

RAMELIUS RESOURCES LTD (RMS)

Groundwork goes on

Since our last note in June 2019, Ramelius (RMS) has updated reserves and resources, including a mine life extension at Vivien, paid a dividend and given production and cost guidance for FY2020. The gold price has risen, and we have moved our Australian dollar gold price assumptions up (see "Commodity Price Assumptions, 4 Sept 2019).

Reserves up, gold production heading up

Among RMS' reserve positions, the Eridanus pit reserve increased by 27koz from the previous year, Vivien was up by 40koz, acquisitions Tampia and Marda combined added 286koz, and positive reconciliation of Edna May pit material added about 30koz net of depletion. Ramelius' estimated reserves available to Edna May and Mt Magnet were 880koz at the end of June 2019.

Ramelius produced 197koz in FY2019. The Company estimates 205-225koz for FY2020, with quarterly increases through the year, from 43-48koz in SQ19 to 65-70koz in JQ20. Group unit costs are output dependent, ranging from \$A1450 to \$A1050/oz forecast AISC. Group capex of \$65M in FY2020 includes \$28M in SQ19. The Company has a good record in meeting its forecasts, even from disparate, relatively short life ore sources.

RMS plans to lift production to 250kozspa by FY2022, and Hartleys thinks maybe by FY2021 if Vivien's extensions displace Mt Magnet pit ore.

Hartleys forecasts a quarter (SQ19) of net investment (\$8-13M) in RMS' projects and exploration, before Company cash and bullion heads back up again, by \$15-25M per quarter, arriving at \$150-160M by June 2020 (\$106M at June 2019). Forecast FY2020 output was about two thirds hedged (at \$A1806/oz) at the end of June 2019.

Share Price	\$1.245
Valuation	\$0.90
Price Target (12 month)	\$1.14

Brief Business Description:
WA based gold producer and explorer.

Hartleys Brief Investment Conclusion
Profitable producer getting good returns from two WA gold projects. Market appreciation expected with continued good performance.

Chairman & MD
Kevin Lines (Non-exec Chairman)
Mark Zepner (MD)

Top Shareholders

Ruffer LLP	7.7%
Van Eck Associates	5.5%

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Level 1, 130 Royal St
East Perth, WA, 6005

Issued Capital

- fully diluted	658m
	680m

Market Cap

- fully diluted	\$A819m
	\$A846m

Cash + bullion (30 June 19) \$A106m

Debt (31 June 19) \$A0m

EV \$A713m

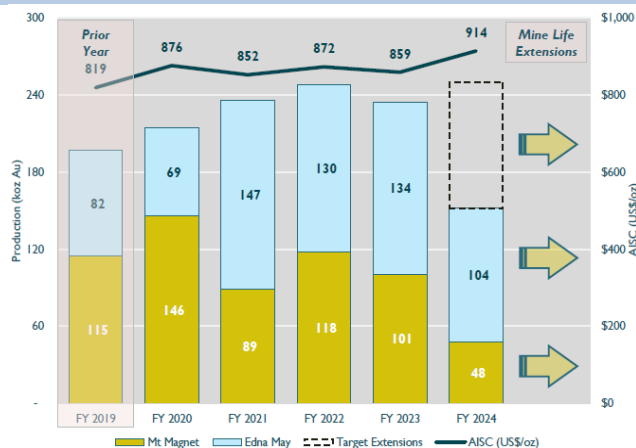
EV/Resource oz \$A173/oz

EV/Reserve oz \$A196/oz

	Prelim. (A\$m)	FY19	FY20e	FY21e
Prod (koz Au)		195	209	260
Op Cash Flw (A\$m)		107	150	182
Norm NPAT (A\$m)		18	72	95
CF/Share (cps)		16.2	22.8	27.7
EPS (cps)		2.8	10.9	14.4
P/E		45.2	11.4	8.6

	Au
Resources (Moz)	4.1
Reserves (Moz)	0.9

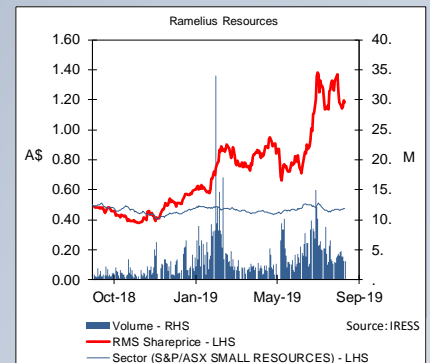
Fig. 1: Ramelius' production and USD cost targets.



Source: Ramelius Resources, September 2019.

Change from Buy to Accumulate

With the increase in gold price our base case valuation rose from 67cps to 93cps, before an adjustment of the production forecasts pulled it back to 90cps. Our spot gold price valuation is 107cps. Hartleys' 12 month price target is up to 114cps and our recommendation changes from Buy to Accumulate on price grounds.



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EARNINGS CHANGES

Fig. 1: Earning changes to Hartleys' model since June 2019.

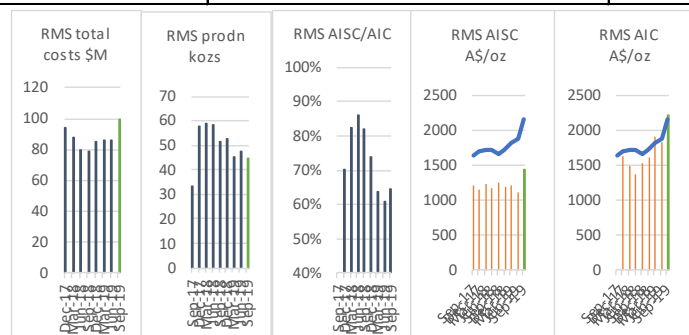
	30 Jun 19			30 Jun 20			30 Jun 21		
	old	new	% diff	old	new	% diff	old	new	% diff
Hartleys Production (koz)	193	195	1%	204	209	3%	228	260	14%
Implied price received (A\$/oz)	1757	1750	0%	1800	1936	8%	1795	1993	11%
Total cash costs (A\$/oz)	1223	1203	-2%	1204	1220	1%	1226	1291	5%
Net Revenue	339	341	1%	367	405	10%	409	517	26%
Total Cash Costs	-236	-235	-1%	-246	-255	4%	-279	-335	20%
EBITDA	103	107	4%	121	150	24%	130	182	40%
- margin	30%	30%	0%	36%	32%	-11%	32%	34%	6%
Depreciation/Amort	-81	-81	0%	-37	-47	29%	-44	-47	5%
EBIT	22	26	17%	85	102	21%	85	135	59%
Net Interest	0	0	n/a	0	0	n/a	0	0	n/a
Pre-Tax Profit	22	26	17%	85	102	21%	85	135	59%
Tax Expense	-6	-8	26%	-25	-30	22%	-26	-41	56%
NPAT	15	18	21%	59	72	22%	60	95	58%
Abnormal Items	0	0	n/a	0	0	n/a	0	0	n/a
Minority	0	0	n/a	0	0	n/a	0	0	n/a
Profit Attrib	15	18	21%	59	72	22%	60	95	58%
capex + exploration	-60	-67	12%	-85	-82	-3%	-71	-70	-1%
Net cash	109	106	-3%	145	159	10%	204	240	18%
Dividends Per Share	0	0		0	1		0	0	

Source: Hartleys Research

COST TRENDS

Fig. 2: Ramelius AISC and AIC trends September 2017 to June 2019*.

		2017		2018			2019		Total/ Ave/Chg		
		SQ	DQ	MQ	JQ	SQ	DQ	MQ		JQ	
Gold price	A\$/oz	1632	1695	1725	1714	1660	1718	1826	1867	2146	1744
	US\$/oz	1279	1303	1325	1253	1192	1283	1298	1308	1468	1301
Exch rate		0.784	0.780	0.768	0.741	0.722	0.705	0.711	0.701	0.684	0.733
RMS											
Production	koz	33.2	58.0	58.7	58.3	51.4	52.6	45.3	47.3	45.0	450
Reported AISC	A\$/oz	1209	1146	1233	1176	1253	1190	1210	1106	1430	1190
Adjustment	\$M		38								38
Adj. net cash at EOQ	\$M	96	100	113	134	140	146	143	145	141	49
Costs outside AISC	\$M		28	15	11	14	22	31	34	36	156
Hedge cost	\$M								4	14	
Total costs ex hedging	\$M								83	86	
Total costs	\$M		95	88	80	78	85	86	86	100	598
CAIC	A\$/oz		1631	1493	1369	1526	1610	1901	1823	2222	1608
Cash banked/paid	\$M		4	14	20	7	6	-3	2	-3	49
AISC/CAIC			70%	83%	86%	82%	74%	64%	61%	64%	74%



AIC estimated from net cash change adjusted for dividends paid and equity capital raised

*Adjusted for \$38M acquisition of Edna May in DQ2017. Includes Tampia and Marda acquisition cash consideration as AIC in MQ2019

Source: Company announcements, Hartleys Research

Fig. 3: *Hartleys' forecast Ramelius production and costs.*

Production Summary		Unit	Jun 19	Jun 20	Jun 21	Jun 22	Jun 23
Mt Magnet/Vivien							
Underground ore mined	Mt		0.30	0.41	0.43	0.21	0.06
UG ore grade	g/tAu		5.19	5.21	5.16	4.81	5.20
Open pit ore mined	Mt		2.03	1.57	1.57	1.57	0.85
Open pit ore grade	g/tAu		1.22	1.60	1.10	1.47	1.47
Mill Throughput	Mt		1.96	1.98	2.00	1.98	2.01
Head grade	g/t		1.91	2.35	1.97	1.75	1.17
Met. recovery	%		0.95	0.95	0.95	0.95	0.95
Gold	(koz)		115	143	121	106	72
AISC	(A\$/oz)		1221	1069	1212	1126	0
Edna May							
Underground ore mined	Mt		0.03	0.21	0.22	0.22	0.12
UG ore grade	g/tAu		4.14	4.83	4.83	4.83	4.83
Open pit ore mined	Mt		0.54	0.26	1.08	1.08	1.09
Open pit ore grade	g/tAu		1.40	2.30	1.61	1.61	2.01
Mill Throughput	Mt		2.84	1.61	2.26	1.86	1.78
Head grade	g/t		0.93	1.37	2.03	2.35	2.45
Met. recovery	%		0.94	0.94	0.94	0.94	0.94
Gold	(koz)		80	66	139	132	131
AISC	(A\$/oz)		1193	1575	1375	1272	1119
Total							
Underground ore mined	Mt		0.33	0.62	0.65	0.43	0.18
UG ore grade	g/tAu		5.09	5.08	5.05	4.82	4.95
Open pit ore mined	Mt		2.58	1.83	2.65	2.65	1.94
Open pit ore grade	g/tAu		1.26	1.70	1.31	1.53	1.77
Mill Throughput	Mt		4.80	3.58	4.26	3.84	3.79
Head grade	g/t		1.33	1.91	2.00	2.04	1.77
Gold	(koz)		195	209	260	238	204
AISC	(A\$/oz)		1209	1229	1299	1206	722

Costs		Jun 19	Jun 20	Jun 21	Jun 22	Jun 23
Mt Magnet						
Cost per milled tonne	\$A/t	63	67	64	54	37
Total cash costs incl. royalty	\$A/oz	1126	1017	1150	1086	1258
+ depreciation & amortisation	\$A/oz	1658	1252	1349	1408	1786
All in sustaining costs (AISC)	A\$/oz	1221	1069	1212	1126	0
Total costs	\$M	172	171	167	120	81
All in site cost	A\$/oz	1497	1196	1376	1125	1126
Edna May						
Cost per milled tonne	\$A/t	25	56	71	74	74
Total cash costs incl. royalty	\$A/oz	873	1351	1150	1049	1000
+ depreciation & amortisation	\$A/oz	1123	1560	1314	1202	1191
All in sustaining costs (AISC)	A\$/oz	1193	1575	1375	1272	1119
Total costs	\$M	86	139	211	177	143
All in site cost	A\$/oz	1074	2098	1519	1339	1086
Group						
Cost per milled tonne	\$A/t	40	62	68	64	55
Total cash costs incl. royalty	\$A/oz	1022	1123	1150	1066	1091
+ depreciation & amortisation	\$A/oz	1438	1350	1330	1294	1402
All in sustaining costs (AISC)	A\$/oz	1209	1229	1299	1206	722
AIC	(A\$M)	302	345	436	360	302
AIC	(A\$/oz)	1549	1650	1680	1510	1483

Source: Hartleys Research

VALUATION

Hartleys' Ramelius modelling takes into account publicly available information including Ramelius' projected group production profile and production guidance given periodically. Costs are estimated according to information supplied by Ramelius and reconciliation against past accounts.

The modelled Mt Magnet underground inventory of 107koz as at June 2019 is 34koz more than combined reserves at Shannon and Hill 60.

Edna May Stage 2 stockpiles and Greenfinch are modelled as per the June 2019 reserves schedule. Edna May underground is modelled at 770kt at 4.8 g/t (123koz) compared to reserves of 400kt at 4.8 g/t (61koz) reserves as at June 2019. Royalty payments of A\$150/oz on all production between 200koz and 700koz are included in costs.

A mine inventory at Marda of 2.6Mt at 2.3 g/t is included (8:1 SR), to be mined and trucked to Edna May from September 2019 at 400ktpa.

A mine inventory at Tampia of 2.2Mt at 2.8 g/t is included (9:1 SR), to be mined and trucked to Edna May from June 2020 at 560ktpa.

PRICE TARGET

The price target is based on a discounted cash flow valuation of the Mt Magnet, Vivien and Edna May operations, an informal estimate of exploration assets value and nominal assessment of Ramelius' other assets and liabilities. Hedging arrangements are valued separately from the mining assets. A real, after tax discount rate of 7% is used in net present value estimations. Hartleys base case commodity and currency forecasts, set out in the summary table, are used to estimate the base case NAV.

For Ramelius our 12 month share price target is based on application of a 1.25x premium the base case NAV. Premiums to NAV are generally 'awarded' to gold companies that can demonstrate a relatively low cost structure, low risk balance sheet and can promise at least a 4-5 year mine life. Premiums are not permanent, but currently extend up to 1.8x for the larger producers.

RISKS

Fig. 4: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Gold price, currency	High	Industry ave. - high	Ramelius' forward looking AISC production cost of about A\$1250/oz is close to the Australian industry average, and hedging (30% of 3 yrs) is modest.
Exploration, re-investment	Medium	High	Ramelius may invest most of its cash and future free cash flows in exploration and/or other mineral asset acquisitions. Valuation assumes that future exploration and investments achieve acceptable returns.
Mine performance matches reserve estimates	Medium-low	Low	Ramelius has a very good recent record delivering against reserves.
Costs	Medium	High	Publicly available information has been used in forecasting operating and capital costs. Some cost assumptions are based on incomplete information or informal estimates.

Conclusion

Ramelius faces industry average risks with respect to gold price and currency. Major recommendation risks relate to future re-investment and exploration returns.

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

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