

Spec Buy

Current Price \$0.11
Target Price \$0.21

Ticker: EXU
Sector: Materials

Shares on Issue (m): 481.4
Market Cap (\$m): 50.5
Cash and Bullion Estimate (\$m): 3.4
Debt Estimate (\$m): 0.0
Enterprise Value (\$m): 47.1

52 wk High/Low: \$0.17 \$0.07
12m Av Daily Vol (m): 1.10

Mineral Inventory (at May 2018)

	Mt	g/t	koz
Reserves	7.2	2.1	485
Resources	11.3	1.9	696
			\$/oz
EV / Reserve			97
EV / Resource			68

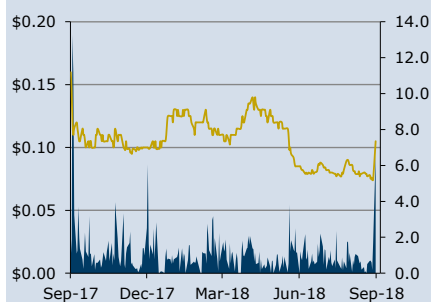
Directors and management:

Chris Baker	Non Executive Chairman
John Lawton	Managing Director
Stephen Stroud	Non-Executive Director
Paul Frederiks	Company Secretary

Substantial Shareholders:

West Trade Enterprises	6%
HSBC Custody Nominees	6%
Misty Grange P/L	4%

Share Price Graph



Please refer to important disclosures at the end of the report (from page 4)

Monday, 10 September 2018

Explaurum Ltd

Cheap as chips

Analysts | James Wilson | Matthew Keane

Quick Read

Explaurum (EXU) has received an off-market takeover offer from Ramelius Resources (RMS) with a bid of one RMS share for every four EXU shares. This values EXU at A\$59.2m (12.3cps or EV/Reserve of \$122/oz) and represents a 66.2% premium to the last traded price of 7.4cps. Whilst the deal appears opportunist, taking advantage of share price weakness, we think it does make sense for RMS with its existing infrastructure synergies in the region at Edna May. Our EXU target price of \$0.21ps considers the potential for EXU to develop the project as a standalone operation and applies considerable exploration upside at Tampia. The value upside for RMS is substantial in our view, and provides significant flexibility in ore sources at the Edna May operation which could transform and de-risk the project with higher production and a longer mine life. RMS' bid price however lacks value for the exploration and production upside which we view as considerable given EXU's recent near mine success at The Mace and Anomaly 8 Prospects. We see value in the proposal, we think RMS will have to come back to the table to sweeten the deal to win over EXU shareholders. Spec Buy maintained and target price of \$0.21ps.

Event & Impact | Positive

EXU value vs RMS value play:

EXU Value: Argonaut models a 60% risk weighted valuation of \$75m for Tampia using 1.5Mtpa processing and a slightly longer mine life (7 yrs) to incorporate exploration success such as Mace and near mine discoveries. We assume an additional 300koz of resource upside valued at \$23m (at a nominal \$75/oz EV/Resource value + \$3.4m cash) resulting in our \$0.21ps valuation.

RMS Value: Conversely, we derive a value of ~\$130m value for Tampia using a scenario of trucking 1.5Mtpa of ore to RMS' Edna May processing plant (using latent mill capacity). We assume 1.7g/t Au mill feed grade (vs the current 2.1g/t reserve grade) and 0.3g/t trucking cost to Edna May. We assume an AISC of A\$1,200/oz producing around 70kozpa from Tampia. This scenario presents many benefits including lower execution risk, significantly lower start up capex and higher value. Each year of additional production adds ~\$15m to the NPV. In this scenario the potential value upside for RMS would be ~19cps on the expanded post-deal share structure vs the current price of \$0.45 implying significant upside.

A good deal for RMS but a higher bid would be necessary to tempt EXU shareholders:

The combination of assets is clearly appealing and RMS has a track record of profitability from its asset base. The offer is yet to factor in the exploration upside from Tampia which we view as significant given the recent Mace discovery and upside at Anomaly 8. Importantly, Tampia is located on an existing mining lease on pastoral land, and hence a development scenario could be rapidly achieved if the bid is successful.

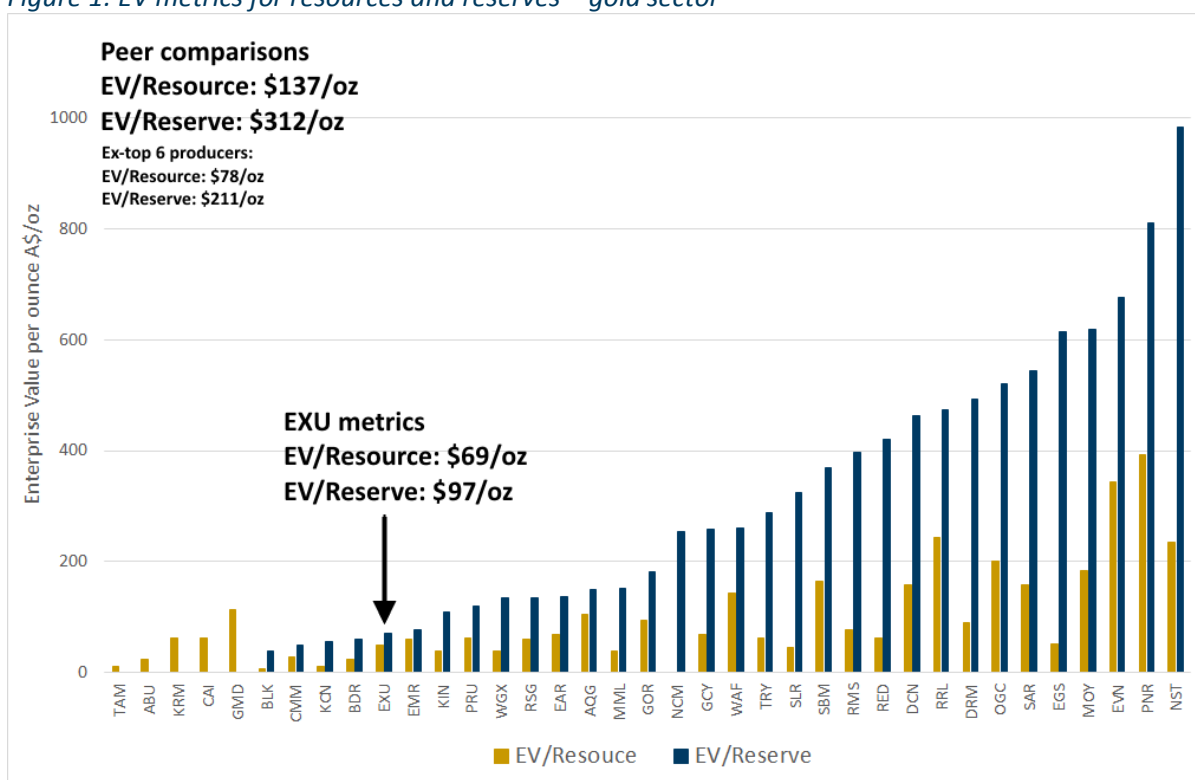
Recommendation

We maintain our Speculative Buy recommendation and target price of \$0.21ps.

Cheap deal metrics

At a deal value of \$60m, this equates to ~\$88/oz EV/Resource and \$122/oz EV/Reserve metrics versus a sector comparison of \$312/oz (or \$211/oz for the sector removing the top 6 producers). Recent comparison metrics for M&A transactions includes NST’s acquisition of Pogo (EV/Resource ~\$85/oz, EV/Reserve \$468/oz) and Orion Mine Finance’s takeover of Dalradian (EV/Resource \$89/oz, EV/Reserve \$373/oz). Both transactions highlight significantly higher EV/Reserve acquisition metrics.

Figure 1: EV metrics for resources and reserves – gold sector



Source: Argonaut

Complimentary asset, geology and upside

RMS acquired Edna May from EVN in late 2017 for A\$40m in cash plus contingent payments for up to A\$50m. Drilling commenced in late 2017 to assess the viability of either a Stage 3 open pit cutback or an expansion of the current underground development. The outcomes of these studies are due shortly. RMS’ is quickly approaching a decision point of either underground or open pit mining methods. If the underground method is chosen, we expect this will free up spare mill capacity which could be filled by Tampia ores enhancing Edna May’s production profile.

RMS’ Edna May mill has ~2.7Mtpa capacity with a combined SAG and Ball Mill which treats geologically similar rock types to Edna May Gneiss (vs Mafic Gneiss at Tampia). We estimate that the cost of trucking of ~130km from Tampia to Edna May would be in the order of ~0.3g/t Au which is highly appealing given the ~2.1g/t reserve grade at Tampia.

Figure 2: RMS and EXU's project locations



Source: Argonaut

Investment thesis

We identify 100% upside potential to our NPV risked valuation of \$0.21ps based on the aggregate valuations of EXU's assets.

Our valuation includes the following:

- We value the Tampia project on a 60% risk weighted basis in line with the current development status of the project.
- We ascribe an exploration upside of 300koz in additional resources potential at \$75/oz in line with market averages. We view this as a conservative estimate, particularly given the likelihood of further discoveries to the north and west of Tampia and the additional depth potential below the existing 696koz resource.

Figure 3: EXU Valuation breakdown

Valuation breakdown	Equity \$m	Share \$ps
Tampia Project 50% risk weighted	75.0	0.16
Exploration (300koz @ \$75/oz)	23.0	0.05
Cash	3.4	0.01
Total	\$101	\$0.21

Source: Argonaut

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Important Disclosure: Argonaut participated in the Placement that raised \$8.0M in February 2018 and received fees commensurate with this service. Publishing analyst owns shares.

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