

Ticker: EMR AU	Net cash: (A\$31m)	Project: Okvau
Market cap: A\$546m	Price: A\$1.06/sh	Country: Cambodia
RECOMMEND. (unc): BUY	TARGET (up): A\$1.35/sh	RISK RATING: HIGH

On March 25th last year in mid COVID Emerald closed a 4c (pre 10 for 1 consolidation) A\$75m equity raise seeing Ruffer, Franklin, ASA, Van Eck and CQS report notifiable holdings as COVID worsened. However, it was a team that had done it before, building Bonikro on time and on budget during the Ivory Coast civil war. We wrote at the time that the company was ‘well placed to deliver first gold in 2Q21’, and it seems we are weeks away from hitting just that, and those investors are now enjoying +25% YTD and +116% 12M share price performances. For those that didn’t get involved back then – this is just the beginning. Firstly, at 2g/t Okvau is already far above peers such as Capricorn (0.9g/t), further management has built-in some many redundancies (rather than sweat the DFS) from grade to recovery and throughput that there is excellent potential for the project to beat the BFS metrics. Next, if Emerald finds a second operation in Australia, their home turf, franking credits on dividends from Okvau would make the stock more attractive, as would a second operation. As peers such as Ora Banda and Capricorn also approach commercial production, investor’s thoughts should look beyond ‘will it work’ to ‘what next’ and Emeralds unmatched ability to build-cheaper gives them a strong advantage in that regard. At spot US\$1,894/oz in steady-state, SCPe ~A\$100m pa FCF. Outside M&A, first gold production will be followed by (i) near-mine drilling to lift reserves, with a high likelihood of (ii) an UG, ahead of (iii) ~US\$3-6m pa exploration regionally – which is already underway – on strategic >1,200km² first-mover holdings. With the ability to operate in Cambodia, and Cambodia itself eminently de-risked, we lift our NAV multiple from 1.0x to 1.2x to capture the above upside. As such, **we maintain our BUY rating, lifting our 1.2xNAV_{5%-1850} PT from 115c to 135c/sh.**

The winning team comes: commissioning marks start of a bigger journey still

Emerald has commissioned the crushing circuit and is now processing the 245kt oxide ROM ore in start-up wet commissioning ahead of a maiden gold pour targeted for this month. The power station is electrified, TMF complete, and gold circuit ramping up, leading management to thank contractors and suppliers and their own development team. Hard-rock ore will be fed to the circuit in the coming weeks to commission the float regrind circuit (*back end is whole ore leach*).

Figure 1. Construction progress at Okvau showing processing plant and first ore feed into mill



Source: Emerald

Why we like Emerald

- Vanilla open-pit CIL
- Management built six mines on time and on budget at Equigold and Regis
- Management aligned with holders as A\$19m equity invested
- Acquisition debt facility, and 'low capex' IP of management, should enable growth via M&A
- Strategic landholding in Cambodia offers substantial organic upside

Catalysts

- 2Q21: Regional drilling at Snoul (~25km NW of Okvau) then Okthung/Preak Klong (9km south)
- 2Q21: First pour
- 2H21: First exploration recently granted Memot licence (historic mechanised artisanal operation)

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Ticker: EMR AU	Price / mkt cap: A106c/sh, A\$546m	Group P/NAV today: 0.95x	Country: Cambodia
Author: B Salier/ B Gaspar	Rec/1.2xNAV5% PT: BUY, A\$135c/sh	1xNAV5%_{1Q21} FF FD: A\$114.6c/sh	Asset: Okvau

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price	1,761	1,825	1,840	1,848	1,850
Group-level SOTP valuation Jun 21					
	A\$m	US\$m	O/ship	NAVx	A\$c/sh*
NPV Okvau - 2Q21	674	526	100%	1.2x	152.48
NPV central & finance costs	(97.9)	(76.3)	-	1.2x	(22.13)
Net cash prior quarter	(31.0)	(24.2)	-	1.2x	(7.02)
Cash from options	9.2	7.2	-	1.2x	2.07
Nominal expl'n	38.5	30	-	1.2x	8.70

1.2xNAV5% 2Q21 US\$1850/oz **463** **134**

Asset value: 1xNAV (US\$m, geared)*

Group NAV (US\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	397	428	459	491	522
7% discount	418	451	484	518	551
5% discount	441	477	512	547	583
Ungeared project IRR:	55%	57%	60%	62%	64%
Group NAV1450 (US\$m)	76% rec	80% rec	84% rec	88% rec	92% rec
9% discount	351	390	428	467	505
7% discount	371	411	451	492	532
5% discount	392	434	477	519	562
Ungeared project IRR:	62%	68%	74%	80%	86%

*Company NAV net finance costs and SG&A, discounted to 2Q21

Group NAV5% over time	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25
Okvau incl. fin. cost + G&A (US\$m)	449	470	416	357	290
Net cash prior quarter	(24.2)	(23.9)	47.9	121.4	200.6
Cash from options (US\$m)	7.2	7.2	7.2	7.2	7.2
Nominal expl'n (US\$m)	20	20	20	20	20
NAV (US\$m)	452	474	491	506	517
1.2xNAV5%/sh FF FD (A\$/sh)	131.1	137.5	142.7	146.9	150.2

ROI (% p/a) 28% 16% 11% 9%

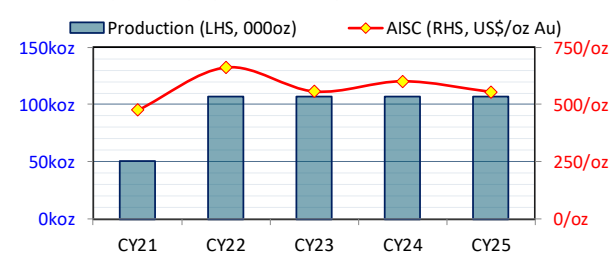
1.2xNAV/sh @ SQ20 vs gold, discount, recoveries (US\$m, geared)*

2Q21 1.2xNAV (A\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
11% discount	120	130	139	149	158
8% discount	127	137	147	157	167
5% discount	134	145	156	167	177
2Q21 1.2xNAV (A\$/sh)	76% rec	80% rec	84% rec	88% rec	92% rec
11% discount	107	118	130	141	153
8% discount	113	125	137	149	161
5% discount	120	132	145	158	171

*Project NPV less central SG&A & finance cost, plus net cash at the time

Production (Y1 from 3Q20)	CY21	CY22	CY23	CY24	CY25
Production (000oz)	51	107	107	107	107
C1 cost (US\$/oz)	828	705	706	706	706
AISC cost (US\$/oz)	956	817	818	818	818
C3 cost (US\$/oz)	1,124	989	990	990	990

AISC = C1 + ug sustaining capex, C3 = C1 + depreciation



Source: SCP estimates; * net of 60 day payable line from contractor; % assuming debt PIK during build

Resource	Au (koz)	Au (g/t)	Reserve	Au (koz)	Au (g/t)
Okvau M&I & Inf	1,141koz	2.01g/t	Okvau P&F	907koz	2.0g/t

Share data

Basic shares (m)	515	Spot share price (A\$/c/sh)	106
FD with options (m)	531		

Sources and uses of funds Buffer (US\$m): 5.7

Build capex + strip (US\$m)	98.0	Mine build equity (US\$m)	-
Drilling / working cap (US\$m)*	7.3	Mine build debt (US\$m)	-
G&A during build (US\$m)	2.7	Cash at 4Q20 (US\$m)	59.9
Spend to 4Q20 (US\$m)	(53.8)	Sources: 1Q21 onward (US\$m)	59.9
Uses: 1Q21 onward (US\$m)	54.2	Unrealised FX losses (US\$m)	8.3

Ratio analysis

	CY19A	CY20E	CY21E	CY22E	CY23E
Average shares out (m)	305	524	530	530	530
EPS (A\$/c/sh)	(1.64)	(4.53)	3.48	12.75	13.17
CFPS (A\$/c/sh)	(4.32)	(14.77)	(8.20)	15.53	17.70
EV (A\$m)	312.4	519.4	571.1	488.9	395.1
FCF yield (%)	-	-	-	15%	17%
PER (x)	-	-	30.5x	8.3x	8.0x
P/CF (x)	-	-	-	6.8x	6.0x
EV/EBITDA (x)	-	2,597.1x	9.5x	3.4x	2.7x

Income statement

	CY19A	CY20E	CY21E	CY22E	CY23E
Revenue (A\$m)	0.1	0.2	119.6	252.3	253.4
COGS incl. royalty (A\$m)	-	-	(59.3)	(108.1)	(108.2)
D&A (A\$m)	(0.0)	(0.0)	(13.9)	(27.6)	(27.6)

Gross profit (A\$m)

	CY19A	CY20E	CY21E	CY22E	CY23E
Finance cost (A\$m)	(0.0)	(0.6)	(17.1)	(21.4)	(19.5)
Exploration (A\$m)	(2.8)	(4.7)	(1.3)	-	-
Admin + other (A\$m)	(2.3)	(18.6)	(4.7)	(4.7)	(4.8)
Tax (A\$m)	-	-	(4.9)	(22.9)	(23.7)

Net income (A\$m)

	CY19A	CY20E	CY21E	CY22E	CY23E
EBITDA (A\$m)	0.1	0.2	60.2	144.2	145.2

Cash flow statement

	CY19A	CY20E	CY21E	CY22E	CY23E
Receipts from gold sales (A\$m)	-	0.2	119.6	252.3	253.4
Payments to suppl./empl. (A\$m)	(8.0)	(2.4)	(80.2)	(133.8)	(132.0)
Change in working cap. (A\$m)	-	3.7	(17.4)	(9.3)	(0.1)
Others (A\$m)	(2.9)	(4.7)	(6.2)	(22.9)	(23.7)

Cash flow ops (A\$m)

	CY19A	CY20E	CY21E	CY22E	CY23E
PP&E (A\$m)	(2.3)	(74.3)	(59.2)	(3.9)	(3.9)

Cash flow inv. (A\$m)

	CY19A	CY20E	CY21E	CY22E	CY23E
Net share issue proceeds (A\$m)	(0.6)	78.3	-	-	-
Debt draw (repay) (A\$m)	-	92.9	(5.9)	(23.7)	(23.7)

Cash flow fin. (A\$m)

	CY19A	CY20E	CY21E	CY22E	CY23E
Net change in cash (A\$m)	(13.8)	93.7	(49.4)	58.6	70.1

Balance sheet

	CY19A	CY20E	CY21E	CY22E	CY23E
Cash (A\$m)	10.7	79.6	26.9	85.5	155.6
Acc rec. + inv. (A\$m)	0.4	2.1	26.3	29.2	29.3
PPE (A\$m)	41.3	110.0	157.2	133.6	110.0
Others (A\$m)	0.0	0.3	0.3	0.3	0.4
Total assets (A\$m)	52	192	211	249	295
Debt (A\$m)	-	43.2	36.4	12.7	(10.9)
Accnts payable (A\$m)	2.7	7.6	14.3	8.0	8.0
Total liabilities (A\$m)	2.7	50.8	50.7	20.7	(3.0)
Shareholders equity (A\$m)	115.8	196.1	196.5	196.9	197.3
Retained earnings (A\$m)	1.2	0.3	0.3	0.3	0.3
Reserves (A\$m)	(67.4)	(90.1)	(71.6)	(4.1)	65.7
Liabilities + equity (A\$m)	52	192	211	249	295

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BUY:	41
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	41

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