February 23, 2022

Ramelius Resources

Not immune to cost pressures but focused on margin

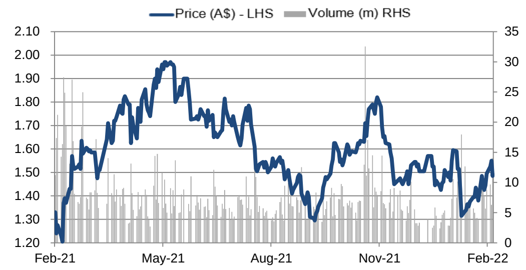
ADD (no change)

Stock code:	RMS AU
Price:	A$1.49
12-month target price:	A$1.91
Previous target price:	A$1.91
Up/downside to target price:	28.2%
Dividend yield:	0.4%
12-month TSR*:	28.6%
Market cap:	A$1,292m
Average daily turnover:	A$6.8m
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	-6.3	-9.7	9.2	144.3
Rel ASX/S&P200	-6.1	-6.3	3.5	128.1



Source: Bloomberg

Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A$m)	634.3	597.3	602.0	614.6
EBITDA Norm (A$m)	346.2	265.1	258.6	295.4
Net Profit (A$m)	126.8	56.2	79.0	105.3
EPS Norm (A$)	0.16	0.07	0.09	0.12
EPS Growth Norm (%)	-0.9%	-58.7%	36.1%	33.3%
P/E Norm (x)	9.3	21.3	16.6	12.4
DPS (A$)	0.03	0.00	0.01	0.01
Dividend Yield (%)	2.0%	0.0%	0.7%	0.7%
EV/EBITDA (x)	3.1	4.1	3.7	3.0
Gearing (Net Debt/EBITDA)	-0.66	-0.78	-1.29	-1.34

Source: Company data, Morgans estimates

Related research

Sector report - 03 Feb 2022

RMS (ADD - TP A$1.91) - 31 Jan 2022

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

– Ramelius Resources

- H1 financial reporting showed RMS preserved much of its margin in the face of cost pressures, though the one-off impact of an asset sale cushioned the decline. Net mine cash flow was down 46% on the corresponding period in FY21.
- WA's tight labour market impacted RMS' ability to execute its first half plan with road train ore haulage hit by driver shortages.
- While the end of WA's hard border in March is likely to ease these pressures over time, it is unlikely RMS will be able to catch up all the lost production from H1, and management reiterated their expectation of achieving the bottom end of guidance.
- We maintain a price target of A$1.91/share and an Add recommendation for the stock.

Event

- H1 financial reporting shows the impact of reduced gold production, industry-wide cost pressures and ore haulage challenges for Ramelius.

Analysis

- EBITDA (-3%) and NPAT (-10%) proved resilient, supported by the one-off impact of the A$30m Kathleen Valley lithium royalty sale in the half. Group cash and bullion was down 29% to A$164.5m, hit by the one-off impact of the Apollo acquisition (A$70.3m), dividends and tax payments (A$60.3m), though underlying cash flow was positive at A$30.7m.
- Group revenue was down 9% on lower processed grades compared to forecast. While Edna May grade lifted, it was below plan because of restricted road haulage (lack of equipment and operators) while Mt Magnet was already forecast to decline with a reduction in high-grade feed sources in the mining plan.

Forecast and valuation update

- We recently reduced our FY22 production and cost estimates on the expectation of production being at the lower end of guidance with the impact of reduced road haulage and lower grades in H1.
- We maintain our forecast cost reduction in FY23 as high-grade ore from Penny begins to be processed, dropping further in FY24.
- We have adjusted our forecast inventory movements for the rest of FY22 and into FY23 on greater clarity from today's reporting, which flows through to our NPAT forecasts but does not impact our cash flow or project NPVs. See page 4 for further detail.
- Our price target is unchanged at A$1.91/share using a sum of the parts NPV methodology. We retain an Add rating for the stock.

Investment view

- RMS management has a strong track record of operational discipline and cost control but is being challenged right now with the combination of a tight labour market and cost inflation.
- WA's border reopening in March may assist in unwinding the stockpile build up the company has experienced in the first half, boosting potential production.
- While the recent move to the low end of guidance range is disappointing, RMS' track record of execution to plan and clarity in reporting gives confidence in its ability to deliver (barring further unforeseen/external surprises).
- We remain confident in the longer-term outlook for the company.

Price catalysts

- Penny West project development and first ore during CY22.
- Exploration success and study progress across RMS project portfolio, with the first study update anticipated before the end of February.

Risks

- Greater labour/productivity impacts as Covid-19 infections increase in WA.
- USD/AUD exchange rate and the gold price are the key macro risks for RMS, driven by competing inflation and interest rate pressures and geopolitical uncertainty.

Ramelius Resources

as at February 23, 2022

Rating	**ADD**	Price (A$):	1.49
Market cap (A$m):	1,292	12-month target price (A$):	1.91
Shares outstanding (m):	867.4	Up/downside to target price (%):	28.2
Free float (%):	100.0	Dividend yield (%):	0.4

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. It also owns the Rebecca project following its purchase of Apollo in FY22

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:

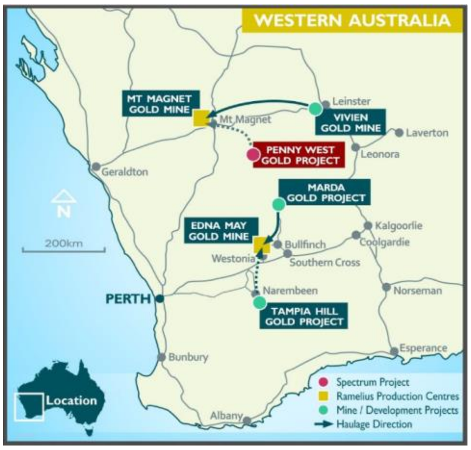
- Ramp-up of Marda & Tampia Hill operations
- Integration of Penny Gold Project operations

Long-term key growth factors:

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

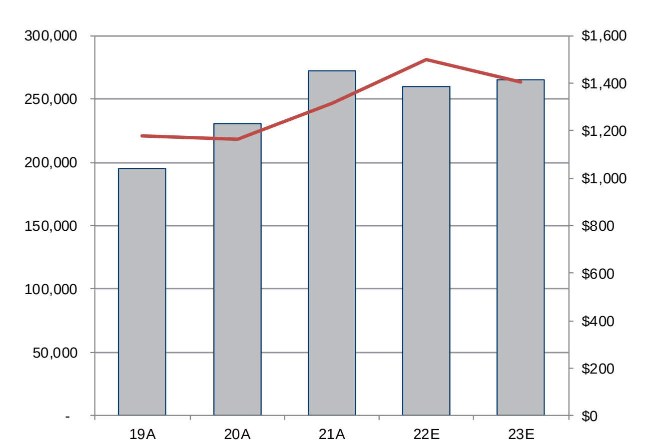
Source: Morgans

Map of RMS Operations



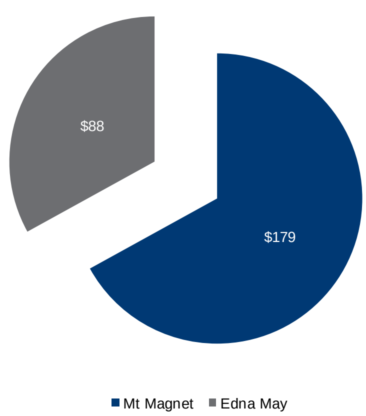
Source: Company

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



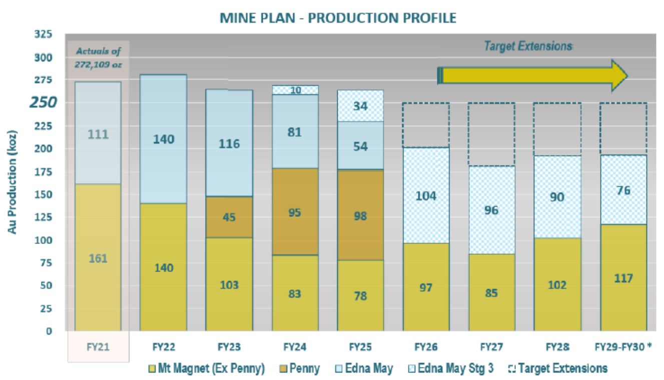
Source: Morgans

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

Income statement (A$M)	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Sales Revenue	$461	$634	$597	$602	$615
Operating Costs	-$186	-$281	-$346	-$298	-$289
Other Income/Costs	-$12	-$7	$13	-$45	-$30
EBITDA	**$263**	**$346**	**$265**	**$259**	**$295**
Depreciation & Amortisation	-$104	-$164	-$155	-$148	-$148
EBIT	**$159**	**$183**	**$110**	**$111**	**$147**
Other Income & Expenses	$1	$1	$0	$1	$1
Profit before Income Tax	**$150**	**$175**	**$109**	**$111**	**$148**
Income Tax Expense	-$36	-$48	-$33	-$32	-$43
Reported NPAT	**$114**	**$127**	**$76**	**$79**	**$105**

Gold Sold (Koz)	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Mt Magnet	164	165	130	148	179
Edna May	65	112	129	117	91
TOTAL GOLD SOLD	**228**	**277**	**259**	**265**	**270**

AISC (A$/oz Sold)	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Mt Magnet	1,047	1,195	1,532	1,272	1,023
Edna May	1,464	1,496	1,471	1,577	1,797
GROUP	**1,164**	**1,317**	**1,501**	**1,406**	**1,284**

Cashflow Statement (A$M)	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Operating EBITDA	$263	$346	$248	$275	$311
Net Finance Income	$1	$1	$1	$1	$1
Income Tax Paid	-$1	-$25	-$41	-$32	-$43
Other	-$26	-$17	-$14	$7	-$2
Net operating Cashflow	**$236**	**$306**	**$193**	**$250**	**$268**
Capex (Development, PP&E, other)	-$121	-$152	-$120	-$99	-$180
Net Proceeds from Sales/Acquisitions	-$31	-$11	-$37	$0	$0
Payment for Exploration / Tenements	-$18	-$20	-$23	-$16	-$16
Other Investing Cashflows	-$1	-$1	-$4	$0	$0
Net Cash from Investing Activities	**-$171**	**-$183**	**-$184**	**-$115**	**-$196**
Net Proceeds from Debt	$24	-$24	$0	$0	$0
Dividends Paid	-$7	-$16	-$20	-$9	-$9
Proceeds from Issues of Shares	$0	$0	$0	$0	$0
Other Financing Cashflows	-$13	-$19	-$11	$0	$0
Net Cash from Financing Activities	**$5**	**-$59**	**-$32**	**-$9**	**-$9**
Net Inc/Dec in Cash and Cash Equivalents	**$70**	**$63**	**-$22**	**$126**	**$63**

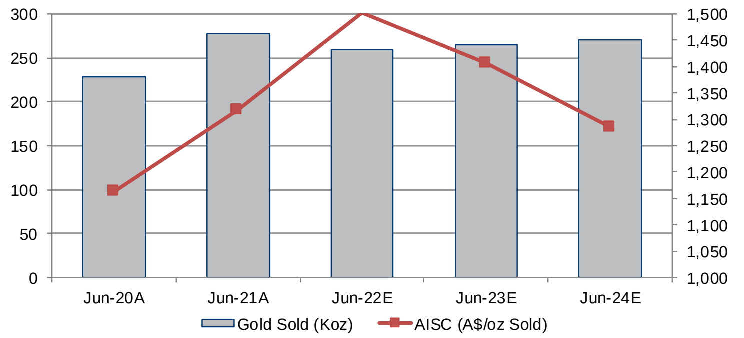
Key Metrics	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Gold Price ($US/oz)	$1,566	$1,823	$1,750	$1,750	$1,750
AUD:US	0.77	0.77	0.77	0.77	0.77
EPS	0.14	0.16	0.06	0.09	0.12
DPS	0.02	0.03	0.00	0.01	0.01
Yield	135.1%	168.9%	0.0%	67.6%	67.6%
EBITDA Margin	57%	55%	44%	43%	48%
P/E	11.1	10.0	23.9	17.0	12.8
EV/EBITDA	4.2	3.0	4.3	3.9	3.2
Free Cashflow Yield	1694.1%	2044.6%	1323.8%	1850.2%	1923.5%

Revenue (A$M)	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Mt Magnet	$324	$377	$299	$337	$407
Edna May	$136	$257	$298	$265	$208
TOTAL REVENUE	**$461**	**$634**	**$597**	**$602**	**$615**

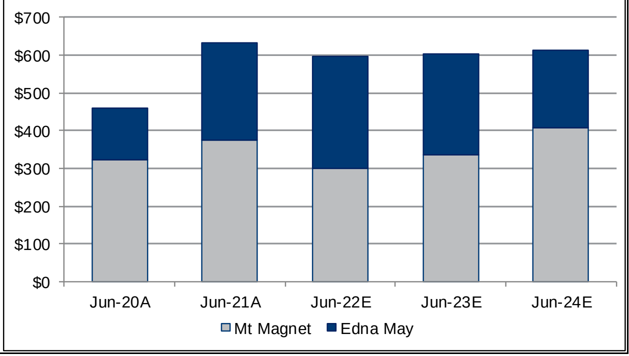
Balance Sheet (A$M)	Jun-20A	Jun-21A	Jun-22E	Jun-23E	Jun-24E
Cash & Cash Equivalents	**$166**	**$229**	**$206**	**$333**	**$396**
Other Current Assets	$101	$103	$57	$45	$45
Total Current Assets	**$271**	**$333**	**$267**	**$381**	**$445**
Development Assets	$208	$375	$349	$298	$319
Property, Plant & Equipment	$78	$100	$104	$107	$117
Exploration and Evaluation Expenditure	$196	$31	$215	$215	$215
Other Non-Current Assets	$1	$7	$68	$68	$68
Total Non-Current Assets	**$484**	**$514**	**$736**	**$687**	**$719**
Total Assets	**$755**	**$846**	**$1,003**	**$1,068**	**$1,164**
Trade & Other Payables	$82	$58	$71	$66	$64
Provisions & Other Current Liabilities	$77	$61	$43	$43	$43
Total Current Liabilities	**$159**	**$120**	**$114**	**$109**	**$108**
Provisions	$39	$42	$47	$47	$47
Other Non-Current Liabilities	$42	$48	$57	$57	$57
Total Non-Current Liabilities	**$81**	**$91**	**$104**	**$104**	**$104**
Total Liabilities	**$240**	**$211**	**$218**	**$213**	**$211**
Total Equity	**$515**	**$636**	**$785**	**$856**	**$952**

Valuation	A$M	A$/sh
DR (%)	5.0%	
Mt Magnet NPV	$1,113	$1.27
Edna May NPV	$257	$0.29
Group Charges NPV	-$134	-$0.15
Total Current NPV (A$M)	**$1,237**	**$1.41**
Exploration Upside (A$M)	$262	$0.30
Cash & Cash Equivalents (A$M)	$165	$0.19
Debt (A$M)	$0	$0.00
Listed Investments	$7	$0.01
Total Valuation (A$M)	**$1,670**	**$1.91**
Fully Diluted Shares (million)	877	
Target Price (A$/Share)	**$1.91**	

Total Gold Produced (koz) & AISC (A$/oz sold)



Revenue (A$M)



Source: Morgans estimates, company data

Valuation methodology

Our price target is A$1.91ps. A discounted cashflow methodology was used as the basis of valuation, with a 5% discount rate applied reflecting RMS' 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 2: Target price sensitivity table

		USD Gold Price				
		1,250	**1,500**	**1,750**	**1,800**	**2,000**
AUD:USD	**0.85**	$0.90	$1.27	$1.64	$1.71	$2.01
	0.80	$1.01	$1.41	$1.80	$1.88	$2.19
	0.77	$1.09	$1.50	**$1.91**	$1.99	$2.31
	0.75	$1.14	$1.56	$1.98	$2.06	$2.40
	0.70	$1.29	$1.74	$2.19	$2.28	$2.64

Source: Morgans estimates, company data

If we view the table above, at the current RMS share price, the market appears to be anticipating a much lower (~US$1,250/oz) gold price at spot FX (~0.72) – or even greater cost pressures in the sector.

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 or exchange rate.

Changes to forecasts

We leave our base case production model unchanged, but adjustments to our inventory build-up and draw down assumptions (given more detail on the impact of road haulage delays in today's financial reports) move our EBITDA and NPAT forecasts for FY22/23. The changes to our forecasts are outlined below.

Figure 3: Changes to Morgans forecasts

	2021A	2022F			2023F			2024F		
		Old	New	*% change*	Old	New	% change	Old	New	*% change*
Revenue (A$m)	634.3	596.9	597.3	0%	602.0	602.0	0%	614.6	614.6	0%
EBITDA (A$m)	346.2	228.0	265.1	16%	273.6	258.6	-5%	295.4	295.4	0%
Reported NPAT (A$m)	126.8	60.4	76.1	26%	94.1	79.0	-16%	111.1	105.3	-5%
Key Assumptions										
Gold (US$/oz)	1823	1750	1750	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

Queensland		New South Wales		Victoria	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
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Brisbane: Tynan Partners	+61 7 3152 0600	Sydney: Reynolds Securities	+61 2 9373 4452	Domain	+61 3 9066 3200
Brisbane: North Quay	+61 7 3245 5466	Sydney: Currency House	+61 2 8216 5111	Geelong	+61 3 5222 5128
Bundaberg	+61 7 4153 1050	Armidale	+61 2 6770 3300	Hawthorn	+61 3 9900 4350
Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	South Yarra	+61 3 9006 9955
Gladstone	+61 7 4972 8000	Balmain	+61 2 8755 3333	Southbank	+61 3 9037 9444
Gold Coast	+61 7 5581 5777	Bowral	+61 2 4851 5555	Traralgon	+61 3 5176 6055
Holland Park	+61 7 3151 8300	Chatswood	+61 2 8116 1700	Warrnambool	+61 3 5559 1500
Kedron	+61 7 3350 9000	Coffs Harbour	+61 2 6651 5700		
Mackay	+61 7 4957 3033	Gosford	+61 2 4325 0884	**Western Australia**	
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Rockhampton	+61 7 4922 5855	Newcastle	+61 2 4926 4044	**South Australia**	
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Spring Hill	+61 7 3833 9333	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
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Toowoomba	+61 7 4639 1277	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
Townsville	+61 7 4725 5787			Unley	+61 8 8155 4300
Northern Territory		**Australian Capital Territory**		**Tasmania**	
Darwin	+61 8 8981 9555	Canberra	+61 2 6232 4999	Hobart	+61 3 6236 9000

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