

## RAMELIUS RESOURCES LTD (RMS)

### Gold production narrowly misses

RMS has narrowly missed its June quarter production guidance; 140 ozs under the bottom end of its 30-34 kozs range. AISC costs edged above guidance of A\$1200/oz as a consequence. Blackmans, a one year oxide pit 20km north of Mt Magnet, was the main culprit as mining dilution dragged down ore grades. With the Blackmans mine complete and remaining stocks in the schedule at adjusted grades, RMS guidance of, 130koz at AISC 1175/oz for FY2018, remains in force.

Cash and gold on hand at the end of June were \$90M.

It was a disappointing production half for RMS. Hartleys started the period expecting a cash build to \$110M by the end of FY2017. The exploration spend was about \$8M more than initially allowed, and the full implications of that spending are not yet clear, so there is room for a better gloss yet. But production and capex account for the remaining \$12M or so in our mis-estimation.

### Vivien's development is a boon for RMS

RMS has consistently added ounces to its Vivien mine plan since development began in early 2016. In the Company's life of mine plan (ann. 24 May) RMS is counting on 50kozspa, or just under 40% of Mt Magnet's 130 kozspa output out to December 2021. All up RMS plans to mine 230koz from Vivien, between 100 and 400m below surface (including past production and gold in resource). At 750 ozs/vm and 7 g/t mined ore grade, this would be an impressive performance from Vivien, putting it among WA's better narrow vein operating gold mines.

### Crucial exploration results due in

Drilling of Vivien's depth extents beneath 350mbs began in early May. Results will be published in the quarterly report later in July 2017.

Morning Star Deeps exploration results are also expected in the June 2017 quarterly report. RMS has invested heavily in exploration in 2017. Some of the pay off is already reflected by extended open pit reserves and a mine plan now set out to late CY2021. And some drilling, including Morning Star Deeps and Vivien programs, is aimed at project life beyond 2021.

### VanEck selling done

VanEck sold almost 14% of RMS between February and June 2017, and now holds 5%. A range of investors has stepped in.

### Recommendation changed to Accumulate.

Relatively soft production figures over two quarters, at a time when a weaker spot gold price is pressing gold companies to reduce costs, have loosened one of the planks under Hartleys RMS Buy recommendation. We remain confident in the Company's ability to meet production guidance and resume positive trends in cash flows, while building on its presence in the gold market. Hartleys shifts to an Accumulate recommendation on RMS.

	14 Jul 2017
Share Price	\$0.398
Valuation	\$0.49
Price Target (12 month)	\$0.53

**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 Zepfner (MD)

**Top Shareholders**  
Ruffer LLP 7.2%  
Van Eck Associates 6.0%

**Company Address**  
Level 1, 130 Royal St  
East Perth, WA, 6004

**Issued Capital** 527m  
- fully diluted 527m

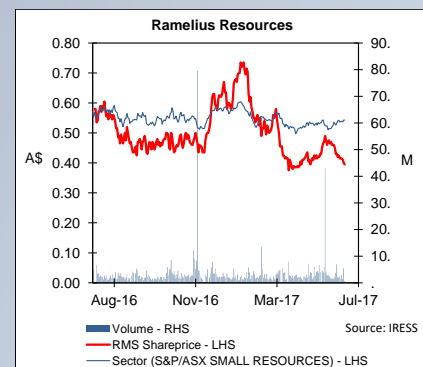
**Market Cap** A\$209m  
- fully diluted A\$209m

**Cash (31 Mar 17)** A\$90m  
**Debt (31 Mar 17)** A\$0m

**EV** A\$119m  
**EV/Resource oz** A\$55/oz  
**EV/Reserve oz** A\$134/oz

	Prelim. (A\$m)	FY17e	FY18e	FY19e
Prod (koz Au)	125	134	136	
Op Cash Flw (A\$m)	66	75	90	
Norm NPAT (A\$m)	36	33	30	
CF/Share (cps)	12	14.2	17.1	
EPS (cps)	6.7	6.2	5.7	
P/E	5.9	6.4	6.9	

**Resources (Moz)** 2.2  
**Reserves (Moz)** 0.4



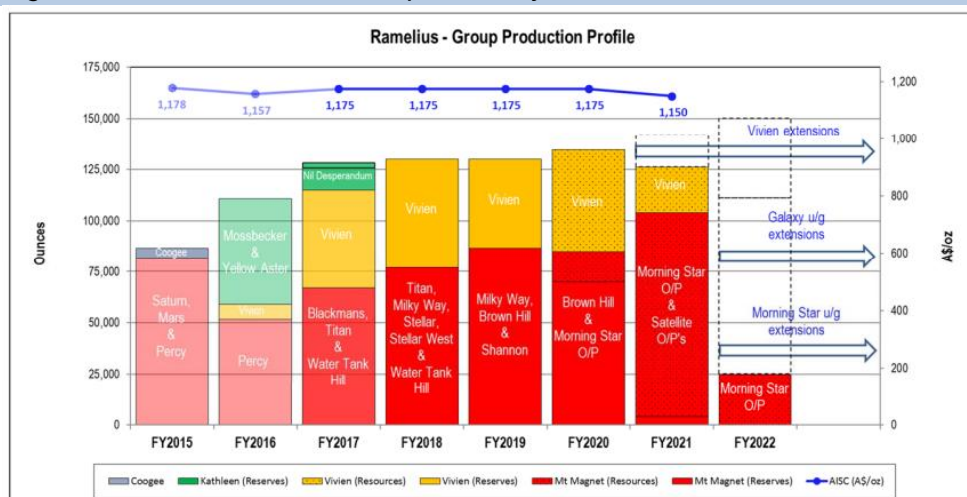
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Hartleys has assisted in the completion of part of capital raisings in the past 12 months for Ramelius Resources Limited ("Ramelius"), for which it has earned fees.

## SUMMARY MODEL

Ramelius Resources RMS							Accumulate	
<b>Market Information</b>							<b>Directors</b>	
Share price	\$0.40						Robert Kennedy (Chairman)	<b>Company Information</b>
Market Capitalisation	\$209m						Mark Zepfner (MD)	Level 1, 130 Royal St
Net cash (debt)	\$89m						Michael Bohm (Non-Exec Director)	East Perth, WA 6004
Issued Capital (fully diluted)	527m						Kevin Lines (Non-Exec Director)	+61 8 9202 1127
EV	\$120m							+61 8 9202 1138
Valuation	\$0.49							www.rameliusresources.com.au
12 month price target	\$0.53							
<b>Profit &amp; Loss</b>							<b>Top Shareholders</b>	
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		m shares %
Net Revenue	AS\$M	208	233	247	198	197	Ruffer LLP	38.1 7.2
Forward sales	AS\$M	0	-4				Van Eck Associates	31.3 6.0
Total Costs	AS\$M	-143	-158	-157	-147	-161		
EBITDA	AS\$M	66	71	90	51	36		
- margin		32%	31%	36%	26%	18%		
Depreciation/Amort	AS\$M	-33	-41	-47	-24	-52		
EBIT	AS\$M	33	30	43	27	-16		
Net Interest	AS\$M	3						
Pre-Tax Profit	AS\$M	36	30	43	27	-16		
Tax Expense	AS\$M	3	-13	-8				
NPAT	AS\$M	36	33	30	19	-16		
Abnormal Items	AS\$M							
Reported Profit	AS\$M	36	33	30	19	-16		
<b>Balance Sheet</b>							<b>Production Summary</b>	
	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	89	134	213	233	202	Underground ore mined	Mt 0.20 0.39 0.40 0.32 0.24
Other Current Assets	AS\$M						UG ore grade	g/tAu 7.4 6.3 6.2 6.5 7.0
Total Current Assets	AS\$M	89	134	213	233	202	Open pit ore mined	Mt 1.27 1.52 1.52 1.52 1.92
Property, Plant & Equip.	AS\$M	118	104	71	65	66	Open pit ore grade	g/tAu 1.4 1.4 1.4 1.3 1.3
Investments/other	AS\$M						Mill Throughput	Mt 1.89 1.91 1.92 1.84 2.16
Tot Non-Curr. Assets	AS\$M	118	104	71	65	66	Head grade	g/t 2.2 2.4 2.4 2.2 1.9
Total Assets	AS\$M	207	238	284	298	268	Met. recovery	% 93% 92% 92% 92% 92%
Short Term Borrowings	AS\$M						Gold	(koz) 125 134 136 119 122
Other	AS\$M	3	3	3	3	3	ASC	AS/oz 1,184 1,185 1,137 1,218 1,299
Total Curr. Liabilities	AS\$M	3	3	3	3	3	Mine Life	yr 5.6 4.5 3.5 2.7 1.3
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	203	234	280	293	264		
<b>Cashflow</b>							<b>Costs</b>	
	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	66	75	90	51	36	Cost per milled tonne	\$A/t 65 76 76 75 70
Income Tax Paid	AS\$M			3	-13	-8	EBITDA / tonne milled ore	\$A/t 35 37 47 28 17
R&D grant	AS\$M						Total cash costs	\$A/oz 1138 1177 1151 1242 1323
Interest & Other	AS\$M	3					C1: Operating Cash Cost = (a)	\$A/oz 972 1082 1069 1158 1241
Operating Activities	AS\$M	68	75	92	38	28	(a) + Royalty = (b)	\$A/oz 1018 1140 1114 1200 1282
Property, Plant & Equip.	AS\$M	-39	-27	-13	-19	-54	C2: (a) + depreciation & amortisation =	\$A/oz 1234 1386 1412 1363 1670
Exploration	AS\$M	-15					(a) + actual cash for development = (d)	\$A/oz 1286 1283 1166 1314 1681
Asset sales	AS\$M						C3: (c) + Royalty	\$A/oz 1280 1445 1457 1405 1710
Investments	AS\$M						(d) + Royalty	\$A/oz 1332 1342 1211 1356 1722
Investment Activities	AS\$M	-54	-27	-13	-19	-54	All in sustaining costs (AISC)	\$A/oz 1184 1185 1137 1218 1299
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	35	48	79	20	-26		
<b>Shares</b>							<b>Price Assumptions</b>	
	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
<b>Ratio Analysis</b>							<b>Hedging</b>	
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21		Unit Jun 17 Jun 18 Jun 19 Jun 20
GCFPS	A¢	12.5	14.2	17.1	9.7	6.8	Hedged sales	koz 55 54
CFR	X	3.2	2.8	2.3	4.1	5.8	Hedged price	AS\$/oz 1666 1666
EPS	A¢	6.7	6.2	5.7	3.5	-3.1		
PER	X	5.9	6.4	6.9	11.3			
DPS	%	na	na	na	na	na		
Yield	%	na	na	na	na	na		
Interest Cover	x	na	-	-	-	-		
ROCE	%	28%	29%	61%	41%	-24%		
ROE	%	17%	13%	15%	9%	-6%		
Gearing	%	na	na	na	na	na		
*All values fully diluted unless otherwise stated							<b>Sensitivity Analysis</b>	
Debt/Equity								
Sources: RESS, Company reports, Hartleys Research								
							<b>Base Case</b>	
							Valuation 0.49 FY18 NPAT 32.6	
							Sens -10% +10%	
							US Gold price +/-10% 23% 0.38 0.61 13% 28.4 36.8	
							AUDUSD +/- 10% 22% 0.39 0.60 12% 28.7 36.5	
							Production +/-10% 12% 0.43 0.55 18% 26.7 38.5	
							Operating Costs +/-10% 16% 0.41 0.57 14% 28.0 37.2	
							<b>Unpaid Capital</b>	
							Exp/lyear No. (M) \$M Ave ex % ord	
							30-Jun-18 2 0.4 0.30 0.3%	
							30-Jun-19 2 0.3 0.15 0.4%	
							30-Jun-20 2 0.3 0.20 0.3%	
							Total 5 1.0 0.21 0.9%	
							<b>Reserves &amp; Resources June '16</b>	
							Mkt g/t Au Koz Mkt cap/oz	
							TOTAL RESOURCE 29.2 2.3 2,188 4088	
							Measured 2.3 2.3 170	
							Indicated 15.7 2.5 1,262	
							Inferred 11.2 2.1 756	
							INCLUDES TOTAL RESERVE 5.3 2.4 408 21931	
							Open pit 4.5 1.8 256	
							Underground 0.7 6.6 152	
							Stockpile 0.3 0.9 9	
							<b>Hartleys model June '16</b>	
							Mkt g/t Au Koz Mkt cap/oz	
							TOTAL INVENTORY 11.8 2.6 979 9136	
							Open pit 8.4 1.4 366	
							Underground 3.4 5.6 613	
							<b>Share Price Valuation (NAV)</b>	
							Risked Est. AS\$ AS/share	
							100% Mt Magnet after tax 7% DR 169 0.32	
							Exploration 34 0.06	
							Corporate overheads -34 -0.06	
							Net cash (debt) 89 0.17	
							Tax benefit 6 0.01	
							Hedging -3 -0.01	
							Option/equity dilution -2 0.00	
							Total 260 0.49	

Fig. 1: RMS life of mine plan, May 2017.



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 210,000 ounces higher than Ramelius’ December 2016 reserve of 123,000 ounces. An average of 720 ozs/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 published drill information from Vivien below 350 metres vertical depth. Drilling of Vivien’s depth extensions began in April 2017.

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

The pit inventory at Mt Magnet is modelled here at 7.9t at 1.3 g/t (339kcozs) compared to 4.3Mt at 1.7g/t (255kcozs) in reserve at the end of December 2016. A reserve update is due in the September quarter of 2017. Waste:ore is modelled at a constant 8:1 over the forward mine plan. The modelled Mt Magnet underground inventory matches Dec 2017 reserves of 335kt at 4.9 g/t (53kcozs).

Morning Star Deeps has been included in the model. 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. 2: Schematic Vivien long section, April 2017.

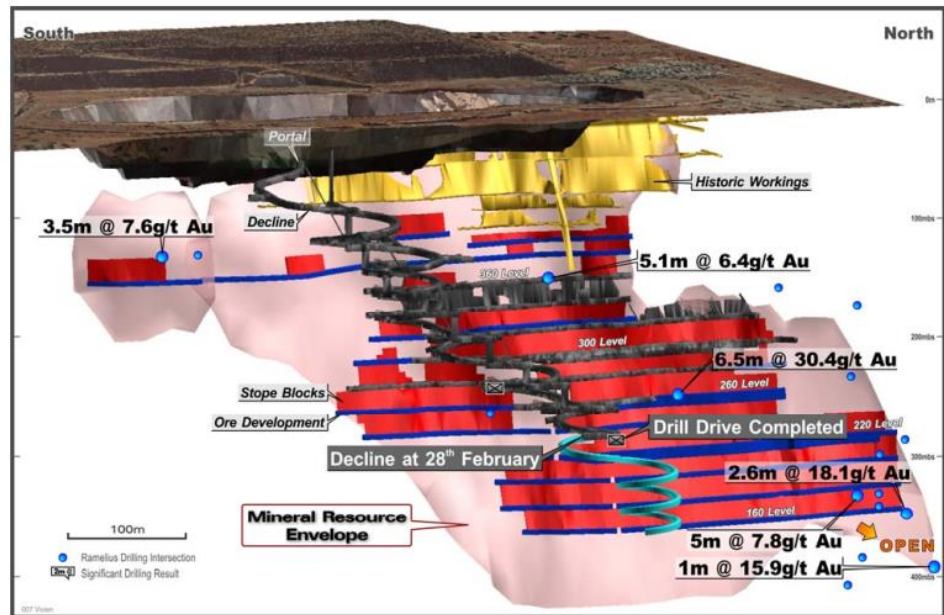


Figure 7: Vivien development & stoping progress (grey) - oblique view to east

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. 3: 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 2021 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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