

Ticker: EMR AU

Net cash 2Q22: (A\$36m)

Project: Okvau / Bullseye

Market cap: A\$665m

Price: A\$1.12/sh

Country: Cambodia / Western Australia

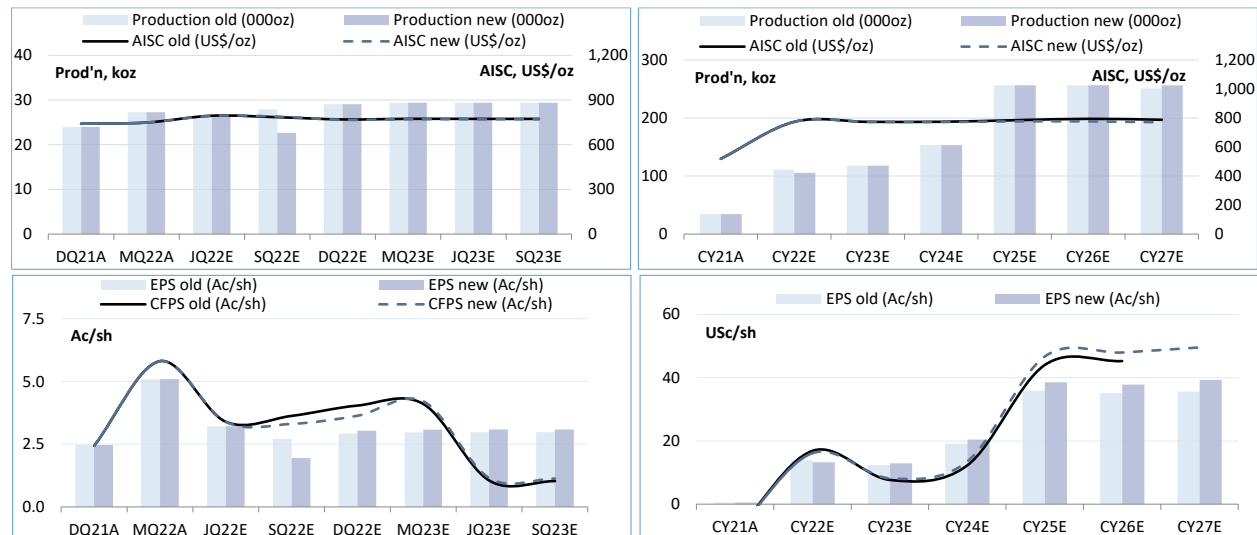
REC. (unc): BUY

TARGET (+5c): A\$1.50/sh

RISK RATING (unc): HIGH

Overall the loss of ~3koz this year isn't particularly material, and once again we're impressed how quickly this change out was done given the team, this time by having a spare gearbox on site. We lower our 28koz forecast to 23koz and reduce our full year forecast from 111koz to 106koz, lowering our NPV from A\$664m to A\$662m, and dropping FCPS from 16.9c to 15.9c, ie very minor differences only. Today's update from Bullseye is largely immaterial as surface contracts / JVs from legacy toll mining are cleaned up. Looking forward, Bullseye will continue to 'raise' money, with 40% minorities requiring to add \$4 for every \$6 that Emerald invests or face dilution. We expect the minorities may participate for a while. However, a 40% share of A\$130m capex we forecast, not the least given they won't benefit from debt as EMR will, but will suffer management / fees / friction, may lead to acceptance of a sale to Emerald. Lower production and an ~US\$20/oz drop in gold price for the quarter since we last wrote is ~2x offset by a weaker AUD, so **we maintain our BUY rating lifting our PT from A\$1.45/sh to A\$1.50.sh PT** based on 1xNAV<sub>5%-1850</sub> for Okvau and 59% attributable share of 0.5xNAV Bullseye, and nominal exploration upside. Short and medium-term price drivers remain demonstrating the ounces, then economics at Bullseye, followed by delivering production there, with a subsidiary driver being any lift in ownership at Bullseye (>A\$2/sh at 1xNAV 100%, depending on price paid), with emerging pit-expansion opportunities at Okvau East, and satellite opportunities from Memot.

Figure 1. Old and new production and earnings forecast



Source: SCP

## Okvau gearbox change, full year guidance maintained; Bullseye ticking along

**Okvau:** was on track to hit 26koz this quarter, despite a 99<sup>th</sup> percentile rainfall, but a failed gearbox has driven this down to 23koz. Full year guidance remains unchanged at 100-110koz, based on 25-30koz pq run rate for the balance of the year. **Bullseye:** at Bullseye, while overall ownership remains unchanged at 59.3%, the company has settled with Blue Cap Equities for consolidation of on-site ore stockpiles, where A\$2m was spent at the Neptune deposit, including grade control drilling. The cost is simple adoption of ~A\$2m to creditors / tax payments etc, and comes with some yellow metal.

## Why we like Emerald

- Management has built seven mines on time and on budget at Equigold, Regis and Emerald
- Management aligned with holders as A\$19m equity invested
- US\$100m acquisition debt facility and low-cost-build IP to enable growth via M&A

- Bullseye has potential second mine for ~250koz group potential, and belt control

## Catalysts

- 2H22: ~100,000m drilling at Bullseye
- 2H22 onward: Deep and regional drilling in Cambodia
- ~1H23: SCPe MRE for Bullseye
- 2023: SCPe DFS for Bullseye
- 2H24: First production at Bullseye

## Research

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

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

**Konstantinos Kormpis** (Toronto) M: +1 778-957-3623 [kkormpis@sprott.com](mailto:kkormpis@sprott.com)

<b>Ticker:</b> EMR AU	<b>Price / mkt cap:</b> A112c/sh, A\$665m	<b>Group P/NAV today:</b> 0.75x	<b>Country:</b> Cambodia / WA
<b>Author:</b> B Salier / E Magdzinski	<b>Rec/1xNAV5% PT:</b> BUY, A\$150c/sh	<b>1xNAV5%<sub>Q22</sub> FF FD:</b> A\$246c/sh	<b>Asset:</b> Okvau / Bullseye

Commodity price	CY20A	CY21A	CY22E	CY23E	CY24E
Gold price	1,761	1,794	1,802	1,751	1,850
Group-level SOTP valuation Sep 22					
	A\$m	US\$m	O/ship	NAVx	A\$/sh*
NPV Okvau 2Q22	688	458	100%	1.0x	113
NPV Bullseye (build start 2Q23)	800	533	59%	0.6x	47
NPV central & finance costs	(94.2)	(63)	-	1.0x	(15)
Net cash prior quarter	(36.4)	(24)	-	1.0x	(6)
Cash from options	12.4	8.3	-	1.0x	2
Expl'n (0.5Moz @ US\$75/oz)	56.3	37.5	-	1.0x	9
<b>1xNAV5% 3Q22 US\$1850/oz</b>		<b>950</b>			<b>149</b>
Asset value: 1xNAV (US\$m, geared)*					
Group NAV (US\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	754	829	903	978	1,052
7% discount	799	879	957	1,036	1,115
5% discount	850	<b>934</b>	1,017	1,101	1,184
Group NAV2317 (A\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	119	130	140	151	161
7% discount	125	136	147	158	169
5% discount	131	<b>143</b>	154	166	177

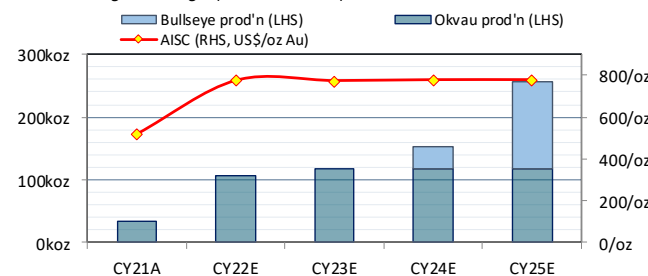
\*Company NAV net finance costs and SG&A, discounted to 2Q22

Group NAV5% over time	Sep-22	Sep-23	Sep-24	Sep-25	Sep-26
NPV Okvau 2Q22	478.4	413.6	338.3	254.2	169.9
NPV Bullseye (build start 2Q23)	498.8	533.0	618.6	644.5	559.8
Cent. costs (US\$m)	(2.4)	(4.8)	(4.9)	(1.3)	(1.3)
Net cash prior quarter	(24.3)	8.1	18.8	136.7	322.7
Cash from options (US\$m)	8.3	8.3	8.3	8.3	8.3
Explor'n (0.5Moz @ US\$50/oz)	38	38	38	38	38
NAV (US\$m)	<b>996</b>	996	1,017	1,080	1,097
1xNAV5%/sh FF FD (A\$/sh)	<b>246</b>	<b>246</b>	<b>251</b>	<b>267</b>	<b>271</b>
1xNAV/sh @ SQ20 vs gold, discount, recoveries (US\$m, geared)^					
1.0xNAV (US\$/m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	784	857	930	1,003	1,075
7% discount	837	915	993	1,071	1,148
5% discount	896	<b>980</b>	1,063	1,147	1,230

^Project NPV less central SG&A & finance cost, plus net cash at the time

Production	CY21A	CY22E	CY23E	CY24E	CY25E
Okvau Production (000oz)	34	106	118	118	118
Bullseye Production (000oz)		-	-	36	139
AISC cost (US\$/oz)	519	774	772	777	777
C3 cost (US\$/oz)	710	946	939	955	967

AISC = C1 + ug sustaining capex, C3 = C1 + depreciation



Source: SCP estimates

Resource	Au (koz)	Au (g/t)	Reserve	Au (koz)	Au (g/t)
Okvau M & I & Inf	1,141koz	2.01g/t	Okvau P&P	907koz	2.0g/t
Bullseye Ind & Inf.+pot'l	447koz	2.46g/t	-	-	-
Share data					
Basic shares (m)	593.4				
FD with options (m)	608				
Ratio analysis	CY19A	CY20A	CY21A	CY22E	CY23E
Average shares out (m)	305	524	529	529	529
EPS (A\$/sh)	(1.66)	(3.28)	0.64	14.56	14.22
CFPS (A\$/sh)	(4.32)	(15.01)	(4.28)	18.68	9.56
EV (A\$m)	330.7	561.2	662.6	601.4	575.2
FCF yield (%)	-	-	-	17%	9%
PER (x)	-	-	174.2x	7.7x	7.9x
P/CF (x)	-	-	-	6.0x	11.7x
EV/EBITDA (x)	-	1,976.1x	20.5x	4.3x	3.5x
Income statement	CY19A	CY20A	CY21A	CY22E	CY23E
Revenue (A\$m)	0.1	0.3	63.6	277.1	309.3
COGS incl. royalty (A\$m)	-	-	(31.2)	(138.7)	(145.4)
D&A (A\$m)	(0.0)	0.0	(0.1)	(19.0)	(20.4)
<b>Gross profit (A\$m)</b>	<b>0.1</b>	<b>0.3</b>	<b>32.3</b>	<b>119.4</b>	<b>143.5</b>
Finance cost (A\$m)	(0.0)	(0.7)	(8.3)	(12.0)	(21.4)
Exploration (A\$m)	(2.8)	(5.5)	(4.1)	(8.1)	(8.0)
Admin + other (A\$m)	(2.4)	(11.3)	(14.9)	(8.2)	(9.8)
Tax (A\$m)	-	-	(1.6)	(14.0)	(29.0)
<b>Net income (A\$m)</b>	<b>(5.1)</b>	<b>(17.2)</b>	<b>3.4</b>	<b>77.1</b>	<b>75.3</b>
EBITDA (A\$m)	0.1	0.3	32.4	138.4	163.9
Cash flow statement	CY19A	CY20A	CY21A	CY22E	CY23E
Revenue (A\$m)	-	0.2	63.5	277.1	309.3
Payments (A\$m)	(8.0)	(2.5)	(33.0)	(146.7)	(153.2)
Chaning in WC (A\$m)	-	0.9	1.5	(0.4)	(1.1)
Others (A\$m)	(2.9)	(4.6)	(4.3)	(22.1)	(37.0)
<b>Cash flow ops (A\$m)</b>	<b>(10.9)</b>	<b>(6.0)</b>	<b>27.7</b>	<b>107.9</b>	<b>118.1</b>
PP&E (A\$m)	(2.3)	(72.7)	(50.4)	(9.0)	(67.4)
<b>Cash flow inv. (A\$m)</b>	<b>(2.3)</b>	<b>(72.7)</b>	<b>(50.4)</b>	<b>(9.0)</b>	<b>(67.4)</b>
Share proceeds (A\$m)	(0.6)	78.3	0.2	(6.8)	-
Debt draw (repay) (A\$m)	-	92.9	(10.5)	(40.4)	(27.7)
<b>Cash flow fin. (A\$m)</b>	<b>(0.6)</b>	<b>171.1</b>	<b>(10.3)</b>	<b>(47.2)</b>	<b>(27.7)</b>
Net change in cash (A\$m)	(13.8)	92.5	(33.0)	51.7	22.9
Balance sheet	CY19A	CY20A	CY21A	CY22E	CY23E
Cash (A\$m)	10.7	76.8	17.9	58.2	56.7
Acc rec. + inv. (A\$m)	0.4	3.0	36.3	27.1	28.4
PPE (A\$m)	41.3	123.3	88.7	235.4	285.4
Others (A\$m)	0.0	13.6	183.8	70.7	70.7
<b>Total assets (A\$m)</b>	<b>52.4</b>	<b>216.7</b>	<b>326.6</b>	<b>391.4</b>	<b>441.2</b>
Debt (A\$m)	-	51.0	87.4	66.6	38.9
Accnts payable (A\$m)	2.7	12.3	24.3	10.9	11.2
Total liabilities (A\$m)	2.7	63.3	111.7	77.5	50.1
Shareholders equity (A\$m)	115.8	195.4	219.0	214.2	216.1
Retained earnings (A\$m)	1.2	0.3	2.2	(1.4)	(1.4)
Reserves (A\$m)	(67.4)	(83.1)	(79.9)	(2.8)	72.5
<b>Liabilities + equity (A\$m)</b>	<b>52.4</b>	<b>216.8</b>	<b>326.6</b>	<b>391.4</b>	<b>441.2</b>

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UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	51

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