

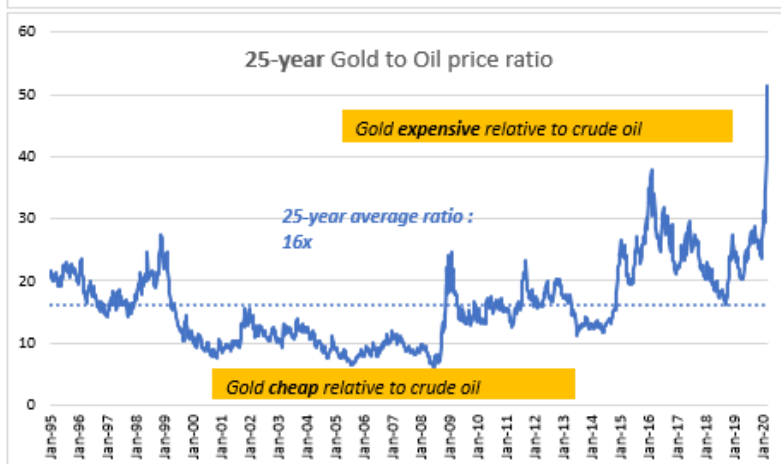
# Ausmex Mining Limited (ASX:AMG)

10 March 2020

## Gold - a safe haven in the current panic

On Monday 9 March, investors wiped A\$150bn off the ASX, the AUD fell 5%, US bond yields hit record lows and the Dow plunged 8%, as collapsing crude oil prices (-30%) and the spread of coronavirus (COVID-19) sparked panic among investors and fanned fears of a global recession.

While gold stocks could not escape the broad-based sell-down, the underlying metal showed itself to be (along with the US dollar) a safe haven. At the current gold price of US\$1,695/oz and WTI crude oil price of US\$33/bbl, one ounce of gold effectively buys 51 barrels of oil; this compares to the long-term (25-year) average price ratio of 16x. So, either gold is overvalued relative to oil, or oil is extremely cheap relative to gold. See charts below (Source: State One, IRESS).



### Valuation and Recommendation: A\$0.11ps, Hold

In the current market, where a timeous resolution to the COVID-19 global crisis is difficult to envisage, we suggest that gold prices are likely to remain robust. We believe this will eventually translate into support for gold stocks. While we see upside potential to ASX-listed gold plays, **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\$0.044

Target Price: A\$0.07

Target upside: 60%

## Recommendation

### Hold

## Risk Assessment

### Higher

#### Resources – Mining

David Brennan, CFA

Senior Investment Analyst

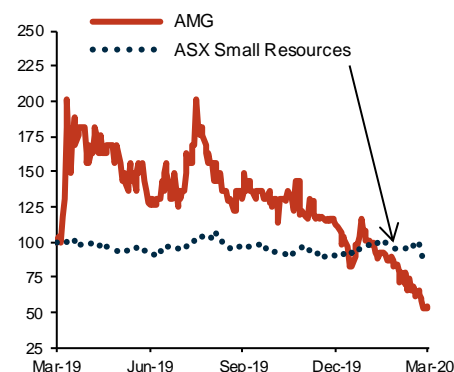
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)

+61 (0)2 9024 9142

#### Ausmex Mining Limited

ASX Code	AMG
52- week range	A\$0.04-A\$0.17
Market Cap (diluted) (A\$m)	22
Shares (quoted) (m)	530m
Av Daily Turnover (shares)	1.355m
ASX All Ordinaries	5,822
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

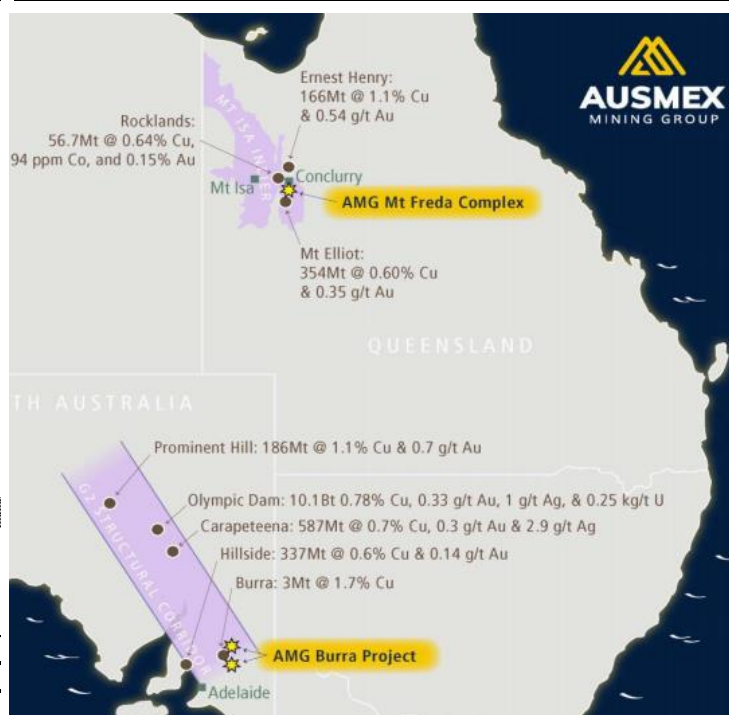
Profit & Loss Statement (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	0.0	0.2	4.0	0.0	0.0
Exploration expenses	(5.1)	(5.0)	(5.0)	(5.0)	(5.0)
Corporate/Admin	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)
Other	(1.4)	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>(7.8)</b>	<b>(6.0)</b>	<b>(2.2)</b>	<b>(6.2)</b>	<b>(6.3)</b>
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(7.8)</b>	<b>(6.0)</b>	<b>(2.2)</b>	<b>(6.2)</b>	<b>(6.3)</b>
NOI	0.0	(0.2)	(0.3)	(0.3)	(0.4)
<b>EBIT</b>	<b>(7.8)</b>	<b>(6.2)</b>	<b>(2.5)</b>	<b>(6.5)</b>	<b>(6.6)</b>
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
<b>Reported NPAT</b>	<b>(7.3)</b>	<b>(6.2)</b>	<b>(2.5)</b>	<b>(6.5)</b>	<b>(6.7)</b>
<b>Normalised NPAT</b>	<b>(7.3)</b>	<b>(6.0)</b>	<b>(2.2)</b>	<b>(6.2)</b>	<b>(6.3)</b>
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)
<b>EPS Normalised (A\$)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.01)</b>
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
<b>Operating Cash Flow</b>	<b>(8.1)</b>	<b>(6.0)</b>	<b>(3.4)</b>	<b>(6.3)</b>	<b>(6.3)</b>
Capex	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>
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
<b>Equity raised / (repaid)</b>	<b>8.1</b>	<b>4.0</b>	<b>5.0</b>	<b>5.0</b>	<b>7.5</b>
<b>Financing Cash Flow</b>	<b>8.7</b>	<b>4.0</b>	<b>5.0</b>	<b>5.0</b>	<b>7.5</b>
Non-operating & Other	2.3	(0.2)	(0.3)	(0.3)	(0.4)
<b>Inc/(Dec) in Cash</b>	<b>2.7</b>	<b>(2.4)</b>	<b>1.2</b>	<b>(1.8)</b>	<b>0.6</b>

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
<b>Total Assets</b>	<b>9.0</b>	<b>6.8</b>	<b>8.4</b>	<b>6.6</b>	<b>7.4</b>
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
<b>Total Liabilities</b>	<b>3.2</b>	<b>3.2</b>	<b>2.3</b>	<b>1.9</b>	<b>1.9</b>
<b>Total Equity</b>	<b>5.7</b>	<b>3.6</b>	<b>6.1</b>	<b>4.7</b>	<b>5.5</b>
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	

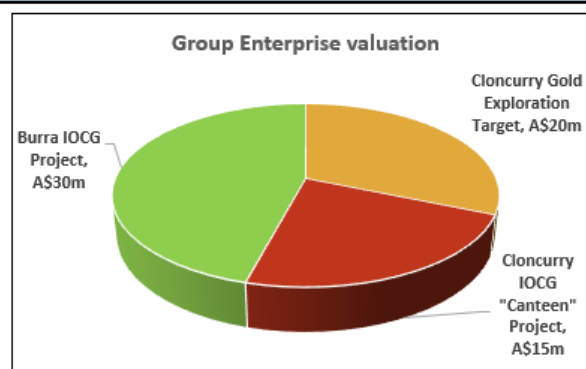
Source: Company, IRESS, State One Stockbroking forecasts

**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
<b>Enterprise value</b>	<b>65</b>	<b>0.07</b>	
FY20E net cash	1.62	0.00	
<b>Equity value</b>	<b>67</b>	<b>0.07</b>	



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

## Recommendation & Risks

Our SOTP valuation of A\$0.07ps offers some 60% potential upside relative to AMG's current share price levels of A\$0.044. 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, of 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 Cudeco 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	-

---

### General Advice Warning

The contents of this document have been prepared without taking account of your objectives, financial situation or needs. You should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

Whilst State One Stockbroking Ltd believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One Stockbroking Ltd or any officer, agent or employee of State One Stockbroking Ltd. If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the financial product) and consider it before making any decision about whether to acquire the financial product.

### Disclosure

The directors and associated persons of State One Stockbroking Ltd may have an interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products.

*This report was prepared solely by State One Stockbroking Limited. ASX Limited ABN 98 009 642 691 and its related bodies corporate ("ASX") did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation by State One Stockbroking Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.*

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. This research at all times remains the property of State One Stockbroking Ltd. And as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from an Executive Director of State One Stockbroking Ltd.

Alan Hill  
Executive Chairman  
Phone: +61 8 9288 3388  
[ahill@stateone.com.au](mailto:ahill@stateone.com.au)

Ric Heydon  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3307  
[rheydon@stateone.com.au](mailto:rheydon@stateone.com.au)

Mark Sullivan  
Institutional Dealer  
Phone: +61 2 9024 9134  
[msullivan@stateone.com.au](mailto:msullivan@stateone.com.au)

Thomas Tan  
Equities Advisor  
Phone: +61 2 9024 9131  
[ttan@stateone.com.au](mailto:ttan@stateone.com.au)

Morris Levitzke  
Equities Advisor  
Phone: +61 8 9288 3315  
[mlevitzke@stateone.com.au](mailto:mlevitzke@stateone.com.au)

Graeme Johnson  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3316  
[gjohnson@stateone.com.au](mailto:gjohnson@stateone.com.au)

Yitz Barber  
Equities Advisor  
Phone: +61 2 9024 9124  
[ybarber@stateone.com.au](mailto:ybarber@stateone.com.au)

Tammie Wong  
Equities Advisor  
Phone: +61 2 9024 9133  
[twong@stateone.com.au](mailto:twong@stateone.com.au)

Dawn Chia  
Business Development  
Manager  
Phone: +61 8 9288 3336  
[dawn.chia@amscot.com.au](mailto:dawn.chia@amscot.com.au)

David Zhang  
Equities Advisor  
Phone: +61 2 9024 9130  
[dzhang@stateone.com.au](mailto:dzhang@stateone.com.au)

David Brennan  
Senior Investment Analyst  
Phone: +61 2 9024 9142  
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)