

August 26, 2021

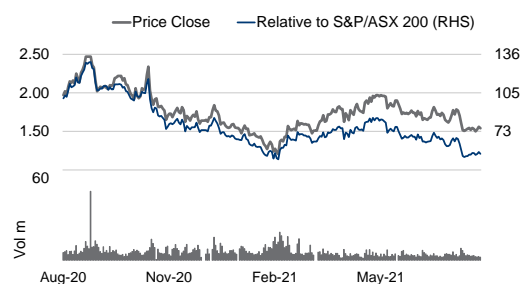
## ADD (no change)

Stock code:	RMS AU
Price:	A\$1.54
12-month target price:	A\$2.08
Previous target price:	A\$2.05
Up/downside to target price:	34.8%
Dividend yield:	1.30%
12-month TSR*:	36.1%
Market cap:	A\$1,254m
Average daily turnover:	A\$6.62m
Index inclusion:	S&P/ASX 200

\* Total stock return – Up/downside to target price + 12-month forward dividend yield.

### Price performance

(%)	1M	3M	12M	3Y
Absolute	-10.2	-20.6	-21.6	227.7
Rel ASX/S&P200	-12.1	-26.5	-43.8	207.1



Source: Bloomberg

### Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A\$m)	634.3	640.5	602.0	614.6
EBITDA Norm (A\$m)	346.2	257.3	274.4	296.0
Net Profit (A\$m)	126.8	81.2	95.0	111.9
EPS Norm (A\$)	0.16	0.10	0.12	0.14
EPS Growth Norm (%)	-0.9%	-38.4%	17.0%	17.8%
P/E Norm (x)	9.52	15.44	13.20	11.20
DPS (A\$)	0.025	0.020	0.020	0.020
Dividend Yield (%)	1.62%	1.30%	1.30%	1.30%
EV/EBITDA (x)	2.96	3.59	2.91	2.49
Gearing (Net Debt/EBITDA)	-0.66	-1.29	-1.66	-1.75

Source: Company data, Morgans estimates

### Related research

[RMS \(ADD - TP A\\$2.05\) - 05 Aug 2021](#)
[Sector report - 13 May 2021](#)

### Mat COLLINGS

(61) 8 6160 8707

[mat.collings@morgans.com.au](mailto:mat.collings@morgans.com.au)

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– Ramelius Resources

# Ramelius Resources

## FY21 breaks all records

- FY21 financials highlight a record year on almost all metrics for RMS.
- 2.5cps fully franked dividend declared (+25% YoY and above our estimate).
- Our price target moves slightly to A\$2.08/share and we maintain an add rating.

### Event: FY21 financial reporting

- Record revenue (+38%), EBITDA (+33%), NPAT (+12%) and operating cash flow (+30%) are worth noting, but inline with what we had calculated in July from the Q4 operating update.

### Analysis:

- RMS pre-reported at the end of Q4 in line with most the mining industry, and being particularly transparent in its reporting, there are few surprises in today's results.
- In its releases to market, and on today's update call, RMS management again stressed they are actively assessing inorganic and organic growth options and "always on the lookout for accretive acquisitions that will deliver a step change for the company".
- Management have previously stated their desire to lift RMS above 300koz of production by acquiring a third mill / production centre, and it seems this ambition is moving to the fore as the cash balance builds.

### Forecast and valuation update:

- We maintain our production and cost forecasts, which were recently updated based upon the recent long-term outlook provided by the company. With guidance to FY30, RMS management provides some of the longest forward guidance we are aware of in the industry.
- Our valuation target moves slightly, to \$2.08/share, driven by a modest change to our depreciation assumptions for the company. We maintain our ADD rating.
- Our valuation methodology is outlined on page 4, along with changes to our near-term forecasts.

### Investment view:

- RMS has maintained strong margins in the business through FY21 but is facing the same cost pressures as the rest of the industry in WA.
- Despite this, we think RMS track record of cost discipline positions the company well to outperform the sector.

### Price catalysts:

- Q1 production reporting showing the impact of Tampia ore on Edna May production and costs.
- Penny West development and exploration updates.

### Risks:

- Cost pressures associated with market inflation in Western Australia.
- Gold price and sentiment.
- FX movements.

## Ramelius Resources

as at August 26, 2021

<b>Rating</b>	<b>ADD</b>	Price (A\$):	1.54
Market cap (A\$m):	1,254	12-month target price (A\$):	2.08
Shares outstanding (m):	824.8	Up/downside to target price (%):	34.8
Free float (%):	100.0	Dividend yield (%):	1.30

### 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, Tampia Hill and Penny gold mines in Western Australia.

#### 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

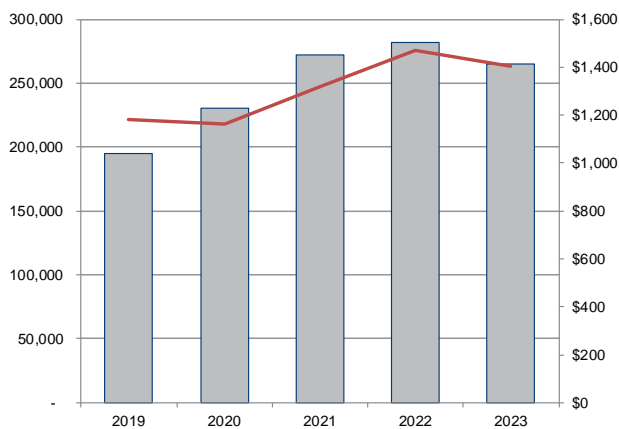
Source: Morgans

#### Map of RMS Operations



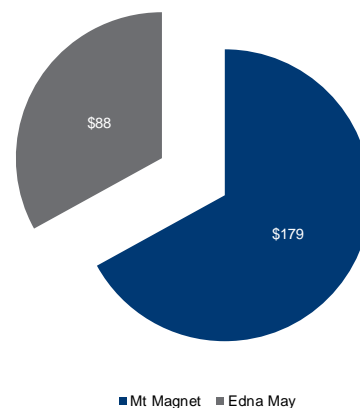
Source: Company

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



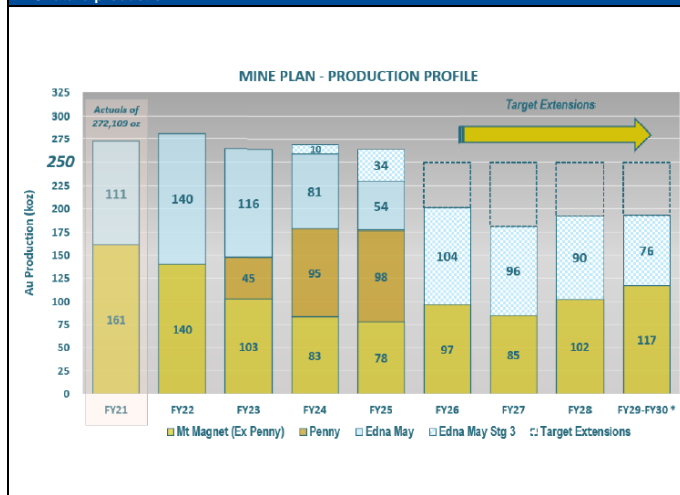
Source: Morgans

#### Margin [Gold revenue - AISC] by operation (A\$m) - FY21



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 ramp up 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

Ramp up 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					
<b>Income statement (A\$M)</b>						<b>Gold Sold (Koz)</b>					
	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Sales Revenue	\$461	\$634	\$641	\$602	\$615	Mt Magnet	164	165	141	148	179
Operating Costs	-\$186	-\$281	-\$337	-\$298	-\$289	Edna May	65	112	141	117	91
Other Income/Costs	-\$12	-\$7	-\$46	-\$30	-\$30	<b>TOTAL GOLD SOLD</b>	<b>228</b>	<b>277</b>	<b>282</b>	<b>265</b>	<b>270</b>
<b>EBITDA</b>	<b>\$263</b>	<b>\$346</b>	<b>\$257</b>	<b>\$274</b>	<b>\$296</b>	<b>AISC (A\$/oz Sold)</b>					
Depreciation & Amortisation	-\$104	-\$164	-\$148	-\$148	-\$148		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
<b>EBIT</b>	<b>\$159</b>	<b>\$183</b>	<b>\$109</b>	<b>\$126</b>	<b>\$148</b>	Mt Magnet	1,047	1,195	1,498	1,272	1,023
Other Income & Expenses	\$1	\$1	\$5	\$7	\$10	Edna May	1,464	1,496	1,439	1,570	1,790
<b>Profit before Income Tax</b>	<b>\$150</b>	<b>\$175</b>	<b>\$114</b>	<b>\$134</b>	<b>\$158</b>	<b>GROUP</b>	<b>1,164</b>	<b>1,317</b>	<b>1,468</b>	<b>1,403</b>	<b>1,282</b>
Income Tax Expense	-\$36	-\$48	-\$33	-\$39	-\$46	<b>Key Metrics</b>					
<b>NPAT - Reported</b>	<b>\$114</b>	<b>\$127</b>	<b>\$81</b>	<b>\$95</b>	<b>\$112</b>		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
<b>Cashflow Statement (A\$M)</b>						Gold Price (\$US/oz)	\$1,566	\$1,823	\$1,750	\$1,750	\$1,750
	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E	AUD:US	0.77	0.77	0.77	0.77	0.77
Operating EBITDA	\$263	\$346	\$289	\$290	\$312	EPS	0.14	0.16	0.10	0.12	0.14
Net Finance Income	\$1	\$1	\$5	\$7	\$10	DPS	0.02	0.03	0.02	0.02	0.02
Income Tax Paid	-\$1	-\$25	-\$33	-\$39	-\$46	Yield	1.3%	1.6%	1.3%	1.3%	1.3%
Other	-\$26	-\$17	\$2	-\$3	-\$2	EBITDA Margin	57%	55%	40%	46%	48%
<b>Net operating Cashflow</b>	<b>\$236</b>	<b>\$306</b>	<b>\$263</b>	<b>\$256</b>	<b>\$274</b>	P/E	11.0	9.9	15.4	13.2	11.2
Capex (Development, PP&E, other)	-\$121	-\$152	-\$113	-\$99	-\$180	EV/EBITDA	4.1	3.0	3.6	2.9	2.5
Net Proceeds from Sales/Acquisitions	-\$31	-\$11	\$0	\$0	\$0	Free Cashflow Yield	17.4%	21.0%	19.9%	19.4%	20.2%
Payment for Exploration / Tenements	-\$18	-\$20	-\$32	-\$16	-\$16	<b>Revenue (A\$M)</b>					
Other Investing Cashflows	-\$1	-\$1	\$0	\$0	\$0		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
<b>Net Cash from Investing Activities</b>	<b>-\$171</b>	<b>-\$183</b>	<b>-\$145</b>	<b>-\$115</b>	<b>-\$196</b>	Mt Magnet	\$324	\$377	\$319	\$337	\$407
Net Proceeds from Debt	\$24	-\$24	\$0	\$0	\$0	Edna May	\$136	\$257	\$321	\$265	\$208
Dividends Paid	-\$7	-\$16	-\$16	-\$16	-\$16	<b>TOTAL REVENUE</b>	<b>\$461</b>	<b>\$634</b>	<b>\$641</b>	<b>\$602</b>	<b>\$615</b>
Proceeds from Issues of Shares	\$0	\$0	\$0	\$0	\$0	<b>Valuation</b>					
Other Financing Cashflows	-\$13	-\$19	\$0	\$0	\$0		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
<b>Net Cash from Financing Activities</b>	<b>\$5</b>	<b>-\$59</b>	<b>-\$16</b>	<b>-\$16</b>	<b>-\$16</b>	DR (%)			5.0%		
<b>Net Inc/Dec in Cash and Cash Equivalents</b>	<b>\$70</b>	<b>\$63</b>	<b>\$102</b>	<b>\$125</b>	<b>\$62</b>	Mt Magnet NPV		\$1,136			\$1.38
<b>Balance Sheet (A\$M)</b>						Edna May NPV		\$302			\$0.37
	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Group Charges NPV		-\$174			-\$0.21
<b>Cash &amp; Cash Equivalents</b>	<b>\$166</b>	<b>\$229</b>	<b>\$331</b>	<b>\$456</b>	<b>\$517</b>	<b>Total Current NPV (A\$M)</b>		<b>\$1,263</b>			<b>\$1.53</b>
Other Current Assets	\$101	\$103	\$111	\$106	\$107	Exploration Upside (A\$M)		\$184			\$0.22
<b>Total Current Assets</b>	<b>\$271</b>	<b>\$333</b>	<b>\$444</b>	<b>\$563</b>	<b>\$625</b>	Cash & Cash Equivalents (A\$M)		\$264			\$0.32
Development Assets	\$208	\$375	\$336	\$285	\$306	Debt (A\$M)		\$0			\$0.00
Property, Plant & Equipment	\$78	\$100	\$104	\$107	\$117	Listed Investments		\$0			\$0.00
Exploration and Evaluation Expenditure	\$196	\$31	\$31	\$31	\$31	<b>Total Valuation (A\$M)</b>		<b>\$1,712</b>			<b>\$2.08</b>
Other Non-Current Assets	\$1	\$7	\$7	\$7	\$7	Fully Diluted Shares (million)				825	
<b>Total Non-Current Assets</b>	<b>\$484</b>	<b>\$514</b>	<b>\$478</b>	<b>\$429</b>	<b>\$461</b>	<b>Target Price (A\$/Share)</b>				<b>\$2.08</b>	
<b>Total Assets</b>	<b>\$755</b>	<b>\$846</b>	<b>\$922</b>	<b>\$992</b>	<b>\$1,087</b>	<b>Total Gold Produced (koz) &amp; AISC (A\$/oz sold)</b>					
Trade & Other Payables	\$82	\$58	\$69	\$61	\$60		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Provisions & Other Current Liabilities	\$77	\$61	\$61	\$61	\$61	Gold Sold (Koz)	228	277	282	265	270
<b>Total Current Liabilities</b>	<b>\$159</b>	<b>\$120</b>	<b>\$131</b>	<b>\$122</b>	<b>\$121</b>	AISC (A\$/oz Sold)	1,164	1,317	1,468	1,403	1,282
Provisions	\$39	\$42	\$42	\$42	\$42	<b>Revenue (A\$M)</b>					
Other Non-Current Liabilities	\$42	\$48	\$48	\$48	\$48		Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
<b>Total Non-Current Liabilities</b>	<b>\$81</b>	<b>\$91</b>	<b>\$91</b>	<b>\$91</b>	<b>\$91</b>	Mt Magnet	\$324	\$377	\$319	\$337	\$407
<b>Total Liabilities</b>	<b>\$240</b>	<b>\$211</b>	<b>\$221</b>	<b>\$213</b>	<b>\$212</b>	Edna May	\$136	\$257	\$321	\$265	\$208
<b>Total Equity</b>	<b>\$515</b>	<b>\$636</b>	<b>\$701</b>	<b>\$779</b>	<b>\$875</b>	<b>TOTAL REVENUE</b>	<b>\$461</b>	<b>\$634</b>	<b>\$641</b>	<b>\$602</b>	<b>\$615</b>

Source: Morgans estimates, company data

## Key changes to forecasts

We have made no changes to our recently updated production and cost forecasts and maintain our flat A\$1750/oz gold price and 0.77AUD:USD exchange rate forecasts. We have entered the company's financial results as reported today and have made a minor change to our forecast D&A charges for the coming years. The impact on our financial estimates is presented below.

Figure 2: Forecast changes

	2020A	2021A			2022F			2023F		
		Old	New	% change	Old	New	% change	Old	New	% change
Revenue (A\$m)	460.6	633.6	634.3	0%	640.5	640.5	0%	602.0	602.0	0%
EBITDA (A\$m)	262.8	324.9	346.2	7%	257.3	257.3	0%	274.4	274.4	0%
NPAT (A\$m)	113.8	127.1	126.8	0%	87.1	81.2	-7%	100.9	95.0	-6%
<b>Key Assumptions</b>										
Gold (US\$/oz)	1566	1823	1823	0%	1750	1750	0%	1750	1750	0%
AUD	0.77	0.77	0.77	0%	0.77	0.77	0%	0.77	0.77	0%

Source: Morgans estimates, company data

## Valuation methodology

Our price target is A\$2.08ps. 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. A flat forward price of US\$1,750/oz was applied to gold sales, adjusted where applicable to account for the RMS hedge book. A fixed AUD:USD exchange rate of 0.77 was also applied, for a gold price of A\$2,273/oz. A sensitivity table is presented below showing the impact of changes in FX and gold price on our target price.

Figure 3: Sensitivity to FX and gold price changes

		USD Gold Price				
		1,500	1,700	1,750	1,800	2,000
AUD:USD	0.85	\$1.35	\$1.68	\$1.77	\$1.85	\$2.19
	0.80	\$1.50	\$1.86	\$1.95	\$2.04	\$2.40
	0.77	\$1.61	\$1.98	<b>\$2.08</b>	\$2.17	\$2.54
	0.75	\$1.68	\$2.07	\$2.16	\$2.26	\$2.64
	0.70	\$1.89	\$2.30	\$2.40	\$2.50	\$2.91

Source: Morgans estimates, company data

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 below US\$1,500/oz and a stronger AUD. We take the view that \$1,750/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 movements in the gold price and exchange rate.

Queensland		New South Wales		Victoria		Western Australia	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111	West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Grosvenor Place	+61 2 8215 5000	Brighton	+61 3 9519 3555	Perth	+61 8 6462 1999
Brisbane: Tynan Partners	+61 7 3152 0600	Sydney: Reynolds Securities	+61 2 9373 4452	Camberwell	+61 3 9813 2945	<b>South Australia</b>	
Brisbane: North Quay	+61 7 3245 5466	Sydney: Currency House	+61 2 8216 5111	Domain	+61 3 9066 3200	Adelaide	+61 8 8464 5000
Bundaberg	+61 7 4153 1050	Armidale	+61 2 6770 3300	Geelong	+61 3 5222 5128	Exchange Place	+61 8 7325 9200
Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	Richmond	+61 3 9916 4000	Norwood	+61 8 8461 2800
Caloundra	+61 7 5491 5422	Balmain	+61 2 8755 3333	South Yarra	+61 3 8762 1400	Unley	+61 8 8155 4300
Gladstone	+61 7 4972 8000	Bowral	+61 2 4851 5555	Southbank	+61 3 9037 9444	<b>Australian Capital Territory</b>	
Gold Coast	+61 7 5581 5777	Chatswood	+61 2 8116 1700	Traralgon	+61 3 5176 6055	Canberra	
Holland Park	+61 7 3151 8300	Coffs Harbour	+61 2 6651 5700	Warmambool	+61 3 5559 1500	<b>Northern Territory</b>	
Ipswich/Springfield	+61 7 3202 3995	Gosford	+61 2 4325 0884	<b>Australian Capital Territory</b>		Darwin	
Kedron	+61 7 3350 9000	Hurstville	+61 2 8215 5079	Canberra		+61 2 6232 4999	
Mackay	+61 7 4957 3033	Merimbula	+61 2 6495 2869	<b>Northern Territory</b>		+61 8 8981 9555	
Milton	+61 7 3114 8600	Mona Vale	+61 2 9998 4200	<b>Tasmania</b>		Hobart	
Newstead	+61 7 3151 4151	Neutral Bay	+61 2 8969 7500	Hobart		+61 3 6236 9000	
Noosa	+61 7 5449 9511	Newcastle	+61 2 4926 4044				
Redcliffe	+61 7 3897 3999	Orange	+61 2 6361 9166				
Rockhampton	+61 7 4922 5855	Port Macquarie	+61 2 6583 1735				
Spring Hill	+61 7 3833 9333	Scone	+61 2 6544 3144				
Sunshine Coast	+61 7 5479 2757	Wollongong	+61 2 4227 3022				
Toowoomba	+61 7 4639 1277						
Townsville	+61 7 4725 5787						

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