

**Ticker:** EMR AU

**4Q22 net cash:** (A\$22.5m)

**Project:** Okvau / Bullseye

**Market cap:** A\$819m

**Price:** A\$1.38/sh

**Country:** Cambodia / W Australia

**REC. (unc):** BUY

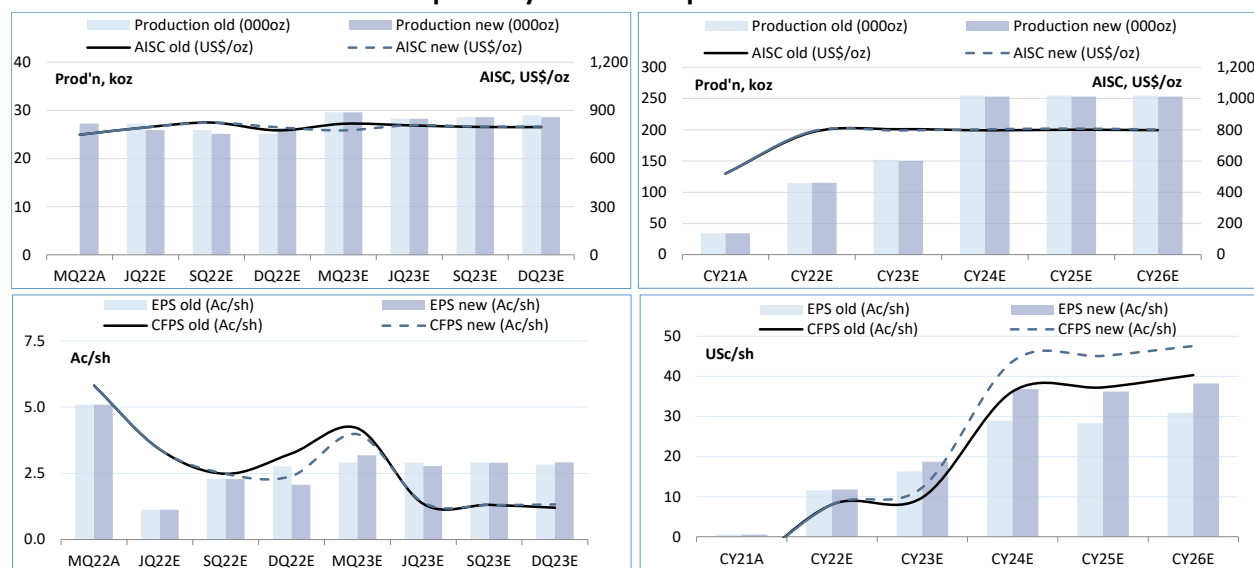
**TARGET (unc):** A\$1.70/sh

**RISK RATING (unc):** HIGH

**Quarter in-line:** The beauty of ‘mining right’, ie mining a flat mine plan vs. over-optimising, is ‘consistent and trustworthy’ production, and a well deserved premium if achieved. AISC of US\$795/oz and associated A\$9.4m increase in net cash missed our forecast by A\$5.5m on the top line with a 3.3koz lag in bullion sales over production, and A\$6m cash flow investing vs. A\$2m forecast. Even net of Bullseye / Memot drilling, this puts the stock on 5% FCF yield today at US\$1,740/oz 4Q22 sales price, or effective 12% if gold produced had been sold, and at today’s US\$1,910/oz spot price. As this excludes Bullseye, we see good value on an absolute basis against the 2.6%, -0.3%, and -6.1% 1Y forward FCF yields for senior, mid-tier and small-cap producers, respectively. Emerald will move into investment mode this year as the Bullseye build starts, but low-capex and quick-build sees us forecast >25% FCF yield by 1Q25, a lower-risk target than peers because building on-time and on-budget is ‘what they do’ (five mines and counting).

**Drilling:** at Bullseye is only a quarter through the planned 100km, with second and third rigs set to see this pick up in 2Q23. Today’s drilling reinforced our confidence of at least 1Moz maiden resource there, drilling dependent, especially once rigs move off deeper step-outs now to regional shallow holes next quarter. Memot is earlier, but 1m ounce-per-tonne veins could dilute to 10-15g/t low-tonnage high-value pitable material that may float (speeding permitting) concentrate to feed to Okvau, again drilling dependent.

**Maintain A\$1.70/sh PT:** Our NAV drops from US\$841m to US\$822m on FX and roll-forward, driving A\$1.29-1.52/sh valuation at US\$1,700-1,910/oz for 1x and 0.6x NPV for Okvau and Bullseye, respectively. On broad strokes, this (and by-definition) makes Emerald fairly valued on what they have today. As such, we expect value, and share price, to lift with Okvau reserves (at least) replaced shortly, a maiden Bullseye MRE, a maiden Bullseye reserve / FS, and maiden Memot MRE, and potentially on an increase in 59% Bullseye ownership. For now, we **maintain our BUY rating and A\$1.70/sh**. Next steps are (i) the Okvau MRE this quarter including new eastern high-grade feeder where we would look for at least reserve replacement; (ii) Bullseye MRE mid-year and DFS by year-end seeking 1Moz at least; and (iii) Memot maiden MRE mid-year.

**Table 1 Old and new quarterly and annual production and financial forecasts**


Source: SCP estimates

**4Q22 in-line as costs drop 4% to US\$795/oz; drills 9m@7g/t in WA, 1m@31g/t at Memot**

**Quarterly:** Today's quarterly shows the pre-reported +28% QoQ 29.6koz production lift was driven by a 19% lift in ore milled and 5% lift in grade, with flat recovery, all broadly in line with our forecast. Gold sold of 26.3koz vs. 29.6koz forecast came in 11% under our forecast, with revenue the same for a A\$5.5m miss on our forecast. AISC today dropped 4% QoQ to US\$795/oz, a slight miss on our US\$775/oz forecast leading to a similar A\$5.3m miss on our cash-flow operations. Capex of A\$5.7m vs. A\$1.8m forecast drove a change in net cash of +A\$9m, itself lifting to -A\$22m against our A\$14m forecast, or -A\$1m net of bullion. Guidance remains at 100-120koz pa at US\$740-810/oz.

**Table 2(A) Operations and (B) financials against prior quarter and SCP forecast**

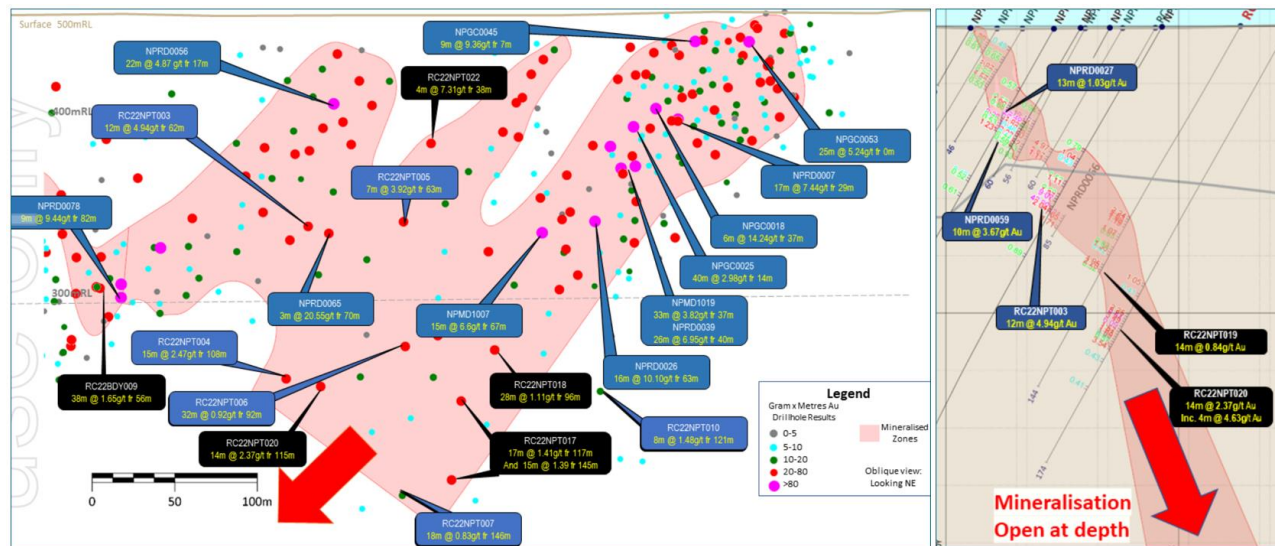
Operations	3Q22A	4Q22E	4Q22A	QoQ	vs SCPe	Financials	3Q22A	4Q22E	4Q22A	QoQ	vs. SCPe
Pit ore mined (000t)	692	542	528	-24%	-3%	Gold sold (000oz)	25.1	29.6	26.3	5%	-11%
Pit strip (x)	5.7	5.8	5.5	-2%	-5%	Sales price (US\$/oz)	1,725	1,733	1,740	1%	0%
Ore milled (000t)	446	542	532	19%	-2%	Revenue (A\$m)	43.3	51.4	45.8	6%	-11%
Head grade (g/t)	2.03	2.10	2.14	5%	2%	Cash flow ops. (A\$m)	16.6	25.3	20.0	21%	-21%
Recovery (%)	80%	81%	80%	0%	-1%	Change in net cash (A\$m)	2.9	18.0	9.4	219%	-48%
<b>Group production (koz)*</b>	<b>23.2</b>	<b>29.6</b>	<b>29.6</b>	<b>28%</b>	<b>0%</b>	Net cash at end (A\$m)	(31.9)	(13.9)	(22.5)^	-29%	62%
<b>Group AISC (US\$/oz)</b>	<b>824</b>	<b>775</b>	<b>795</b>	<b>-4%</b>	<b>3%</b>						

Source: EMR, SCP estimates; ^Net cash lifts to -A\$1m incl. bullion

Source: SCP estimates, Emerald Resources; \*Pre-reported

**Exploration drilling Bullseye drilling:** Emerald has completed 25,277m / 255 collars of the 98,000m resource-drilling programme at Bullseye in WA, to date limited to the Boundary and Neptune projects. Highlights from 39 holes released today include **9m @ 7.3g/t** from 59m, **14m @ 2.4g/t** from 115m, **5m @ 6.3g/t** from 100m and **28m @ 1.11g/t** from 28m. A resource update is expected by 2Q23 given c. 60,000m (including prior owner) now drilled since the last resource, with reserve estimate to follow shortly thereafter to include historic highlights of 45m @ 6.1g/t also. To date drilling proceeded with a single RC rig, with a diamond rig added this month.

**Figure 1(A) Long-and (B) cross-section through Neptune showing improved width/grade at depth**

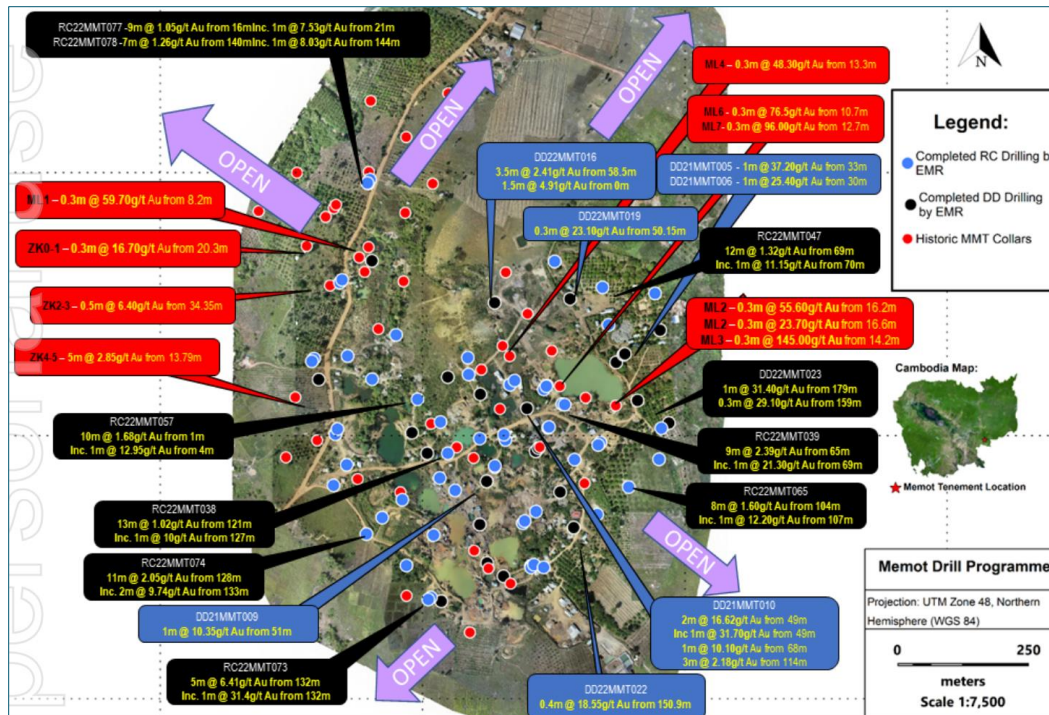


Source: Emerald

**Memot drilling** the more recently acquired Cambodian project, returned highlights of **1m @ 31g/t** from 132m, **3m @ 7.1g/t** from 132m, **1m @ 21g/t** from 69m. To date 82 holes have been completed over 10,298m. Mineralisation remains open NW and SE, and down dip, associated with at least three high-grade stacked quartz vein sets over 650m. Less drilling was conducted to the NW as the site is cleaned up, but with grades approaching 1% to 1.5% as the system evolves in that direction. After completing planned

geophysical surveys in an area over a 6km radius, regional targets will be worked up. A rig on Okvau drilling western fringes will move back to Memot in around two months.

**Figure 2: Site layout from above, compact layout minimizes haul distances / earthworks**



Source: SCP

## 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
- Potential to add >100koz pa satellite feed from Memot HG satellite in Cambodia
- Likely reserve extensions in Cambodia, and regional potential with first-mover belt control

## Catalysts

- 1Q23: Okvau MRE update
- 1H23: Okvau near-mine drilling
- CY23: Ongoing Memot drill results
- To 3Q23: 98,000m drilling at Bullseye
- 2Q23: SCPe MRE for Bullseye and Memot
- 4Q23: DFS for Bullseye
- 2H24: SCPe Bullseye production

## 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 Korpmpis (Toronto) M: +1 778-957-3623 [kkorpmpis@sprott.com](mailto:kkorpmpis@sprott.com)

<b>Ticker:</b> EMR AU	<b>Price / mkt cap:</b> A138c/sh, A\$819m	<b>Group P/NAV today:</b> 0.72x	<b>Country:</b> Cambodia / WA
<b>Author:</b> B Salier / E Magdzinski	<b>Rec/PT:</b> BUY, A\$1.70/sh	<b>1xNAV5% FF FD:</b> A\$193c/sh	<b>Asset:</b> Okvau / Bullseye

Commodity price	CY20A	CY21A	CY22E	CY23E	CY24E
Gold price	1,761	1,794	1,805	1,879	1,769
Group-level SOTP valuation Dec 22					
	A\$m	US\$m	O/ship	NAVx	A\$/c/sh*
NPV Okvau 1Q23	592	414	100%	1.00x	97
NPV Bullseye (@start 2Q23)	600	420	59%	1.00x	58
Memot - nominal	50	35	100%	1.00x	8
NPV central & finance costs	(130.3)	(91)	-	1.00x	(21)
Net cash prior quarter	(21.9)	(15.3)	-	1.00x	(4)
Cash from options	12.6	8.8	-	1.00x	2
Expl'n (0.5Moz@US\$100/oz)	71.4	50	-	1.00x	12
<b>1xNAV5% US\$1700/oz</b>		<b>822</b>			<b>152</b>
Asset value: 1xNAV (US\$m, geared)*					
Group NAV (US\$m)	\$1600oz	\$1700oz	\$1800oz	\$1900oz	\$2000oz
9% discount	665	735	807	877	948
7% discount	702	776	852	926	1,002
5% discount	743	<b>822</b>	902	981	1,061
Group NAV2317 (A\$/sh)	\$1600oz	\$1700oz	\$1800oz	\$1900oz	\$2000oz
9% discount	127	139	151	163	175
7% discount	132	145	158	171	184
5% discount	139	<b>152</b>	166	180	193

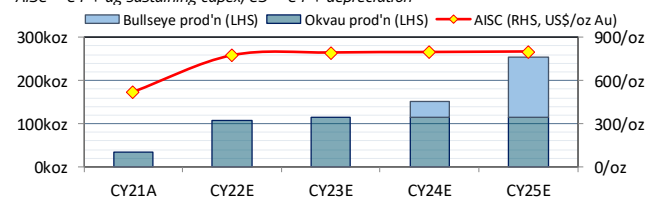
\*Company NAV net finance costs and SG&A, discounted to 2Q22

Group NAV5% over time	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
NPV Okvau 1Q23	414.2	333.0	256.3	185.5	115.0
NPV Bullseye (@start 2Q23)	412.3	482.7	543.1	481.3	409.1
Cent. costs (US\$m)	(91.2)	(63.3)	(39.2)	(27.7)	(15.6)
Net cash prior quarter	(15.3)	(1.5)	22.6	169.7	319.9
Cash from options (US\$m)	8.8	8.8	8.8	8.8	8.8
Expl'n (0.5Moz US\$ 100/oz)	50	50	50	50	50
NAV (US\$m)	<b>779</b>	810	842	868	887
1xNAV5%/sh FF FD (Ac/sh)	<b>183</b>	<b>190</b>	<b>198</b>	<b>204</b>	<b>208</b>
1xNAV/sh @ SQ20 vs gold, discount, recoversies (US\$m, geared)^					
1.0xNAV (US\$/m)	\$1600oz	\$1700oz	\$1800oz	\$1900oz	\$2000oz
9% discount	620	690	760	829	900
7% discount	655	729	804	878	952
5% discount	697	<b>776</b>	856	934	1,014

^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	114	114
Bullseye Production (000oz)	-	-	-	36	139
AISC cost (US\$/oz)	519	774	794	797	801
C3 cost (US\$/oz)	710	947	988	981	979

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



Source: SCP estimates

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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	529	529	529	529
EPS (A\$/c/sh)	(3.3)	0.6	11.7	12.5	17.3
CFPS (A\$/c/sh)	(15.0)	(4.3)	16.6	8.8	10.0
EV (A\$m)	697	800	708	688	653
FCF yield (%)	-	-	12.1%	6.4%	7.3%
PER (x)	-	214.6x	11.8x	11.0x	8.0x
P/CF (x)	-	-	8.3x	15.6x	13.7x
EV/EBITDA (x)	2,455.2x	24.7x	7.3x	4.1x	3.3x

Income statement	CY20A	CY21A	CY22E	CY23E	CY24E
Revenue (A\$m)	0.3	63.6	276.1	309.0	378.1
COGS incl royalty (A\$m)	-	(31.2)	(179.5)	(139.7)	(181.2)
D&A (A\$m)	0.0	(0.1)	21.3	(22.8)	(31.3)
<b>Gross profit (A\$m)</b>	<b>0.3</b>	<b>32.3</b>	<b>117.8</b>	<b>146.5</b>	<b>165.6</b>
Finance cost (A\$m)	(0.7)	(8.3)	(12.5)	(25.3)	(18.7)
Exploration (A\$m)	(5.5)	(4.1)	(13.5)	(8.0)	-
Admin + other (A\$m)	(11.3)	(14.9)	(12.9)	(20.2)	(20.2)
Tax (A\$m)	-	(1.6)	(17.1)	(26.7)	(35.0)
<b>Net income (A\$m)</b>	<b>(17.2)</b>	<b>3.4</b>	<b>61.9</b>	<b>66.3</b>	<b>91.7</b>
EBITDA (A\$m)	0.3	32.4	96.5	169.3	196.9

Cash flow statement	CY20A	CY21A	CY22E	CY23E	CY24E
Revenue (A\$m)	0.2	63.5	276.1	309.0	378.1
Payments (A\$m)	(2.5)	(33.7)	(169.7)	(184.3)	(234.1)
Chaning in WC (A\$m)	0.9	1.5	(0.4)	(2.8)	(23.2)
Others (A\$m)	(4.6)	(3.7)	(11.8)	(8.0)	0.0
<b>Cash flow ops (A\$m)</b>	<b>(6.0)</b>	<b>27.7</b>	<b>94.2</b>	<b>113.9</b>	<b>120.8</b>
PP&E (A\$m)	(72.7)	(50.4)	(6.1)	(67.2)	(67.7)
<b>Cash flow inv. (A\$m)</b>	<b>(72.7)</b>	<b>(50.4)</b>	<b>(6.1)</b>	<b>(67.2)</b>	<b>(67.7)</b>
Shares / lease (A\$m)	78.3	0.2	(11.4)	-	-
Debt draw (repay) (A\$m)	92.9	(10.5)	(43.6)	(26.4)	(46.0)
<b>Cash flow fin. (A\$m)</b>	<b>171.1</b>	<b>(10.3)</b>	<b>(55.0)</b>	<b>(26.4)</b>	<b>(46.0)</b>
Net cash change (A\$m)	92.5	(33.0)	33.0	20.4	7.1

Balance sheet	CY20A	CY21A	CY22E	CY23E	CY24E
Cash (A\$m)	76.8	17.9	51.9	43.9	32.3
Acc rec. + inv. (A\$m)	3.0	36.3	49.0	53.0	85.2
PPE (A\$m)	123.3	88.7	92.3	75.4	268.6
Oth + mine-build (A\$m)	13.6	183.8	246.3	309.4	152.5
<b>Total assets (A\$m)</b>	<b>216.7</b>	<b>326.6</b>	<b>439.6</b>	<b>481.6</b>	<b>538.6</b>
Debt (A\$m)	51.0	87.4	29.5	1.1	(44.9)
Accnts payable (A\$m)	12.3	24.3	26.8	28.5	37.5
Total liabilities (A\$m)	63.3	111.7	56.3	29.7	(7.4)
S'holders equity (A\$m)	195.4	219.0	282.7	285.0	287.4
Retained earnings (A\$m)	0.3	2.2	10.3	10.3	10.3
Reserves (A\$m)	(83.1)	(79.9)	(21.5)	44.8	136.5
<b>Liabilities + equity (A\$m)</b>	<b>216.8</b>	<b>326.6</b>	<b>439.6</b>	<b>481.6</b>	<b>538.6</b>



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**TENDER:** The analyst recommends tendering shares to a formal tender offering

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NOT RATED:	0
TOTAL	55

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