

Ramelius Resources (RMS)

Rating: Buy | Risk: High | Price Target: \$2.49

Apollo acquisition – on point with Ramelius’ strategy at a fair price

Key Information

Current Price (\$ps)	1.59
12m Target Price (\$ps)	2.49
52 Week Range (\$ps)	1.21 - 2.34
Target Price Upside (%)	56.4%
TSR (%)	60.2%
Reporting Currency	AUD
Market Cap (\$m)	1,360
Sector	Materials
Avg Daily Volume (m)	2.4
ASX 200 Weight (%)	0.06%

Fundamentals

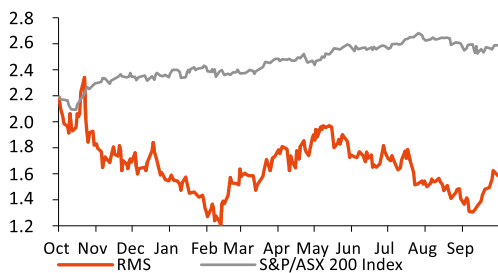
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	634	696	749	673
NPAT (\$m)	127	128	174	171
EPS (cps)	15.7	15.4	20.4	20.0
EPS Growth (%)	1.0%	(1.6%)	32.4%	(1.8%)
DPS (cps) (AUD)	4.5	6.0	10.0	10.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	10.8	10.3	7.8	7.9
EV/EBITDA (x)	3.9	3.9	3.4	3.6
Div Yield (%)	2.7%	3.8%	6.3%	6.3%
Payout Ratio (%)	28.8%	38.9%	49.0%	49.9%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	13.0%	4.5%	(10.7%)	(45.8%)
Absolute (%)	12.4%	2.6%	(10.5%)	(26.6%)
Benchmark (%)	(0.6%)	(1.9%)	0.2%	19.2%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Van Eck Associates Corp.	10.7%
Ruffer LLP	5.0%
Vinva Investment Management Ltd.	3.8%
Invesco Advisers, Inc.	3.1%
The Vanguard Group, Inc.	2.6%

Event

Ramelius Resources (RMS) has made a takeover offer for Apollo Consolidated (AOP:ASX). The offer is equivalent to \$0.56ps, a 22% premium to the last closing price of A\$0.46ps. The offer is \$0.34 cash and 0.1375 Ramelius shares for each Apollo share. Apollo directors have unanimously recommended that shareholders should accept the offer.

Highlights

- Apollo Consolidated is developing the Lake Rebecca Gold Project in the Eastern Goldfields of WA around 150km east of Kalgoorlie. The project has a 1.1Moz resource at 1.2g/t – with the acquisition price valuing Apollo at an EV/oz multiple of A\$116/oz, in-line with the sector average A\$112/oz.
- The Lake Rebecca project consists of three discoveries – Rebecca, Duchess and Duke over around 6km of strike, with a number of additional exploration targets in close proximity. Rebecca is the main deposit – with a Mineral Resource Estimate of 20.4Mt @ 1.3g/t for 840koz. The Resource has been constrained by an optimised pit shell, and so has room to expand.
- Ramelius Resources is cashed up (~A\$240m cash) and has been looking for a third ~100koz pa processing hub to add to its Mount Magnet and Edna May production hubs in WA. The Lake Rebecca Gold Project appears to have the potential to be developed as 100koz pa operation – although further exploration success will be required. We estimate a resource of at least 1.5Moz will be required to maintain a 100koz operation for a 10 year mine life.
- The acquisition will be funded by cash and shares – A\$99m in cash, and ~40m additional RMS shares being issued (a 5% increase in the current 815m RMS share count). The acquisition values the equity in Apollo at A\$163m, and the enterprise value at A\$128m (Apollo has A\$35m cash).
- In our view this is a fairly valued acquisition with a solid strategic rationale – Ramelius has a strong track record in value enhancing acquisitions and will be bringing financial strength and operational experience to the development of Lake Rebecca.
- We also note that this acquisition makes Saturn Metals appear relatively cheap. Saturn has a similar scale project at Apollo Hill (size and grade) – but is trading at just A\$37/oz. Saturn is continuing its 42,000m drilling program at Apollo Hill and regional exploration targets. Another resource upgrade is planned for later in 2021 after considering results. We have a Buy recommendation and A\$0.87 price target on Saturn Metals (STN).
- We have made minor changes to our earnings forecasts with the only impact being slightly lower net interest income and 5% EPS dilution with the higher share count. Our DCF valuation of A\$1.66ps is unchanged.

Revisions	2021			2022f			2023f			2024f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (A\$m)	634	634	0%	696	696	0%	749	749	0%	673	673	0%
EBITDA (A\$m)	340	340	0%	337	337	0%	389	389	0%	366	366	0%
EBIT (A\$m)	177	177	0%	174	174	0%	231	231	0%	221	221	0%
NPAT (A\$m)	127	127	0%	128	128	0%	174	176	-1%	171	173	-1%
EPS (Acps)	16	16	0%	15	16	-2%	20	22	-5%	20	21	-5%

Recommendation

We retain our Buy recommendation and price target of A\$2.49ps. Ramelius has a strong track record of operational excellence and a history of value-enhancing acquisitions. In a high gold price environment we expect gold equities to trade at a substantial premium to their underlying fundamental valuation. For Ramelius we have set our price target at 1.5x our DCF valuation of A\$1.66ps.

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Ramelius Resources

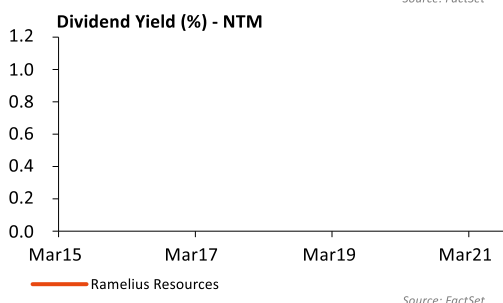
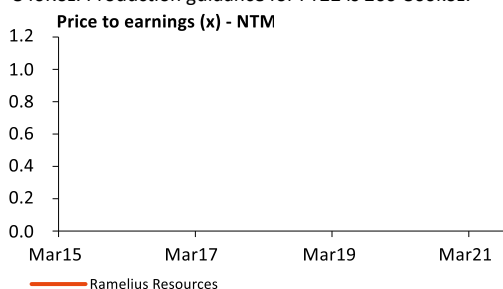
Materials Materials

FactSet: RMS-AU / Bloomberg: RMS AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.59
Target Price (\$ps)	2.49
52 Week Range (\$ps)	1.21 - 2.34
Shares on Issue (m)	855
Market Cap (\$m)	1,360
Enterprise Value (\$m)	1,320
TSR (%)	60.2%

Valuation NPV	Data
Beta	1.00
Cost of Equity (%)	10.0%
Cost of Debt (net) (%)	2.8%
Risk Free Rate (%)	4.0%
Terminal Growth (%)	0.0%
WACC (%)	8.6%
Valuation (\$m)	1,416
Valuation per share (cps) (AUD)	1.66

Ramelius Resources Ltd. is a gold producer based in Western Australia. Ramelius has two production hubs at Mt Magnet and Edna May. In FY21 Ramelius produced 271koz of gold from a resource base of 4.1Moz and reserve of 840Koz. Production guidance for FY22 is 260-300koz.



Financial Year End: 30 June

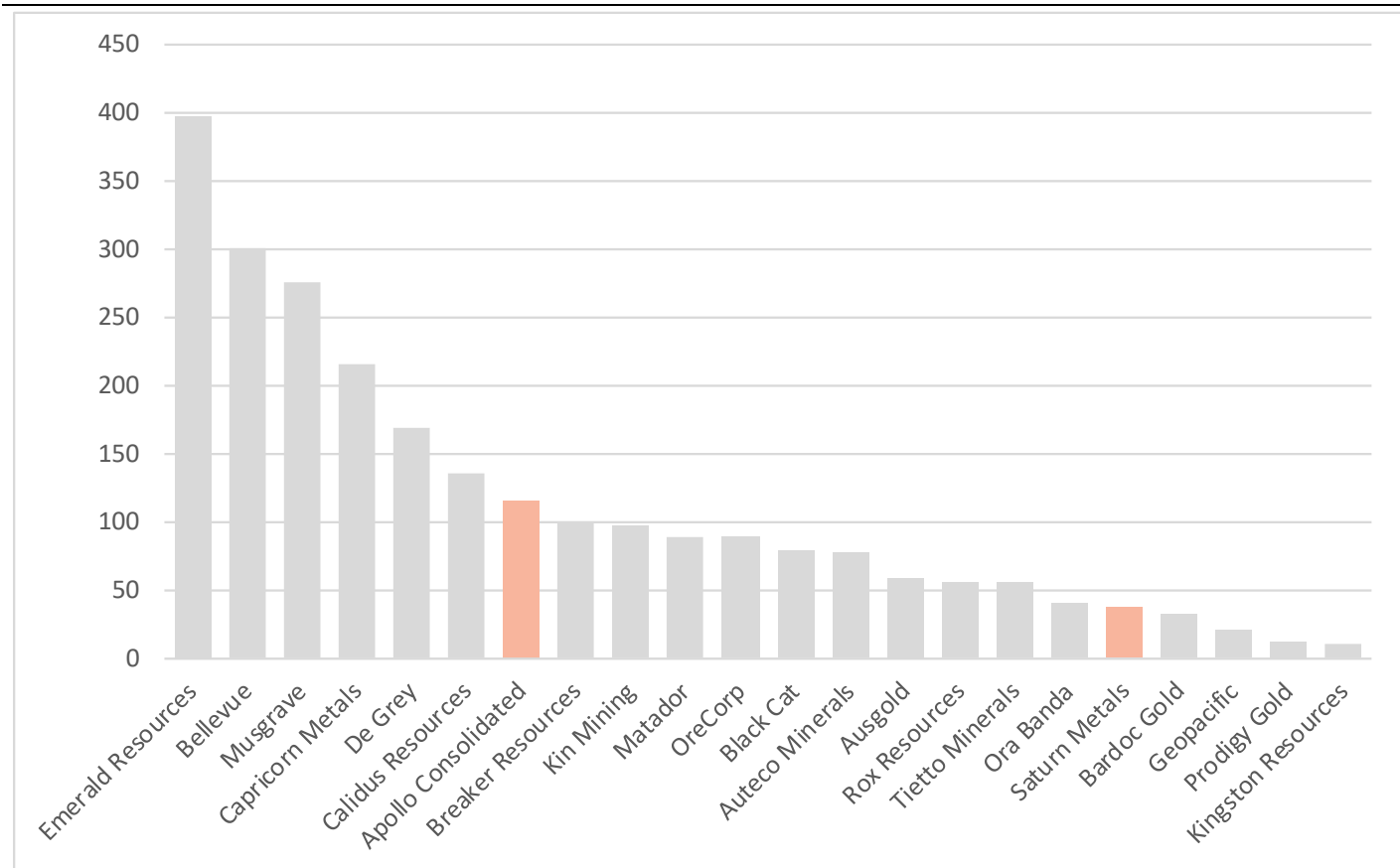
Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	15.5	15.7	15.4	20.4	20.0
EPS (Underlying) (cps)	15.5	15.7	15.4	20.4	20.0
EPS (Underlying) Growth (%)	321.1%	1.0%	(1.6%)	32.4%	(1.8%)
PE (Underlying) (x)	12.8	10.8	10.3	7.8	7.9
EV / EBIT (x)	8.7	7.4	7.6	5.7	6.0
EV / EBITDA (x)	5.2	3.9	3.9	3.4	3.6
DPS (cps) (AUD)	2.0	4.5	6.0	10.0	10.0
Dividend Yield (%)	1.0%	2.7%	3.8%	6.3%	6.3%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	12.9%	28.8%	38.9%	49.0%	49.9%
Free Cash Flow Yield (%)	4.5%	8.9%	7.3%	19.7%	12.7%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	461	634	696	749	673
Sales Growth (%)	30.6%	37.7%	9.8%	7.6%	(10.2%)
Other Operating Income	1	8	2	2	2
EBITDA	256	340	337	389	366
EBITDA Margin (%)	55.5%	53.7%	48.4%	51.9%	54.4%
Depreciation & Amortisation	(103)	(163)	(163)	(158)	(146)
EBIT	152.5	177.4	174.1	230.8	220.7
EBIT Margin (%)	33.1%	28.0%	25.0%	30.8%	32.8%
Net Interest	(3)	(3)	2	8	14
Pretax Profit	149	175	176	239	234
Tax	(36)	(48)	(48)	(64)	(63)
Tax Rate (%)	(24.1%)	(27.4%)	(27.0%)	(27.0%)	(27.0%)
NPAT Underlying	113	127	128	174	171
Significant Items	0	0	0	0	0
NPAT Reported	113	127	128	174	171
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	153	177	174	231	221
Payments to Suppliers	(230)	(305)	(359)	(360)	(307)
Receipts from Customers	466	634	696	749	673
Tax Paid	(1)	(25)	(48)	(48)	(64)
Net Interest	1	1	5	10	16
Change in Working Capital	0	0	2	(8)	1
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	0	0	0
Operating Cashflow	236	306	296	344	320
Capex	(121)	(152)	(58)	(63)	(134)
Acquisitions and Investments	(49)	(28)	(141)	(14)	(14)
Disposal of Fixed Assets/Investments	1	3	0	0	0
Other	(2)	(7)	0	0	0
Investing Cashflow	(171)	(183)	(199)	(77)	(148)
Free Cashflow	65	123	97	267	172
Equity Raised / Bought Back	0	0	64	0	0
Dividends Paid	(7)	(16)	(38)	(68)	(85)
Change in Debt	26	(16)	(38)	(68)	(85)
Other	(15)	(27)	35	66	83
Financing Cashflow	5	(59)	24	(71)	(88)
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	70	63	121	196	84
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	166	229	349	545	629
Accounts Receivable	3	2	2	2	2
Inventory	98	101	111	119	107
Other Current Assets	4	1	1	1	1
PPE	483	507	415	334	336
Total Assets	755	846	886	1,009	1,082
Accounts Payable	82	58	71	71	60
Long Term Debt	23	0	0	0	0
Total Liabilities	236	175	187	204	192
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	28.6%	22.0%	18.0%	20.6%	18.2%

Figure 1: Australian Gold Exploration Company Comparables

Developers / Explorers	Code	Reserve Resource		Mkt Cap A\$m	Cash A\$m	EV/oz Resource	% M&I	Grade g/t	Project	Location
		Moz	Moz							
Emerald Resources	EMR	0.907	1.141	531	77	398	88%	2.01	Okvau	Cambodia
Bellevue	BGL		2.410	853	128	301	43%	10.0	Bellevue	WA
Musgrave	MGV		0.659	204	22	276	46%	3.2	Cue	WA
Capricorn Metals	CMM	1.201	4.245	991	78	215	83%	0.8	Karlawinda	WA
De Grey	DEG		9.000	1,596	70	170	43%	1.2	Mallina	WA
Calidus Resources	CAI		1.495	244	42	135	66%	1.06	Warrawoona	WA
Apollo Consolidated	AOP		1.095	162	35	116	53%	1.2	Lake Rebecca	WA
Breaker Resources	BRB		0.981	99	3	98	86%	1.3	Lake Roe	WA
Kin Mining	KIN		1.154	115	3	97	56%	1.27	Cardinia	WA
Matador	MZZ		0.837	85	11	89	43%	2.02	Cape Ray Shear	Canada
OreCorp	ORR		3.070	292	21	88	88%	4.03	Nyanzaga	Tanzania
Black Cat	BC8		0.905	77	6	79	49%	2.3	Kal East	WA
Auteco Minerals	AUT		1.700	135	30	78	0%	82	Pickle Crow	Canada
Ausgold	AUC		1.201	73	3	58	49%	1.1	Jinkas South	WA
Rox Resources	RXL		1.191	61	16	55	40%	1.7 / 8.5	Youanmi	WA
Tietto Minerals	TIE		3.020	222	57	54	41%	1.2	Abujar	W Africa
Ora Banda	OBM	0.460	2.130	96	11	40	68%	2.8	Davyhurst	WA
Saturn Metals	STN		0.944	47	13	37	59%	0.8	Apollo Hill	WA
Bardoc Gold	BDC	1.006	3.031	120	23	32	64%	1.9	Bardoc	WA
Geopacific	GPR	1.038	1.573	174	143	20	86%	1.04	Woodlark	PNG
Prodigy Gold	PRX		1.010	20	9	11	14%	2	Reynolds Range	NT
Kingston Resources	KSN	1.350	3.600	54	17	10	50%	0.8	Misima	PNG
Average			2.109	284		112				

Source: Factset, Company Reports, Shaw and Partners analysis

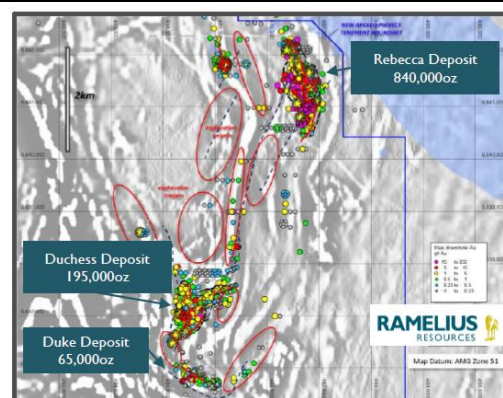
Figure 2: Australian Gold Exploration Company EV/Oz (A\$/oz)



Source: Factset, Company Reports, Shaw and Partners analysis

Figure 3: Lake Rebecca Gold Project - Overview

- **Based in a proven, regional-scale gold belt**
- **Tier I location**
 - 150km north-east from Kalgoorlie, in Australia's premier gold province
 - Southern end of the +30Moz Laverton District
 - Access to first-class regional infrastructure
- **Rebecca, Duke and Duchess Deposits**
 - Pit-constrained +1.1Moz Mineral Resource estimate, 74% Indicated category
 - Rebecca deposit – the 840koz 'jewel in the crown'
 - Duke and Duchess deposits provide operational flexibility
- **Exploration upside**
 - Under-explored area, unlocking discoveries with improved geological understanding
 - Exploration to drive future Resource growth
 - Recent Cleo discovery opens new exploration front in mafic geology, distinct from granite-hosted mineralisation at Rebecca, Duke and Duchess



Indicated and Inferred Resource*			
Deposit	Tonnes	Grade (g/t)	Ounces
Rebecca	20,400,000	1.3	840,000
Duchess	6,850,000	0.9	195,000
Duke	1,900,000	1.1	65,000
Total	29,100,000	1.2	1,105,000

Source: Ramelius presentation, Oct 2021

Key risks

- The gold price is volatile and driven as much by geopolitical events as fundamental supply and demand. As such, the price of gold is relatively difficult to forecast, and the actual price may differ substantially from our forecasts.
- A number of Ramelius' resources are not yet producing and there is a risk that Ramelius is unable to bring the operations in to production. The projects may cost more than expected to build and may not operate as expected.
- Ramelius Resources is acquisitive, and this brings risks that future acquisitions may not be as value creating as past acquisitions. The company has shown that it is able to make value-enhancing acquisitions, but all acquisitions come with due diligence risk.
- Cost pressures are increasing in the mining industry in WA. This is factored into company guidance and our forecasts, but costs may increase faster than expected.

Core drivers and catalyst

- In FY21 Ramelius produced 271koz of gold from two processing hubs at Mt Magnet and Edna May in Western Australia at an all-in sustaining cost of A\$1,317/oz. Production is expected to increase to around 280koz in FY22.
- Ramelius published its first five year mine plan in June 2019 which outlined how it would achieve >200koz of gold production out to 2025. The plan was updated in June 2020 to incorporate the acquisition of Spectrum Metals. A new mine plan released in August, 2021 has extended the mine plan out to 2030
- Ramelius has made a number of astute acquisitions in the past five years and we expect the company to remain acquisitive. The company has openly stated that it would like to add another 100koz processing hub to the portfolio.
- We expect to see the US\$ gold price increase back towards US\$2,000/oz in CY22. The US Federal Reserve is likely to maintain its stimulatory policy settings for the next 2-3 years as we emerge from the COVID-19 lockdowns. This means the US is likely to experience an extended period of negative real interest rates which is very positive for gold.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

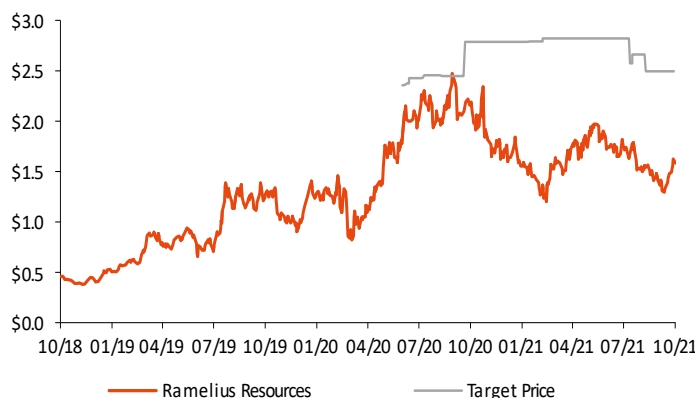
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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	80	83%
Hold	15	16%
Sell	1	1%

History of Investment Rating and Target Price - Ramelius Resources

Date	Closing Price (\$)	Target Price (\$)	Rating
18-Oct-21	1.59	2.49	Buy
26-Aug-21	1.53	2.49	Buy
2-Aug-21	1.78	2.66	Buy
29-Jul-21	1.65	2.57	Buy
23-Feb-21	1.37	2.82	Buy
28-Jan-21	1.48	2.79	Buy
8-Oct-20	2.11	2.79	Buy
24-Aug-20	2.02	2.45	Buy
27-Jul-20	2.30	2.46	Buy
30-Jun-20	1.99	2.43	Buy
25-Jun-20	2.02	2.38	Buy
18-Jun-20	1.78	2.36	Buy



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