

Ausmex Mining Limited (ASX:AMG)

6 March 2020

Gilded Rose Project sale process to start over

In September 2019, Ausmex Mining (ASX:AMG) announced that a binding term sheet had been executed with Jin Resources (HK) Limited for the divestment of the AMG's Gilded Rose Project at Cloncurry QLD for a total cash consideration of A\$4m. Using AMG's mid-point exploration target for Gilded Rose of 3Mt @ 2.8g Au/t (320koz Au), we calculate that the consideration equated to ~A\$12.50/oz Au. While we suggest this was an attractive price for the acquirer, we are cognisant that AMG – like most early stage explorers – had numerous demands on its cash balance. The proceeds of the sale, combined with current funds on hand would have provided the group with an additional working capital runway to continue to define JORC resources at the Mt Freda Complex (part of the broader Cloncurry Project, QLD), as well as a maiden drilling program at the Burra Copper and Gold Project in South Australia.

- In October 2019, AMG announced that the sale process was progressing as planned with the purchaser Jin Resources executing a Sale and Purchase Agreement (SPA) with completion expected to be due in mid-November 2019 after completion of due diligence.
- On 6 December 2019, AMG and Jin Limited announced that they had mutually agreed to extend the settlement and completion date to mid-December.
- On 17 December 2019, AMG announced that the two parties had mutually agreed to extend the settlement and completion date to 28 January 2020.
- On 29 January 2020, AMG announced that while Jin Resources had confirmed to them their ongoing strong interest and intention to complete the purchase, events relating to the coronavirus (COVID-19) and ongoing political uncertainty in HK were impacting progress. Accordingly, in response to a request from Jin, AMG granted an extension (to the original SPA and extensions) to 14 February 2020.
- On 18 February 2019, AMG announced that discussions between the two parties to extend the SPA beyond 14 February were not satisfactorily concluded. As a result, AMG is now able to discuss the transaction with other interested parties. Jin Resources have restated their interest in purchasing the Gilded Rose gold project when the political situation in HK is resolved. Note: Jin Resources have forfeited the A\$200,000 non-refundable option fee paid to AMG.

Valuation and Recommendation: A\$0.11ps, Hold

While the failed asset sale to Jin Resources is a disappointment, we believe that – particularly in light of a robust Australian dollar gold price environment – AMG will ultimately be successful in finding a buyer for the Gilded Rose gold project. However, we have pushed out the sale to FY21E, while maintaining the original cash consideration at A\$4m. In addition, because of recent share price weakness, we have lowered our forecast issue price in forecast future capital raisings, increasing the dilutionary impact. As a result, we have lowered our target price for AMG to A\$0.07ps (A\$0.11ps previously). While our downwardly revised target price still offers significant upside potential from current share price levels, **our recommendation on AMG remains a Hold (Higher Risk)**. We would prefer to see progress on the Maiden Resource estimate at Cloncurry, and information on any proposed toll-treatment agreements, before upgrading our recommendation.

Share Price: A\$0.04

Target Price: A\$0.07

Target upside: 75%

Recommendation
Hold
Risk Assessment
Higher

Resources – Mining

David Brennan, CFA

Senior Investment Analyst

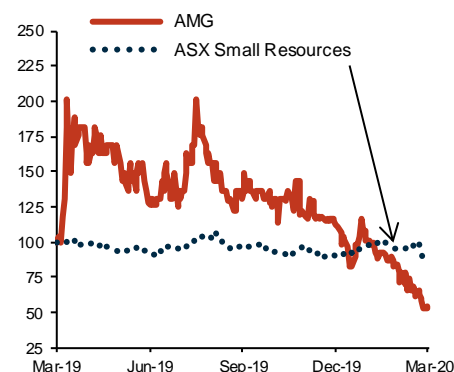
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Ausmex Mining Limited

ASX Code	AMG
52- week range	A\$0.04-A\$0.17
Market Cap (diluted) (A\$m)	22
Shares (quoted) (m)	528m
Av Daily Turnover (shares)	1.355m
ASX All Ordinaries	6,369
FY20E BV per share (A\$c)	0.01
FY20E EPS (A\$c)	-0.01
FY20E Net Cash/(Debt) (A\$m)	1.6

Relative price performance



Ausmex Mining

Year ending June

Profit & Loss Statement (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	0.0	0.2	4.0	0.0	0.0
Exploration expenses	(5.1)	(5.0)	(5.0)	(5.0)	(5.0)
Corporate/Admin	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)
Other	(1.4)	0.0	0.0	0.0	0.0
EBITDA	(7.8)	(6.0)	(2.2)	(6.2)	(6.3)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Operating profit	(7.8)	(6.0)	(2.2)	(6.2)	(6.3)
NOI	0.0	(0.2)	(0.3)	(0.3)	(0.4)
EBIT	(7.8)	(6.2)	(2.5)	(6.5)	(6.6)
Interest income	0.0	0.1	0.1	0.1	0.1
Interest expense	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Tax expense	0.6	0.0	0.0	0.0	0.0
Reported NPAT	(7.3)	(6.2)	(2.5)	(6.5)	(6.7)
Normalised NPAT	(7.3)	(6.0)	(2.2)	(6.2)	(6.3)

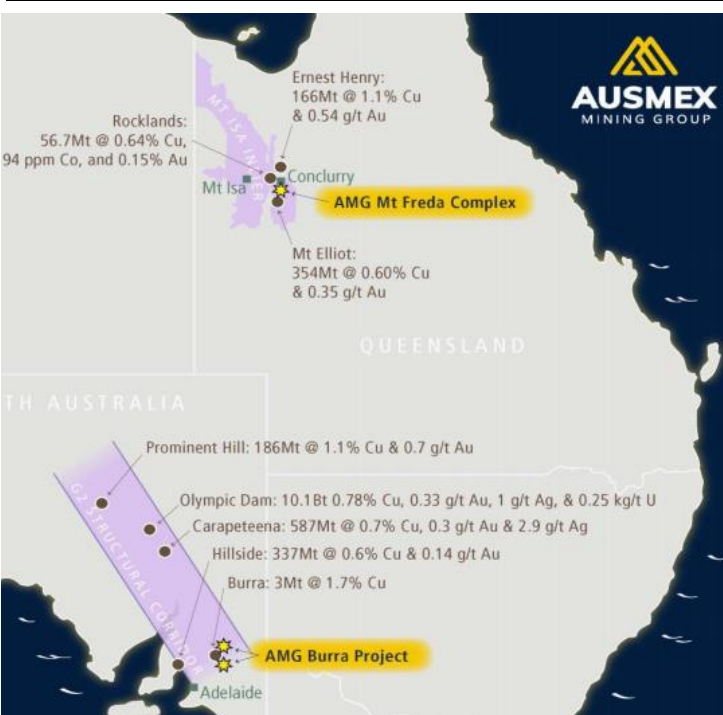
EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)
EPS Normalised (A\$)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)
EPS growth (%)	nm	nm	nm	nm	nm
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	524	606	679	779	904
YE no. of fully-diluted shares (m)	582	629	729	829	979

Cash Flow Statement (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	(7.8)	(6.0)	(2.2)	(6.2)	(6.3)
Investment in working capital	(0.3)	(0.0)	(1.2)	(0.1)	0.0
Tax expense	(0.0)	0.0	0.0	0.0	0.0
Operating Cash Flow	(8.1)	(6.0)	(3.4)	(6.3)	(6.3)
Capex	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Net interest received / (paid)	(0.2)	0.0	0.0	0.0	(0.0)
Debt draw down / (repayment)	0.8	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	8.1	4.0	5.0	5.0	7.5
Financing Cash Flow	8.7	4.0	5.0	5.0	7.5
Non-operating & Other	2.3	(0.2)	(0.3)	(0.3)	(0.4)
Inc/(Dec) in Cash	2.7	(2.4)	1.2	(1.8)	0.6

Balance Sheet (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Equivalents	4.8	2.4	3.6	1.8	2.5
Receivables	0.3	0.3	0.3	0.3	0.3
Inventories	0.0	0.0	0.3	0.0	0.0
Other Current Assets	1.1	1.1	1.1	1.1	1.1
PPE and Exploration & Development	2.0	2.2	2.4	2.6	2.8
Deferred tax asset	0.7	0.7	0.7	0.7	0.7
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	9.0	6.8	8.4	6.6	7.4
Payables and other current Liabilities	1.3	1.3	0.4	0.0	0.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.8	0.8	0.8	0.8	0.8
Other Non Current Liabilities	1.1	1.1	1.1	1.1	1.1
Total Liabilities	3.2	3.2	2.3	1.9	1.9
Total Equity	5.7	3.6	6.1	4.7	5.5
Net cash / (debt)	4.0	1.6	2.8	1.0	1.7

Substantial Shareholders	%	Date
C4 Shares Pty Ltd	20.8	
Bestvale Resource Consultants	4.9	Sep-19
Mathew Morgan	4.7	

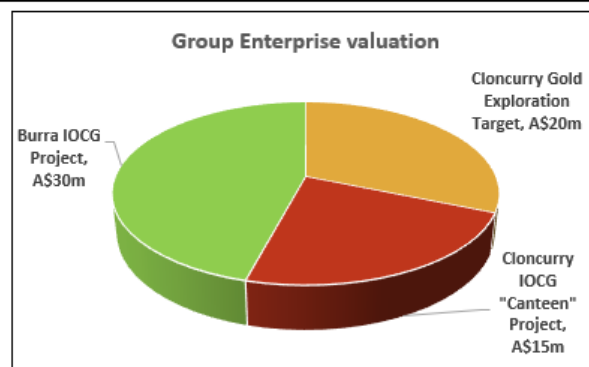
Source: Company, IRESS, State One Stockbroking forecasts

Project Locations


Ausmex Mining (ASX:AMG) is an Australian-based mineral exploration company with exposure to projects in two world class Australian mineral provinces. The Cloncurry Project (incorporating the Mt Freda-Golden Mile Complex) is located in the Mt Isa Inlier in Queensland and is surrounded by Tier-1 mines Ernest Henry, Rocklands, and Mt Elliot. AMG recently announced a gold Exploration target for Cloncurry of ~1.7Moz (mid-point) and resource definition is ongoing with the objective of posting a Maiden Resource estimate in 2020. The Burra Project in South Australia is at the southern end of the G2 Structural Corridor which hosts Tier-1 mines Prominent Hill, Olympic Dam and Carapetena.

SOTP valuation

	(A\$m)	A\$ps	Comments
Cloncurry Gold Exploration Target	20	0.02	Estimated EP unit value (A\$ g/t Au)
Cloncurry IOCG "Canteen" Project	15	0.02	Risk-adjusted estimate
Burra IOCG Project	30	0.03	Nominal
Enterprise value	65	0.07	
FY20E net cash	1.62	0.00	
Equity value	67	0.07	



Note: Per share date based on a forecast 979m diluted shares in FY23E

Recommendation & Risks

Our SOTP valuation of A\$0.07ps offers some 75% potential upside relative to AMG's current share price levels of A\$0.04. While this upside is not immaterial, **our recommendation on AMG at this juncture is a Hold (Higher Risk).**

We would prefer to see progress on the Maiden Resource estimate at Cloncurry, and subsequent toll-treatment agreements, before upgrading our recommendation. Risks to our estimated target price and forecast earnings profile include, but are not limited to:

- **Commodity prices/ exchange rates** – specifically the gold price, the copper price and the AUD/USD exchange rate.
- **Resource definition** – although AMG have disclosed a ~1.7Moz gold Exploration Target for its Cloncurry tenements, and is targeting to have a Maiden Resource estimate issued in 2020, there is no guarantee if, or when a Resource estimate will be made, or on the quantum of the Resource.
- **Toll-treatment agreement** – there is no guarantee that AMG will be successful in timeously negotiating a commercial agreement with a third party to toll-treat ore from its Cloncurry Project.
- **Exploration success at the Canteen IOCG Prospect** – exploration programmes at Cloncurry may not result in favourable results relative to expectations.
- **Exploration success at the Burra Project** – exploration programmes at the Burra Project may not result in favourable results relative to expectations.
- **Working capital / development capital** – while management is targeting gold production from the Mt Freda Complex via toll treatment with third party CIP gold processing facilities in Cloncurry during late 2020, no agreements on timing or quantum of ore to be delivered have been signed. In addition, there is no guidance yet on the amount of pre-production capex required for site(s) preparation, waste stripping, infrastructure etc etc. With the timeline uncertain on first revenue receipts, we assume AMG will most likely require equity or debt financing top-ups to fund working capital requirements over the next few years. We assume equity injections at a constant A\$0.05ps of A\$5m in FY21E, A\$5m in FY22E and A\$7.5m in FY23E, to support the group's exploration programs over this period. Since our assumed issue price is above the current share price level, actual share price dilution may be higher than we currently forecast.
- **Other.** Regulatory or compliance change, key personnel risk.

Board of Directors Source: Company Presentation (April 2019), 2019 Annual Report

Note: In November 2019, Geoff Kidd was appointed to the position of Executive Director and as AMG's new Chief Operating Officer



Yosse Goldberg *Non Executive Chairman*

Successful international career in property and resources including Sydney Gas Limited, Blue Energy Limited, Kimberly Diamond Company NL, Sundance Resources Limited, CuDeco Limited, Gindalbie Metals Ltd.



Matt Morgan *Managing Director*

BSc(Geol) MAusIMM, 25 years experience in mining, exploration and mine management both open cut and underground for BHPB, Rio Tinto, Idemitsu, Xstrata, Coalworks, Malaysia, Mongolia, PNG, Australia. Prior Director ASX:GMN



Dr Andrew Firek *Non Executive Director*

M.Sc. & Ph.D., FAusIMM, 30 Years exploration, mining, & processing, previous CEO of ASX:CWK until 2012 takeover by WHC. Current Director ASX:WLC



Geoff Kidd *Non Executive Director*

35 Years in senior positions including MD, COO, Gen Manager global mining consultants including Aust, Irian Jaya, India, NZ, Sth Africa, Zimbabwe, China, Sth America, & USA. Previous COO of ASX:CWK



Aaron Day *Non Executive Director*

Non Executive Director Aaron Day is a Geologist with 20 years' experience in exploration, mining, processing and plant commissioning. Senior positions held with Zeehan Zinc and with Cudoco Ltd. Extensive exploration management surrounding copper, lead, zinc gold and uranium.

DIRECTORS' INTERESTS

The relevant interests of each Director in the shares, options and performance rights of the Company at the date of this report are as follows:

Director	Shares	Options	Performance rights over ordinary shares
Mr Joseph Goldberg	-	1,764,706	-
Mr Matthew Morgan	24,808,989	6,911,764	-
Dr Andrew Firek	19,552,316	2,500,000	-
Mr Geoff Kidd	19,427,316	2,500,000	-
Mr Aaron Day	75,000	4,250,000	-

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