

Ramelius Resources

Outperform becoming the new normal

ADD (no change)

Current price:	A\$1.91
Target price:	A\$2.86 ▲
Previous target:	A\$2.49
Up/downside:	49.7%
Reuters:	RMS.AX
Bloomberg:	RMS AU
Market cap:	US\$1,115m
	A\$1,562m
Average daily turnover:	US\$12.2m
	A\$17.1m
Current shares o/s	818.0m
Free float:	100.0%

- RMS has again exceeded guidance, producing 71.3koz, ahead of guidance of 65-70koz, at an AISC of A\$1,241/oz.
- Cash & gold on hand is at an all time high of A\$221.9m, an increase of A\$44.6m for the quarter.
- RMS management have been vocal about their ambition to see RMS become a 300koz p.a. producer. A third mill is required to achieve this goal, and with the current war chest the company is well placed to pursue this goal.
- Upcoming announcements include the expansion study for Mt Magnet and the Stage 3 Open Pit study for Edna May, which has the potential to materially extend the operating life of the Edna May asset.
- Strong fundamentals remain in place for RMS and with its current cash balance our price target increases to \$2.86.

Strong quarter reaffirms annual guidance

Having exceeded the top end of quarterly guidance, Ramelius confirmed guidance for the year remains 260-280koz at an AISC of A\$1,230-\$1,330/oz. Development capital for the year remains at a forecast A\$60.7m, along with a A\$25.4m exploration and resource definition budget.

Growth options

The exploration budget mentioned above is divided across increasing confidence in the existing resource base of the company, and growing ounces through extensional drilling and new target testing. In the near term, mine life growth at Edna May depends on the outcomes of the underground study, assessing the potential to convert the Edna May underground from a selective high grade mining method to a lower grade, lower opex bulk mining method. The Edna May open pit is also being assessed for the potential to commence a major new cut back that could provide base load ore to the mill for many years beyond the current mining plan. At Mt Magnet, drilling at the Penny West project is focused on growing the resource base by testing for extensions and repeats of the mineralisation identified at Penny North.

Our view

Gold stocks have retreated across the board in recent days and RMS has been no exception. We view RMS as a solid business with a solid management group, generating meaningful cash at the current gold price and with a proven track record of cost discipline. The project study team has been beefed up with several studies running in parallel internally assessing organic growth options across the company's portfolio. At the same time a full war chest, and management's stated ambition to make RMS a +300koz p.a. producer, leaves M&A a possibility. We maintain an ADD rating based on a new target price of A\$2.86 (from A\$2.49). Our pricing methodology and sensitivity of FX and USD gold price is included on page 4.



Price performance	1M	3M	12M
Absolute (%)	-6.6	-14.5	46.7
Relative (%)	-11.3	-16.4	55.4

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– Ramelius Resources

Financial Summary

	Jun-19A	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	352.8	460.6	691.2	693.6	689.7
Operating EBITDA (A\$m)	112.0	262.8	369.5	359.6	355.8
Net Profit (A\$m)	21.8	113.8	211.6	207.1	207.2
Normalised EPS (A\$)	0.04	0.16	0.26	0.25	0.25
Normalised EPS Growth	(36.3%)	343.5%	59.1%	(2.1%)	0.0%
FD Normalised P/E (x)	51.90	11.70	7.35	7.51	7.51
DPS (A\$)	0.00	0.02	0.02	0.02	0.02
Dividend Yield	0.00%	1.05%	1.05%	1.05%	1.05%
Franking (%)	0	0	0	0	0
EV/EBITDA (x)	13.09	5.32	3.31	2.86	2.36
P/FCFE (x)	40.5	15.7	9.2	8.0	8.2
Net Gearing	(34.3%)	(32.2%)	(47.7%)	(59.2%)	(66.3%)
P/BV (x)	4.50	3.02	2.19	1.73	1.42
ROE	9.1%	30.3%	34.5%	25.7%	20.8%

SOURCE: MORGANS, COMPANY REPORTS

Ramelius Resources

as at October 27, 2020

Market cap (A\$m):	1,562	Rating:	ADD
Shares outstanding (m):	818.0	Price (A\$):	1.91
Free float (%):	100.0	Target price (A\$):	2.86
Website:	www.rameliusresources.com.au	Upside/downside to target price (%):	49.7

Company description

Ramelius Resources (RMS) is a Western Australia focused gold producer that listed on the ASX in 2003 and has been in production since 2006. Currently RMS wholly owns the Mount Magnet, Edna May, Vivien, Marda and Tampia Hill gold mines and is finalising the acquisition of the Penny West Project

How RMS makes money & Growth factors

RMS's earnings come from its Western Australian based gold operations. RMS has two processing hubs, Mt Magnet and Edna May. Mt Magnet processes ore from the Mt Magnet mining operation as well as Vivien underground mine (ore is trucked to Mt Magnet). Edna May processes ore from Edna May mining operation and is due to have ore trucked from Marda and Tampia Hill.

Short-term key growth factors:

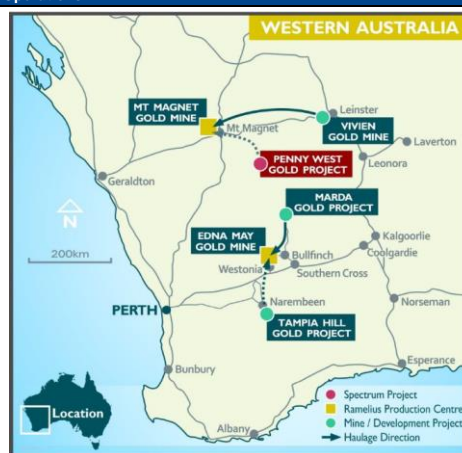
- Ramp-up of Marda & Tampia Hill operations
- Integration of Penny Gold Project operations

Long-term key growth factors:

- RMS has a successful history of acquiring distressed or isolated assets and integrating them with current operations. RMS's strong balance sheet allows for future transactions

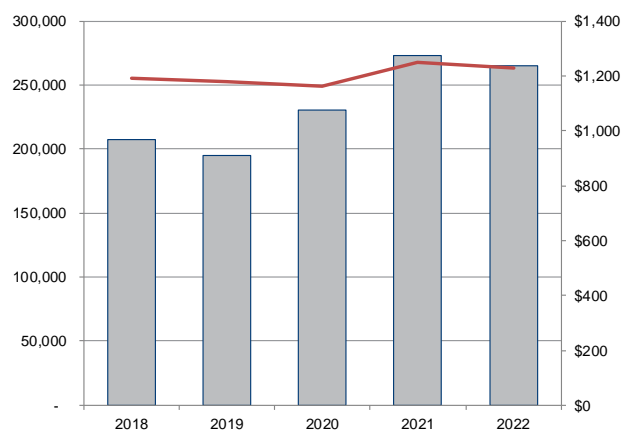
Source: Morgans

Map of RMS Operations



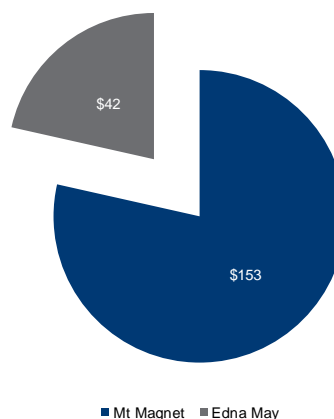
Source: Company

Group Production (oz) & AISC (A\$/oz Sold)



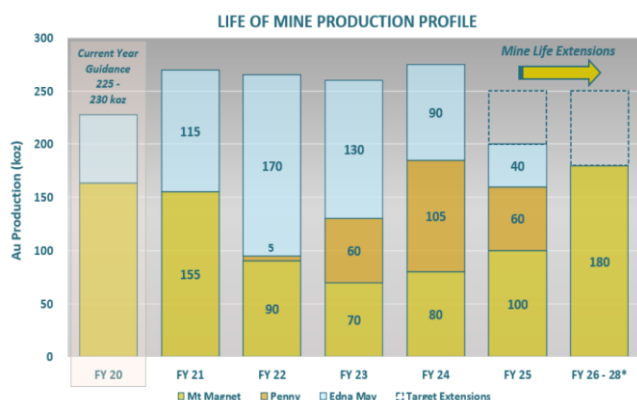
Source: Morgans

Margin [Gold revenue - AISC] by operation (A\$m) - FY20



Source: Morgans

RMS future production



Source: Company

Key risks & drivers

Key risks

Most sensitive inputs are gold price and exchange rate hence they are the key risks. Operational risks include the development of Tampia Hill that contains some refractory ore (refractory ore requires additional processing to the ore that RMS currently excavate) and overseeing a growing number of operations.

Upcoming catalysts

Development of Tampia Hill.
Penny West development and exploration

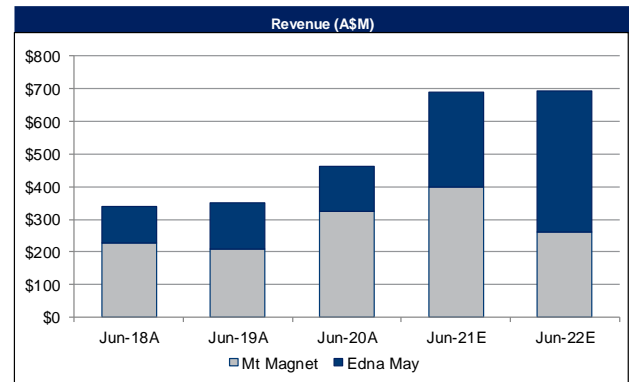
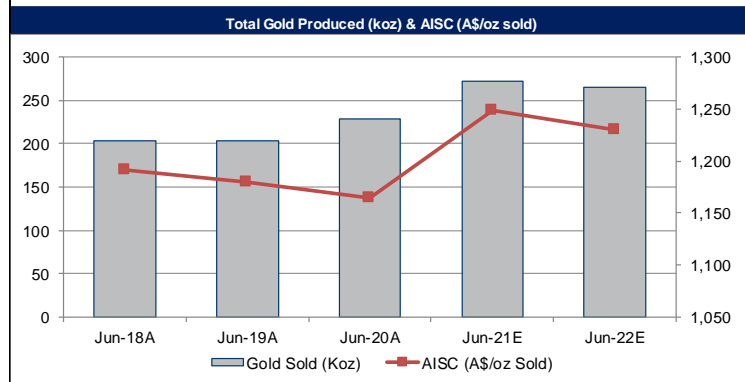
Key Industry Drivers

Gold price as a proxy of global market sentiment.
USD:AUD exchange rate

Source: Morgans

Figure 1: Financial summary

RMS						Mining and Metals					
Income statement (A\$M)						Gold Sold (Koz)					
	Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E		Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E
Sales Revenue	\$342	\$353	\$461	\$691	\$694	Mt Magnet	136	120	164	157	100
Operating Costs	-\$209	-\$210	-\$186	-\$289	-\$306	Edna May	68	83	65	115	165
Other Income/Costs	-\$6	-\$31	-\$12	-\$33	-\$28	TOTAL GOLD SOLD	203	203	228	272	265
EBITDA	\$127	\$112	\$263	\$370	\$360	AISC (A\$/oz Sold)					
Depreciation & Amortisation	-\$81	-\$81	-\$104	-\$80	-\$80		Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E
EBIT	\$46	\$31	\$159	\$290	\$280	Mt Magnet	1,186	1,150	1,047	1,064	1,450
Other Income & Expenses	\$0	\$2	\$1	\$4	\$8	Edna May	1,203	1,223	1,464	1,500	1,097
Profit before Income Tax	\$45	\$30	\$150	\$294	\$288	GROUP	1,191	1,180	1,164	1,248	1,230
Income Tax Expense	-\$15	-\$9	-\$36	-\$82	-\$81	Key Metrics					
NPAT - Reported	\$31	\$22	\$114	\$212	\$207		Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E
Cashflow Statement (A\$M)						Gold Price (\$US/oz)	\$1,257	\$1,302	\$1,900	\$1,900	\$1,900
	Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E	AUD:US	0.75	0.71	0.73	0.73	0.73
Operating EBITDA	\$127	\$112	\$263	\$390	\$376	EPS	0.06	0.03	0.14	0.26	0.25
Net Finance Income	\$1	\$2	\$1	\$4	\$8	DPS	0.00	0.00	0.02	0.02	0.02
Income Tax Paid	\$0	\$0	-\$1	-\$82	-\$81	Yield	0.0%	0.0%	1.0%	1.0%	1.0%
Other	-\$9	\$23	-\$26	\$20	\$5	EBITDA Margin	37%	32%	57%	53%	52%
Net operating Cashflow	\$119	\$137	\$236	\$331	\$308	P/E	21.7	34.1	14.1	7.6	7.7
Capex (Development, PP&E, other)	-\$70	-\$66	-\$121	-\$122	-\$81	EV/EBITDA	4.8	6.7	5.5	3.4	3.0
Net Proceeds from Sales/Acquisitions	-\$38	-\$20	-\$31	\$0	\$0	Free Cashflow Yield	31.0%	8.3%	14.1%	20.4%	19.2%
Payment for Exploration / Tenements	-\$14	-\$19	-\$18	-\$20	-\$16	Revenue (A\$M)					
Other Investing Cashflows	-\$1	-\$4	-\$1	\$0	\$0		Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E
Net Cash from Investing Activities	-\$123	-\$109	-\$171	-\$142	-\$97	Mt Magnet	\$226	\$208	\$324	\$399	\$261
Net Proceeds from Debt	\$0	\$0	\$24	\$0	\$0	Edna May	\$113	\$143	\$136	\$292	\$432
Dividends Paid	\$0	\$0	-\$7	-\$16	-\$16	TOTAL REVENUE	\$339	\$351	\$461	\$691	\$694
Proceeds from Issues of Shares	\$0	\$0	\$0	\$0	\$0	Balance Sheet (A\$M)					
Other Financing Cashflows	\$0	-\$1	-\$13	\$0	\$0		Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E
Net Cash from Financing Activities	\$0	\$0	\$5	-\$16	-\$16	Cash & Cash Equivalents	\$75	\$96	\$166	\$339	\$534
Net Inc/Dec in Cash and Cash Equivalents	-\$4	\$28	\$70	\$173	\$195	Other Current Assets	\$61	\$48	\$101	\$104	\$104
Balance Sheet (A\$M)						Total Current Assets	\$138	\$152	\$271	\$448	\$642
	Jun-18A	Jun-19A	Jun-20A	Jun-21E	Jun-22E	Development Assets	\$85	\$99	\$208	\$242	\$239
Cash & Cash Equivalents	\$75	\$96	\$166	\$339	\$534	Property, Plant & Equipment	\$51	\$44	\$78	\$87	\$91
Other Current Assets	\$61	\$48	\$101	\$104	\$104	Exploration and Evaluation Expenditure	\$19	\$99	\$196	\$196	\$196
Total Current Assets	\$138	\$152	\$271	\$448	\$642	Other Non-Current Assets	\$29	\$2	\$1	\$1	\$1
Development Assets	\$85	\$99	\$208	\$242	\$239	Total Non-Current Assets	\$184	\$244	\$484	\$526	\$527
Property, Plant & Equipment	\$51	\$44	\$78	\$87	\$91	Total Assets	\$322	\$397	\$755	\$974	\$1,169
Exploration and Evaluation Expenditure	\$19	\$99	\$196	\$196	\$196	Trade & Other Payables	\$32	\$45	\$82	\$106	\$110
Other Non-Current Assets	\$29	\$2	\$1	\$1	\$1	Provisions & Other Current Liabilities	\$6	\$7	\$77	\$77	\$77
Total Non-Current Assets	\$184	\$244	\$484	\$526	\$527	Total Current Liabilities	\$38	\$52	\$159	\$183	\$187
Total Assets	\$322	\$397	\$755	\$974	\$1,169	Provisions	\$43	\$46	\$39	\$39	\$39
Trade & Other Payables	\$32	\$45	\$82	\$106	\$110	Other Non-Current Liabilities	\$39	\$20	\$42	\$42	\$42
Provisions & Other Current Liabilities	\$6	\$7	\$77	\$77	\$77	Total Non-Current Liabilities	\$82	\$66	\$81	\$81	\$81
Total Current Liabilities	\$38	\$52	\$159	\$183	\$187	Total Liabilities	\$120	\$118	\$240	\$263	\$268
Provisions	\$43	\$46	\$39	\$39	\$39	Total Equity	\$202	\$279	\$515	\$711	\$901
Other Non-Current Liabilities	\$39	\$20	\$42	\$42	\$42	Valuation					
Total Non-Current Liabilities	\$82	\$66	\$81	\$81	\$81		A\$M		A\$/sh		
Total Liabilities	\$120	\$118	\$240	\$263	\$268	DR (%)			5.0%		
Total Equity	\$202	\$279	\$515	\$711	\$901	Mt Magnet NPV	\$1,555		\$1.90		
Valuation						Edna May NPV	\$714		\$0.87		
						Group Charges NPV	-\$282		-\$0.34		
Total Current NPV (A\$M)			\$1,987		Total Current NPV (A\$M)		\$1,987		\$2.43		
Exploration Upside (A\$M)			\$144		Exploration Upside (A\$M)		\$144		\$0.18		
Cash & Cash Equivalents (A\$M)			\$222		Cash & Cash Equivalents (A\$M)		\$222		\$0.27		
Debt (A\$M)			-\$16		Debt (A\$M)		-\$16		-\$0.02		
Listed Investments			\$0		Listed Investments		\$0		\$0.00		
Total Valuation (A\$M)			\$2,337		Total Valuation (A\$M)		\$2,337		\$2.86		
Shares In Issue (million)			818		Shares In Issue (million)		818				
Target Price (A\$/Share)			\$2.86		Target Price (A\$/Share)		\$2.86				



SOURCE: MORGANS RESEARCH, COMPANY

Valuation Methodology

Our target price is A\$2.86ps. A discounted cashflow methodology was used as the basis of valuation, with a 5% discount rate applied reflecting RMS's status as a gold producer in a stable jurisdiction with two production centres.

The flat forward price of US\$1,900/oz was maintained and applied to gold sales, adjusted where applicable to account for the RMS existing hedge book. A fixed AUD:USD exchange rate of 0.725 was also applied, for a price of A\$2,621/oz. A sensitivity table is presented below showing the impact of changes in FX and gold price on our target price.

Figure 2: NPV sensitivity to flat gold & AUD assumptions

		USD Gold Price				
		1,500	1,700	1,900	2,100	2,300
AUD:USD	0.76	\$1.82	\$2.24	\$2.66	\$3.09	\$3.51
	0.74	\$1.90	\$2.34	\$2.77	\$3.21	\$3.64
	0.725	\$1.97	\$2.41	\$2.86	\$3.30	\$3.74
	0.70	\$2.09	\$2.55	\$3.01	\$3.47	\$3.93
	0.68	\$2.19	\$2.66	\$3.14	\$3.61	\$4.08

SOURCES: MORGANS, COMPANY REPORTS

We have elected to use a flat gold price and exchange rate for our valuation, as opposed to a price deck. We believe this better reflects the price volatility commonly seen in gold stocks, particularly in response to spot gold price movements. Put simply, the gold price and exchange rate we will experience in future are the major unknowns for any gold producer. They are also almost universally the two largest sensitivities for any Australian gold producer valuation.

If we view the table above, at the current RMS price the market appears to be baking in a gold price of US\$1,500/oz at an exchange rate of 0.74 or higher. We take the view that \$1,900/oz is an appropriate price for the near term. The sensitivity table presented above acts as guidance for how the RMS share price may react to further short term volatility in the gold price and exchange rate.

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