

19 January 2023

Ticker: RSG AU / LNSCPe net cash 4Q22: (US\$43m)Project: Syama / MakoMarket cap: A\$543mPrice: A\$0.255/shCountry: Mali / Senegal

REC. (unc): BUY TARGET (+2c): A\$0.47/sh RISK RATING (unc): HIGH

So what? We think 18m @ >2opt shows is that early near-surface 'fingers' that grew into a 2Moz @ 3.0g/t fist appears to have turned into arm, and a gorilla-sized one at that. Of most interest, the resource has grown >50% with most ounces still <150m below surface. This talks to even more growth ahead — at these thicknesses, even a 250m pit could sit at <5:1 strip, with pro-forma potential >5Moz. We previously saw Syama North as a 'fill the mill' (a converted oxide mill, the sulphide mill, and the roaster), but todays drilling and MRE has left that scenario in the rear-view, and a potential expansion ahead (either throughput, or eg oxygen to add roaster capacity), to be incorporated into upcoming feasibility studies. Also, the 236koz oxide included assuages our concerns about short oxide life, which likely grows form here. Combined with recent equity de-leveraging the balance sheet, production rates of c. 350koz pa @ US\$1,400-1,450/oz, we would tender that Resolute, which previously moved from a high-cost leveraged play to mid-cost deleveraged play, has the potential to transform into a premium name. The key delta (other than >3x the size) to prior satellite Tabakorini, is that Syama north is next to the existing mill, has the same metallurgy as the Syama UG, and is pittable. In fact, not only does this appear potentially geologically better than the Syama UG, the company (as probably should have been done at Syama) can mine this from an open pit.

<u>Valuation impact:</u> Our prior US\$650m NAV / 45c 0.5xNAV PT to (i) drops to 23c net of dilution, (ii) lifts to 38c after lifting our NAV multiple to 0.8x to reflect the lazy balance sheet, (ii) lifts to 45c rolling the model forward and updating for gold price. With Syama North likely to offer more than 'fill the mill', potentially with higher-grades in early years, but support an expansion, for a full DCF valuation we await the upcoming FS. In the meantime, we maintain our US\$50/oz valuation (for comparison, our Syama NPV equates to US\$114/oz at US\$1,700/oz gold price), lifting our Syama North valuation from US\$100m to US\$159m or 5c to 9c/sh. As such, we maintain our BUY rating and lift our PT from 45c to 47c/sh based on 0.8xNAV_{5%-1700} (equates to 59c at spot US\$1,910/oz) plus Syama North at US\$50/oz.

What next? Under previous management and mining methods Resolute was a high-cost geared producer. Post raise, new management and 'de-automation' of the UG the company's ~350koz pa @ US\$1,400-1,450/oz leaves it a mid-cost ungeared producer. With cost savings from Syama North (early-years likely sees higher-grade low-cost pit material), and a few years ago we never thought we would say this, Resolute could become a premium mid-tier producer. In due course. The valuation jump is substantial – for example Centamin 4Q22 production rates reported today are some 22% above RSG at similar AISC, but Centamin's EV is 3x that of Resolute at ~US\$1.4bn vs. ~US\$417m; while Centamin puts in place debt, Resolute appears to have material reserve growth ahead. However, the proof only comes with delivery; upcoming catalysts are thus 4Q production (SCPe 348koz @ US\$1,400/oz vs. 345koz @ US\$1,425/oz mid-point guidance), delivery of the Syama North FS / mining inventory, and bringing that into production thereafter.

Table 1. Updated Syama North reserve and delta to prior

	Tonnes	∆ to old	Grade	∆ to old	Ounces	∆ to old		Tonnes	∆ to old	Grade	∆ to old	Ounces	Δ to old
Rock type	(kt)	(%)	(g/t Au)	(%)	(000oz)	(%)	Classification	(kt)	(%)	(g/t Au)	(%)	(000oz)	(%)
Oxide	2,724	33%	2.69	-7%	236	26%	Measured	717	2%	3.51	0%	81	0%
Transitional	1,470	14%	2.90	-6%	137	8%	Inidcated	18,457	111%	2.99	0%	1,774	112%
Sub-Total	4,194	25%	2.77	-8%	373	18%	Total M&I	19,174	103%	3.01	0%	1,855	102%
Primary (Sulphide)	29,843	79%	2.92	-9%	2,802	65%	Inferred	14,863	41%	2.76	-14%	1,319	21%
Total	34,037	70%	2.90	-6%	3,175	<i>58%</i>	Total	34,037	70%	2.90	-6%	3,174	58%

Source: Resolute, modelling assumptions remain unchanged with 1g/t cut-off, Ordinary Kriging on 5x10x5 and 0.3x0.6x0.3 parent and sub-blocks, 150m vertical depth for most mineralization

18m@70g/t as Syama North grows from 2.0Moz to 3.2Moz, PT lifted as 'premium' enters lexicon

Syama north drilling: Drill highlights reported today include 18m @ 70g/t, 73m @ 4.0g/t, 21m @ 12.7g/t, and 57m @ 3.6g/t, with intervals starting at 50-190m below surface, with an average of highlights



provided being 31.2m @ 8.2g/t (33m @ 4.8g/t excluding headline). Resource update: the company has lifted the global resource by 58% from 2.0Moz @ 3.1g/t to 3.2Moz @ 2.9g/t. This includes 236koz @ 2.7g/t in oxides suitable for the oxide mill, with 2.8Moz sulphides suitable for the sulphide mill and roaster, and 137koz of transition material. Of the total, 1.9Moz or 58% sits in M&I category, with 1.3Moz inferred. Raise: Resolute completed its \$A164m 16c equity raise in December, including A\$46m from its retail entitlement. Bibiani: final payment for sale of Bibiani (total \$30m Q3-Q4) was received in late November, with ongoing discussions on final environmental bond/interest payment of ~£3m.

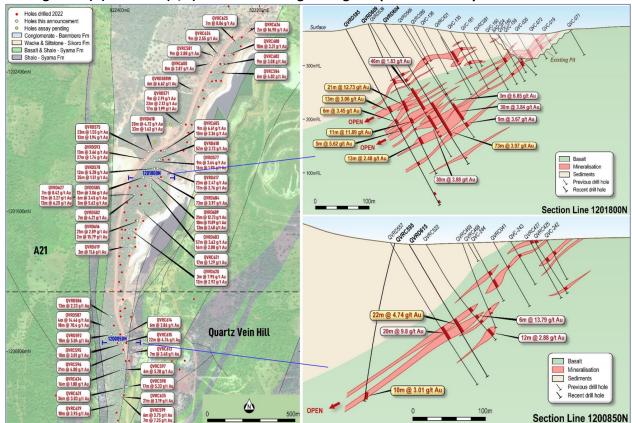


Figure 2. (A) Plan and (B/C) sections showing drilling on updated 3Moz Syama North resource

Source: Resolute

Why we like Resolute

- 1. Syama now 'fixed' with roaster repaired, automation scrapped, exploration restarted,
- 2. 3.2Moz @ 2.9g/t Syama N enables extension well over 12Y existing, and likely expansion
- Strong FCF generation: US\$70m pa in 3Q22 ex asset sales / debt, SCPe ~US\$160m EBITDA
- Stock trades at just 2.1xCY23 EV/EBITDA / 0.42xNAV, stability and growth to close gap to peers

Catalysts

- 1. 1Q23: Syama north PFS
- 2. CY23: Increased regional exploration
- 3. CY25 onward: Potential Syama sulphide expansion to include Syama North sulphides

Research

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Ticker: RSG AU	Price / mk	t can:	A25.5c/sh,	Δ\$543m		Group P/NAV today:	0.43x		Asset:	Syama / Ma	eko
Author: B Salier / E Mago			BUY, A\$0.4				A\$0.59/sh			Mali / Sene	
_								A / - /+\			
Share data Basic shares (m):	2,129.0	ED.	with options	= (m):	2,139.9	Resources: Syama UG sulphides	Au (koz) 6,079koz	Au (g/t) 3.2g/t	Reserve:	Au (koz) 3,047koz	Au (g/t) 2.8g/t
Commodity price	CY21A	CY22E	CY23E	CY24E	CY25E	Syama Nth OP	3,175koz	2.9g/t		J,047R02	2.0g/t
SCP gold price	1,800	1,805	1,841	1,754	1,700	Syama OP oxides	2,909koz	2.9g/t 1.8g/t		358koz	1.6g/t
RSG selling px incl. hedge	1,733	1,803	1,867	1,756	1,700	Mako OP	826koz	1.6g/t		661koz	1.7g/t
Group-level SOTP valuation		1,007	1,007	1,750	1,700	Global	11.5Moz		Total:		
droup-rever 501P varuatio	/II	US\$m	O/ship	NAVx	A\$/sh		US\$36/oz	1.7g/t	- Iotai.	US\$102/oz	1.7g/t
NPV Syama 1023		568	90%	0.80x	0.31	Ratio analysis	CY21A	CY22E	CY23E	CY24E	CY25E
NPV Mako 1Q23		220	90%	0.80x	0.12	Average shares on issue (m)	1,104	1,360	2,129	2,129	2,129
Central, fin. & ag'n cost		(85)	-	0.80x	(0.05)	Forward EV (US\$m)	537.3	323.0	347.8	206.0	40.9
SCPe net cash 4022		(43)	_	0.80x	(0.02)	EBITDA (US\$m)	130	153	167	200.0	267
Pending asset sales		40.5	-	0.80x	0.02)	CFPS before w/c (US\$/sh)	(1.12)	16.6	4.1	7.3	8.1
· ·	**05			0.80x	0.02			(1.8)	1.2	3.0	4.1
Invmt in Oklo (sold) / Lonco		9.3 158.7	90%	0.80x	0.01	EPS (USc/sh)	(28.9) 1.0x		1.2 2.1x	0.9x	4. i 0.2x
Syama N sulphide (US\$50/	02)	869	1	PT:		Forward EV/EBITDA (x)		2.1x	2.1x		
1xNAV5% US\$1700/oz Asset value: 1xNPV project	t today (UC		- d*	PI:	0.47	Forward FCF yield (%) PER (x)	-6% -	95% -	23% 31.3x	42% 12.4x	46% 9.1x
				¢105007	\$2000oz		CY21A	CY22E	CY23E	CY24E	
Group NAV (US\$m) 9% discount	\$1400oz 514	\$1550oz 659	\$1700oz 793	\$1850oz 922	1,049	Income statement attrib. Revenue, attrib (US\$m)	549.2	631.8	654.2	660.4	CY25E 622.8
7% discount	530	685	829	966	1,101	COGS + royalty (US\$m)	387.5	454.1	462.9	419.6	346.3
5% discount	549	716	869	1,016	1,161	D&A (US\$m)	118.6	86.1	84.6	97.7	95.1
Group 1xNAV (A\$/sh)	\$1400oz	\$1550oz	\$1700oz	\$1850oz	\$2000oz	Gross profit (US\$m)	43.2	91.5	106.8	143.0	181.4
9% discount	0.28	0.36	0.43	0.50	0.57	Exploration (US\$m)	18.5	15.4	14.3	-	-
7% discount	0.29	0.37	0.45	0.53	0.60	Direct/indirect tax (US\$m)	64.4	36.3	30.4	45.4	53.1
5% discount	0.30	0.39	0.47	0.55	0.63	Impairments (US\$m)	271.7	-	-	-	-
*Project level NPV, excl finance						Net finance cost (US\$m)	11.7	13.7	10.2	2.5	0.3
Group NAV over time	Mar 23	Mar 24	Mar 25	Mar 26	Mar 27	Other (US\$m)	(4.0)	50.6	26.7	31.2	40.8
Syama (US\$m)	573	541	490	420	330	Net income (US\$m)	(319.2)	(24.6)	25.2	64.0	87.3
Mako (US\$m)	220	205	144	59	31	Cash flow, attrib.	CY21A	CY22E	CY23E	CY24E	CY25E
Central, fin. & aq'n cost	(94)	(62)	(48)	(41)	(34)	Receipts from sales (US\$m)	549.0	631.3	654.2	660.4	622.8
Net cash (US\$m)	(43)	70	116	254	376	Cost paid (US\$m)	(451.6)	(470.4)	(470.9)	(427.6)	(354.3)
Investments and EV/oz	209	209	209	209	209	Direct/indirect tax (US\$m)	(18.4)	(22.2)	(30.4)	(45.4)	(53.1)
1xNAV (US\$m)	865	962	911	901	912	Exploration (US\$m)	13.6	(14.5)	(14.3)	-	-
1xNAV5%/sh FF FD (US\$/sh		0.31	0.29	0.29	0.29	Net finance cost (US\$m)	(14.9)	(15.9)	(10.2)	(2.5)	(0.3)
1.0xNAV/sh @ 1Q25 prod'						Working cap and other (US\$m)	-	(17.0)	0.1	10.4	27.5
NAV (A\$m)	\$1400oz	\$1550oz	\$1700oz	\$1850oz	\$2000oz	Cash flow ops (US\$m)	77.8	91.3	128.7	195.3	242.6
9% discount	542	708	859	1,005	1,149	Development capex (US\$m)	(56.2)	(63.3)	(43.7)	(43.7)	(43.7)
7% discount	553	725	883	1,035	1,184	Proceeds from sale (US\$m)	25.7	184.8	2.7	13.8	-
5% discount	566	746	911	1,068	1,224	Cash flow inv. (US\$m)	(30.5)	121.5	(41.0)	(29.9)	(43.7)
NAV (A\$/sh)	\$1400oz	\$1550oz	\$1700oz	\$1850oz	\$2000oz	Net debt movement (US\$m)	(29.8)	(120.1)	(97.3)	(75.7)	(24.3)
9% discount	0.17	0.23	0.28	0.32	0.37	Equity issued (US\$m)	-	-	-	-	-
7% discount	0.18	0.23	0.28	0.33	0.38	Minority / lease (US\$m)	(19.7)	(8.6)	(19.5)	(23.5)	(33.9)
5% discount	0.18	0.24	0.29	0.34	0.39	Cash flow fin. (US\$m)	(49.5)	(128.7)	(116.8)	(99.2)	(58.2)
^Project NPV less central SG	&A & finance	cost, plus ne	rt cash at the	: time		Net change in cash (US\$m)	96.8	341.5	204.5	264.6	257.1
Production	CY21A	CY22E	CY23E	CY24E	CY25E	Balance sheet	CY21A	CY22E	CY23E	CY24E	CY25E
Syama prod'n (koz)	188	218	236	237	275	Cash (US\$m)	77.1	154.3	125.1	191.3	332.1
Mako prod'n (koz)	127	130	116	139	92	AR + inv + other (US\$m)	238.3	253.7	252.0	235.0	193.2
Total prod'n (000oz)	315	348	352	376	366	Assets for sale / rcvbls (US\$m)	133.4	58.9	58.7	47.5	50.3
AISC cost (US\$/oz)*	1,351	1,400	1,440	1,231	1,064	Develop./PP&E assets (US\$m)	496.6	446.3	405.4	350.7	299.3
Guidance CY22:	345koz @	US\$1,425/d	z AISC	-		Prepayments (US\$m)	38.8	39.9	39.9	39.9	39.9
Mako prod	l'n S	Syama prod'	n	ISC cost (US	\$/07*	Total assets (US\$m)	984.2	954.5	882.6	865.9	916.2
450koz	3	yama piuu	- A	(05	1800/oz	Debt (US\$m)	316.7	197.3	100.0	24.3	-
-	<u> </u>	—			1005 (Accnts payable (US\$m)	91.5	81.1	79.6	73.0	58.6
300koz				-	1200/oz	Other (US\$m)	150.4	166.6	166.6	166.6	166.6
150koz					600/oz	Total liabilities (US\$m)	558.6	445.0	346.2	263.9	225.2
					,	S/holders, rsvrs, minor. (US\$m)	703.2	801.8	783.9	762.1	729.9
0koz					0/oz	Retained earnings (US\$m)	(277.7)	(292.3)	(247.6)	(160.1)	(38.9)
CY21A C	Y22E (CY23E	CY24E	CY25E		Liabilities+equity (US\$m)	984.2	954.5	882.6	865.9	916.2
Source: SCP estimates; *pre r	non-cash adj	ustments									

Source: SCP estimates; *pre non-cash adjustments

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