

Ramelius Resources (RMS)

Rating: Buy | Risk: High | Price Target: \$1.50

A good June quarter – but major downgrade to FY23 guidance

Key Information

Current Price (\$ps)	1.09
12m Target Price (\$ps)	1.50
52 Week Range (\$ps)	0.87 - 1.82
Target Price Upside (%)	37.9%
TSR (%)	40.7%
Reporting Currency	AUD
Market Cap (\$m)	945
Sector	Materials
Avg Daily Volume (m)	2.0
ASX 200 Weight (%)	0.04%

Fundamentals

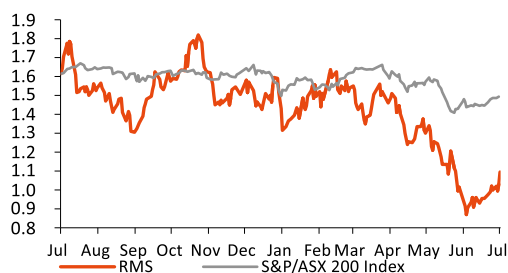
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	634	603	667	686
NPAT (\$m)	127	93	110	133
EPS (cps)	15.7	11.1	12.8	15.6
EPS Growth (%)	1.0%	(28.8%)	15.1%	21.2%
DPS (cps) (AUD)	2.5	3.0	4.0	5.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	10.8	9.8	8.5	7.0
EV/EBITDA (x)	2.7	3.1	3.1	2.8
Div Yield (%)	1.5%	2.8%	3.7%	4.6%
Payout Ratio (%)	16.0%	26.9%	31.2%	32.1%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	15.0%	(10.8%)	(19.0%)	(24.7%)
Absolute (%)	15.9%	(15.8%)	(26.3%)	(32.2%)
Benchmark (%)	0.9%	(5.0%)	(7.3%)	(7.5%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

Van Eck Associates Corp.	10.8%
Ruffer LLP	4.7%
Dimensional Fund Advisors LP	3.0%
Invesco Advisers, Inc.	2.9%
The Vanguard Group, Inc.	2.6%

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Event

Ramelius has released its June quarter activities report. June was actually a very good quarter but guidance for FY23 is materially worse than expected.

We downgrade FY23/24/25 earnings by 34%/27%/18% to account for higher costs. This brings our DCF valuation down from A\$1.66ps to A\$1.50ps. We continue to be surprised at the weakness in the gold price. We previously set our price target at 1.5x our DCF valuation but now reset that multiple to 1x – so our price target reduces from A\$2.35 to A\$1.50ps.

Highlights

- The June quarter was the best production quarter for the year (67.4koz) and annual production of 258.6koz has only just missed the previous guidance of 260-265koz which was downgraded to 255-260koz last month.
- Annual all-in-sustaining-costs (AISC) of A\$1,523/oz were in line with guidance of A\$1,475-1,525/oz set 12 months ago. The June quarter was actually an improvement on March (A\$1,564/oz v's A\$1,596/oz) That is a good performance in very difficult operating conditions.
- However, the company has released guidance for FY23 which has materially higher costs than expected. AISC guidance has increased to A\$1,750-1,950/oz compared to A\$1,523/oz actual in FY22 and guidance of A\$1,350-1,450/oz in the July 2021 mine plan. Higher costs are no surprise, but we were expecting more impact from the low-cost Penny mine in FY23. In the last mine plan, FY23 was showing a \$75/oz reduction in AISC in FY23 and a further A\$125/oz reduction in FY24.
- Ramelius has a track record of meeting or beating guidance, and the slight miss for FY22 will have disappointed the management team. We suspect, therefore, that the FY23 guidance is going to be more conservative than usual. We have increased our cost assumptions to come in at the low end of FY23 guidance at an AISC of A\$1,759/oz.
- We assume that costs reduce in FY24 (A\$1,565/oz) due to a full year of Penny production but not back to the previous guidance of \$1,225-\$1,325/oz.
- Exploration results at Bartus East and Saturn (Mt Magnet) and Rebecca and Duchess (Rebecca Project) are very encouraging with a number of excellent intercepts reported during the quarter. Bartus East looks like being an important new source of mid-high grade ore for Mt Magnet and Rebecca (recently acquired via Apollo Consolidated) looks like developing into a new processing hub. The resource at Rebecca has increased 9% to 31Mt @ 1.2g/t for 1.2Moz with 80% now in the Indicated category.
- Ramelius has finished the year with a healthy cash and gold balance of A\$172.9m, up from A\$164.7m at 31-March, and even with higher costs the company remains strongly cash flow positive.
- The current hedge book stands at 196koz at an average price of A\$2,512/oz over the period July 2022 to December 2024.

Revisions	2022f			2023f			2024f			2025f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (A\$m)	603	612	-2%	667	715	-7%	686	687	0%	663	681	-3%
EBITDA (A\$m)	289	305	-5%	289	371	-22%	321	381	-16%	305	341	-10%
EBIT (A\$m)	126	137	-8%	148	220	-33%	176	235	-25%	166	198	-16%
NPAT (A\$m)	93	102	-9%	110	166	-34%	133	181	-27%	128	157	-18%

Recommendation

We retain our Buy recommendation but reduce our price target from A\$2.35 to A\$1.50ps due to higher costs and a more subdued gold price environment than expected.

Ramelius Resources

Materials Materials

FactSet: RMS-AU / Bloomberg: RMS AU

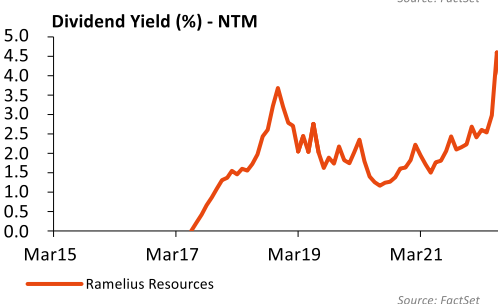
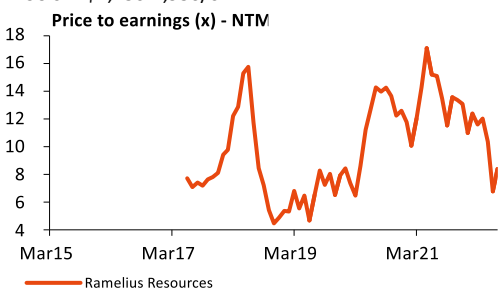
Key Items

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.09
Target Price (\$ps)	1.50
52 Week Range (\$ps)	0.87 - 1.82
Shares on Issue (m)	867
Market Cap (\$m)	945
Enterprise Value (\$m)	905
TSR (%)	40.7%

Valuation NPV

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)	1,284
Valuation per share (cps) (AUD)	1.48

Ramelius Resources Ltd. is a gold producer based in Western Australia. Ramelius has two production hubs at Mt Magnet and Edna May. In FY22 Ramelius produced 260koz of gold from a resource base of 4.1Moz and reserve of 840Koz. Production guidance for FY23 is 240-280koz at an AISC of A\$1,750-1,950/oz.



Financial Year End: 30 June

Investment Summary (AUD)

	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	15.5	15.7	11.1	12.8	15.6
EPS (Underlying) (cps)	15.5	15.7	11.1	12.8	15.6
EPS (Underlying) Growth (%)	321.1%	1.0%	(28.8%)	15.1%	21.2%
PE (Underlying) (x)	12.8	10.8	9.8	8.5	7.0
EV / EBIT (x)	5.9	5.1	7.2	6.1	5.1
EV / EBITDA (x)	3.5	2.7	3.1	3.1	2.8
DPS (cps) (AUD)	2.0	2.5	3.0	4.0	5.0
Dividend Yield (%)	1.0%	1.5%	2.8%	3.7%	4.6%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	12.9%	16.0%	26.9%	31.2%	32.1%
Free Cash Flow Yield (%)	4.5%	8.9%	2.9%	17.0%	14.1%

Profit and Loss (AUD) (m)

	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	461	634	603	667	686
Sales Growth (%)	30.6%	37.7%	(4.9%)	10.7%	2.8%
Other Operating Income	1	8	31	2	2
EBITDA	256	340	289	289	321
EBITDA Margin (%)	55.5%	53.7%	47.9%	43.2%	46.8%
Depreciation & Amortisation	(103)	(163)	(163)	(141)	(146)
EBIT	152.5	177.4	125.5	147.7	175.8
EBIT Margin (%)	33.1%	28.0%	20.8%	22.1%	25.6%
Net Interest	(3)	(3)	2	2	6
Pretax Profit	149	175	127	150	182
Tax	(36)	(48)	(34)	(41)	(49)
Tax Rate (%)	(24.1%)	(27.4%)	(27.0%)	(27.0%)	(27.0%)
NPAT Underlying	113	127	93	110	133
Significant Items	0	0	0	0	0
NPAT Reported	113	127	93	110	133

Cashflow (AUD) (m)

	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	153	177	126	148	176
Payments to Suppliers	(230)	(305)	(314)	(379)	(365)
Receipts from Customers	466	634	603	667	686
Tax Paid	(1)	(25)	(48)	(34)	(41)
Net Interest	1	1	5	5	9
Change in Working Capital	0	0	(0)	(5)	(5)
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	0	0	0
Operating Cashflow	236	306	245	255	284
Capex	(121)	(152)	(78)	(83)	(139)
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)	(219)	(97)	(153)
Free Cashflow	65	123	26	158	132
Equity Raised / Bought Back	0	0	0	0	0
Dividends Paid	(7)	(16)	(21)	(34)	(43)
Change in Debt	26	(16)	(21)	(34)	(43)
Other	(15)	(27)	(40)	31	40
Financing Cashflow	5	(59)	(82)	(37)	(45)
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	70	63	(55)	121	86

Balance Sheet (AUD) (m)

	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	166	229	173	294	381
Accounts Receivable	3	2	2	2	2
Inventory	98	101	96	106	109
Other Current Assets	4	1	1	1	1
PPE	483	507	604	560	567
Total Assets	755	846	883	971	1,067
Accounts Payable	82	58	53	59	57
Long Term Debt	23	0	0	0	0
Total Liabilities	236	175	140	152	158

Ratios

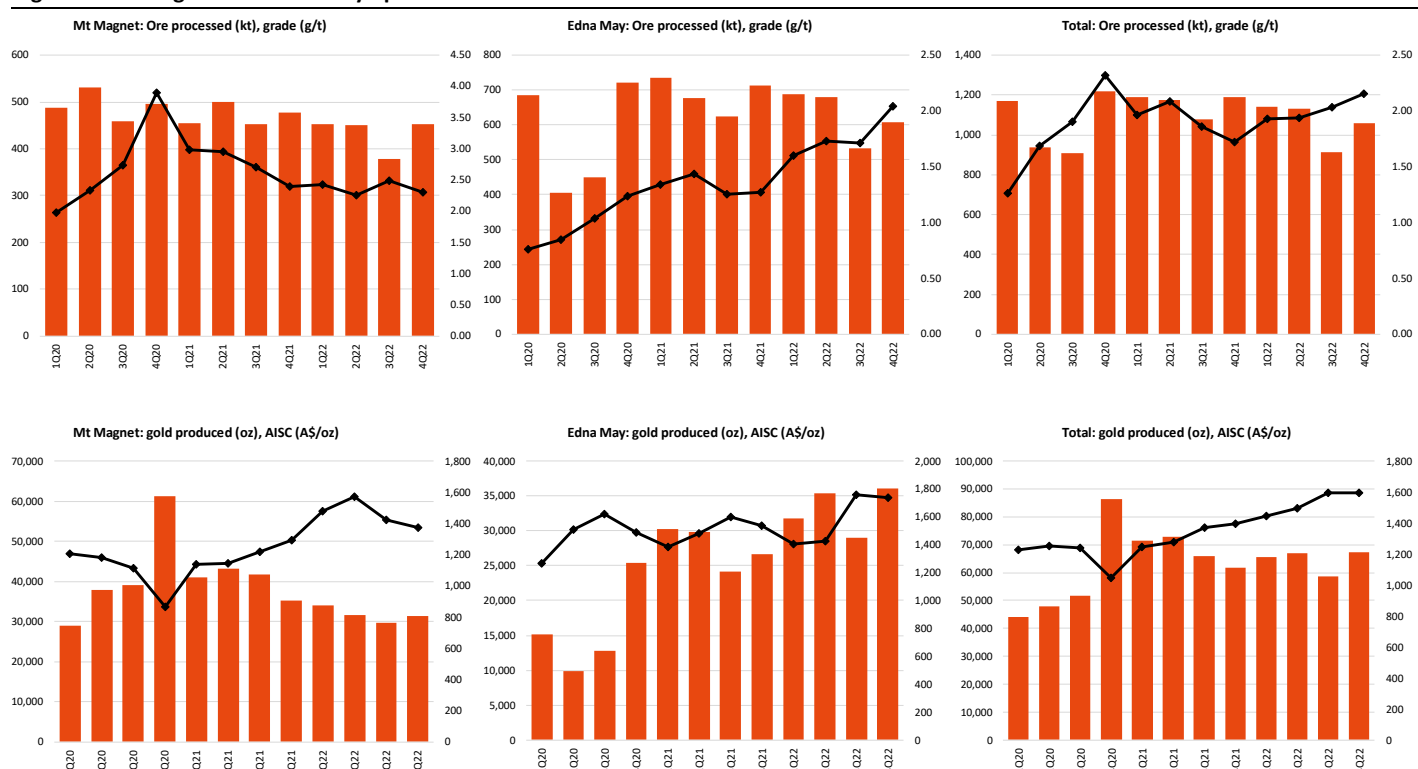
	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	28.6%	22.0%	13.8%	14.7%	16.0%

Figure 1: Quarterly operational performance summary

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Mt Magnet												
Ore processed (kt)	487	531	459	497	456	501	452	477	452	450	379	452
Grade (g/t)	1.98	2.33	2.74	3.90	2.98	2.96	2.70	2.40	2.43	2.26	2.49	2.30
Gold produced (oz)	29,013	37,956	38,981	61,161	41,064	43,055	41,832	35,208	33,958	31,552	29,588	31,413
AISC (A\$/oz)	1,209	1,182	1,114	867	1,138	1,147	1,219	1,294	1,476	1,569	1,424	1,374
Edna May												
Ore processed (kt)	685	406	448	723	734	676	625	714	687	680	533	607
Grade (g/t)	0.76	0.85	1.04	1.24	1.34	1.44	1.25	1.27	1.60	1.73	1.71	2.04
Gold produced (oz)	15,151	9,946	12,844	25,356	30,280	29,841	24,197	26,632	31,728	35,367	29,014	36,005
AISC (A\$/oz)	1,268	1,512	1,618	1,488	1,387	1,478	1,597	1,538	1,407	1,428	1,761	1,737
Total												
Ore processed (kt)	1,172	937	907	1,219	1,190	1,176	1,078	1,191	1,139	1,130	911	1,059
Grade (g/t)	1.27	1.69	1.90	2.32	1.97	2.09	1.86	1.72	1.93	1.94	2.03	2.15
Gold produced (oz)	44,164	47,902	51,825	86,517	71,344	72,896	66,029	61,840	65,686	66,919	58,602	67,418
AISC (A\$/oz)	1,229	1,251	1,239	1,049	1,244	1,279	1,370	1,394	1,445	1,493	1,596	1,596
Gold sales (oz)	39,918	45,774	53,173	89,345	70,299	77,537	65,420	64,194	55,075	77,225	51,423	67,632
Achieved gold price (A\$/oz)	1,810	1,874	1,937	2,223	2,323	2,301	2,242	2,254	2,317	2,357	2,405	2,508
Revenue (A\$m)	72	86	103	199	163	178	147	145	128	182	124	170
All in costs (A\$m)	49	57	66	94	87	99	90	89	80	115	82	108
Approx. cash flow (A\$m)	23	29	37	105	76	79	57	55	48	67	42	62

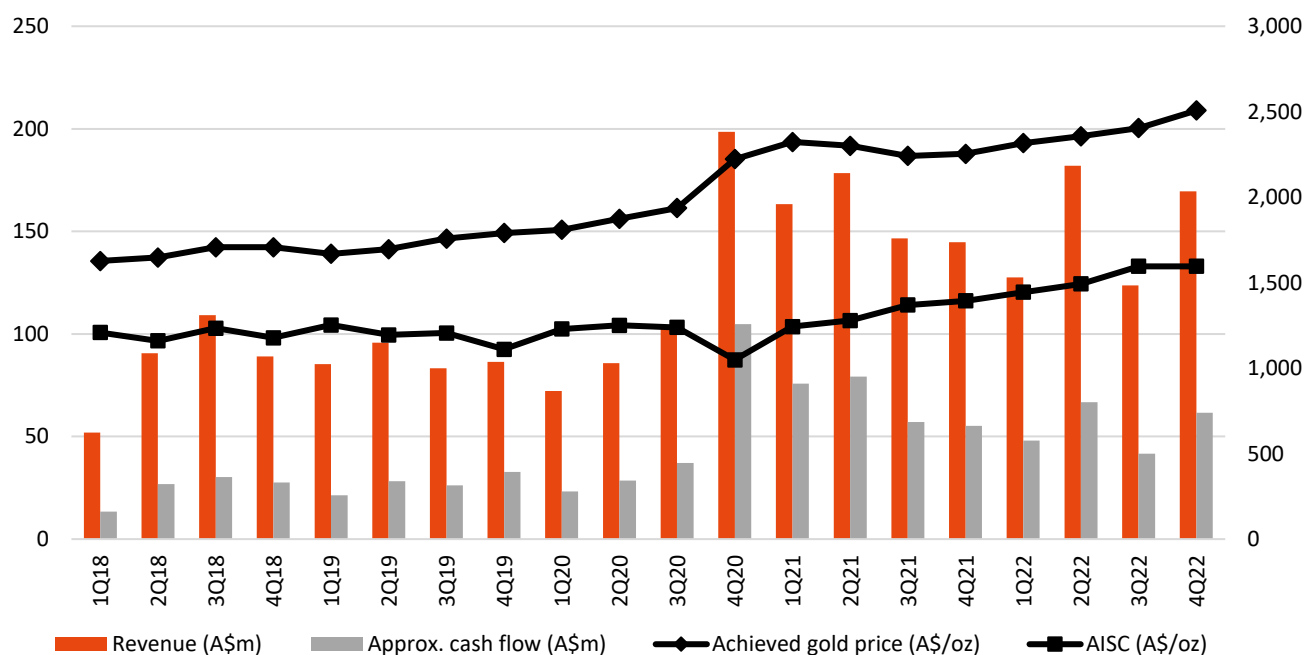
Source: Company reports, Shaw and Partners analysis

Figure 2: Mt Magnet and Edna May operational trends



Source: Company reports, Shaw and Partners analysis

Figure 3: Revenue, cash flow, achieved price & AISC



Source: Company reports, Shaw and Partners analysis

Figure 4: Actual performance, new guidance and Shaw forecasts relative to July 2021 mine plan

Production and Costs	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29+30	Total / Average
July 2021 Mine Plan									
Production (koz)	260-300	245-285	250-290	245-285	180-220	160-200	170-210	175-215	1845
AISC (A\$/oz)	1425-1525	1350-1450	1225-1325	1320-1420	1465-1615	1485-1635	1505-1655	1885-2035	1440-1560
Ramelius Actual / New Guidance									
Production (koz)	259	240-280							
AISC (A\$/oz)	1523	1750-1950							
Shaw Forecasts									
Production (koz)	259	260	273	276	226	208	135	119	
AISC (A\$/oz)	1523	1768	1565	1525	1590	1591	1813	2056	

Source: Company reports, Shaw Forecasts

Figure 5: Mt Magnet financial summary

Mt Magnet (A\$m)	2018	2019	2020	2021	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Ore processed (kt)	1,996	1,961	1,973	1,886	1,732	1,900	2,000	2,000	2,000	2,000	1,750
Grade (g/t)	2.23	1.91	2.73	2.76	2.37	2.55	2.90	2.87	2.20	1.93	1.21
Gold production (koz)	125.6	114.8	167.1	161.2	126.5	149.9	179.3	177.3	136.1	119.4	65.4
Gold sales (koz)	135.5	120.0	163.7	165.0	123.1	149.9	179.3	177.3	136.1	119.4	65.4
Revenue	227	207	324	377	295	385	451	426	334	300	168
Expenses	116	130	158	137	157	205	210	190	146	128	70
EBITDA	110	77	167	240	138	180	241	236	188	171	98
D&A	61	68	71	85	85	75	90	80	54	48	13
EBIT	44	15	134	151	53	105	152	156	134	124	84
Gold (US\$/oz)	1,298	1,289	1,568	1,816	1,833	1,881	1,825	1,777	1,817	1,858	1,900
AUD/USD	0.77	0.71	0.67	0.75	0.72	0.72	0.73	0.74	0.74	0.74	0.74
C1 cash cost (A\$/oz)	871	911	723	805	1,149	1,300	1,100	1,000	1,000	1,000	1,000
AISC (A\$/oz)	1,188	1,151	1,058	1,198	1,468	1,704	1,339	1,242	1,221	1,160	1,230
Revenue (A\$/oz)	1,672	1,727	1,981	2,286	2,396	2,568	2,517	2,402	2,456	2,511	2,568
Expenses (A\$/oz)	859	1,084	964	829	1,278	1,370	1,171	1,073	1,074	1,076	1,077
EBITDA (A\$/oz)	813	643	1,017	1,457	1,119	1,198	1,346	1,329	1,382	1,436	1,490
D&A (A\$/oz)	452	566	431	516	691	500	500	450	400	400	200
EBIT (A\$/oz)	325	121	821	916	427	698	846	879	982	1,036	1,290
Nominal Tax @ 30%	0	0	0	-45	-16	-31	-45	-47	-40	-37	-25
Capex	4	31	49	34	39	39	39	14	9	10	5
Cash Flow	106	46	118	161	83	109	157	175	139	124	67

Source: Company reports, Shaw and Partners analysis

Figure 6: Edna May financial summary

Edna May (A\$m)	2018	2019	2020	2021	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Ore processed (kt)	2,010	2,842	2,262	2,749	2,507	2,150	1,780	1,930	1,750	1,750	1,350
Grade (g/t)	1.20	0.93	0.99	1.33	1.77	1.70	1.74	1.70	1.70	1.69	1.70
Gold production (koz)	72.5	81.8	63.3	111.0	132.1	110.0	93.3	98.8	89.5	88.8	69.1
Gold sales (koz)	67.5	83.3	64.5	112.4	128.2	110.0	93.3	98.8	89.5	88.8	69.1
Revenue	115	146	136	257	308	282	235	237	220	223	177
Expenses	93	80	85	145	167	154	135	148	139	138	108
EBITDA	22	65	52	112	141	128	99	89	81	85	70
D&A	19	13	33	78	78	66	56	59	54	53	41
EBIT	16	29	37	39	63	62	43	30	27	32	28
Gold (US\$/oz)	1,298	1,289	1,568	1,816	1,833	1,881	1,825	1,777	1,817	1,858	1,900
AUD/USD	0.77	0.71	0.67	0.75	0.72	0.72	0.73	0.74	0.74	0.74	0.74
C1 cash cost (A\$/oz)	1,286	1,130	1,084	1,196	1,217	1,350	1,400	1,450	1,500	1,500	1,500
AISC (A\$/oz)	1,205	1,251	1,469	1,499	1,594	1,856	2,000	2,032	2,151	2,171	2,365
Revenue (A\$/oz)	1,704	1,748	2,113	2,286	2,401	2,568	2,517	2,402	2,456	2,511	2,568
Expenses (A\$/oz)	1,377	962	1,311	1,287	1,301	1,401	1,452	1,503	1,554	1,555	1,556
EBITDA (A\$/oz)	327	786	801	999	1,100	1,167	1,065	899	902	956	1,011
D&A (A\$/oz)	288	161	505	693	607	600	600	600	600	600	600
EBIT (A\$/oz)	232	349	570	350	493	567	465	299	302	356	411
Nominal Tax @ 30%	0	0	0	-12	-19	-19	-13	-9	-8	-9	-9
Capex	1	2	38	34	39	44	100	64	15	10	5
Cash Flow	21	63	14	67	83	66	-14	16	58	65	56

Source: Company reports, Shaw and Partners analysis

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 259koz of gold from two processing hubs at Mt Magnet and Edna May in Western Australia at an all-in sustaining cost of A\$1,523/oz. Production is expected to be 240-280koz at an AISC of A\$1,750-1,950/oz in FY23.
- 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 remain supported due to inflationary pressures. Gold also has safe-haven status in periods of geo-political uncertainty and instability.

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

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	109	89%
Hold	12	10%
Sell	1	1%

History of Investment Rating and Target Price - Ramelius Resources

Date	Closing Price (\$)	Target Price (\$)	Rating
28-Jul-22	1.10	1.50	Buy
27-Apr-22	1.47	2.35	Buy
23-Feb-22	1.49	2.47	Buy
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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