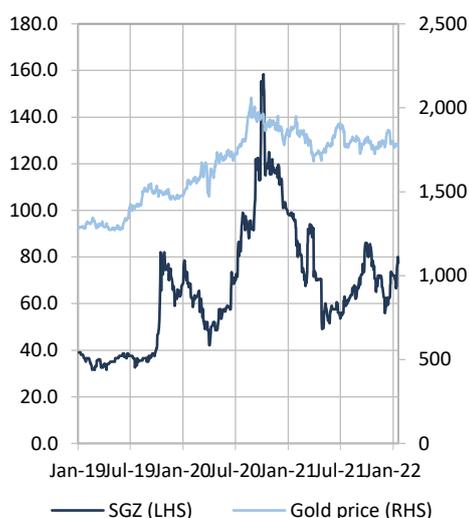


21 January 2022

Stock Data

Ticker	SGZ LN
Share Price:	82p
Market Cap:	£49m

Price Chart



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Ramping up Cononish

AIM listed Scotgold Resources is Scotland's first commercial gold producer operating the wholly owned high grade Cononish underground gold mine hosting ~200koz gold at 11.1g/t in mineral reserves. 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. The team uses cyanide free on-site processing with gold production coming in the form of gravity and flotation concentrates. The mine poured first gold in Nov/20 and is in the middle of the phased ramp up plan targeting expanded 6ktpm (~+20kozpa) run rates in 2023.

- We release our earnings estimates and update our valuation after the Company reported Q4/21 operational results and provided reviewed Cononish production ramp up guidance last week.

Production hit record monthly rates in December as underground development helps mining rates and processing plant moves closer to Phase 1 run rates

- Q4/21 production totalled 1.5koz gold and 7.2koz silver with December month delivering record output since commissioning in Nov/20 delivering ~45% of quarterly production (~0.7koz).
- The processing plant treated ~6.2kt during the quarter as underground development and production was negatively impacted in November by Covid-19 related issues for explosives affecting the pace of blasting and ore extraction. Issues have been addressed since then as seen by 2.5kt processed and record monthly gold production in December.

Ramp up guidance – Phase 1 3ktpm in Q1/22, 4ktpm in Q2/22, 4.5ktpm in Q4/22 and Phase 2 6ktpm end of Q1/23

- The team aims to reach Phase 1 3ktpm (~1.0kozpm/11kozpa output rate) in Q1/22.
- The Company has put in place a new Optimisation Phase Production plan aimed at gradually debottlenecking mining and processing plant operations to ramp up run rates from Phase 1 3ktpm capacity to reach 4ktpm by the end of Q2/22, 4.5ktpm in Q4/22 and ultimately reaching Phase 2 6ktpm (~23kozpa) by the end of Q1/23.
- A low cost expansion of the tailings thickener capacity (~£0.4m) should allow expand throughput to 4.5ktpm this year. Additionally, the Company is looking at an option to install an ore sorter (~£1.0m) between the existing crusher unit (already installed 6ktpm) and the mill (3ktpm) designed to upgrade the mill feed to match the existing milling capacity and avoid expansion of the mill. Fine fraction separated in an ore sorter can be used as mine backfill while lower volumes of tailings generated post mill means that currently permitted tailings can potentially support new reserves and expansion of the life of mine.
- At the mine, the team is planning to access the second cut and fill stope in Q2/22 and switch to a cheaper long hole stoping in Q3/22. Mining equipment to support Phase 2 rates is in place with underground development works focussed on increasing the number of active mine faces to support higher throughput rates to be ready in Q3/21, ahead of the plant capacity expansion.

Production guidance - 1.4-2.2koz in Q1/22, 16.0-17.5kozpa rate by Q4/22 and Phase 2 23.5kozpa rate by the end of Q1/23

- Based on the above guidance, we estimate ~15koz GE in CY22e (mostly gold with silver accounting for just 5% of GE) and production weighed towards H2/22.

- CY23e at ~25koz GE as higher grade early bumps up output above ~23koz LOM average.
- During the CY22 transitory year we estimate AISC to average ~£700/oz and move towards guided £550/oz at 23kozpa reflecting higher production run rates. Additionally, the Company is likely to connect Cononish to the power grid in CY23/24 that should further help costs lower as well as improve environmental profile of the operation.

£5m refinancing of the Bridge Barn loan improves Scotgold liquidity position and clears runway to ramp up production at Cononish

- During the ramp up phase, the Company agreed a restructuring of the outstanding £7.5m Bridge Barn loan as well as agreed an additional £0.5m facility (3 year loan, 9% interest to be paid quarterly) provided by Mrs Jane Stysliger a related party of Non-Executive Director Mr Bill Stysliger, to cover working capital requirements.
- A new £5.0m loan is provided by Bridge Barn, a company owned by Nathaniel le Roux (Scotgold NED and major shareholder holding >40% interest in the Company), to repay £4m along with accumulated interest.
- The restructuring allows the Company to avoid repayment of £4m (plus accumulated interest) that were due in May/22 and Oct/22 offering more financial flexibility.
- The loan is repayable by Jan/25, carries a 9% interest (unchanged from previous rate), to be paid quarterly and takes total outstanding debt to Bridge Barn to £8.5m with terms of the remaining £3.5m of the facility remaining unchanged.

Potential to expand the life of mine at Cononish flagged subject to drill testing on strike and down dip extensions

- The Company believes there is significant potential to increase the resource of Cononish expanding the life of mine past currently estimated 8.5y. The team highlighted the presence of several areas that have not previously been tested as well as a potential for the extension of the resource along strike and down dip.
- Cononish reserves currently stand at ~200koz gold and ~850koz silver (Jan/15). To reflect the LOM extension upside we estimated value contribution potential from doubling the current reserves of ~£70m using ~8y LOM, 22kozpa and AISC ~£550/oz. We adjusted it by a 0.25x factor (ie ~£17m NAV contribution) to reflect “concept” stage of the expansion and account for geological, permitting and operational risks.

Valuation: Ramping up Cononish is taking longer than expected but it looks like the team is progressively addressing mining and processing plant bottlenecks with run rates planned to accelerate through CY22 on course for Phase 2 6ktpm/~23kozpa by the end of Q1/23.

We estimate Phase 2 to generate ~£20mpa in EBITDA and ~£14mpa in FCF (+60% EBITDA margin and +30% FCF yield at 77p share price) at guided £550/oz AISC and using our long term gold price assumption of £1,350/oz (\$1,900/oz at 1.4 FX).

Liquidity position has been improved with CY22 debt repayments pushed out to Jan/25 allowing the team to fully focus on ramp up schedule that is central to rerating of the Company.

Our valuation does not include any upside from a potential discovery at the Grampian Project comprising 13 licenses over ~2,900km² across prospective Dalradian Belt with most of the ground (85%) located outside the Loch Lomond and the Trossachs national Park.

We have not included any premium for gravity gold produced from Cononish at this point either with most of production coming in the form of gold rich concentrate but that may change once gravity circuit contribution improves potentially translating into higher realised gold prices. Previous Cononish mine plan guided for up to ~25% of annual production in the form of gravity gold with the management previously reporting significant premiums offered by local jewellers for Scotland sourced gold.

We maintain our BUY recommendation with an updated 162p NAVPS reflecting latest gold price/production/costs estimates as well as Cononish LOM extension potential and highlight significant scope for rerating as the team delivers on the laid out ramp up plan.

(Jun year end)		FY20	FY21	FY22E	FY23E	FY24E
Gold price	US\$/oz	1,563	1,850	1,847	1,900	1,900
Gold price	GBP/oz	1,240	1,372	1,336	1,357	1,357
AUDGBP	A\$/£	1.88	1.81	1.88	1.90	1.90
GE sales	koz	-	-	7.8	19.5	26.6
AISC	GBP/oz	-	-	1,062	571	524
Sales	A\$m	-	0.3	19.8	50.4	68.6
EBITDA	A\$m	-1.6	-2.7	3.9	27.9	44.0
PAT	A\$m	-2.5	-5.0	0.2	18.5	26.5
Basic EPS	A\$/c	-5.0	-9.3	0.3	31.1	44.5
FCF	A\$m	-10.0	-12.9	-3.5	15.7	26.7
EV/EBITDA	x	-	-	27.7	3.9	2.5
PER	x	-	-	610.0	5.0	3.5

Source: SP Angel, Company

Output/earnings estimates				FY22E	FY23E	FY24E
Gold price	\$/oz			1,847	1,900	1,900
USDGBP	\$/£			1.38	1.40	1.40
Gold price	GBP/oz			1,336	1,357	1,357
Throughput	kt			29.7	57.5	72.0
Grade	g/t			9.7	11.7	12.7
Gold sales	koz			7.4	18.7	25.4
Silver sales	koz			30.1	71.6	96.9
GE sales	koz			7.8	19.5	26.6
AISC	GBP/oz			1,062	571	524
Revenue	GBPm			10.5	26.5	36.1
EBITDA	GBPm			2.1	14.7	23.2
EBITDA margin	x			0.20	0.55	0.64
FCF	GBPm			-1.9	8.3	14.1

Source: SP Angel, Company

Valuation	Method	NPV 100%	Interest	P/NAV	GBPm	GBP/shr
Cononish Base Case	DCF5%	96.1	100%	1.00	96.1	159
Cononish LOM Expansion	DCF5%	68.1	100%	0.25	17.0	28
Project Value					113.1	187
Adjustments						
Net cash/(debt)					-8.9	-15
Corporate & other costs					-6.2	-10
Company NAV					98.0	162

Source: SP Angel

SP Angel Earnings Summary

A\$m unless stated (YE Jun)

Market data			Operating metrics					
			FY20	FY21	FY22E	FY23E	FY24E	
Ticker		SGZ LN	USDGBP	1.26	1.35	1.38	1.40	1.40
Last price	GBP	82	AUDGBP	1.88	1.81	1.88	1.90	1.90
Target price	GBP	162	Gold price spot	US\$/oz	1,563	1,850	1,847	1,900
Rec		BUY	Gold price spot	GBP/oz	1,240	1,372	1,336	1,357
GBPUSD		1.36	GE sales	koz	-	-	7.8	19.5
AUDUSD		1.38	AISC	GBP/oz	-	-	1,062	571
Mkt cap	GBPm	48.8						
	USDm	66.4						
EV	GBPm	57.7						
	USDm	78.5						
Av # of sh in issue	mln	59.5						
Av # traded, 100d	mln	0.08						
			Income Statement					
			FY20	FY21	FY22E	FY23E	FY24E	
Revenues			-	0.3	19.8	50.4	68.6	
EBITDA			-1.6	-2.7	3.9	27.9	44.0	
margin			-	-	20%	55%	64%	
EBIT			-2.3	-4.1	1.7	21.5	33.9	
Net Interest			-0.2	-0.8	-1.5	-1.5	-1.2	
PBT			-2.5	-5.0	0.2	20.0	32.7	
Tax			-	-	-	-1.5	-6.2	
PAT			-2.5	-5.0	0.2	18.5	26.5	
EPS basic, cents			-5.0	-9.3	0.3	31.1	44.5	
EPS diluted, cents			-5.0	-9.2	0.2	30.7	43.9	
			Cash flow					
			FY20	FY21	FY22E	FY23E	FY24E	
CFO (post WC)			-1.0	-1.4	3.2	25.0	43.0	
Interest paid			-	-	-0.5	-0.9	-0.9	
Tax paid			-	-	-	-1.5	-6.2	
Net CFO			-1.0	-1.4	2.7	22.5	35.9	
Capex (incl Exploration)			-8.9	-11.5	-6.2	-6.8	-9.1	
CFI			-8.9	-11.5	-6.2	-6.8	-9.1	
Dividends			-	-	-	-	-	
Issue of shares			3.9	7.7	-	-	-	
Net debt proceeds / (repaid)			3.1	6.9	1.8	-1.0	-8.4	
CFF			6.9	14.5	1.8	-1.0	-8.4	
Net cash flow			-3.0	1.6	-1.7	14.7	18.3	
Cash cf			1.0	2.6	0.9	15.6	33.9	
			Balance Sheet					
			FY20	FY21	FY22E	FY23E	FY24E	
Cash			1.0	2.6	0.9	15.6	33.9	
Receivables/prepayments			0.2	0.4	1.6	4.1	5.6	
Inventories			0.1	0.2	1.3	2.2	2.6	
Current assets			1.4	3.6	4.1	22.2	42.5	
Exploration and PPE			33.5	47.8	54.4	54.9	53.9	
Non-current assets			35.0	49.4	55.9	56.5	55.4	
Total assets			36.4	53.0	60.0	78.7	97.9	
Payables/provisions			1.1	2.3	3.8	4.3	5.3	
Borrowings ST			0.5	7.9	1.0	8.4	10.5	
Current liabilities			2.1	11.1	5.7	13.6	16.6	
Borrowings LT			8.7	12.0	18.1	10.2	-	
Non-current liabilities			9.4	12.9	19.0	11.1	0.9	
Total liabilities			11.5	24.0	24.7	24.7	17.5	
Net assets			24.9	29.0	35.4	53.9	80.4	
			Key financial metrics					
			FY20	FY21	FY22E	FY23E	FY24E	
Net debt/(cash)			A\$m	8.3	17.3	18.2	3.0	-23.5
Av # of sh (diluted)			mln	49.7	53.7	59.4	60.5	60.5
EV/EBITDA			x	-	-	27.7	3.9	2.5
PER			x	-	-	610.0	5.0	3.5
FCF (CFO-Capex)			A\$m	-10.0	-12.9	-3.5	15.7	26.7
FCF yield			%	-	-	-	17.1%	29.1%
Assets/Equity			x	1.5	1.8	1.7	1.5	1.2
P/BV			x	2.1	3.3	2.9	2.1	1.4
Net Debt/EBITDA			x	-	-	4.6	0.1	-

Source: SP Angel

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