

20 October 2020

Stock Data

| | |
|--------------|--------|
| Ticker | SGZ LN |
| Share Price: | 117p |
| Market Cap: | £63m |
| | \$82m |

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

Abigail Wayne

+44 20 3470 0534

abigail.wayne@spangel.co.uk

Rob Rees

+44 20 3470 0535

rob.rees@spangel.co.uk

Earnings update

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. 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 late 2020. The team is implementing a phased development strategy starting off at 36ktpa processing rate (~10kozpa) before ramping up to 72ktpa (~+20kozpa) in 2022.

- We update our earnings estimates and valuation to account for the £3m equity raise completed earlier this month to accelerate Phase II expansion at the high grade Cononish gold/silver mine and exploration works at the 2,900km² land package in the Dalradian Belt in Scotland.
- The high grade Cononish gold/silver mine is in final development stages with first gold due next month delivering ~10koz GE (95% gold) in CY21 as part of the Phase I (36ktpa).
- The management has recently taken a strategic decision to bring Phase II forward by nearly a year to May/22 taking advantage of the current strong gold price environment; under Phase II processing and mining capacities double taking cruising annual gold production rate to >20kozpa at ~£500/oz AISC translating into one of the highest EBITDA margins in the industry (~70%) using current spot gold prices (\$1,915/oz).
- Adjusting for faster production ramp up, additional capex to accommodate updated operating profile as well as higher gold price assumptions (see Appendix for comparison) we estimate the Company to generate ~£25mpa in EBITDA and ~£20m in FCF (+30% FCF yield on current ~£63m market capitalisation) at full Phase II capacity starting from H2/CY22 with first two years demonstrating above average FCF generation reflecting higher grade mine sequencing (refer to Appendix).
- We have not included any premium for Scotland's single source gold that, in turn, implies a potential valuation upside to our estimates should there be a meaningful uptake of local gold at an above spot market price.
- A recent resurgence in COVID-19 cases and hospital admissions led to the UK re-introducing new restrictions with the Scottish Government applying a two-tier system with stricter (central belt) and less so (other regions) guidelines. We understand the current set of rules introduced in the beginning of October (7th) is predominantly focused on hospitality sector allowing development and commissioning works at the Cononish mine to continue unaffected. All significant mine and plant equipment have arrived on site, with future deliveries focused on the build-up of consumables and spares. No abnormal logistics delays have been recorded so far while mining works in progress are currently focused on providing waste material for the completion of infrastructure, such as the ROM pad and dry stacking tailings facility.

- Most of the Phase I capex has already been deployed. The Company spent ~£12m through to Sep/20 drawing on available cash balances and using up £6.5m of £7.5m Chairman loan with only £1.5m left to launch Phase I. Sales proceeds from the Phase I gold along with the equity raise will, in turn, cover the ~£7m Phase II development.

Conclusion: With £12m of Cononish capex spent, we estimate project NPV5% at £113m and arrive at NAV of £103m or 182p per share after adjusting for the estimated net debt position (as of Sep/20) and recent equity raise proceeds. We highlight that no value has been assigned to an exciting exploration package reflecting its current early stage status that in turn offers further upside potential to our NAVPS subject to results of future exploration works. We reiterate our BUY recommendation and look forward to the news of the Cononish commissioning next month.

| (Jun year end) | | FY19 | FY20E | FY21E | FY22E | FY23E |
|-------------------|---------|-------------|--------------|-------------|-------------|-------------|
| Gold price | US\$/oz | 1,261 | 1,563 | 1,917 | 1,938 | 1,950 |
| Gold price | GBP/oz | 974 | 1,240 | 1,477 | 1,490 | 1,500 |
| AUDGBP | A\$/£ | 1.81 | 1.88 | 1.88 | 1.90 | 1.90 |
| Gold sales | koz | - | - | 6.5 | 14.4 | 27.0 |
| TCC | GBP/oz | - | - | 618 | 484 | 340 |
| Sales | A\$m | - | - | 18.1 | 40.8 | 77.1 |
| EBITDA | A\$m | -3.1 | -1.6 | 8.2 | 24.5 | 55.0 |
| PAT | A\$m | -3.5 | -2.6 | 5.5 | 18.1 | 36.1 |
| Basic EPS | A\$c | -7.8 | -5.3 | 10.2 | 33.5 | 66.8 |
| FCF | A\$m | -9.9 | -11.0 | -7.4 | 10.1 | 38.3 |
| EV/EBITDA | x | - | - | 15.0 | 5.0 | 2.2 |
| PER | x | - | - | 20.8 | 6.3 | 3.2 |

Source: SP Angel, Company

Appendix

| Valuation | GBPm | GBP/shr |
|-----------------------------------|------------|------------|
| Cononish, Scotland | 113 | 200 |
| Project Value | 113 | 200 |
| Adjustments | | |
| Net debt/cash | -5 | -8 |
| Exercised options | 1 | 2 |
| Corporate overheads & other costs | -7 | -12 |
| Company NAV | 103 | 182 |

Long term GBPUSD exchange rate of 1.30 is used

Source: SP Angel

| Change in gold price assumptions | FY20E | FY21E | FY22E | FY23E | FY24E | FY25E |
|----------------------------------|-------|-------|-------|-------|-------|-------|
| SPA new | 1,563 | 1,917 | 1,938 | 1,950 | 1,950 | 1,950 |
| SPA old | 1,563 | 1,800 | 1,775 | 1,800 | 1,800 | 1,800 |

Source: SP Angel

NAV sensitivity to changes in gold price and exchange rate (DR 5%)

| | | Gold price | | | | | |
|-------------|------|------------|-------|-------|-------|-------|-----|
| | | 1,700 | 1,800 | 1,900 | 2,000 | 2,100 | SPA |
| USDGBP rate | 1.20 | 167 | 182 | 198 | 213 | 229 | 205 |
| | 1.30 | 147 | 161 | 175 | 190 | 204 | 182 |
| | 1.40 | 129 | 143 | 156 | 169 | 182 | 162 |
| | 1.50 | 114 | 127 | 139 | 152 | 164 | 145 |

Source: SP Angel

| Production and earnings projections | | FY21E | FY22E | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E |
|-------------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gold price | \$/oz | 1,917 | 1,938 | 1,950 | 1,950 | 1,950 | 1,950 | 1,950 | 1,950 | 1,950 |
| USDGBP | \$/£ | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| Gold price | GBP/oz | 1,477 | 1,490 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Throughput | kt | 22.5 | 43.5 | 72.0 | 72.0 | 72.0 | 72.0 | 72.0 | 72.0 | 55.8 |
| Grade | g/t | 9.5 | 10.9 | 12.5 | 12.7 | 10.6 | 10.6 | 10.6 | 10.6 | 10.6 |
| GE sales | koz | 6.5 | 14.4 | 27.0 | 27.5 | 23.0 | 23.0 | 23.0 | 23.0 | 17.8 |
| TCC | GBP/oz | 618 | 484 | 340 | 335 | 395 | 395 | 395 | 395 | 395 |
| AISC | GBP/oz | 898 | 663 | 436 | 429 | 507 | 507 | 507 | 507 | 496 |
| Revenue | GBPm | 9.6 | 21.5 | 40.6 | 41.2 | 34.5 | 34.5 | 34.5 | 34.5 | 26.8 |
| EBITDA | GBPm | 4.4 | 12.9 | 29.0 | 29.6 | 23.3 | 23.3 | 23.3 | 23.3 | 17.9 |
| EBITDA margin | x | 0.45 | 0.60 | 0.71 | 0.72 | 0.68 | 0.68 | 0.68 | 0.68 | 0.67 |
| FCF | GBPm | -3.9 | 5.3 | 20.2 | 23.2 | 18.6 | 18.2 | 18.4 | 18.6 | 15.2 |

Source: SP Angel, Company

SP Angel Earnings Summary

A\$m unless stated (YE Jun)

| Market data | | | Operating metrics | | | | | |
|---------------------|------|--------|--------------------------------|-------------|-------------|--------------|--------------|--------------|
| | | | FY19 | FY20E | FY21E | FY22E | FY23E | |
| Ticker | | SGZ LN | USDGBP | 1.29 | 1.26 | 1.30 | 1.30 | 1.30 |
| Last price | GBP | 117 | AUDGBP | 1.81 | 1.88 | 1.88 | 1.90 | 1.90 |
| Target price | GBP | 182 | Gold price spot | US\$/oz | 1,261 | 1,563 | 1,917 | 1,938 |
| Rec | | BUY | Gold price spot | GBP/oz | 974 | 1,240 | 1,477 | 1,490 |
| GBPUSD | | 1.30 | GE sales | koz | - | - | 6.5 | 14.4 |
| AUDUSD | | 1.39 | TCC | GBP/oz | - | - | 618 | 484 |
| Mkt cap | GBPm | 63.3 | AISC | GBP/oz | - | - | 898 | 663 |
| | USDm | 82.3 | Income Statement | | | | | |
| EV | GBPm | 67.8 | Revenues | - | - | 18.1 | 40.8 | 77.1 |
| | USDm | 88.1 | EBITDA | -3.1 | -1.6 | 8.2 | 24.5 | 55.0 |
| Av # of sh in issue | mln | 54.1 | margin | - | - | 45% | 60% | 71% |
| Av # traded, 100d | mln | 0.05 | EBIT | -3.4 | -2.0 | 6.6 | 20.0 | 45.6 |
| | | | Net Interest | -0.1 | -0.7 | -1.1 | -1.0 | -0.4 |
| | | | PBT | -3.5 | -2.6 | 5.5 | 19.0 | 45.2 |
| | | | Tax | - | - | - | -0.9 | -9.0 |
| | | | PAT | -3.5 | -2.6 | 5.5 | 18.1 | 36.1 |
| | | | EPS basic, cents | -7.8 | -5.3 | 10.2 | 33.5 | 66.8 |
| | | | EPS diluted, cents | -7.8 | -5.1 | 9.7 | 32.1 | 64.0 |
| | | | Cash flow | | | | | |
| | | | CFO (post WC) | -3.1 | -1.7 | 7.0 | 23.4 | 52.9 |
| | | | Interest paid | - | - | - | - | - |
| | | | Tax paid | - | - | - | -0.9 | -9.0 |
| | | | Net CFO | -3.1 | -1.7 | 7.0 | 22.5 | 43.9 |
| | | | Capex (incl Exploration) | -6.8 | -9.3 | -14.3 | -12.4 | -5.6 |
| | | | CFI | -8.2 | -9.3 | -14.3 | -12.4 | -5.6 |
| | | | Dividends | - | - | - | - | - |
| | | | Issue of shares | 1.4 | 3.9 | 5.6 | - | - |
| | | | Net debt proceeds / (repaid) | 2.6 | 8.1 | -0.2 | -4.5 | -11.3 |
| | | | CFF | 4.0 | 12.0 | 5.4 | -4.5 | -11.3 |
| | | | Net cash flow | -7.2 | 1.1 | -2.0 | 5.7 | 27.0 |
| | | | Cash cf | 3.9 | 5.1 | 3.1 | 8.8 | 35.7 |
| | | | Balance Sheet | | | | | |
| | | | Cash | 3.9 | 5.1 | 3.1 | 8.8 | 35.7 |
| | | | Receivables/prepayments | 0.1 | 0.4 | 1.5 | 3.4 | 6.3 |
| | | | Inventories | 0.0 | 0.0 | 0.8 | 1.6 | 2.4 |
| | | | Current assets | 4.1 | 5.7 | 5.6 | 13.9 | 44.7 |
| | | | Exploration and PPE | 23.3 | 35.6 | 48.2 | 56.1 | 52.2 |
| | | | Non-current assets | 24.8 | 37.2 | 49.8 | 57.7 | 53.8 |
| | | | Total assets | 28.9 | 42.9 | 55.4 | 71.6 | 98.5 |
| | | | Payables/provisions | 0.6 | 0.9 | 1.6 | 3.1 | 4.9 |
| | | | Borrowings ST | 0.2 | 0.2 | 4.5 | 11.3 | 0.2 |
| | | | Current liabilities | 0.8 | 1.2 | 6.1 | 14.5 | 5.1 |
| | | | Borrowings LT | 4.2 | 13.9 | 10.5 | 0.2 | 0.4 |
| | | | Non-current liabilities | 4.5 | 13.9 | 10.5 | 0.2 | 0.4 |
| | | | Total liabilities | 5.3 | 15.1 | 16.6 | 14.7 | 5.5 |
| | | | Net assets | 23.7 | 27.8 | 38.8 | 56.9 | 93.0 |
| | | | Key financial metrics | | | | | |
| | | | Net debt/(cash) | A\$m | 0.5 | 9.0 | 11.9 | 2.8 |
| | | | Av # of sh (diluted) | mln | 44.9 | 50.9 | 56.5 | 56.5 |
| | | | EV/EBITDA | x | - | - | 15.0 | 5.0 |
| | | | PER | x | - | - | 20.8 | 6.3 |
| | | | FCF (CFO-Capex) | A\$m | -9.9 | -11.0 | -7.4 | 10.1 |
| | | | ROE | % | - | - | 16.5% | 37.9% |
| | | | Assets/Equity | x | 1.2 | 1.5 | 1.4 | 1.3 |
| | | | P/BV | x | 1.0 | 2.0 | 3.4 | 2.4 |
| | | | Net Debt/EBITDA | x | - | - | 1.5 | 0.1 |

Source: SP Angel

DISCLAIMER: Non-independent research

This note is a marketing communication and comprises non-independent research. This means it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

MiFID: Based on our analysis, we have concluded that this note may be received free of charge by any person subject to the new MiFID rules on research unbundling pursuant to the exemptions within Article 12(3) of the MiFID Delegated Directive and FCA COBS Rule 2.3A.19. Further and fuller analysis may be viewed here <http://www.spangel.co.uk/legal-and-regulatory-notice.html>.

This note has been issued by SP Angel Corporate Finance LLP ('SPA') in order to promote its investment services. Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. The information contained herein is based on sources which we believe to be reliable, but we do not represent that it is wholly accurate or complete. SPA is not responsible for any errors or omissions or for the results obtained from the use of such information. Where the subject of the research is a client company of SPA we will usually have shown a draft of the research (or parts of it) to the company prior to publication in order to check factual accuracy, soundness of assumptions etc.

No reliance may be placed for any purpose whatsoever on the information, representations, estimates or opinions contained in this note, and no liability is accepted for any such information, representation, estimate or opinion. All opinions and estimates included in this report are subject to change without notice. This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

In some cases, this research may have been sent to you by a party other than SPA, and if so, the contents may have been altered from the original, or comments may have been added, which may not be the opinions of SPA. In these cases SPA is not responsible for this amended research.

The investments discussed in this report may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the currency of the investments, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This note is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Conduct Authority and is not directed at Retail Clients.

Distribution of this note does not imply distribution of future notes covering the same issuers, companies or subject matter.

SPA has put in place a number of measures to avoid or manage conflicts of interest with regard to the preparation and distribution of research. These include (i) physical, virtual and procedural information barriers (ii) a prohibition on personal account dealing by analysts and (iii) measures to ensure that recipients and persons wishing to access the research receive/are able to access the research at the same time.

You are advised that SPA and/or its partners and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. SPA is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments.

SP Angel Corporate Finance LLP is a company registered in England and Wales with company number OC317049 and its registered office is SP Angel Corporate Finance LLP, 35 – 39 Maddox Street, London W1S 5PP United Kingdom. SP Angel Corporate Finance LLP is Authorised and Regulated by the Financial Conduct Authority whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

SP Angel Corporate Finance LLP definition of research ratings:

Expected performance over 12 months: Buy - Expected return of greater than +15%, Hold - Expected return from -15% to +15%, Sell - Expected return of less than -15%

*SP Angel acts as Broker to this Company