

Ticker: EMR AU **SCPe 4Q22 net cash:** (A\$9.5m) **Project:** Okvau / Bullseye
Market cap: A\$742m **Price:** A\$1.25/sh **Country:** Cambodia / W Australia
REC. (unc): BUY **TARGET (unc):** A\$1.35/sh **RISK RATING (unc):** HIGH

Okvau has always been a '100-120koz pa' mine, but today hits its stride with production at an annualised 118koz pa, and AISC guided to be within US\$740-810/oz guidance (this mid point of which is 6% under our US\$810/oz forecast). This is a great result, representing a 28% QoQ lift and 9% beat on our forecast. Ahead of a tonnes / grade / recovery breakdown, the mine was always planned with conservative dilution on high-grade zones, so we speculate that beyond a few points of recovery lift, improved mining dilution / grade could have driven this. We previously forecast year-end cash and bullion of A\$65m (A\$53m cash and flat \$13m bullion), hence today's A\$74m cash and bullion (including A\$52m cash) is a pleasing A\$9m beat, a rare feat compared to peers with a propensity to capitalise, and demonstrative that AISC here are 'real'. As such, **maintain our BUY rating and our A\$1.35/sh PT** based on a 59% attributable share of Bullseye, itself held at 0.6xNAV, offering value-increases on both ownership (high 100s if minorities acquire on par with prior bid) and advancing to production (>200c/sh), and all before the Okvau resource/reserve increase. Based on A\$115m capex, we forecast Bullseye to be fully self-funded with A\$20m buffer by 2024 (at LT US\$1,700/oz), hence see little risk of enemy-number-one, equity dilution. And therein lies our thesis for EMR – no quick wins, no fast money, but a slow and steady share price appreciation, year, after year, after year. Catalysts ahead are (i) the Okvau MRE update this quarter with iterative ounces not just from higher-strip cut back, but adding in the new eastern high-grade feeder and (ii) following the MRE update, we should see a Bullseye MRE / reserve / DFS next year, then FID ahead of build start.

Emerald does it again with 118koz pa 4Q22 +28% QoQ, and AISC expected under US\$800/oz

Production reported today from Okvau of 29.6koz was up 28% QoQ, and 9% above our 27.1koz forecast, with AISC guided to be in line with US\$740/oz-US\$810/oz guidance (against our US\$801/oz forecast). An updated resource and reserve is schedule for release shortly. The company reported cash and bullion of A\$74m, up from A\$61m in the prior quarter.

Table 1. Financial and operational metrics against prior quarter and SCP estimates

Operations	3Q22A	4Q22E	4Q22A	QoQ	vs SCPe
Pit ore mined (000t) *	692	525	542	-22%	3%
Pit strip (x)*	5.7	5.8	5.8	3%	0%
Ore milled (000t)*	446	525	542	22%	3%
Head grade (g/t)*	2.03	1.98	2.10	3%	6%
Recovery (%)*	80%	81%	81%	1%	0%
Group production (koz)	23.2	27.1	29.6	28%	9%
Group AISC (US\$/oz)*	824	801	775	-6%	-3%

Source: SCP estimates, Emerald Resources; *SCP estimate

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
- Second mine Bullseye to ~double production to ~250koz pa by 2024
- Likely reserve extensions in Cambodia, and regional potential with first-mover belt control

Catalysts

- To 3Q23: 98,000m drilling at Bullseye
- 1Q23: Okvau MRE update
- 2Q23: 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

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

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

Ticker: EMR AU	Price / mkt cap: A125c/sh, A\$742m	Group P/NAV today: 0.93x	Country: Cambodia / WA
Author: B Salier / E Magdzinski	Rec/1xNAV5% PT: BUY, A\$135c/sh	1xNAV5% FF FD: A\$204c/sh	Asset: Okvau / Bullseye

Commodity price	CY20A	CY21A	CY22E	CY23E	CY24E
Gold price	1,761	1,794	1,802	1,837	1,753

Group-level SOTP valuation	Dec 22				
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	A\$m	US\$m	O/ship	NAVx	A\$/sh*
NPV Okvau 4Q22	615	406	100%	1.0x	101
NPV Bullseye (@start 2Q23)	679	448	59%	0.6x	39
NPV central & finance costs	(112.5)	(74)	-	1.0x	(18)
Net cash prior quarter	(14.4)	(9.5)	-	1.0x	(2)
Cash from options	12.9	8.5	-	1.0x	2
Expl'n (0.5Moz @ US\$75/oz)	75.8	50	-	1.0x	12
1xNAV5% US\$1700/oz		829			134

Asset value: 1xNAV (US\$m, geared)*

Group NAV (US\$m)	\$1600oz	\$1700oz	\$1800oz	\$1900oz	\$2000oz
9% discount	677	747	818	888	959
7% discount	718	792	867	941	1,016
5% discount	762	841	921	1,000	1,080

Group NAV2317 (A\$/sh)	\$1600oz	\$1700oz	\$1800oz	\$1900oz	\$2000oz
9% discount	118	129	140	151	162
7% discount	124	135	146	158	169
5% discount	130	141	154	165	178

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

Group NAV5% over time	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
NPV Okvau 4Q22	405.7	327.9	252.4	181.4	109.5
NPV Bullseye (@start 2Q23)	440.1	508.9	566.9	501.9	426.4
Cent. costs (US\$m)	(74.3)	(50.1)	(29.3)	(20.7)	(11.7)
Net cash prior quarter	(9.5)	5.7	35.7	190.0	348.5
Cash from options (US\$m)	8.5	8.5	8.5	8.5	8.5
Explor'n (0.5Moz @ US\$50/oz)	50	50	50	50	50
NAV (US\$m)	820	851	884	911	931
1xNAV5%/sh FF FD (Ac/sh)	204	212	220	227	232

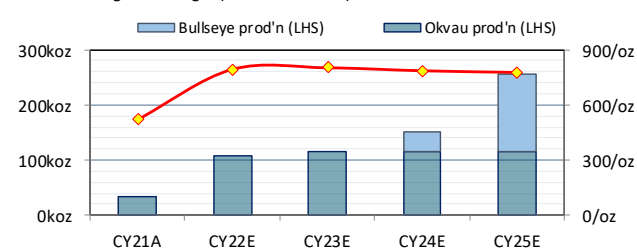
1xNAV/sh @ SQ20 vs gold, discount, recoveries (US\$m, geared)^
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1.0xNAV (US\$/m)	\$1600oz	\$1700oz	\$1800oz	\$1900oz	\$2000oz
9% discount	656	724	793	861	930
7% discount	699	772	845	918	992
5% discount	747	825	903	981	1,060

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

Production	CY21A	CY22E	CY23E	CY24E	CY25E
Okvau Production (000oz)	34	107	115	116	116
Bullseye Production (000oz)	-	-	-	36	139
AISC cost (US\$/oz)	519	793	802	786	777
C3 cost (US\$/oz)	710	971	988	962	947

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&I	907koz	2.0g/t
Bullseye Ind & Inf.+pot'l	447koz	2.46g/t	-	-	-

Share data			
Basic shares (m)	593.8	FD with options (m)	609

Ratio analysis	CY20A	CY21A	CY22E	CY23E	CY24E
Avg shares out (m)	524	530	530	530	530
EPS (A\$/c/sh)	(3.3)	0.6	12.4	13.3	19.6
CFPS (A\$/c/sh)	(15.0)	(4.3)	17.5	10.0	12.2
EV (A\$m)	629	732	637	615	569
FCF yield (%)	-	-	14.0%	8.0%	9.7%
PER (x)	-	194.5x	10.0x	9.4x	6.4x
P/CF (x)	-	-	7.2x	12.5x	10.3x
EV/EBITDA (x)	2,216.4x	22.6x	5.9x	3.6x	2.7x

Income statement	CY20A	CY21A	CY22E	CY23E	CY24E
Revenue (A\$m)	0.3	63.6	284.4	319.8	401.8
COGS incl royalty (A\$m)	-	(31.2)	(176.8)	(149.0)	(191.5)
D&A (A\$m)	0.0	(0.1)	20.9	(23.0)	(31.5)
Gross profit (A\$m)	0.3	32.3	128.5	147.8	178.8
Finance cost (A\$m)	(0.7)	(8.3)	(18.0)	(25.1)	(19.0)
Exploration (A\$m)	(5.5)	(4.1)	(10.9)	(8.0)	-
Admin + other (A\$m)	(11.3)	(14.9)	(10.7)	(16.5)	(16.5)
Tax (A\$m)	-	(1.6)	(22.9)	(27.8)	(39.2)
Net income (A\$m)	(17.2)	3.4	65.9	70.4	104.1
EBITDA (A\$m)	0.3	32.4	107.6	170.8	210.3

Cash flow statement	CY20A	CY21A	CY22E	CY23E	CY24E
Revenue (A\$m)	0.2	63.5	284.4	319.8	401.8
Payments (A\$m)	(2.5)	(33.7)	(171.6)	(191.0)	(244.8)
Chaning in WC (A\$m)	0.9	1.5	(3.9)	(0.4)	(24.6)
Others (A\$m)	(4.6)	(3.7)	(9.5)	(8.0)	0.0
Cash flow ops (A\$m)	(6.0)	27.7	99.4	120.4	132.4
PP&E (A\$m)	(72.7)	(50.4)	(6.9)	(67.5)	(67.9)
Cash flow inv. (A\$m)	(72.7)	(50.4)	(6.9)	(67.5)	(67.9)
Shares / lease (A\$m)	78.3	0.2	(10.4)	-	-
Debt draw (repay) (A\$m)	92.9	(10.5)	(42.1)	(28.0)	(42.6)
Cash flow fin. (A\$m)	171.1	(10.3)	(52.5)	(28.0)	(42.6)
Net cash change (A\$m)	92.5	(33.0)	40.0	25.0	21.8

Balance sheet	CY20A	CY21A	CY22E	CY23E	CY24E
Cash (A\$m)	76.8	17.9	54.4	51.3	54.2
Acc rec. + inv. (A\$m)	3.0	36.3	54.3	56.5	90.1
PPE (A\$m)	123.3	88.7	92.8	73.2	271.7
Oth + mine-build (A\$m)	13.6	183.8	246.0	314.5	152.5
Total assets (A\$m)	216.7	326.6	447.6	495.6	568.4
Debt (A\$m)	51.0	87.4	29.7	3.9	(38.7)
Accnts payable (A\$m)	12.3	24.3	29.5	30.6	39.6
Total liabilities (A\$m)	63.3	111.7	59.2	34.5	0.9
S'holders equity (A\$m)	195.4	219.0	283.7	286.1	288.4
Retained earnings (A\$m)	0.3	2.2	10.3	10.3	10.3
Reserves (A\$m)	(83.1)	(79.9)	(17.5)	52.9	156.9
Liabilities + equity (A\$m)	216.8	326.6	447.6	495.6	568.4

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NEUTRAL: The stock's total returns are expected to be in line with the overall market

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NOT RATED ((N/R): The stock is not currently rated

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9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	YES

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Summary of Recommendations as of January 2023	
BUY:	52
HOLD:	1
SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	54

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