

Emerald Resources NL

(EMR \$0.042) Speculative Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	18 th October 2016	\$0.08/sh

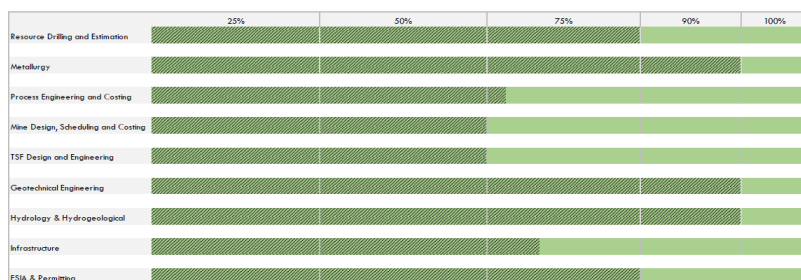
Okvau Project update

Investment case

Infill drilling (25m x 25m) in the top 120m of the Okvau resource has confirmed previous mineralisation and geological interpretation – a pleasing outcome. The DFS remains on track for completion in early Q1 CY'17 and work has confirmed scope for capital cost reduction. Exploration and step out drilling at Okvau plus a new resource in Dec should provide further catalysts. Our valuation remains at \$0.075/sh and we continue to back EMR as an emerging gold producer with a proven development team.

Key points

- DFS remains on track to be completed in early CY'17 and importantly the work is showing scope for capital cost reductions.



Source: Emerald Resources

- Infill drill program (77 holes for 7,400m) for the top 120m vertical metres and on 25m x 25m centres has been completed.
- Initial batch of 46 holes shows numerous +50gm intersections including 16m @ 3.9 g/t Au from 19m, 31m @ 3.11 g/t Au from 81m, 9m @ 5.69 g/t Au.
- Result confirm the existing geological and resource model and represent the first 3 yrs of mill feed for project.
- Okvau remains open and step our drilling (4,000m) has now commenced to test for strike and dip extensions.
- Final metallurgical test work underway to optimise proposed flowsheet.
- The Environmental and Social Impact Assessment is expected to be submitted shortly.
- Of the 3 holes drilled at the Samnang prospect, two holes intersected favourable stratigraphy (50-100m zone of skarn alteration) whilst one hole to the south intersected black shales downgrading the prospectivity of the southern end of the IP anomaly. Further work will be undertaken.
- An initial RC drill program will commence in Nov at the O'Rman prospect located 6km north of Okvau and is currently a 800m x 600m geochemical anomaly with grades of up to 2.55 g/t in soils.
- Additional geotechnical work has been completed and there is not expected to be any adverse changes from the RNS PFS study with the possibility of improvements which could see a deeper pit and lower strip ratio.

Emerald Resources NL	Year End 30 June	
Share Price	0.04	A\$/sh
Price Target	0.08	A\$/sh
Valuation	0.075	A\$/sh

Shares on issue	2106	m, diluted *
Market Capitalisation	88	A\$m
Enterprise Value	68	A\$m
Debt	0	A\$m
Cash	20	A\$m
Largest Shareholder	Dir & Mgt 28%	

Production F/Cast	2017f	2018f	2019f
Attrib. Prod'n (koz)	0	45	90
Cash Cost (A\$/oz)	na	554	554
Total Cost (A\$/oz)	na	785	788

Assumptions	2017f	2018f	2019f
Gold US\$/oz	1313	1325	1350
AUDUSD	0.75	0.76	0.77

Key Financials	2017f	2018f	2019f
Revenue (A\$m)	1	62	124
EBITDA (A\$m)	-2	30	66
NPAT (A\$m)	-1	11	29
Cashflow (A\$m)	-46	-62	66

CFPS (Ac)	-1	-2	2
P/CFPS (x)	na	na	2.3

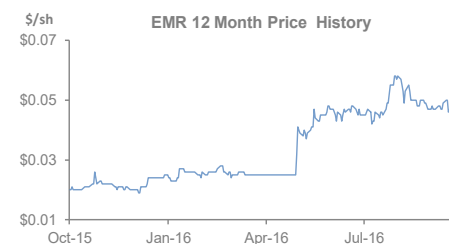
EPS (Ac)	0	1	1
EPS growth (%)	na	na	169%
PER (x)	na	8.1	3.0

EV:EBITDA (x)	-34.2	2.3	1.0
EV:EBIT (x)	-34.2	3.5	1.5

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	31%	15%	na
Interest Cover (x)	na	na	18.6

Share Price Chart



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This analyst declares that he has a beneficial interest in Emerald Resources NL.

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Analysis

EMR remain on track to deliver the Okvau DFS by early CY'17 and its pleasing the infill drilling has confirmed the geological model and previous interpretation.

We would expect a good portion of the resource to be upgraded from Indicated category to Measured when the new resource estimate is released in Dec'16. A maiden reserve will accompany the DFS.

We value EMR at \$208m or \$0.075/sh and remain confident that significant cost savings can be delivered. Our valuation assumes a capital cost of US\$100m (vs US\$120m in the PFS) and we assume \$40m in equity with the balance funded by debt and current cash of ~\$20m.

We continue to rate the exploration potential highly and whilst the Samnang holes didn't intersect significant mineralisation - the right host rocks were drilled.

There should be plenty of newsflow over the next three months including;

- Step out drilling at Okvau,
- RC drilling at O'Rman,
- Updated resource and maiden reserve,
- Definitive Feasibility Study.

We maintain our Speculative Buy and PT of 8 cps.

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(EMR \$0.042) Speculative Buy

Market Statistics			Year End 30 June		
Share Price	\$0.042	A\$/sh	Directors		
Issued Capital			S.Lee	Chr'n	
FP Ord	2,106.0	m*	M. Hart	MD	
Total Dil. FPOrd	2,106.0	m	R.Stanley	NE Dir	
			R.Williams	NE Dir	
			J.Tremain	ED*	
Market Capitalisation	\$88	m	Shareholders		
Enterprise Value	\$68	m	Dir & Mgt	29%	
Debt	\$-	m			
Cash	\$20	m			

* post merger with RNS

Asset Valuation	A\$m	A\$/sh
Okvau gold project (risk adj 75%)	158	0.06
Hedging	-	-
Corporate	(20)	(0.01)
Okvau Exploration	10	0.00
Unpaid Capital	40	0.01
Debt	-	-
Cash	20	0.01
Total	208	0.075

F/Cast Production (A\$m)	2017f	2018f	2019f	2020f	2020f	
Okvau (100%)	koz	0	45	90	90	94
Avg Cash Cost	US\$/oz	na	554	554	559	538
Avg Total Cost	US\$/oz	na	785	788	797	769
Avg All in Costs		774	734	724	722	689
Avg Spot Price	US\$/oz	1,313	1,325	1,350	1,350	1,350
Avg Price Rec'd	US\$/oz	1,313	1,325	1,350	1,350	1,350

Ratio Analysis (A\$m)	2017f	2018f	2019f	2020f	2020f
CF (A\$m)	(46)	(62)	66	67	74
CF / Sh (Ac/sh)	(1)	(2)	2	2	2
CF Ratio (x)	na	na	2.3	2.2	2.0
Earnings (A\$m)	(1)	14	38	39	45
EPS (Ac/sh)	(0)	1	1	1	2
EPS Growth (%)	na	na	169%	2%	16%
Earnings Ratio (x)	na	8.1	3.0	3.0	2.6
E'prise Val. (A\$m)	147	137	107	61	9
EV : EBITDA (x)	(34.2)	2.3	1.0	1.0	1.0
EV : EBIT (x)	(34.2)	3.5	1.5	1.6	1.4
Net Debt / ND+Eq (%)	31%	15%	na	na	na
Interest Cover (x)	na	na	18.6	109.1	na
EBIT Margin (%)	na	32%	37%	36%	38%
ROE (%)	-1%	9%	23%	20%	19%
ROA (%)	-1%	10%	21%	18%	18%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio (x)	-	-	-	-	-
Div. Yield (%)	0%	0%	0%	0%	0%
Div. Franking (%)	0%	0%	0%	0%	0%

Profit and Loss (A\$m)	2017f	2018f	2019f	2020f	2020f
Gold Revenue	0	61	122	122	127
Hedging Revenue	-	-	-	-	-
Interest Revenue	1	1	2	4	7
Other Revenue	-	-	-	-	-
TOTAL REVENUE	1	62	124	126	134
Operating Costs	0	25	50	50	51
Dep/Amort	0	10	21	21	22
W/O & Provisions	-	-	-	-	-
Corp O/H	2	6	6	6	6
EBITDA	(2)	30	66	65	71
EBIT	(2)	19	45	44	49
Interest Expense	-	5	5	5	5
NPBT	(1)	15	42	43	51
Tax	(0)	5	13	13	15
Minorities	-	-	-	-	-
NET PROFIT	(1)	11	29	30	35
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(1)	11	29	30	35

Cash Flow (A\$m)	2017f	2018f	2019f	2020f	2020f
Net Profit	(1)	11	29	30	35
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	10	21	21	22
+ Provisions	-	-	-	-	-
+ Tax Expense	(0)	5	13	13	15
- Tax Paid	(0)	4	10	10	12
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(1)	22	53	54	60
-Capex + Development	34	69	3	3	3
-Exploration	1	4	6	6	6
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	5	-	-	-	-
Investing Cashflow	(65)	(72)	(9)	(9)	(9)
+Equity Issues	40	-	-	-	-
+Loan D'down/Receivable	30	60	-	-	-
-Other (share buy back)	0	0	0	0	0
-Loan Repayment	-	-	-	-	-
-Dividends	-	-	-	-	-
Financing Cashflow	70	60	-	-	-
Period Sur (Def)	5	10	44	46	52
Cash Balance	20	30	74	120	172

Balance Sheet (A\$m)	2017f	2018f	2019f	2020f	2020f
Assets					
Cash	20	30	74	120	172
Current Receivables	5	5	5	5	5
Other Current Assets	10	10	10	10	10
Non-Current Assets	101	143	123	104	84
Total Assets	136	187	213	239	271
Liabilities					
Borrowings	50	50	65	64	64
Current Accounts Payable	5	5	5	5	5
Other Liabilities	15	15	15	15	15
Total Liabilities	70	70	85	84	84
Net Assets	66	117	128	155	187

Reserves and Resources

	Reserves	Reserves	Resources		
	mt	mt	g/t	koz	mt
Okvau (100%)					15.8
					2.2
					1,130
Total (koz)					1130
EV per oz				n/a	61

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Contact Details

Euroz Securities Limited +61 8 9488 1400

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Julian Lake - Associate Analyst	+61 8 9488 1470
Matthew Gavshon - Associate Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Brian Bates - Executive Director	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Steve Grove - Associate Director	+61 8 9488 1410
Jamie Mann - Associate Director	+61 8 9346 0301
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Duncan Relf - Investment Adviser	+61 8 9346 0322
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Richard Gardner - Investment Adviser	+61 8 9488 1444
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

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