$5.9m of cash flow or US\$13.08/oz sold, a 9% increase on Q1, despite a 3% decrease in revenue per oz to US\$23.51/oz sold. Exploration expenditure increased to US\$2.2m with US\$0.9m of capex.

Ops and exploration update: Eight rigs are currently operating, four from surface and four from underground. 26,000m of the 35,000m budgeted for Zgounder have been drilled. The feasibility study for the 2,000tpd expansion is progressing well for release later in H2. Mining capacity reached 700tpd with improved productivity achieved through the transition to cut-and-fill stoping from shrinkage mining, as well as the commissioning of new mining equipment.

Figure 1. 2Q21 financials vs prior quarters and SCPe

	Actual				SCPe	QoQ	Vs SCPe
	3Q20	4Q20	1Q21	2Q21	2Q21	% chg	% chg
Revenue (US\$m)	1.7	9.5	8.5	9.9	8.8	16%	12%
COGS* (US\$m)	(1.1)	(5.0)	(3.2)	(4.1)	(4.3)	32%	(3%)
Gross Margin* (US\$m)	0.6	4.5	4.6	5.0	4.5	8%	9%
EBITDA (US\$m)	(2.7)	4.2	3.3	2.8	2.5	(15%)	9%
Net Income (US\$m)	(1.8)	1.6	0.8	0.3	0.9	(69%)	(73%)
EPS (US\$m)	(0.021)	0.020	0.009	0.003	0.010	(66%)	(69%)
Cash flow from Ops (US\$m)	(1.3)	3.4	4.2	5.5	3.7	30%	49%
Capex and exploration (US\$m)	(1.3)	(4.3)	(3.9)	(3.1)	(4.0)	(20%)	(21%)
FCF (US\$m)	(0.7)	2.9	0.4	2.4	1.1	459%	128%
Net cash (US\$m)	30.7	33.0	31.5	36.6	31.3	16%	17%

Source: Aya Gold & Silver, SCPe

Why we like Aya Gold & Silver

1. Proven management team led by Benoit La Salle (Semafo founder)
2. 100Moz resource target incorporates just current strike extent, with step outs as upside.
3. Step out heavy 41,000m drilling program planned for 2021
4. Operational turnaround achieving scale at 1.2Mozpa current run rate and pathway to SCPe 6Mozpa pure-play silver production.

Catalysts

1. 2H21: Updated resource and reserve and 2,000tpd feasibility study
2. Mid-2024: SCPe 2,000tpd run rate

Research

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Ticker: AYA CN		Price / mkt cap: C\$11.51/sh, C\$1113m				Market P/NAV: 1.81x		Assets: Zgounder																											
J Chan / B Gaspar		Rec / PT: BUY / C\$13.00				1xNAV ₂₀₂₀ FD: C\$6.34/sh		Country: Morocco																											
Group-level SOTP valuation						Share data																													
2Q21		3Q21E				FD + options (m):		109.3		FD + FF		109.3																							
US\$m		O/ship		NAVx		C\$/sh		Commodity price		CY20E		CY21E		CY22E		CY23E		CY23E																	
Zgounder NPV 3Q21E		434		100%		1.0x		4.97		21.0		25.2		24.0		24.0		24.0																	
Central SG&A & fin costs 3Q21E		(20)		-		1.0x		(0.23)		109.3		109.3		109.3		109.3		109.3																	
Ounces outside mine plan (\$50/oz AuEq)		-		100%		1.0x		-		FD shares out (m)		CY20E		CY21E		CY22E		CY23E																	
Other assets (50/oz AuEq)		77				1.0x		0.88		(0.016)		0.061		0.080		0.026		0.148																	
Cash and restr. cash 2Q21		37		-		1.0x		0.42		0.02		0.14		0.17		0.08		0.23																	
Debt 2Q21		(0)		-		1.0x		(0.00)		(0.00)		0.12		0.16		0.07		0.21																	
ITM options		27		-		1.0x		0.31		FCF/sh (US\$/sh)		(0.03)		0.03		(0.06)		(0.25)																	
1xNAV5% US\$24/oz		554				6.34				EV (US\$m)		739		819		828		889																	
Target multiples		2.0x				C\$/sh				FCF yield - pre growth spend (%)		neg		1.3%		1.7%		0.8%																	
Target P/NAV Multiple		2.0x				13.00				FCF yield (%)		neg		0.4%		neg		0.6%																	
Target price						13.00				PER (x)		(433.1)		127.7x		96.9x		336.4x																	
1xNAV sensitivity to gold price and discount / NAV multiple						P/CF (x)						292.8x		57.0x		46.5x		103.2x																	
1xNAV Zgounder (US\$m)		\$15oz		\$20oz		\$24oz		\$30oz		\$35oz		EV/EBITDA (x)		7,321.6x		73.4x		50.8x																	
7% discount		48		217		353		556		725		Income statement		CY20E		CY21E		CY22E																	
5% discount		63		268		433		679		885		Revenue (US\$m)		14		34		42																	
3% discount		80		333		536		840		1,093		COGS (US\$m)		(8)		(15)		(19)																	
Valuation (C\$/sh)		\$15oz		\$20oz		\$24oz		\$30oz		\$35oz		Gross profit (US\$m)		6		19		22																	
1.5xNAV		3.00		7.00		9.00		14.00		17.00		Expenses (US\$m)		(2)		(2)		(3)																	
2.0xNAV		4.00		9.00		13.00		18.00		23.00		Impairment & other (US\$m)		-		-		-																	
2.5xNAV		5.00		11.00		16.00		23.00		29.00		Net finance costs (US\$m)		1.3		(0.0)		-																	
Valuation over time						1Q20E						1Q21E						1Q22E						1Q23E						1Q24E					
Mines NPV (US\$m)						434						455						472						501						545					
Cntrl G&A & fin costs (US\$m)						(27)						(24)						(18)						(14)						(48)					
Net cash at 1Q (US\$m)						30						28						21						57						73					
Other Assets + Options						104						104						104						104						104					
1xNAV (US\$m)						542						564						578						648						673					
P/NAV (x):						1.86x						1.79x						1.74x						1.55x						1.49x					
1xNAV share px FD (C\$/sh)						6.20						6.45						6.61						7.41						7.70					
ROI to equity holder (% pa)						-46%						-44%						-24%						-14%						-10%					
1.2xNAV share px FD (C\$/sh)						7.44						7.74						7.94						8.90						9.24					
ROI to equity holder (% pa)						-35%						-33%						-17%						-8%						-5%					
Resource / Reserve						Mt						Moz Ag						Moz Au						EV/oz Ag						EV/oz AgEq					
Measured, ind. & inf. - Zgounder						4.73						44.8												12.2						20.8					
SCPe Mine inventory - Zgounder						13.05						120.0												7.8						7.8					
Other assets - M&I&I						22.69						18.6						1,295																	
Total M&I&I						27.42						63.4						1,295						14.7						5.4					
Production (100%)						CY19A						CY20E						CY21E						CY22E						CY23E					
Zgounder (000oz Ag)						452						690						1,611						2,072						2,174					
Zgounder cash cost (US\$/oz)						6.68						9.67						8.55						8.29						11.08					
Zgounder AISC (US\$/oz)						18.83						11.83						11.03						9.70						13.01					
Group (000oz Ag)						452						690						1,611						2,072						2,174					
Group cash cost (US\$/oz)						7.84						12.09						9.25						9.31						12.32					
Group AISC (US\$/oz)						21.46						22.52						15.68						12.59						14.85					
C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/development																																			
Production (koz Ag)																																			
AISC (US\$/oz)																																			
US\$40/oz																																			
US\$30/oz																																			
US\$20/oz																																			
US\$10/oz																																			
US\$0/oz																																			
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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Summary of Recommendations as of August 2021	
BUY:	45
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	45

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