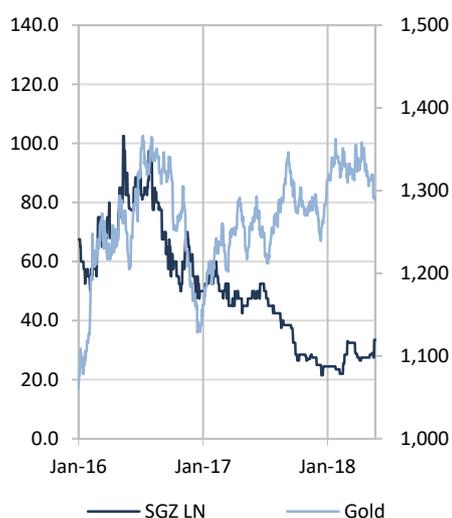


22 May 2018

Stock Data

Ticker	SGZ LN
Share Price:	34p
Market Cap:	£14.4m
	\$19.3m

Price Chart



Research

Sergey Raevskiy

+44 20 3470 0474

sergey.raevskiy@spangel.co.uk

John Meyer

+44 20 3470 0490

john.meyer@spangel.co.uk

Simon Beardsmore

+44 20 3470 0484

simon.beardsmore@spangel.co.uk

Sales

Richard Parlons

+44 20 3470 0472

richard.parlons@spangel.co.uk

Elizabeth Johnson

+44 20 3470 0471

elizabeth.johnson@spangel.co.uk

Cononish funded to production

Positive news for the Company with the latest fund raise securing financing for the Cononish gold mine development. The project is expected to come online in H1/19 first running at 36ktpa processing rate before expanding to 72ktpa. Thanks to high grade nature of the deposit (210koz at 11.1g/t in mineral reserves) Cononish life of mine TCC are estimated to average c.\$500/oz (£349/oz at 1.4\$/£ exchange rate) allowing it to earn above industry average EBITDA margins. At full capacity the project is estimated to generate £12.5m in EBITDA and £10m in FCF (21kozpa at \$1,350/oz gold price and 1.4\$/£ exchange rate). This compares to £14.4m market cap (based on 42.9m shares including new 14.5m new issue) and £19.1m EV (including £5m loan).

We highlight robust economics of the project and reiterate our BUY recommendation with a target price of 61p.

- On Friday, the Company announced a completed fundraise of £9.0m through a combination of equity and secured debt.
- £4.0m has been raised through an oversubscribed placing of 14.5m shares at 27.5p.
- £5.0m secured loan has been agreed with Nathaniel le Roux, the major shareholder and the Company's Non-Executive Chairman.
- The loan is secured by all assets owned by the Company's 100% owned subsidiaries, carries a 9% interest payable annually for the first 24 months and then semi-annually; loan term is 30m from the earliest date of draw-down, being Sep/18.
- £1.0m of proceeds will be used to repay existing outstanding loan from Nat le Roux.
- Together with cash in the bank the funding covers the Cononish development capex (c.£8m SPAe) as well as a planned exploration programme and working capital needs.
- The Company held around £3m in cash (including proceeds from a £450k placement closed in January) as of Dec/17.
- The team is finalising planning agreements due for completion in the coming weeks with site access preparations undertaken and detailed construction planning in progress.
- The team targets project development works to start in June and first gold production in Q2/19.
- Given an increased gold price and USDGBP exchange rate volatility recorded lately we provide tables with valuation sensitivity to both input parameters below.

(Jun year end)		FY18e	FY19e	FY20e	FY21e	FY22e
Gold price	US\$/oz	1,302	1,310	1,338	1,350	1,350
Gold price	GBP/oz	958	936	955	964	964
AUDGBP	A\$/£	1.74	1.78	1.78	1.78	1.78
Gold sales	koz	-	1.6	11.0	15.8	18.4
TCC	GBP/oz	-	484	438	321	306
Sales	A\$m	-	2.7	18.7	27.1	31.6
EBITDA	A\$m	-1.4	-0.3	8.4	16.8	20.2
PAT	A\$m	-1.6	-1.1	5.7	12.1	12.0
Basic EPS	A\$c	-7.0	-2.7	13.4	28.3	28.0
FCF	A\$m	-5.2	-13.1	6.4	2.8	12.0
EV/EBITDA	x	-	-	4.0	2.0	1.7
PER	x	-	-	3.4	1.6	1.6

Source: SP Angel, Company

Target price sensitivity to changes in discount rate and gold price

		Gold price					SPA
		1,200	1,250	1,300	1,350	1,400	
DR	8%	52	59	66	72	79	72
	10%	43	49	55	61	67	61
	12%	35	41	46	52	57	51

Source: SP Angel

Target price sensitivity to changes in gold price and exchange rate

		Gold price					SPA
		1,200	1,250	1,300	1,350	1,400	
USDGBP rate	1.30	54	61	67	74	80	73
	1.35	48	55	61	67	73	67
	1.40	43	49	55	61	67	61
	1.45	38	44	50	56	61	55
	1.50	33	39	45	50	56	50

Source: SP Angel

SP Angel Earnings Summary

A\$m unless stated (YE Jun)

Market data			Operating metrics					
			FY16	FY17	FY18e	FY19e	FY20e	
Ticker		SGZ LN	USDGBP	1.48	1.27	1.36	1.40	1.40
Last price	GBP	34	AUDGBP	2.04	1.68	1.74	1.78	1.78
Target price	GBP	61	Gold price spot	US\$/oz	1,168	1,258	1,302	1,310
Rec		BUY	GBP/oz	788	992	958	936	955
GBPUSD		1.34	Gold price spot	koz	-	-	2	11
AUDUSD		1.32	GE sales	GBP/oz	-	-	-	484
Mkt cap	GBPm	14.4	TCC	GBP/oz	-	-	-	762
	USDm	19.3	AISC	GBP\$/oz	-	-	-	520
EV	GBPm	19.1	Income Statement					
	USDm	25.6	FY16	FY17	FY18e	FY19e	FY20e	
Av # of sh in issue	mln	42.9	Revenues	0.0	0.0	-	2.7	18.7
Av # traded, 100d	mln	0.01	EBITDA	-1.3	-1.1	-1.4	-0.3	8.4
Prices are as of 21/05/18			margin	-	-	-	-10%	45%
			EBIT	-1.3	-1.2	-1.4	-0.5	6.5
			Net Interest	-0.2	-0.1	-0.2	-0.1	-0.1
			PBT	-1.5	-1.3	-1.5	-1.3	-1.6
			Tax	-	-	-	-	-
			PAT	-1.5	-1.3	-1.6	-1.1	5.7
			EPS basic, cents	-11.8	-8.6	-7.0	-2.7	13.4
			EPS diluted, cents	-11.8	-8.6	-7.0	-2.7	13.4
			Cash flow					
			FY16	FY17	FY18e	FY19e	FY20e	
			CFO (post WC)	-1.3	-1.4	-1.2	-2.5	8.4
			Interest paid	-	-0.0	-0.0	-0.6	-0.8
			Tax paid	-	-	-	-	-
			Net CFO	-1.3	-1.4	-1.2	-2.5	8.4
			Capex (incl Exploration)	-1.3	-0.8	-3.9	-10.6	-2.0
			CFI	-1.3	-0.8	-3.8	-10.6	-2.0
			Issue of shares	2.8	0.9	12.5	-	-
			Proceeds from borrowings	-	1.2	-	8.9	-
			Repayment of borrowings	-	-	-1.9	-	-
			CFF	2.7	2.0	10.6	8.9	-
			Net cash flow	0.0	-0.1	5.6	-4.2	6.4
			Cash cf	0.7	0.6	6.2	2.0	8.4
			Balance Sheet					
			FY16	FY17	FY18e	FY19e	FY20e	
			Cash	0.7	0.6	6.2	2.0	8.4
			Receivables/prepayments	0.1	0.0	0.0	0.2	1.9
			Inventories	0.0	0.2	0.2	1.7	0.9
			Current assets	0.9	0.9	6.4	3.9	11.2
			PPE	16.1	16.6	20.4	30.2	29.9
			Non-current assets	16.2	16.7	20.5	30.3	30.0
			Total assets	17.0	17.6	26.8	34.2	41.3
			Payables/provisions	0.2	0.2	0.2	0.3	2.0
			Borrowings ST	1.1	1.7	-	-	8.9
			Current liabilities	1.4	2.0	0.3	0.4	11.0
			Borrowings LT	-	-	8.9	8.9	-
			Non-current liabilities	-	-	8.9	8.9	-
			Total liabilities	1.4	2.0	9.2	9.3	11.0
			Net assets	15.6	15.6	17.6	24.8	30.2
			Key financial metrics					
			FY16	FY17	FY18e	FY19e	FY20e	
			Net debt/(cash)	0.4	1.2	2.7	6.9	0.5
			Av # of sh (diluted)	12.7	15.7	25.5	42.9	42.9
			EV/EBITDA	-	-	-	-	4.0
			PER	-	-	-	-	3.4
			FCF (CFO-Capex)	-3	-2	-5	-13	6
			FCF yield	-	-	-	-	25%
			ROE	-	-	-	-	20.8%
			Assets/Equity	1.1	1.1	1.5	1.4	1.4
			P/BV	1.2	1.0	1.5	1.2	0.9
			Net Debt/EBITDA	-	-	-	-	0.1

Source: SP Angel, Company

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