

**Ticker:** SBB CN      **2Q21 cash:** US\$48m      **Project:** Back River  
**Market cap:** C\$546m      **Price:** C\$1.57/sh      **Country:** Canada, Nunavut

RECOMMEND. (unc): BUY      TARGET (unc): C\$4.05/sh      RISK RATING: HIGH

We see three takeaways from today's Back River development update: (i) the underground portal is now established with 130m developed so far, although this is slower than management would like, it is expected to ramp up to provide access to Umwelt's UG high-grade for both exploration drilling and mining. (ii) The largest sealift to date has secured a significant amount of the materials needed for pre-construction and foundation work, most importantly is the equipment required for the first year of pre-strip / open pit mining at Echo, including seven trucks, loading units, and drills. Lastly, (iii) procurement / development spend now not only defers against future capex but has flow savings, and derisks the asset further in the case of M&A. In our view, all of the work over the past ~9 months is a significant value add and should see Sabina make further progress in the balance of the year. As such, **we maintain our BUY rating and 0.9x NAV<sub>5%-1850</sub> C\$4.05/sh PT.** Our NAV includes SCPe +750koz of reserves at US\$200/oz, well under the US\$344/oz value in the DFS, and US\$100/oz for resources outside reserves. The final aspect of valuation, share count, itself related to debt and other non-dilutive options, should fall into place in coming periods, the risk of which is offset by the low pnav for this rare tier one asset. With the stock trading at SCPe 0.29xNAV on an undiluted basis, we see plenty of upside in this name, maintaining our view that Back River is the 'best' undeveloped gold asset globally.

**Figure 1. Recent photos of Umwelt UG ramp development, Goose progress overview and sealift**



Source: Sabina

## De-risking Back River; largest sealift to date, equipment procured, and UG decline underway

Sabina provided an update of the development progress made during the first ~9 months of 2021 at Back River, highlighting the completion of the box cut / portal and **underground development** underway with 130m of advancement so far. This year's **sealift** is the largest to date including cement, construction steel, ammonium nitrate, mining equipment, tires, spares and lubes, winter ice road construction and transport equipment, building foundation and permanent accommodation facilities. On **earth works**, focus has been on upgrading roads, infrastructure, building laydown pads and crushing and screening activities. **Earthworks** on the pad areas for permanent fuel tanks, plant and accommodation areas are also well underway (Figure 1). Sabina has continued to advance **engineering** activities for the plant process component, finalized IFC packages and progressed detailed engineering for the plant and ancillary facilities. On **procurement**, Sabina has already procured the equipment required for early stripping of the pit including trucks already on site. Sabina's procurement strategy is targeting (i) completion of civil works to start concrete foundation work for the plant and truck shop, and laydown area for permanent camp, (ii) secure all equipment in place by YE 2021 and (iii) ensure open pit mining fleet is available to begin work 2Q22.

### Why we like Sabina

1. SCPe 'worlds best undeveloped gold asset' with high-grade pits and higher grade UG
2. Fully permitted with complete DFS
3. Lowest cost large-production developer globally on EV/resource and EV/production basis
4. Development risk sped up / mitigated by CY21 exploration decline

### Catalysts

1. 2021: Decline construction, 3Y SCP build
2. Mid year: Lump sum contracts
3. 2H21: Construction decision
4. 2024: First pour

### Research

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<b>Ticker:</b> SBB CN	<b>Price / mkt cap:</b> C\$1.57/sh C\$546m	<b>Market P/NAV</b> 0.29x	<b>Asset:</b> Back River
<b>Author:</b> B Salier / B Gaspar	<b>Rec. / 0.9x NAV PT:</b> BUY, C\$4.05/sh	<b>1xNAV<sub>2023</sub> FF FD:</b> A\$5.08/sh	<b>Country:</b> Nunavut, Canada

Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E
Gold price	1,850	1,850	1,850	1,850	1,850

Shares	BASIC	FD (options)	FD (mine build)
Shares (m)	348.1	368.4	471.1

SOTP project valuation	C\$m	O/ship	NAVx	C\$/sh
Back River 3Q21*	1,591	100%	1.0x	4.32
SCPe cash 2Q21	48.2	100%	1.0x	0.13
+750koz reserves @ US\$150/oz	147	100%	1.0x	0.40
Resource outside reserve @ US\$50/oz	185	100%	1.0x	0.50
Cash from options	25.5	100%	1.0x	0.07
	<b>1,997</b>			<b>5.42</b>

\*Diluted for options, not mine build Market P/NAV5%<sub>2021</sub> 0.29x

**Asset value: 1xNPV project @ build start (C\$m, ungeared)\***

NPV (C\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
5% discount	1,657	1,827	<b>1,997</b>	2,167	2,337
7% discount	1,452	1,600	1,747	1,894	2,042
9% discount	1,284	1,413	1,542	1,670	1,799
Ungeared project IRR:	41%	45%	49%	52%	56%

\*Project level NPV, excl finance costs and central SGA, discounted to build start

SOTP company valuation^	3Q21	3Q22	3Q23	3Q24	3Q25
Back River NPV (C\$m)	1,591	1,761	2,067	2,188	1,889
Central G&A + fin. costs (C\$m)	(155)	(146)	(139)	(112)	(90)
Net cash prior quarter (C\$m)	48	137.4	(89.7)	(132.8)	234.1
+750koz reserves @ US\$150/oz	147	146.9	146.9	146.9	146.9
Resource outside reserve (C\$m)	185	185.3	185.3	185.3	185.3
Cash from options (C\$m)	25.5	25.5	25.5	25.5	25.5
NAV (C\$m)	1,843	2,110	2,197	2,301	2,391
FD shares on issue	348.1	471.1	471.1	471.1	471.1
1xNAV5%/sh FF FD (C\$/sh)	5.00	<b>4.48</b>	4.66	4.88	5.08
PT @ 0.9xNAV:	4.03				

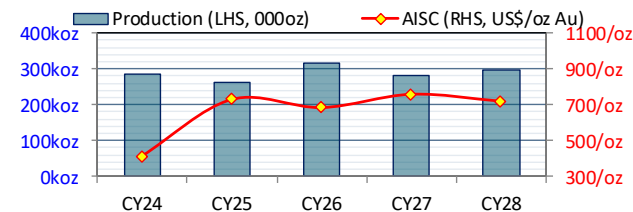
**1xNAV/sh FF FD @ 2Q21 (C\$m, geared)^**

2Q21 NAV FF FD (C\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
5% discount	3.72	4.10	<b>4.48</b>	4.86	5.24
7% discount	3.34	3.67	4.01	4.34	4.68
9% discount	3.02	3.32	3.62	3.91	4.21
Geared project IRR:	34%	38%	41%	45%	48%

^Project NPV less grp SG&A & fin. cost, +net cash

Production (Y1 from 1Q24)	CY24	CY25	CY26	CY27	CY28
Gold production (000oz)	286	263	316	283	296
C1 cost (US\$/oz)	406	654	609	673	637
AISC cost (US\$/oz)	412	729	684	759	719
C3 cost (US\$/oz)	579	1,176	829	897	852

AISC = C1 + ug sustaining capex, C3 = C1 + depreciation, Y1 = YT Sep 2022



Source: SCP estimates

Resource / Reserve	Au (koz)	Au (g/t)	Au (koz)	Au (g/t)
Meas., indicated and inferred	9.1Moz @ 6.0g/t		Pit reserve 1.7Moz @ 5.9g/t	
Proven & probable	3.6Moz @ 6.0g/t		UG reserve 0.8Moz @ 7.4g/t	

Project financing	Company financing		
Build capex (C\$m)	C\$510m	Mine equity (C\$m)	C\$230m
Drilling/FS cost (C\$m)	C\$25m	Spot share price (C\$/sh)	C\$1.57
G&A + finance in build (C\$m)	C\$39m	Raise at spot (C\$/sh)	C\$1.57
Y1 sea lift (C\$m)	C\$47m	Mine debt (C\$m)	C\$350m
Mine build finance (C\$m)	C\$621m	Lender IRR (%)	13%

Ratio analysis	CY20A	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	318.8	378.8	471.1	471.1	471.1
EPS (C\$/sh)	(0.01)	(0.02)	(0.02)	(0.06)	0.85
CFPS before w/c (C\$/sh)	(0.01)	(0.01)	(0.01)	(0.06)	0.99
EV (C\$m)	476.5	391.5	668.6	1,083.7	577.6
FCF yield (%)	-	-	-	-	63%
PER (x)	-	-	-	-	1.8x
P/CF (x)	-	-	-	-	1.6x
EV/EBITDA (x)	-	-	-	-	1.1x

Income statement	CY20A	CY21E	CY22E	CY23E	CY24E
Revenue (C\$m)	-	-	-	-	690.6
COGS (C\$m)	-	-	-	-	126.1
<b>Gross profit (C\$m)</b>	-	-	-	-	<b>564.5</b>
D&A (C\$m)	0.4	0.5	0.5	0.5	64.9
Finance cost, central G&A (C\$m)	5.0	5.9	6.5	26.4	31.3
Royalty & tax (C\$m)	-	-	-	-	(14.7)
<b>Net income (C\$m)</b>	<b>(4.2)</b>	<b>(7.7)</b>	<b>(9.9)</b>	<b>(29.8)</b>	<b>400.0</b>

Cash flow, attrib.	CY20A	CY21E	CY22E	CY23E	CY24E
EBIT (C\$m)	(6.4)	(9.0)	(9.9)	(10.4)	463.3
Plus non-cash items (C\$m)	1.4	3.1	3.4	3.4	67.9
Less tax, finance costs (C\$m)	-	-	-	(19.4)	(63.3)
Less wkg cap, +interest (C\$m)	(0.2)	(2.9)	-	(43.3)	40.4
<b>Cash flow ops (C\$m)</b>	<b>(5.2)</b>	<b>(8.8)</b>	<b>(6.5)</b>	<b>(69.7)</b>	<b>508.3</b>
PP&E (C\$m)	(36.8)	(64.0)	(125.7)	(345.4)	(2.2)
Others (C\$m)	(16.0)	18.6	-	-	-
<b>Cash flow inv. (C\$m)</b>	<b>(52.8)</b>	<b>(45.3)</b>	<b>(125.7)</b>	<b>(345.4)</b>	<b>(2.2)</b>
Share issue, capital lease (C\$m)	57.2	233.0	-	-	-
Debt draw (repay) (C\$m)	-	-	-	350.0	(116.7)
<b>Cash flow fin. (C\$m)</b>	<b>57.2</b>	<b>233.0</b>	-	<b>350.0</b>	<b>(116.7)</b>
Net change in cash (C\$m)	(0.8)	178.9	(132.2)	(65.1)	389.4

Balance sheet	CY20A	CY21E	CY22E	CY23E	CY24E
Cash (C\$m)	24.0	203.2	71.0	5.9	395.3
Acc rec. + inventories (C\$m)	3.9	5.1	5.1	48.5	48.5
PP&E (C\$m)	82.9	135.0	260.3	605.2	542.6
Others (C\$m)	444.4	444.0	444.0	444.0	444.0
<b>Total assets (C\$m)</b>	<b>555.1</b>	<b>787</b>	<b>780</b>	<b>1,104</b>	<b>1,430</b>
Debt (C\$m)	-	-	-	350.0	233.3
Accounts payable (C\$m)	4.9	9.9	9.9	9.9	50.3
Others (C\$m)	45.6	46.8	46.8	46.8	46.8
Total liabilities (C\$m)	50.5	56.7	56.7	406.7	330.5
Shareholders equity (C\$m)	570.5	803.8	806.8	809.8	812.8
Retained earnings + rsvs (C\$m)	(65.8)	(73.1)	(83.1)	(112.9)	287.0
<b>Liabilities + equity (C\$m)</b>	<b>555.1</b>	<b>787</b>	<b>780</b>	<b>1,104</b>	<b>1,430</b>

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SELL:	0
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TENDER:	0
NOT RATED:	0
TOTAL	45

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