

Ticker: PGM CN/LN	2Q21 cash: C\$20m	Project: Madsen
Market cap: C\$517m	Price: C\$1.25/sh	Country: Canada, Red Lake
RECOMMEND. (unc): BUY TARGET (unch): C\$1.85/sh RISK RATING: HIGH		

Production looks to be moving in the right direction as 3.7koz ounces produced in July lifts to 5.5koz in August at flat 5.6g/t. We see this as driven by mill throughput increase, as the East Ramp only recently accessed ore, enabling a record 2ktpd UG ore lifted one day in August, but without the development in place yet to drive flexibility that allows higher-grade stope ore as grades stayed flat. To have mill guidance of 900tpd for the entire 4Q (ie with UG and mill running over nameplate) is pleasing also, with grade the final piece of the puzzle. The other key driver is the **balance sheet** – today's update gives good colour on the direction of mining and production, and by extension C1 costs. This is important, as the final push for Pure is the 'spider-webbing out' from the new East Decline which comes with additional development capex. The 4Q21 guidance of US\$1,600-1750/oz AISC includes development, but if today's underlying C1 costs (ie excluding development) are robust they should bolster the company's ability to flex finances and thus the most important driver, share count. We lift our **3Q forecast** from 8.5koz to 15koz, a pro-forma August rate. This takes our 2H21 forecast from 25koz to 30koz, the mid point of 27-32koz guidance. As such, **we maintain our BUY rating and C\$1.85/sh PT** based on 1xNAV_{5%-1850}. Working capital is tough to forecast and a key driver as we model a year-end cash low point, but flexibility from a likely improving C1 cost-base should mitigate this risk.

Mill upgrades drive >1,000tpd and 50% lift in MoM production to 66koz pa

After installation of screens, the mill daily record of 1,037tpd in August is ~30% over nameplate, and 703tpd and 870tpd over August and the last week, respectively. This should allow >800tpd *annualized* permitted cap to be run to year end to catch up with slower throughput in 1H21, with 900tpd targeted for 4Q21. With the East Ramp now accessing ore, a single-day record of 2,050t of ore-to-surface was set in August. With fixed costs and improving head grade schedule this should support lower AISC QoQ going forward. By year end the company will release a **MRE update**, and start-date for **8 Zone drilling**.

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. Ongoing quarterly performance
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\$1.25 C\$515m		Market P/NAV 0.69x		Asset: Madsen						
Author: B Salier		Rec / 1.0xNAV PT: BUY C\$1.85		PT / 1xNAV _{Q321} FF FD: C\$1.95/sh		Country: Ontario, Canada						
Commodity price		CY20E	CY21E	CY22E	CY23E	CY24E	Resources	Au (koz)	Au (g/t)	Rsvs	Au (koz)	Au (g/t)
Gold price (US\$/oz)		1,519	1,806	1,826	1,847	1,850	Madsen global	2,098koz	8.93g/t	Madsen	1,000koz	9.0g/t
SOTP project valuation							Satellites global	431koz	7.6g/t			
		C\$m	O' ship	NAVx	C\$/ sh		Share data					
Madsen (3Q21)		911	100%	1.0x	1.97		Basic shares (m)	412.2	FD for options / warrants (m)		461.6	
Cash (1Q21)		(79.5)	-	1.0x	(0.17)		Total uses					
Central costs		(31.1)	-	1.0x	(0.07)		Total sources					
Cash from options		41.4	-	1.0x	0.09		3Q20 FS capex	C\$141m	Current cash (C\$m)		C\$57m	
1xNAV5%2Q21 US\$1850/oz		842			1.82		Publish spend to 3Q20	-C\$102m	Undrawn debt (C\$m)		C\$42m	
* Shares diluted for options and mine build					Market P/NAV _{5%} 0.69x		Residual capex	C\$39m	Undrawn stream (C\$m)		C\$0m	
Project NPV @ build start (C\$m, ungeared)*							SCPe 1H21 capitalised opex	C\$31m	Total funding available (C\$m)		C\$99m	
NPV (+350koz, C\$m)		\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	SCPe 1H21 sustaining UG dev	C\$21m				
9%discount		759	829	897	963	1,038	Cash finance costs (C\$m)	C\$2m				
7%discount		828	904	978	1,050	1,132	Wkg cap pre commercial pro	C\$19m				
5%discount		908	991	1,072	1,150	1,240	Residual spend 4Q20 onward	C\$112m	Buffer (C\$m)		- C\$13m	
Ungeared project IRR:		38%	40%	43%	45%	48%	Ratio analysis					
NAV5%(C\$m)		\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Average shares out (m)	461.6	CY20A	CY21E	CY22E	CY23E
Sat ounces 7g/t: 271koz		908	991	1,072	1,150	1,240	EPS (C\$/sh)	(0.03)	(0.04)	0.06	0.16	0.23
Sat ounces 7g/t: 371koz		941	1,025	1,108	1,189	1,280	CFPS before w/c (C\$/sh)	(0.08)	(0.28)	(0.26)	0.02	0.18
Sat ounces 7g/t: 471koz		974	1,060	1,145	1,228	1,321	EV (C\$m)	525.8	623.4	688.0	673.7	593.4
*Project level NPV, excl. grp SG&A & fin. cost, discounted to build start							FCF yield (%)	-	-	-	2%	14%
SOTP company valuation^		3Q21	3Q22	3Q23	3Q24	3Q25	PER (x)	-	-	20.8x	7.6x	5.4x
Madsen - group (C\$m)		911	952	948	912	791	P/CF (x)	-	-	-	65.0x	7.1x
Central costs (C\$m)		(31.1)	(28.9)	(19.9)	(15.8)	(5.5)	EV/EBITDA (x)	-	-	17.9x	6.5x	3.9x
Net cash prior qtr (C\$m)		(104.4)	(104.2)	(67.1)	28.9	146.3	Income statement					
Cash from options (C\$m)		41.4	41.4	41.4	41.4	41.4	CY19A	CY20A	CY21E	CY22E	CY23E	
NAV (C\$m)		817	860	902	967	973	Revenue (C\$m)	-	-	63.5	168.9	226.0
1xNAV5%sh FF FD (C\$/sh)		1.77	1.86	1.95	2.09	2.11	COGS (C\$m)	-	-	18.3	65.5	75.7
ROI (%pa)			49%	25%	19%	14%	Gross profit (C\$m)	-	-	45.2	103.4	150.2
Exit value: 1xNAV/ sh company @ 2Q21 post ramp up (C\$m, geared)^							D&A (C\$m)	0.1	0.2	7.9	20.2	32.8
1xNAV (C\$/sh)		\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Admin + share comp (C\$m)	7.2	11.5	3.5	2.0	2.0
9%discount		1.54	1.70	1.86	2.01	2.18	Finance cost (C\$m)	(0.5)	(0.6)	0.9	5.6	9.2
7%discount		1.67	1.85	2.01	2.18	2.36	Expl'n + eval'n (C\$m)	8.9	6.6	7.1	-	-
5%discount		1.83	2.01	2.19	2.37	2.57	Tax (C\$m)	-	0.8	(2.0)	-	-
1xNAV5%(\$1850/oz, C\$/sh)		\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz	Net income (C\$m)	(15.7)	(18.5)	27.7	75.6	106.2
Sat ounces 7g/t: 271koz		1.83	2.01	2.19	2.37	2.57	Cash flow statement	CY19A	CY20A	CY21E	CY22E	CY23E
Sat ounces 7g/t: 371koz		1.90	2.09	2.28	2.46	2.66	EBITDA (C\$m)	(20.7)	(3.0)	38.4	103.4	150.2
Sat ounces 7g/t: 471koz		1.98	2.17	2.36	2.54	2.75	Less tax (C\$m)	-	(0.8)	2.0	-	-
^Project NPV less grp SG&A & fin. cost, +net cash, 30%equity at spot							Less finance costs (C\$m)	0.5	0.6	(0.9)	(5.6)	(9.2)
Production		CY20	CY21	CY22	CY23	CY24	Less change in wrk cap (C\$m)	0.1	(5.2)	(33.4)	(5.4)	1.0
Madsen prod'n (000oz)		0.9	40.3	79.0	104.6	109.4	Cash flow ops (C\$m)	(20.1)	(8.4)	6.2	92.4	142.0
Satellite prod'n (000oz)		-	-	-	15	23	PP&E - build / maint (C\$m)	(14.7)	(113.9)	(91.0)	(78.1)	(61.7)
C1 cost (US\$/oz)		-	378	688	601	600	Cash flow inv. (C\$m)	(14.7)	(113.9)	(91.0)	(78.1)	(61.7)
AISC cost (US\$/oz)		-	1,495	1,018	859	846	Share issue (C\$m)	52.7	34.8	18.7	-	-
C3 cost (US\$/oz)		-	555	901	862	877	Debt draw (repay) (C\$m)	13.0	72.9	24.1	22.2	(27.6)
AISC= C1 + sustaining capex, C3 = C1 + depreciation							Cash flow fin. (C\$m)	65.7	107.7	42.8	22.2	(27.6)
							Net change in cash (C\$m)	30.9	(14.7)	(41.9)	36.5	52.7
							Balance sheet	CY19A	CY20A	CY21E	CY22E	CY23E
							Cash (C\$m)	70.3	44.9	(1.0)	35.5	88.2
							Acc rec + inventories (C\$m)	1.0	7.8	32.0	36.2	37.5
							PPE + exploration (C\$m)	48.8	192.9	260.1	317.9	346.8
							Other (C\$m)	2.0	2.9	2.3	2.3	2.3
							Total assets (C\$m)	130.5	248.5	293.4	391.8	474.7
							Debt (C\$m)	19.0	91.3	110.0	132.2	104.5
							Acc pay + others (C\$m)	61.9	93.5	83.4	82.1	84.4
							Total liabilities (C\$m)	80.9	188.0	198.6	219.4	194.1
							Share capital account (C\$m)	156.8	192.9	197.6	199.5	201.5
							Retained earnings + rsvs (C\$m)	(107.2)	(132.4)	(102.8)	(27.1)	79.1
							Total equity (C\$m)	49.6	60.5	94.8	172.4	280.6
							Liabilities + equity (C\$m)	130.5	248.5	293.4	391.8	474.7

Satellite prod'n (000oz)

Madsen prod'n (000oz)

150koz

100koz

50koz

0koz

1600/oz

1200/oz

800/oz

400/oz

CY20

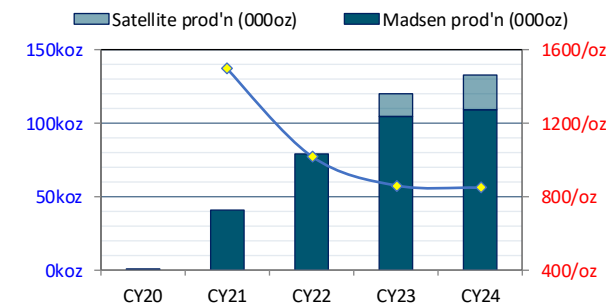
CY21

CY22

CY23

CY24

Source: S&P estimates



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BUY:	46
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

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