



FOSTER STOCKBROKING

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## Watching Brief – GCY – Plant excels, while exploration pointing to mine life extension

*The writer owns 53,500 GCY shares. Foster Stockbroking and associated entities own 1,016,454 GCY shares. Cranport Pty Ltd owns 1,365,718 GCY shares. Refer to end of email for details.*

*Foster Stockbroking acted as Co-Manager to the \$85M placement and entitlement offer of 3,410M shares at \$0.025/share (pre-consolidation) in August 2020. Foster Stockbroking has received fees for this service.*

### Gascoyne Resources Ltd (GCY, \$0.53, mkt cap \$133M)

- **GCY's December 2020 quarterly showed Dalgara plant exceeding design rate, while exploration success is prompting a review of the mine plan.**
- **Production of 20.4koz gold for the quarter (40.7koz for 1HFY21) was no surprise**, given the figure was pre-reported, as was cash balance of \$37.3M and net cash \$0.8M.
- **Underlying net free cash flow was \$9.0M in the quarter, or \$16.8M for the half**, after stripping out \$11M of costs during the quarter associated mostly with settlement of pre-voluntary administration creditor payments and Habrok litigation defence costs. This was slightly up on the \$7.8M in the September quarter. Statutory reported net free cashflow was -\$2.1M including one-offs in the December quarter. The company expects any further administration associated costs going forward to be immaterial.
- **AISC declines, waste stripping increases.** AISC fell to A\$1,100/oz from \$1,444/oz in the September quarter, as there was more focus on waste stripping as part of the Gilbey's Stage 2 cutback.
- **Plant exceeding design throughput and recoveries.** The Dalgara plant processed 668kt during the quarter or 1.31Mt for the 1HFY21e, equivalent to a run-rate of 2.60-2.65Mtpa vs design rate of 2.5Mtpa. Plant recoveries were >92% across September and December quarters vs the 90% in the mine plan. GCY stated it has further confidence that the plant can regularly exceed 2.5Mtpa, presenting upside to its mine plan.

- **Nearby exploration success prompts mine plan revision – watch out for update in June quarter.** The company’s successful near-mine drilling - at Gilbey’s, Sly Fox, and Plymouth – has prompted GCY to halt its previously scheduled cutback for Stage 3 at Gilbey’s. This should reduce expected AIC with less waste strip expected for FY21 than the current mine plan. In the interim GCY will revise the mine plan which will likely incorporate additions to Reserves and Resources from the successful drill program. We expect a resource upgrade in March quarter, and both a Reserves upgrade and updated mine plan in the first half of the June quarter.
- **Regional exploration programs also in progress.** GCY also reported drilling at regional targets within 15km of Dalgara, further adding to potential future mine life extensions. The results are expected in the first half of the March quarter.
- **Guidance reiterated.** Given solid performance and meeting expectations, the company reiterated production guidance at the upper end of 70-80koz range, and AISC of \$1,200-\$1,300/oz for FY21e. We believe risks lie to the upside given the strong plant performance.
- **Valuation – still at discount to peers.** Using the company’s disclosed prospectus/mine plan forecasts of production, AISC, and capex, as well as consensus gold and A\$ estimates, we forecast average EBITDA of \$87M for FY22e, implying GCY trading on an EV/EBITDA of 1.5x, well below comparable ASX gold peers. This is before any upside from a revised mine plan, or the plant continuing to exceed its design rate.

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**Mark Fichera**

D: +61 2 9993 8162

E: [mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)



Foster Stockbroking  
 A.B.N. 15 088 747 148 AFSL No. 223687  
 Level 25, 52 Martin Place, Sydney, NSW 2000 Australia  
 General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181  
 Email: [contact@fostock.com.au](mailto:contact@fostock.com.au)  
 PARTICIPANT OF ASX GROUP

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**Specific disclosures:** The writer owns 53,500 GCY shares. Diligent care has been taken by the writers to maintain honesty and fairness in writing the report and making the recommendation.

**Specific disclosures:** The writer attended a GCY site visit in March 2020 for which the company paid for accommodation and flights.

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**Specific disclosure:** The report has been reviewed by Matthew Chen, Research Analyst.

**Disclosure review.** All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.