

2 May 2017

Share Price	\$0.380
Valuation	\$0.52
Price Target (12 month)	\$0.55

Brief Business Description:
WA based gold producer and explorer.

Hartleys Brief Investment Conclusion
Successful +130,000 ozpa producer with building cash reserves.

Chairman & MD
Robert Kennedy (Chairman)
Mark Zeptner (MD)
Top Shareholders
Van Eck Associates 14.6%

Company Address
Level 1, 130 Royal St
East Perth, WA, 6004
Issued Capital 527m
- fully diluted 527m
Market Cap A\$200m
- fully diluted A\$200m
Cash (31 Mar 17) A\$90m
Debt (31 Mar 17) A\$0m
EV A\$110m
EV/Resource oz A\$50/oz
EV/Reserve oz A\$123/oz

	Prelim. (A\$m)	FY17e	FY18e	FY19e
Prod (koz Au)	128	121	123	123
Op Cash Flw (A\$m)	69	65	78	78
Norm NPAT (A\$m)	31	32	29	29
CF/Share (cps)	13	12.3	14.8	14.8
EPS (cps)	5.9	6.0	5.4	5.4
P/E	6.5	6.3	7.0	7.0

	Au
Resources (Moz)	2.2
Reserves (Moz)	0.4

RAMELIUS RESOURCES LTD (RMS)

Production dip, reserve build.

RMS' Mar'17 quarterly gold production of 28,100 ozs Au was 2,000 ozs less than RMS planned – a 1st miss in 3 years, due to rain, a ball mill failure, a change in Vivien underground schedule and low grades from Blackman pit. Mostly revenue delayed not lost, and with minimal net effect on Hartleys' valuation. RMS sees +30koz production level in the June 2017 qtr.

Cash and gold on hand dropped by \$5M from the previous qtr end to \$90M, equivalent to expenditure on exploration. Development of the Water Tank hill underground mine continued in pre-production mode (cost \$4.6M).

Open pit Reserves at Mt Magnet have increased by 94koz after depletion and Vivien Reserves have increased by 22koz after depletion, together accounting for nearly a year's reserves. The Vivien reserve increase before depletion was about a 60% increase on the pre mining reserve, solely from infill drilling the resource areas above 400mbs. Drilling of Vivien's deeper down dip extension began in late April.

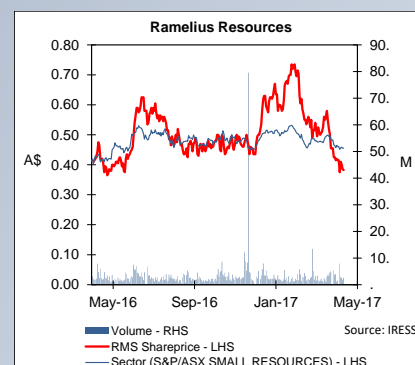
A lot of drilling was aimed at the Morning Star/Black Cat lodes. The multiple lode system will take another month or two to quantify and put a revised pit around, but Hartleys is hopeful the current 40koz reserve will be replaced with 100koz. A new life of mine plan incorporating all the recent drilling will take shape in coming months. Hartleys thinks the reserves already announced plus a significant addition at Morning Star/Black Cat could get Mt Magnet open pit reserves to +300koz as at June 2017, up from 240koz as at June 2016 for addition before depletion of 140koz.

Chinese alliance lifts the sights for RMS

Ramelius has struck a strategic alliance agreement with China's Zhaojin Mining Industry Company Limited. Zhaojin is one of mainland China's largest gold producers (+600kozspa). Zhaojin has previously owned minor interests in Australian golds, and has been on the hunt for North American or Australian assets since at least 2014. RMS and Zhaojin will explore ways of advancing their respective interests, most likely through looking at acquisitions together. In theory the agreement with Zhaojin expands the range of acquisitions RMS can consider. In practice recent outbound Chinese investment into the mining sector has been slow to materialise.

Accumulate recommendation changed to Buy.

RMS' main shareholder (in common with several Australian gold producers) is VanEck Associates Corporation, with 14.6% held in the GDXJ ETF. VanEck has widened its investable universe for the GDXJ, which suggests present GDXJ holdings are to be scaled back to an unspecified level. The move caused a bout of selling in the back half of April, running counter to the trend in the US gold price. Hartleys thinks VanEck has created a buying opportunity in RMS by driving the price below fair value ahead of a strengthening production and reserve outlook over the next few months.



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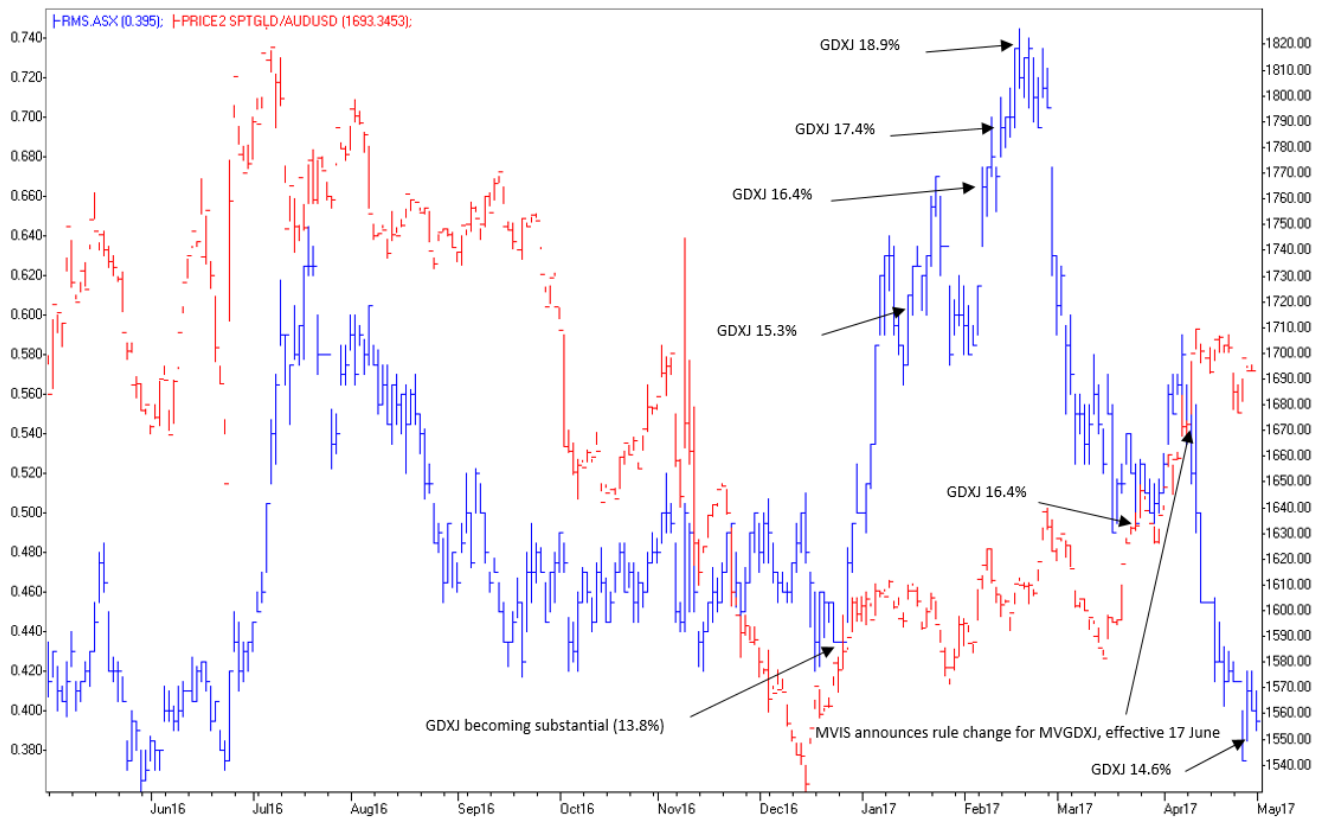
Hartleys has assisted in the completion of part of capital raisings in the past 12 months for Ramelius Resources Limited ("Ramelius"), for which it has earned fees.

SUMMARY MODEL

Ramelius Resources							Buy						
RMS													
Market Information							Directors						
Share price		\$0.38					Robert Kennedy (Chairman)	Company Information					
Market Capitalisation		\$200m					Mark Zepner (MD)	Level 1, 130 Royal St					
Net cash (debt)		\$93m					Michael Bohm (Non-Exec Director)	East Perth, WA 6004					
Issued Capital (fully diluted)		527m					Kevin Lines (Non-Exec Director)	+61 8 9202 1127					
EV		\$107m						+61 8 9202 1138					
Valuation		\$0.52						www.rameliusresources.com.au					
12 month price target		\$0.55											
Profit & Loss							Top Shareholders						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		m shares %					
Net Revenue	AS\$M	212	210	223	186	222	Van Eck Associates	76.6 14.6					
Forward sales	AS\$M	0	-4										
Total Costs	AS\$M	-143	-145	-145	-137	-161							
EBITDA	AS\$M	69	61	78	49	61							
- margin		33%	29%	35%	26%	27%							
Depreciation/Amort	AS\$M	-41	-34	-37	-30	-39							
EBIT	AS\$M	28	27	41	18	22							
Net Interest	AS\$M	3											
Pre-Tax Profit	AS\$M	31	27	41	18	22							
Tax Expense	AS\$M	5	-12	-5	-7								
NPAT	AS\$M	31	32	29	13	15							
Abnormal Items	AS\$M												
Reported Profit	AS\$M	31	32	29	13	15							
Balance Sheet							Production Summary						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Cash	AS\$M	93	144	222	201	242	Underground ore mined	Mt	0.20	0.33	0.34	0.26	0.50
Other Current Assets	AS\$M						UG ore grade	g/tAu	7.4	5.7	5.6	5.8	4.8
Total Current Assets	AS\$M	93	144	222	201	242	Open pit ore mined	Mt	1.27	1.28	1.28	1.28	1.28
Property, Plant & Equip.	AS\$M	107	83	51	78	48	Open pit ore grade	g/tAu	1.5	1.8	1.8	1.8	1.8
Investments/other	AS\$M						Mill Throughput	Mt	1.89	1.61	1.62	1.54	1.78
Tot Non-Curr. Assets	AS\$M	107	83	51	78	48	Head grade	g/t	2.2	2.5	2.6	2.4	2.6
Total Assets	AS\$M	200	227	273	279	290	Met recovery	%	93%	92%	92%	92%	92%
Short Term Borrowings	AS\$M						Gold	(koz)	128	121	123	111	137
Other	AS\$M	3	3	3	3	3	AISC	AS/oz	1,166	1,210	1,163	1,227	1,177
Total Curr. Liabilities	AS\$M	3	3	3	3	3	Mine Life	yr	4.6	4.4	3.4	2.6	1.2
Long Term Borrowings	AS\$M	-1	-1	-1	-1	-1							
Other	AS\$M	2	2	2	2	2							
Total Non-Curr. Liabil.	AS\$M	1	1	1	1	1							
Total Liabilities	AS\$M	4	4	4	4	4							
Net Assets	AS\$M	195	222	269	275	286							
Cashflow							Costs						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Operating Cashflow	AS\$M	69	65	78	49	61	Cost per milled tonne	\$A/t	65	83	83	83	85
Income Tax Paid	AS\$M			5	-12	-5	EBITDA / tonne milled ore	\$A/t	37	38	48	32	34
R&D grant	AS\$M						Total cash costs	\$A/oz	1120	1200	1178	1234	1174
Interest & Other	AS\$M	3					C1: Operating Cash Cost = (a)	\$A/oz	956	1100	1092	1147	1098
Operating Activities	AS\$M	72	65	83	36	56	(a) + Royalty = (b)	\$A/oz	1002	1158	1137	1189	1138
Property, Plant & Equip.	AS\$M	-39	-10	-5	-57	-9	C2: (a) + depreciation & amortisation = (c)	\$A/oz	1276	1382	1391	1420	1382
Exploration	AS\$M	-15					(a) + actual cash for development = (d)	\$A/oz	1265	1185	1134	1660	1162
Asset sales	AS\$M						C3: (c) + Royalty	\$A/oz	1322	1440	1436	1462	1423
Investments	AS\$M						(d) + Royalty	\$A/oz	1311	1244	1180	1702	1203
Investment Activities	AS\$M	-54	-10	-5	-57	-9	All in sustaining costs (AISC)	AS/oz	1166	1210	1163	1227	1177
Borrowings	AS\$M												
Equity	AS\$M	21	0	0	0	0							
Financing Activities	AS\$M	21	0	0	0	0							
Net Cash Change	AS\$M	39	55	78	-20	47							
Shares							Price Assumptions						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Ordinary Shares - End	M	527	528	530	532	532	AUDUSD		0.75	0.75	0.76	0.76	0.77
Diluted Shares - Weighted	M	532	532	532	532	532	Gold	US\$/oz	1242	1300	1375	1275	1250
							Gold	AS/oz	1661	1733	1809	1671	1619
Ratio Analysis							Hedging						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		Unit	Jun 17	Jun 18	Jun 19	Jun 20	
GCFPS	A¢	13.1	12.3	14.8	9.2	11.6	Hedged sales	koz	55	54			
CFR	X	2.9	3.1	2.6	4.1	3.3	Hedged price	AS/oz	1666	1666			
EPS	A¢	5.9	6.0	5.4	2.4	2.9							
PER	X	6.5	6.3	7.0	15.6	13.0							
DPS	%	na	na	na	na	na							
Yield	%	na	na	na	na	na							
Interest Cover	x	na	na	na	na	na							
ROCE	%	27%	32%	80%	23%	46%							
ROE	%	16%	12%	15%	7%	8%							
Gearing	%	na	na	na	na	na							
*All values fully diluted unless otherwise stated													
Debt/Equity		na	na	na	na	na							
							Sensitivity Analysis						
							Valuation 0.52 FY18 NPAT 31.7						
							Base Case						
							Sens -10% +10%						
							US Gold price +/-10%						
							AUDUSD +/- 10%						
							Production +/-10%						
							Operating Costs +/-10%						
							Unpaid Capital						
							Exp/yr						
							No. (M)						
							\$M						
							Avg ex						
							% ord						
							30-Jun-18						
							30-Jun-19						
							30-Jun-20						
							Total						
							Reserves & Resources June '16						
							Mt g/t Au Koz Mkt cap/oz						
							TOTAL RESOURCE						
							Measured						
							Indicated						
							Inferred						
							INCLUDES TOTAL RESERVE						
							Open pit						
							Underground						
							Stockpile						
							Hartleys model June '16						
							TOTAL INVENTORY						
							Open pit						
							Underground						
							Share Price Valuation (NAV)						
							100% Mt Magnet after tax 7% DR						
							Exploration						
							Corporate overheads						
							Net cash (debt)						
							Tax benefit						
							Hedging						
							Option/equity dilution						
							Total						

GDXJ CHANGES

Fig. 1: RMS share price and the Australian dollar gold price, with annotated GDXJ share holding changes.



Source: RMS

VALUATION

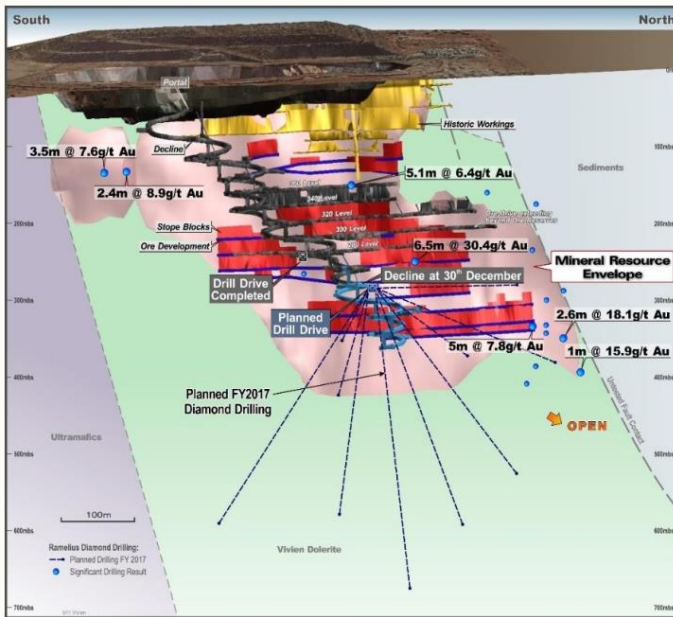
The accompanying Ramelius model takes into account publicly available information including Ramelius' projected group production profile and production guidance given periodically.

Vivien comprises 30% of the gold in Hartleys' modelled inventory for RMS. Drilling at Vivien to define resources beneath 350 m depth began in April 2017.

At Vivien Hartleys' modelled inventory is 140,000 ounces higher than Ramelius' December 2016 reserve of 123,000 ounces. An average of 600 oz/vm is assumed down to 600 metres vertical depth, in contrast to the Ramelius' December 2016 reserve, which estimates reserves to 350 metres vertical depth. Additional exploration, development and mining costs are taken into account. Ramelius has limited drill information from Vivien below 350 metres vertical depth.

Projected costs at Vivien and Mt Magnet are estimated according to information supplied by Ramelius and reconciliation against past accounts.

Fig. 2: Schematic Vivien long section



- **Infill drilling completed**
 - New resource model generated
 - Dec-16 Mineral Resource 854kt @ 7.2g/t for 198koz
 - (Jun-16 Mineral Resource 791kt @ 7.1g/t for 180koz)
 - Additional ounce conversion, above 33koz mined

- New Ore Reserve being generated
 - (Jun-16 Ore Reserve 382kt @ 8.0g/t for 98koz)

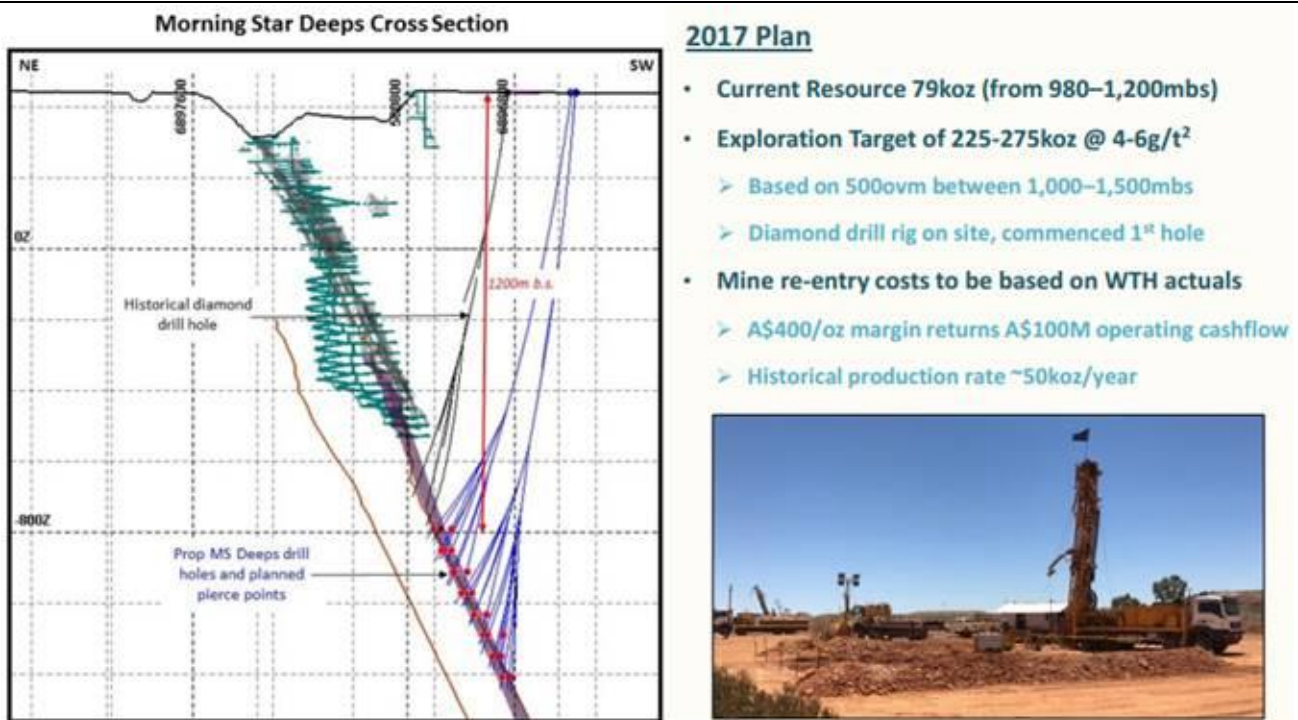
- **Bottom drill cuddy (247mRL)**
 - Currently being developed
 - ~4,000m diamond drilling to commence in the current Quarter
 - Exploring for extensions outside current Resource

Source: RMS

The pit inventory at Mt Magnet is modelled here at 6.2Mt at 1.7 g/t (344koz) compared to 4.3Mt at 1.7g/t (255koz) in reserve at the end of December 2016. Waste:ore is modelled at a constant 7:1 over the forward mine plan. The modelled Mt Magnet underground inventory matches reserves of 335kt at 4.9 g/t (53koz).

Morning Star Deeps has been included in the model for the first time. An inventory of 1.5Mt at 4 g/t is assumed with a \$50M set up cost and average mining costs of \$110/t. Mine output of 300ktpa from June 2020 is assumed. The net effect on the RMS valuation of including Morning Star Deeps is about 5cps, part of which is offset by reduced exploration value.

Fig. 3: Morning Star Deeps cross section



Source: RMS

PRICE TARGET

The price target is based on a discounted cash flow valuation of the Mt Magnet and Vivien operations, an informal estimate of exploration assets value and nominal assessment of Ramelius’ other assets and liabilities projected forward to June 30 2017. Hedging arrangements are valued separately from the mining assets. A real, after tax discount rate of 7% is used in net present value estimations. Hartleys base case commodity and currency forecasts, set out in the summary table, are used to estimate the base case NAV. For Ramelius the 12 month share price target is based on the base case NAV.

RISKS

Fig. 4: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Gold price, currency	High	Industry ave. - high	Ramelius' forward looking AISC production cost of about A\$1100/oz is close to the Australian industry average, and hedging (40% of 2 yrs) is modest.
Exploration, re-investment	Medium	High	Like most of its peers Ramelius plans to invest most of its cash and future free cash flows in exploration and/or other mineral asset acquisitions. Valuation assumes that future exploration and investments achieve acceptable returns.
Vivien, Morning Star Deeps extension	High	Medium	Extensions to the Vivien and Morning Star Deeps deposits are assumed here, before drilling or feasibility studies have been conducted to estimate resources, reserves or costs.
Exploration asset value	Medium	Medium	Subjective value is attributed to exploration assets at Mt Magnet and Vivien.
Costs	Medium	High	All publicly available information has been used in forecasting Mt Magnet and Vivien operating and capital costs. Some cost assumptions are based on incomplete information or informal estimates.

Conclusion

Mining projections post 2020 remain high risk. Ramelius faces industry average risks with respect to gold price and currency. As a cash surplus/income generating company, major recommendation risks relate to future re-investment and exploration returns.

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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