

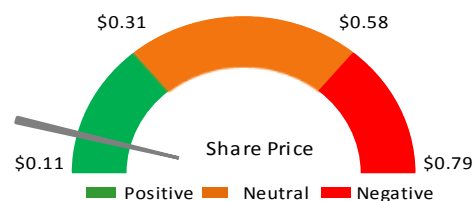
Stock Focus

Gascoyne Resources (GCY)

Friday, 5 September 2014

DEAL IS A COMPANY CHANGER

Recommendation: Speculative Buy



Trading Data

Last Price	\$0.18
12 month range	\$0.11 - \$0.22
Market Cap	\$24m
Free Float	\$18m (77%)
12 month return (historical)	(25.0)%

WHAT SURPRISED?

Monument Mining Limited (Canadian Listed) has agreed to acquire a 50% interest in the Dalgara, Glenburgh and Egerton Gold projects for C\$25m, comprising 100m MMY shares (19.6% stake in MMY).

In addition, MMY is to invest in Gascoyne via a series of premium placements:

- \$5m placement at 25c.
- \$2.5m placement at 29c within 12 months.
- Further options to allow MMY to maintain up to 19.6% stake in GCY.

Gascoyne will be carried to production, with Monument to meet Gascoyne's share of mine development costs through non-recourse participant loan repayable from production revenue. Gascoyne is to manage the exploration phase. Monument is to manage development and mining operations.

A nominee of Monument is expected to be elected to the Gascoyne board and vice versa.

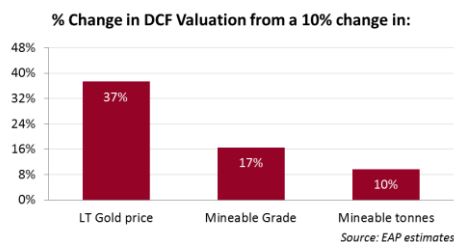
WHAT'S CHANGED?

This deal is an absolute game changer for Gascoyne:

- Funding risk for the projects is now resolved.
- The equity in Monument in addition to the cash raised via the premium placements puts the company on solid footing financially.
- Gascoyne will be looking to increase the exploration budget, with circa \$15m of JV funds over the longer term (well beyond a one year horizon to be spent).

WHAT NOW?

The parties have agreed to complete the Gascoyne JV Acquisition and the Monument Private Placement 10 business days after satisfaction of all conditions or such other date as agreed. The Gascoyne JV Acquisition and the Monument Private Placement are expected to be completed by no later than November 20, 2014.



Share Price History



Earnings Forecasts

Yr to June	14A	15E	16E	17E	18E
EBITDA (\$m)	(2.0)	(0.8)	19.8	29.1	24.5
Adj NPAT (\$m)	(1.9)	(1.5)	7.1	13.8	10.1
EPS (¢)		(0.8)	3.8	7.4	5.4
EPS Gth (%)	NM	NM	NM	93.5	(26.3)
PER (x)		NM	4.7	2.4	3.3
PEG Ratio (x)			0.2	0.0	
DPS (¢)		0.0	0.0	0.0	0.0
Yield (%)		0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%	0%
Production (k oz)	0	0	39	65	59
Cost (A\$ oz)			1,163	1,026	1,100
Net Debt/EBITDA (x)	0.4	2.8	(0.4)	(1.0)	(1.9)
Int. Cover (x)	20.3	1.0	(32.0)	(19.8)	(7.6)
Valuation (DCF)					\$0.37

EARNINGS AND FORECASTS

METRIC	YEAR	OLD	NEW	CHANGE	COMMENTARY
NPAT (\$M)	2014	(2)	(2)	0	
	2015	(3)	(1)	2	
	2016	14	7	-7	
	2017	27	14	-13	
Net Debt (\$M)	2014	(1)	(1)	0	Funding is via Monument's balance sheet
	2015	35	(2)	-37	
	2016	22	(8)	-30	
	2017	(22)	(30)	-8	
Production (k oz)	2014				Reflects Gascoyne's sale of 50% of the asset.
	2015	0	0	NA	
	2016	78	39	(50%)	
	2017	129	65	(50%)	
All-In Cost (\$/oz)	2014				No change to project parameters at this stage
	2015	NA	NA	NA	
	2016	1,105	1,163	5%	
	2017	1,125	1,026	(9%)	
Gold Price (A\$/oz)	2014	1,375	1,375	0%	
	2015	1,407	1,407	0%	
	2016	1,432	1,432	0%	
	2017	1,462	1,462	(0%)	
Valuation (\$/share)		\$0.17	\$0.37	115%	Funding dilution removed, deal highly accretive

Source: Company data, E&P Research estimates

MONUMENT DETAILS

Monument Mining Limited is an established Canadian gold producer that owns and operates the Selinsing Gold Mine in Malaysia, with production cash costs among the lowest in the world. Its experienced and accomplished management team is committed to growth and is advancing several exploration and development projects in Malaysia (including the advanced stage, polymetallic Mengapur project in Pahang State of Malaysia, and the Murchison Projects at Burnakura, Gabanintha and Tuckanarra in Western Australia). The Company employs over 300 people in both regions. Concurrent with the deal just discussed, Monument have arranged a C\$25m private placement. **As at the end of March 2014, the company had over \$40m in net current assets.**

FINANCIAL SUMMARY

Gascoyne Resources Ltd GCY
As at: 5/09/2014 Recommendation: Speculative Buy DCF Valuation \$ 0.37

Year end	Jun	2014A	2015E	2016E	2017E	2018E
INCOME STATEMENT						
Total Revenue	\$m	0	1	56	95	90
Operating Costs	\$m	0	0	(29)	(56)	(57)
Royalty	\$m	0	0	(2)	(3)	(2)
Exploration W/off	\$m	(1)	(1)	(1)	(1)	(1)
Total Op. Costs	\$m	(1)	(1)	(31)	(59)	(60)
D&A	\$m	0	0	(12)	(15)	(13)
Interest Exp.	\$m	0	0	0	0	0
Corporate	\$m	(2)	(2)	(2)	(2)	(2)
Other	\$m	0	0	0	0	0
Total Costs	\$m	(3)	(3)	(46)	(76)	(75)
Pre-Tax Profit	\$m	(3)	(2)	10	20	14
Tax Provision	\$m	1	1	(3)	(6)	(4)
Net Profit	\$m	(2)	(1)	7	14	10
Minorities	\$m	0	0	0	0	0
Attrib Net Profit	\$m	(2)	(1)	7	14	10
Abnormal	\$m	0	0	0	0	0
Reported profit	\$m	(2)	(1)	7	14	10

		14A	15E	16E	17E	18E
CASH FLOW						
Operating Cashflow	\$m	0	(1)	21	30	24
-Capex	\$m	(0)	(35)	(13)	(6)	(4)
-Exploration	\$m	(2)	(2)	(2)	(2)	(2)
Free Cashflow	\$m	(3)	(39)	6	21	18
-Dividends	\$m	0	0	0	0	0
+Equity Raised	\$m	0	0	0	0	0
+Debt Drawdown	\$m	0	0	0	0	0
-Other	\$m	0	40	0	0	0
Net Change in Cash	\$m	(2)	1	6	21	18
Cash at End Period	\$m	1	2	8	30	47

		14A	15E	16E	17E	18E
BALANCE SHEET						
Cash	\$m	1	2	8	30	47
Total Assets	\$m	21	58	89	131	165
Total Debt	\$m	0	0	0	0	0
Total Liabilities	\$m	1	1	1	1	1
Shareholders Equity	\$m	21	57	88	130	165

		14A	15E	16E	17E	18E
Production						
Glenburgh						
Ore Milled	(k t)			1,150	1,200	1,200
Head Grade - Au	(g/t)			2	2	2
Recovery - Au	(%)			95%	95%	95%
Production - Au	(k oz)			78	81	70
Profit and Loss Cash Cost						
Cash Cost	(\$/t)			50	50	53
Cash Cost	(A\$/oz)			742	749	908
Total Cost	(A\$/oz)			1,105	1,113	1,273
Dalgaranga						
Open Cut						
Tonnes Mined(k t)		0			7,500	7,500
Ore Milled	(k t)				1,000	1,000
Head Grade - Au	(g/t)				2	2
Recovery - Au	(%)				95%	95%
Production - Au	(k oz)				61	61
Heap Leach						
Ore Milled	(k t)				1,000	1,000
Head Grade - Au	(g/t)				1.00	1.00
Recovery - Au	(%)					
Production - Au	(k oz)					
Total						
Total Mined	(k t)				15,000	15,000
Ore Milled	(k t)				2,000	2,000
Head Grade - Au	(g/t)				2	2
Recovery - Au	(%)				63%	63%
Production - Au	(k oz)				61	61
Sales - Au	(k oz)				61	61
Profit and Loss Cash Cost						
Cash Cost	(\$/t)				32	32
Cash Cost	(A\$/oz)				1,076	1,077
Total Cost	(A\$/oz)				1,146	1,147
GROUP ATTRIBUTABLE						
Gold Production	(k oz)				39	65
Cash Cost	(A\$/oz)				742	872
Total Cost	(A\$/oz)				1,105	1,221

Year end	Jun	2014A	2015E	2016E	2017E	2018E
VALUATION METRICS						
PER	x	NA	NA	4.7	2.4	3.3
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0
P/FCF	x	NA	NA	1.6	1.1	1.4
ROA	%	-8.8	-2.6	8.0	10.5	6.1
ROE	%	-9.2	-2.6	8.1	10.6	6.2
Net Debt to Equity	%	0.0	0.0	0.0	0.0	0.0
Debt to Assets	%	0.0	0.0	0.0	0.0	0.0

Directors		
Chairman		Mike Joyce
Chief Executive Officer		Mike Dunbar
Non-Executive Director		Sam MacDonald
Non-Executive Director		John den Dryver
Non-Executive Director		Gordon Dunbar
Non-Executive Director		Stan McDonald

Substantial Shareholders	Shares (M)	%
Stanley Macdonald	47.4	29.9%
Graham Riley and Anne Riley	14.1	8.9%
JP Morgan Chase and Co	11.9	7.5%
Rodney Joyce	8.9	5.6%
National Nominees and Forresteria Gold NL	8.3	5.3%

Valuation Summary	Downside Case*		Base Case		Upside case	
	A\$m	A\$/share	A\$m	A\$/share	A\$m	A\$/share
Operations						
Glenburgh		Downside Case	24	\$0.13	82	\$0.44
Dalgaranga		is	5	\$0.03	11	\$0.06
Exploration		Book Value	10	\$0.05	0	\$0.00
Total			39	\$0.21	93	\$0.50
Financial						
Investments			25	\$0.13	25	\$0.13
Cash			10	\$0.05	10	\$0.05
Total Borrowings			0	\$0.00	0	\$0.00
Corporate/Other			-5	-\$0.03	-5	-\$0.03
Total Financial			29	\$0.16	29	\$0.16
Total			23	0.14	68	0.37

Bull case assumes an additional 2 year mine life on the base case assumption
Base and Bull are fully dilute for a \$40m raising

Reserves (100%)	Tonnes	Au	Gold
	M	g/t	k oz
Total Attributable	0.0		0

Resources (100%)	Tonnes	Au	Gold
	M	g/t	k oz
Glenburgh	21.1	1.5	1,000
Egerton	0.1	6.4	24
Golden Wings	0.5	3.7	54
Dalgaranga	12.9	1.7	687
Total Attributable	32.0	1.6	1,627

Assumptions	14A	15E	16E	17E	18E	
Gold Price	(US\$/oz)	1,295	1,291	1,297	1,309	1,331
Exch Rate	(US\$/A\$)	0.94	0.92	0.91	0.90	0.90
Gold Price	(A\$/oz)	1,375	1,407	1,432	1,462	1,486

Source: Company data, E&P Research estimates

RESEARCH RECOMMENDATION DEFINITIONS

Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative Buy	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
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Valuation	Rolling 12 month prospective multiples (composite of Price-to-Earnings Ratio, Dividend Yield and EV/EBITDA), or long-term NPV for resource stocks.
Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
Cyclical Risk	Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.
Industry Quality	Qualitative assessment of an industry's growth/returns potential and company specific management capability.
Financial Transparency	If we don't understand it, we won't recommend it.

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