

Ramelius Resources (RMS)

Rating: Buy | Risk: High | Price Target: \$2.20

12 March 2024

Mt Magnet Continues to Attract

Key Information

Current Price (\$ps)	1.57
12m Target Price (\$ps)	2.20
52 Week Range (\$ps)	1.03 - 1.78
Target Price Upside (%)	40.5%
TSR (%)	42.4%
Reporting Currency	AUD
Market Cap (\$m)	1,551
Sector	Materials
Avg Daily Volume (m)	3.9
ASX 200 Weight (%)	0.06%

Fundamentals

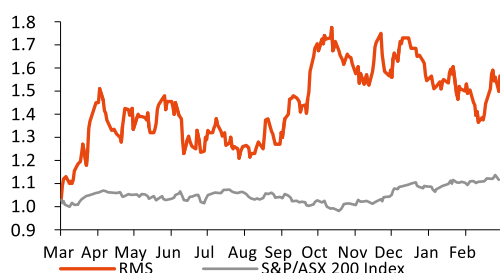
YE 30 Jun (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	631	800	1,003	955
NPAT (\$m)	75	161	235	258
EPS (cps)	6.8	15.1	20.6	22.6
EPS Growth (%)	362.3%	121.7%	36.1%	9.8%
DPS (cps) (AUD)	2.0	3.0	3.0	7.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY23A	FY24E	FY25E	FY26E
P/E (x)	18.5	10.3	7.6	6.9
EV/EBITDA (x)	5.9	4.0	3.0	3.0
Div Yield (%)	1.6%	1.9%	1.9%	4.5%
Payout Ratio (%)	29.3%	19.8%	14.6%	31.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	3.1%	(1.4%)	(8.1%)	59.6%
Absolute (%)	4.3%	1.3%	(1.6%)	67.4%
Benchmark (%)	1.2%	2.7%	6.5%	7.8%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Van Eck Associates Corp.	10.6%
Macquarie Bank Ltd. (Private Banking)	3.6%
Ruffer LLP	3.6%
The Vanguard Group, Inc.	3.3%
Dimensional Fund Advisors LP	3.0%

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Event

Ramelius Resources has released an updated Mt Magnet 10-year mine plan. Two key additions in the updated plan include the extension to the Penny mine and the recently acquired Cue project.

Highlights

- The updated Mt Magnet 10-year mine plan optimises the mill feed for the Mt Magnet processing hub, this optimisation defers lower grade ore from Mt Magnet deposits for higher grade material from the Penny extension as well as material from Cue for the first time.
- The significant upgraded production guidance has the following impact to our estimates for FY25 to FY27:

	Previous			Updated			Difference		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Mt Magnet									
Prod. (Koz)	168.1	129.0	113.2	239.0	220.0	166.0	42%	71%	47%
AISC (A\$/oz)	1,250	1,228	1,363	1,337	1,276	1,502	7%	4%	10%
Group									
Prod. (Koz)	267.1	218.8	202.3	338.0	309.8	255.1	27%	42%	26%
AISC (A\$/oz)	1,561	1,630	1,744	1,557	1,546	1,755	0%	-5%	1%
EBITDA (A\$m)	419	349	317	501	501	377	20%	43%	19%
NPAT (A\$m)	203	181	167	235	258	194	16%	43%	16%

- Whilst Mt Magnet costs have marginally increased in FY26 and FY27 compared to our forecast, the larger group weighting of Mt Magnet ounces relative to Edna May ounces has resulted in estimated group AISC decreasing.
- Upside to this plan exists through:
 - Further possible extensions at Penny
 - Additional material from Cue, the current plan sources 303koz of gold from Cue from a Resource of 910koz
 - Eridanus cutback (~400koz)
- We expect the mine plan to be refreshed periodically (previous mine plan update was in 2022) focusing on the following three years with baseline production extending beyond.
- Ramelius has confirmed that it is currently in exclusive discussions regarding a potential corporate transaction with Karora Resources (KRR-TSE, Not Rated). This deal was part of a wider deal we postulated in our previous gold sector note "Golden M&A Opportunities". Karora owns 100% of the integrated Beta Hunt and Higginsville operation located in Kambalda, Western Australia that will look to produce 200kozpa. We believed this to be an interesting proposition as gold producers on the ASX attract higher multiples as they increase production.
- Assuming Ramelius is able to maintain 300kozpa from its existing assets the addition of Karora's assets could result in Ramelius producing 500kozpa only behind Evolution Mining (EVN-ASX, Not rated) and Northern Star Resources (NST-ASX, Not Rated) on the ASX.
- Upcoming share price catalysts include; any potential deal with Karora and an updated PFS for the Rebecca/Roe project.

Recommendation

We maintain our positive view on gold and upgrade our price target for Ramelius from A\$2.00 to A\$2.20 following upgraded production guidance.

Ramelius Resources

Materials

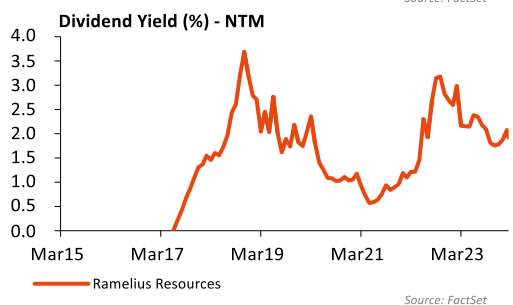
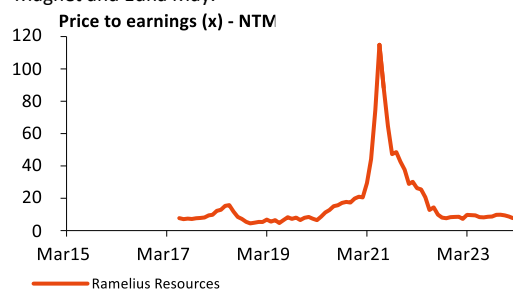
Materials

FactSet: RMS-AU / Bloomberg: RMS AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.57
Target Price (\$ps)	2.20
52 Week Range (\$ps)	1.03 - 1.78
Shares on Issue (m)	991
Market Cap (\$m)	1,551
Enterprise Value (\$m)	1,511
TSR (%)	42.4%

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%

Ramelius Resources Ltd. is a mid-tier gold producer based in Western Australia. Ramelius has two production hubs at Mt Magnet and Edna May.

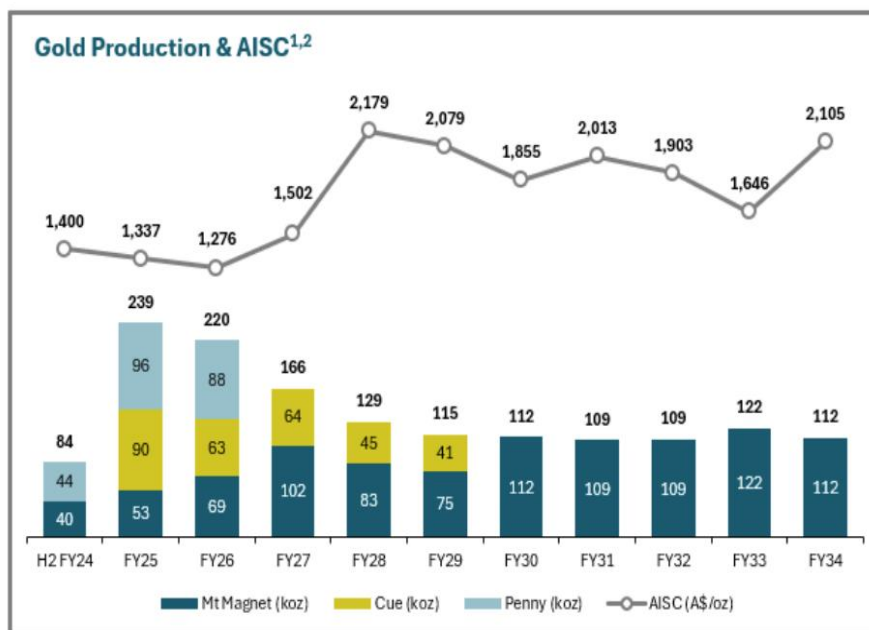


Financial Year End: 30 June

Investment Summary (AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	1.5	6.8	15.1	20.6	22.6
EPS (Underlying) (cps)	1.5	6.8	15.1	20.6	22.6
EPS (Underlying) Growth (%)	(90.6%)	362.3%	121.7%	36.1%	9.8%
PE (Underlying) (x)	59.0	18.5	10.3	7.6	6.9
EV / EBIT (x)	60.1	16.4	6.6	4.6	4.3
EV / EBITDA (x)	7.3	5.9	4.0	3.0	3.0
DPS (cps) (AUD)	1.0	2.0	3.0	3.0	7.0
Dividend Yield (%)	1.1%	1.6%	1.9%	1.9%	4.5%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	67.8%	29.3%	19.8%	14.6%	31.0%
Free Cash Flow Yield (%)	(4.6%)	12.4%	14.5%	17.8%	20.4%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	604	631	800	1,003	955
Sales Growth (%)	(4.8%)	4.5%	26.8%	25.3%	(4.8%)
Other Operating Income	31	2	2	2	2
EBITDA	208	256	377	501	501
EBITDA Margin (%)	34.4%	40.6%	47.1%	49.9%	52.5%
Depreciation & Amortisation	(182)	(164)	(150)	(174)	(148)
EBIT	25.2	92.2	227.7	327.1	352.5
EBIT Margin (%)	4.2%	14.6%	28.4%	32.6%	36.9%
Net Interest	(3)	(2)	3	8	16
Pretax Profit	23	90	230	336	368
Tax	(10)	(29)	(69)	(101)	(111)
Tax Rate (%)	(44.9%)	(31.8%)	(30.0%)	(30.0%)	(30.0%)
NPAT Underlying	73	75	161	235	258
Significant Items	(61)	(14)	0	0	0
NPAT Reported	12	62	161	235	258
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	25	92	228	327	352
Payments to Suppliers	(395)	(379)	(423)	(502)	(454)
Receipts from Customers	604	631	800	1,003	955
Tax Paid	(51)	6	(29)	(69)	(101)
Net Interest	1	3	7	12	20
Change in Working Capital	0	0	(24)	(28)	1
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	0	0	0
Operating Cashflow	159	261	331	416	421
Capex	(118)	(168)	(68)	(76)	(35)
Acquisitions and Investments	(99)	53	(21)	(21)	(21)
Disposal of Fixed Assets/Investments	30	(4)	0	0	0
Other	(6)	(2)	0	0	0
Investing Cashflow	(193)	(121)	(89)	(97)	(56)
Free Cashflow	(33)	141	242	319	364
Equity Raised / Bought Back	0	0	0	0	0
Dividends Paid	(20)	(7)	(21)	(34)	(57)
Change in Debt	(20)	(7)	(21)	(34)	(57)
Other	(7)	(23)	17	30	53
Financing Cashflow	(47)	(37)	(25)	(38)	(61)
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	(81)	103	216	280	303
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	148	251	467	748	1,051
Accounts Receivable	7	3	3	4	4
Inventory	134	137	174	218	207
Other Current Assets	4	11	11	11	11
PPE	588	686	626	549	457
Total Assets	952	1,172	1,366	1,614	1,815
Accounts Payable	82	70	83	100	89
Long Term Debt	0	0	0	0	0
Total Liabilities	227	224	277	326	325
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	10.8%	9.1%	16.0%	19.9%	18.7%

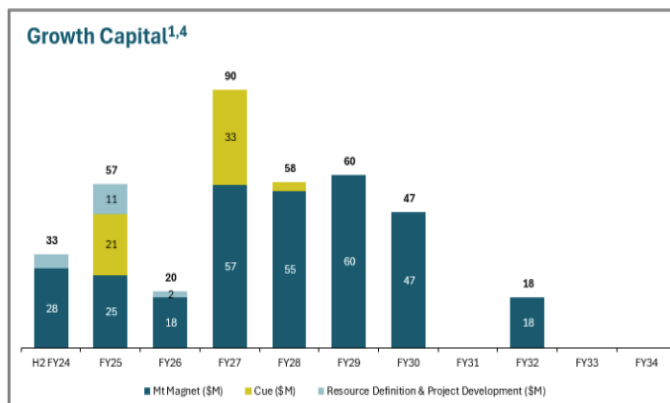
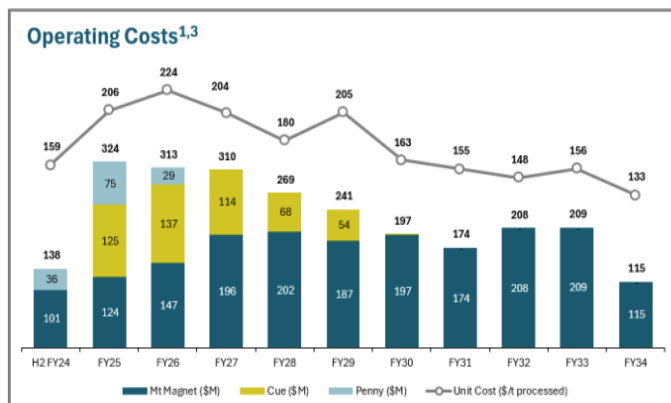
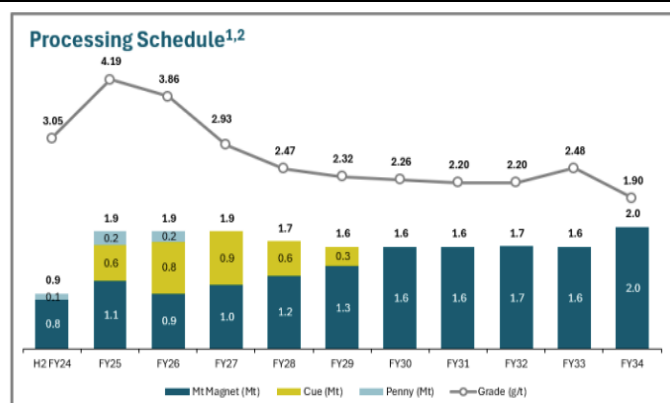
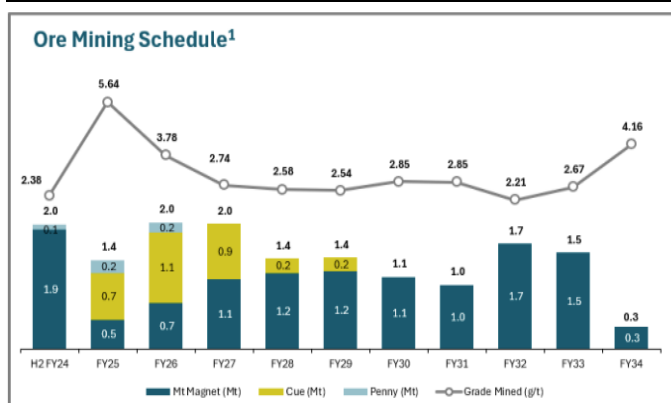
Figure 1: Mt Magnet Updated Mine Plan – Summary

Key Hub Metrics	
Metric	From 1 Jan 2024
Total Production	+1.5Moz
Average Annual Production ¹	~150koz
AISC ² (next 3.5 years)	A\$1,350/oz
AISC ² (full Mine Plan)	A\$1,700/oz
Growth Capex ³	A\$380M
Mine Life	+10 Years
Upside potential	Eridanus Cutback



Source: Company Report

Figure 2: Mt Magnet Updated Mine Plan – Physicals & Financials



Source: Company Report

Karora

Snapshot

Karora owns 100% of the integrated Beta Hunt and Higginsville operation located in Kambalda, Western Australia (Figure 3).

Figure 3: Karora Operations Location



Source: Company Report

In 2024 Karora is aiming to ramp up its production from 160koz (achieved 2023 production) to a steady state of 200kozpa. The ramp up to 200kozpa is facilitated by fully integrating the 1Mtpa Lakewood Mill (acquired in June 2022). 2024 guidance (Figure 4) has been set at 170-195koz at an AISC of US\$1,050/oz to US\$1,200/oz (A\$1,567/oz to A\$1,791/oz assuming a 0.67 exchange rate).

Figure 4: Karora Guidance

Production & Costs		2023	2024
Gold Production	koz	145 - 160	170 - 195
All-in sustaining costs ^{6,7}	US\$/oz	1,100 - 1,250	1,050 - 1,200
Payable Nickel Production	Tonnes	450 - 550	600 - 800

Capital Investments ^{2,3,5}		2023	2024
Sustaining Capital	A\$ (M)	10 - 15	15 - 20
Growth Plan Capital	A\$ (M)	57 - 68	63 - 73
Exploration & Resource Development ⁴	A\$ (M)	18 - 22	20 - 25

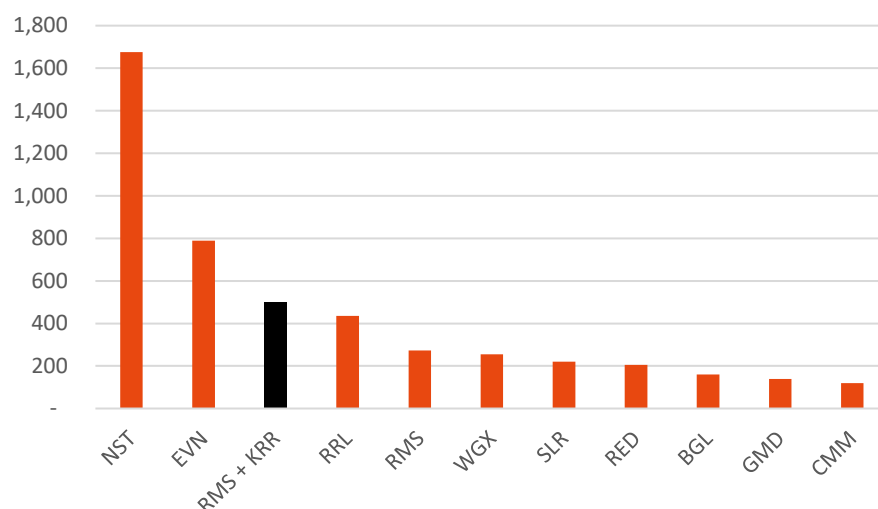
Source: Company Report

Beta Hunt is a large 2Mtpa underground mine with 2.7Moz at 2.7g/t of Resource. The main orebody is wide and homogenous resulting in consistent performance. Beta Hunt also has an added upside through a separate parallel nickel orebody (the mine was initially a nickel mine). Even at the current depressed nickel prices the operation is cashflow positive as the nickel only needs to pay for the variable mining and processing costs as the gold pays for the mine on its own.

The Higginsville operation hosts a 1.6Mtpa mill and a combination of multiple open pit and underground mines. The greater Higginsville area has a combined Resource of 2Moz at 1.7g/t.

Assuming Ramelius is able to maintain ~300kozpa from its existing operations the addition of Karora's assets could push Ramelius up to be potentially a 500kozpa producer (Figure 5), only behind Evolution Mining (EVN-ASX, Not rated) and Northern Star Resources (NST-ASX, Not Rated).

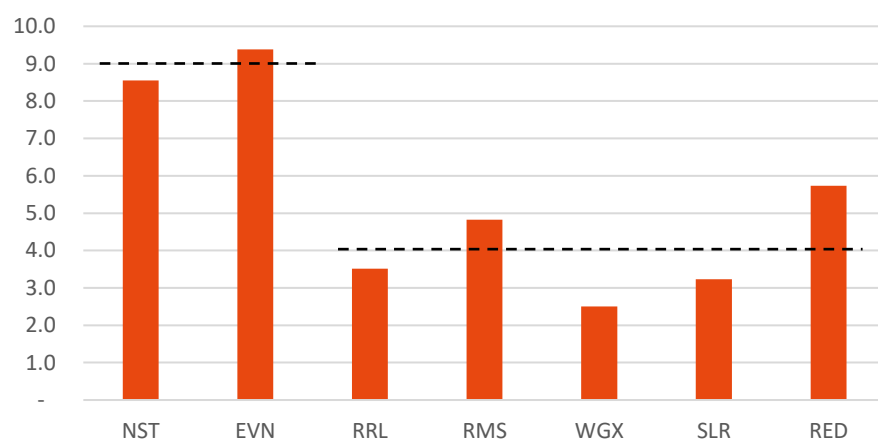
Figure 5: Australian Gold Producers – Yearly Production (Kozpa)



Source: Company Reports, Shaw and Partners

We believe this potential transaction would result in a rerate of Ramelius due to gold producers on the ASX historically attracting higher valuation multiples as they increase production. Currently Northern Star produces 1,675Kozpa and has an enterprise value of A\$14.3B resulting in an EV/Yearly production multiple of 8.6, similarly Evolution produces 789Kozpa and has an enterprise value of A\$7.4B resulting in an EV/Yearly production multiple of 9.4. Ramelius, as well as other similar sized producers trade at a significantly lower multiple (average of 4), Figure 6.

Figure 6: Australian Gold Producers – EV / Yearly Production



Source: Company Reports, Shaw and Partners

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.
- Costs are elevated in the mining industry in WA. This is factored into company guidance and our forecasts, but costs may remain higher for longer than expected.

Core drivers and catalyst

- If the gold price remains close to A\$3,000/oz then Ramelius is likely to make record margins in FY24. The previous record was in 4Q20 when the gold price was A\$2,223/oz and AISC was \$1,049/oz for a margin of A\$1,174/oz.
- Increased high grade ore from the Penny and Cue operations has increased production and lowered the company's AISC
- 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 processing hub to the portfolio.

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

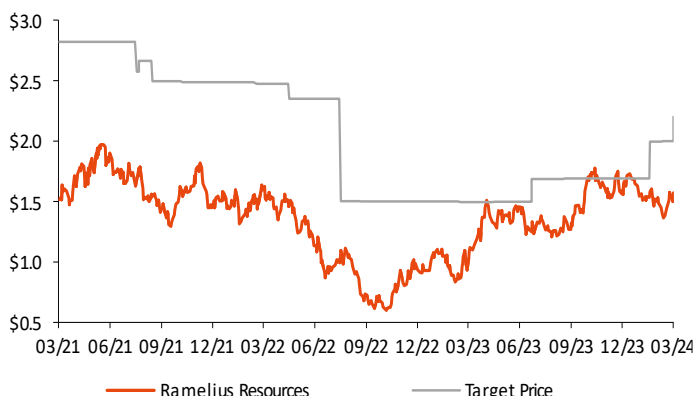
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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	64	91%
Hold	6	9%
Sell	0	0%

History of Investment Rating and Target Price - Ramelius Resources

Date	Closing Price (\$)	Target Price (\$)	Rating
12-Mar-24	1.57	2.20	Buy
20-Feb-24	1.44	2.00	Buy
30-Jan-24	1.58	2.00	Buy
28-Aug-23	1.25	1.69	Buy
3-Jul-23	1.25	1.69	Buy
27-Apr-23	1.34	1.50	Buy
21-Feb-23	0.87	1.50	Buy
29-Aug-22	0.86	1.50	Buy
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



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