

28 July 2020

Stock Data

Ticker	SGZ LN
Share Price:	98p
Market Cap:	£50m \$65m

Price Chart



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Best time to commission a gold mine

Scotgold Resources is an AIM listed gold development company with the wholly owned flagship high grade Cononish gold project in Scotland. The deposit hosts 198koz gold at 11.1g/t in mineral reserves and 266koz gold at 13.4g/t in total mineral resources, based on the latest BFS (Feb/17). Located in an environmentally sensitive region of the Loch Lomond and Trossachs National Park, the team has established a good working relationship with the Park Board, adjusting project parameters to the status of the area including no use of cyanide in the on-site processing of mined ores, opting instead to use gravity separation and flotation, as well as dry stack tailings storage designed to replicate the glacial landscape of the area.

The Park Board unanimously voted in favour of granting the mining permit with development works launched in Dec/18 with first gold targeted by 2020. The team is implementing a phased development strategy starting off at 36ktpa processing rate (14kozpa) before ramping up to 72ktpa (23kozpa) in ~30m post first production according to the BFS.

- The Company has restarted development works at the high grade Cononish Gold and Silver Project in June and is on course to bring the mine into production at what turns up to be the best possible time.
- We are updating our earnings estimates to reflect the latest run in precious metals prices as markets brace for expanding fiscal and monetary stimulus while climbing new daily coronavirus cases continue to weigh on economic outlook.
- A combination of record gold prices and a depressed British pound to the US\$ exchange rate see GBP denominated precious metal prices leap to >£1,500/oz. That is a >20% premium to £1,230/oz we used in our latest estimates (\$1,600/oz long term gold price, 1.30GBPUSD rate).
- In the latest update released earlier this month, the Company highlighted that full underground mining team returned to work and development works including blasting restarted.
- The team secured a second new drill rig and a second hand scooptram improving the equipment availability while helping with the future ramp up to Phase 2 (from 36ktpa to 72ktpa) that would now require only an additional truck.
- The Company is in the process of treatment plant assembly with installation of the crushing circuit underway.
- In our estimates we assume the Company will commission the mine before year end.

Conclusion: Adjusting our gold price assumption to \$1,800/oz, up from \$1,600/oz (while keeping our long term GBPUSD exchange rate unchanged at 1.30), we see Cononish NPV8% (after tax) climbing to £84m, up from £71m estimated previously. Higher gold price assumption lifts our Phase II full capacity (72ktpa and 23kozpa) earnings estimates to £23m and £18m in EBITDA and FCF (excluding corporate expenses) per annum, respectively and up from £19m and £16m forecast before. **This, in turn, drives our NAPVS estimate to 141p, up from 119p and BUY recommendation reiterated.**

(Jun year end)		FY18	FY19	FY20e	FY21e	FY22e
Gold price	US\$/oz	1,298	1,261	1,563	1,800	1,775
Gold price	GBP/oz	964	974	1,241	1,385	1,365
AUDGBP	A\$/£	1.74	1.81	1.84	1.90	1.90
Gold sales	koz	-	-	-	6.9	16.2
TCC	GBP/oz	-	-	-	528	379
Sales	A\$m	-	-	-	17.9	41.9
EBITDA	A\$m	-1.9	-3.1	-1.6	9.1	28.5
PAT	A\$m	-1.9	-3.5	-2.6	6.3	20.8
Basic EPS	A\$c	-7.9	-7.8	-5.3	12.3	40.4
FCF	A\$m	-2.0	-9.9	-18.7	6.1	11.4
EV/EBITDA	x	-	-	-	10.4	3.3
PER	x	-	-	-	14.3	4.4

Prices as of 27/07/20 (49p)

Source: SP Angel, Company

NAVPS sensitivity to changes in gold price and exchange rate (DR 8%) – SPA base case highlighted

		Gold price					
		1,500	1,600	1,700	1,800	1,900	2,000
USDGBP rate	1.20	123	136	148	160	172	184
	1.30	107	119	130	141	152	163
	1.40	94	104	115	125	135	146
	1.50	82	92	101	111	121	130
	1.60	72	81	90	99	108	117

Source: SP Angel

SP Angel Earnings Summary

A\$m unless stated (YE Jun)

Market data			Operating metrics						
			FY18	FY19	FY20e	FY21e	FY22e		
Ticker		SGZ LN	USDGBP	1.35	1.29	1.26	1.30	1.30	
Last price	GBP	98	AUDGBP	1.74	1.81	1.84	1.90	1.90	
Target price	GBP	141	Gold price spot	US\$/oz	1,298	1,261	1,563	1,775	
Rec		BUY	Gold price spot	GBP/oz	964	974	1,241	1,365	
GBPUSD		1.29	GE sales	koz	-	-	7	16	
AUDUSD		1.40	TCC	GBP/oz	-	-	528	379	
Mkt cap	GBPm	50.3	AISC	GBP/oz	-	-	659	435	
	USDm	64.7	Income Statement						
			FY18	FY19	FY20e	FY21e	FY22e		
EV	GBPm	52.8	Revenues	-	-	-	17.9	41.9	
	USDm	67.8	EBITDA	-1.9	-3.1	-1.6	9.1	28.5	
Av # of sh in issue	mln	51.4	margin	-	-	-	51%	68%	
Av # traded, 100d	mln	0.03	EBIT	-2.0	-3.4	-2.0	7.6	23.6	
Prices 27/07/20			Net Interest	0.1	-0.1	-0.7	-1.2	-1.2	
			PBT	-1.9	-3.5	-2.6	6.3	22.5	
			Tax	-	-	-	-	-1.7	
			PAT	-1.9	-3.5	-2.6	6.3	20.8	
			EPS basic, cents	-7.9	-7.8	-5.3	12.3	40.4	
			EPS diluted, cents	-7.9	-7.8	-5.2	11.8	38.8	
			Cash flow						
			FY18	FY19	FY20e	FY21e	FY22e		
			CFO (post WC)	-1.7	-3.1	-1.7	7.9	25.4	
			Interest paid	-	-	-	-	-	
			Tax paid	-	-	-	-	-1.7	
			Net CFO	-1.7	-3.1	-1.7	7.9	25.4	
			Capex (incl Exploration)	-0.3	-6.8	-17.0	-1.7	-14.1	
			CFI	-0.3	-8.2	-17.0	-1.7	-14.1	
			Dividends	-	-	-	-	-	
			Issue of shares	12.6	1.4	3.9	-	-	
			Net debt proceeds / (repaid)	-	2.6	11.8	-2.2	-4.5	
			CFF	12.5	4.0	15.7	-2.2	-4.5	
			Net cash flow	10.5	-7.2	-3.0	3.9	6.8	
			Cash cf	11.2	3.9	1.0	4.9	11.7	
			Balance Sheet						
			FY18	FY19	FY20e	FY21e	FY22e		
			Cash	11.2	3.9	1.0	4.9	11.7	
			Receivables/prepayments	0.1	0.1	0.4	1.5	3.4	
			Inventories	0.1	0.0	0.0	0.7	1.4	
			Current assets	11.4	4.1	1.6	7.3	16.8	
			Exploration and PPE	16.9	23.3	41.9	43.6	52.8	
			Non-current assets	17.0	24.8	43.5	45.2	54.4	
			Total assets	28.4	28.9	45.1	52.5	71.2	
			Payables/provisions	0.3	0.6	0.9	1.4	2.7	
			Borrowings ST	1.7	0.2	0.2	4.5	13.3	
			Current liabilities	2.1	0.8	1.2	6.0	16.1	
			Borrowings LT	-	4.2	17.6	12.3	0.1	
			Non-current liabilities	-	4.5	17.6	12.3	0.1	
			Total liabilities	2.1	5.3	18.8	18.3	16.2	
			Net assets	26.3	23.7	26.3	34.2	55.0	
			Key financial metrics						
			FY18	FY19	FY20e	FY21e	FY22e		
			Net debt/(cash)	A\$m	-9.5	0.5	16.8	11.9	1.7
			Av # of sh (diluted)	mln	24.0	45.1	50.8	53.5	53.5
			EV/EBITDA	x	-	-	-	10.4	3.3
			PER	x	-	-	-	14.3	4.4
			FCF (CFO-Capex)	A\$m	-2	-10	-19	6	11
			ROE	%	-	-	-	20.9%	46.5%
			Assets/Equity	x	1.1	1.2	1.7	1.5	1.3
			P/BV	x	0.6	1.0	3.6	3.0	2.0
			Net Debt/EBITDA	x	-	-	-	1.3	0.1

Source: SP Angel

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