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SPEC BUY

Current Price \$0.26
Valuation \$0.50

Wednesday, 15 June 2022

Medallion Metals (MM8)

Kundip Growth – and More to Come

Analyst | Royce Haese

Quick Read

Since listing in March last year, Medallion Metals has completed 45 km of drilling at its Ravensthorpe Gold Project. 26 km of this drilling has been included in an updated Resource Estimate for the Kundip Gold Project. The headline of 1.1Mozs @ 2.1 g/t Au (1.4Moz @ 2.6 g/t AuEq when copper credits are considered) has exceeded [our +1Moz expectation](#). Exploration upside remains a key differentiator for Medallion, with numerous regional targets, and all deposits open at depth. We adjust our model to factor in a larger mining inventory supported by this updated Resource estimate. Our valuation improves to 50cps, prior 39cps. We maintain our Speculative Buy recommendation.

Kundip Growth – and More to Come

Resource Update: Prior estimate of 674koz Au has increased substantially to 16.5kt @ 2.1 g/t Au for 1.1Mozs. 50kt of copper credits improve this estimate to 16.5kt @ 2.6 g/t AuEq for 1.37Mozs. We're not quite comparing apples with apples when looking at this and the prior estimate. The open pit component of the previous estimate was constrained to pit-shells, and an 0.5/2.0 g/t Au cut-off was used for reporting the open pit and underground components respectively, compared with the 0.5/2.0 g/t AuEq cuts used in the updated estimate. Instead of reporting open pits constrained to pit shells Medallion has reported the open pit component above a nominal RL of 150m below surface, this brings the reporting methodology in line with peers and current standard practice but does slightly inflate the estimate beyond what would have been reported under the previous method. An updated MRE is planned for late this year.

Copper has been estimated independently for the first time, resulting in a small copper only domain at Harbour View of 7kt @ 0.7% Cu. Copper grades appear to be increasing at depth at Harbour View so copper may provide a larger contribution going forward.

Overall, a meaningful increase and a step towards defining a project capable of producing +100kozpa over 10+ years, aka. "mid-tier status". Planning is underway for Medallion's next steps. No doubt more drilling and more ounces to come.

Argonaut Mining Scenario and Valuation: We have updated our mining scenario to factor in a larger mining inventory we think this updated Resource will support, our project level NPV₇ improves from \$147M to \$209M. Key risks remain industry-wide cost escalations and project metallurgy. Other considerations are discussed in the body of this note.

Recommendation

Maintain Spec Buy recommendation with an improved valuation of \$0.50 per share.

Code:	MM8
Sector:	Metals and Mining
* All figures in AUD unless stated otherwise	
Shares on Issue (M):	196
Market Cap (\$M):	56
cash	5
debt	4
Net cash (\$M Mar 2022)	1
Enterprise value (\$M):	55
52 wk High/Low (ps):	\$0.34 \$0.18
12m av. daily vol. (Mshs):	0.16

Key Metrics

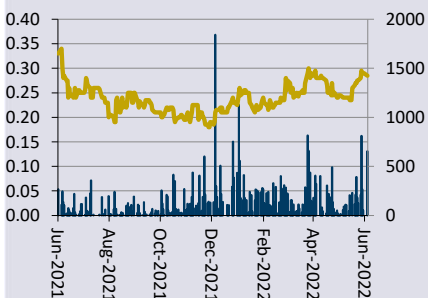
	FY23e	FY24e	FY25e
P/E (x)	14.4	6.0	4.8
EV/EBITDA (x)	-13.6	-13.6	1.5

Financials:

	FY23e	FY24e	FY25e
Revenue (\$M)	0	0	55
EBIT (\$M)	-4	-4	27
NPAT (A\$M)	-6	-10	14
Net assets (\$M)	126	116	133
Op CF (\$M)	-6	-10	31

Per share data:

	FY23e	FY24e	FY25e
EPS (c)	-0.8	-1.3	2.0
Dividend (cps)	-	-	-
Yield (%)	-	-	-
CF/Share (cps)	-0.8	-1.3	4.3
Prod (koz Au)	0.0	0.0	10.8



Please refer to important disclosures at the end of the report (from page 8)



Medallion Metals

Equities Research

Analyst: Royce Haese

Recommendation	Speculative Buy
Last Close Price	\$0.29
Valuation	\$0.50

Sector	Metals & Mining
Issued Capital (Mshs)	196
Market Cap (M)	\$56

Wednesday, 15 June 2022

Profit & loss (\$M) 30 June	2022E	2023E	2024E	2025E
Sales Revenue	0	0	0	55
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	0	-14
- Royalties	0	0	0	-1
- Corporate & administration	-4	-4	-4	-4
Total Costs	-4	-4	-4	-20
EBITDA	-4	-4	-4	36
margin	0%	0%	0%	66%
- D&A	0	0	0	-8
EBIT	-4	-4	-4	27
+ Finance Income/Expense	0	-2	-6	-5
PBT	-4	-6	-10	22
- Tax expense	0	0	0	-8
- Impairments and other	0	0	0	0
NPAT	-4	-6	-10	14

Cash flow (\$M)	2022E	2023E	2024E	2025E
+ Revenue	0	0	0	55
- Cash costs	-4	-4	-4	-20
- Forwards	0	0	0	0
-Tax payments	0	0	0	0
+ Interest & other	0	-2	-6	-5
Operating activities	-4	-6	-10	31
- Property, plant, mine devel.	0	0	-180	-11
- Exploration	-3	-6	-6	-6
- Deferred Consideration	0	0	0	0
Investment activities	-3	-6	-186	-17
+ Borrowings	0	106	0	-20
- Dividends	0	0	0	0
+ Equity	0	130	0	0
Financing activities	0	236	0	-20
Cash change	-7	224	-196	-6

Balance sheet	2022E	2023E	2024E	2025E
Cash & bullion	2	227	31	25
Other Current Assets	0	0	0	0
Total current assets	2	227	31	25
Property, plant & equip.	3	9	195	204
Investments/other	0	0	0	0
Total non-curr. assets	3	9	195	204
Total assets	5	236	226	228
Trade payables	0	0	0	5
Short term borrowings	4	0	20	20
Other	0	0	0	0
Total curr. liabilities	4	0	20	25
Long term borrowings	0	110	90	70
Other	0	0	0	0
Total non-curr. liabil.	0	110	90	70
Total liabilities	4	110	110	95
Net assets	1	126	116	133

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Shares	2022E	2023E	2024E	2025E
New shs issued/exerciseable	0	520	0	0
Average issue price	0.00	0.25	0.00	0.00
Ordinary shares - end	196	716	716	716
Diluted shares - end	196	716	716	716

Financial ratios		2025E	2026E	2027E	2028E
GCFPS	AC	4.3	9.2	10.4	14.8
CFR	X	0.0	0.0	0.0	0.0
EPS	AC	2.0	4.8	5.9	8.5
PER	X	14.4	6.0	4.8	3.3
DPS	AC	-	-	-	-
Yield	%	-	-	-	-
Interest cover	x	5.4	13.6	21.2	43.0
ROCE	%	13%	28%	35%	55%
ROE	%	17%	30%	30%	32%
Gearing	%	53%	29%	14%	4%

Operations summary	2025E	2026E	2027E	2028E
Ravensthorpe Gold Project				
Ore processed (Mt)	0.3	0.7	0.9	1.0
Head grade (g/t)	2.49	2.53	2.69	2.98
Effective Au Recovery (%)	89%	89%	89%	89%
Float Gold Production (koz)	11	28	35	46
Payable Gold in Con (koz)	10	25	32	41
Cost per milled tonne (A\$/t)	50	76	89	102
Cash costs pre royalty (A\$/oz)	542	882	967	929
All in sustaining costs (A\$/oz)	688	994	1067	1019
Growth capital (\$M)	15	18	15	10
CAIC (A\$/oz)	1389	1767	1835	1715

Price assumptions	2025E	2026E	2027E	2028E
AUDUSD	0.725	0.725	0.725	0.725
Gold	USD 1750	1750	1750	1750

Valuation summary	A\$M	A\$/sh
Ravensthorpe Gold Project 7% real after tax	209	1.07
Exploration	42	0.21
Corporate Overheads	-28	-0.14
Cash and bullion	5	0.03
Debt	-4	-0.02
Tax benefit	2	0.01
Hedging	0	0.00
Option/equity dilution	-129	-0.66
NAV	98	0.50

Directors, management	
John Fitzgerald	Non-Executive Chairman
Paul Bennett	Managing Director
Edmund Ainscough	Executive Director
Anthony (Tony) James	Non-Executive Director

Top shareholders	M shs	%
Bolong Investment Management Ltd.	45.0	23.0
Langyu International Holdings Ltd.	18.0	9.2
Aurora Prospects Pty Ltd.	15.5	7.9
Minmetals Pty Ltd.	15.5	7.9
Fan Rong Minerals Consolidated	15.0	7.7

Resources Jun '22	Mt	g/t Au	Kozs	Mkt cap/oz
Ravensthorpe Gold Project	16.5	2.10	1,100	51
Indicated	11.0	2.10	740	
Inferred	5.4	2.10	360	

Argonaut model Jun '22	Mt	g/t Au	Kozs	
TOTAL INVENTORY	7.5	2.38	571	97.7
Ravensthorpe Gold Project	7.5	2.38	571	



Kundip Growth – and More to Come

Resource Update

Prior estimate of 674koz Au has increased substantially to 16.5kt @ 2.1 g/t Au for 1.1MoZs

The new and prior estimates are outlined in tables 1 and 2 below. The bulk of the drilling completed at the KMC and not included in the recent update was from Flag, Harbour View and Gem, so we can expect further growth here assuming assays come in as expected. Meridian may also present a source of near-term bookable ounces.

Table 1: June 2022 Kundip Mining Centre Mineral Resource Update

	Resources June 2022	Indicated					Inferred					Total						
		kt	Au g/t	Au kozs	Cu %	Cu kt	kt	Au g/t	Au kozs	Cu %	Cu kt	kt	Au g/t	Au kozs	Cu %	Cu kt	AuEq g/t	AuEq kozs
Open Pit COG 0.5 g/t AuEq	Gem	7,320	1.7	400	0.1%	10	2,760	1.9	160	0.1%	4	10,080	1.7	560	0.1%	14	2.0	630
	Harbour View	1,460	2.9	140	0.6%	9	850	1.7	50	0.3%	2	2,310	2.5	180	0.5%	12	3.3	250
	Harbour View - Cu	710	0.0	-	0.6%	4	190	0.0	-	0.5%	1	890	0.0	-	0.6%	5	1.0	30
	Flag	530	5.0	80	0.5%	2	70	2.8	10	0.3%	0	590	4.7	90	0.4%	3	5.4	100
	Gem Restored	470	2.0	30	0.2%	1	340	1.3	10	0.2%	1	800	1.7	40	0.2%	2	2.0	50
Underground COG 2.0 g/t AuEq	Gem	-	-	-	-	-	10	3.6	-	0.5%	0	10	3.6	-	0.5%	0	4.5	-
	Harbour View	290	4.3	40	1.2%	4	710	2.7	60	1.0%	7	1,000	3.2	100	1.0%	10	4.9	160
	Harbour View - Cu	40	0.0	-	1.6%	1	90	0.0	-	1.4%	1	130	0.0	-	1.5%	2	2.4	10
	Flag	130	8.3	30	0.5%	1	240	4.4	30	0.3%	1	370	5.7	70	0.4%	1	6.3	80
	Gem Restored	80	7.2	20	1.0%	1	180	5.6	30	0.7%	1	260	6.1	50	0.8%	2	7.5	60
Total	Gem	7,320	1.7	400	0.1%	10	2,770	1.9	170	0.1%	4	1,090	1.7	560	0.1%	14	2.0	640
	Harbour View	1,750	3.2	180	0.7%	13	1,560	2.2	110	0.6%	9	3,310	2.7	290	0.7%	22	3.8	400
	Harbour View - Cu	750	0.0	-	0.7%	5	270	0.0	-	0.8%	2	1,020	0.0	-	0.7%	7	1.1	40
	Flag	650	5.6	120	0.5%	3	310	4.0	40	0.3%	1	970	5.1	160	0.5%	4	5.7	180
	Gem Restored	550	2.8	50	0.3%	2	510	2.7	50	0.3%	2	1,060	2.8	90	0.3%	4	3.4	120
Grand Total		11,020	2.1	740	0.3%	32	5,430	2.1	360	0.3%	18	16,450	2.1	1,100	0.3%	50	2.6	1,370

Source: MM8

Table 2: June 2020 Kundip Mining Centre Mineral Resource Update

	Resources June 2020	Indicated					Inferred					Total				
		kt	Au g/t	Au kozs	Cu %	Cu kt	kt	Au g/t	Au kozs	Cu %	Cu kt	kt	Au g/t	Au kozs	Cu %	Cu kt
Open Pit COG 0.5 g/t Au	Gem	5,309	1.6	266	0.1%	5.4	969	1.7	53	0.1%	0.5	6,278	1.6	319	0.1%	5.9
	Harbour View	716	3.6	83	0.6%	4.3	171	1.8	10	0.2%	0.3	888	3.2	93	0.5%	4.6
	Flag	525	5.0	84	0.4%	2.3	69	2.8	6	0.3%	0.2	594	4.7	90	0.4%	2.6
Underground COG 2.0 g/t Au	Gem	34	5.0	5	0.2%	0.1	43	8.3	12	0.1%	0.1	77	6.9	17	0.2%	0.1
	Harbour View	341	4.9	54	0.9%	3.2	273	3.7	33	0.6%	1.7	614	4.4	87	0.8%	4.9
	Flag	129	8.3	35	0.5%	0.6	244	4.4	34	0.3%	0.7	373	5.7	69	0.4%	1.3
Total	Gem	5,342	1.6	271	0.1%	5.5	1,012	2.0	65	0.1%	0.6	6,354	1.6	336	0.1%	6.1
	Harbour View	1,057	4.0	137	0.7%	7.5	445	3.0	42	0.5%	2.1	1,502	3.7	179	0.6%	9.5
	Flag	654	5.6	118	0.5%	2.9	313	4.0	41	0.3%	0.9	967	5.1	159	0.4%	3.9
Grand Total		7,053	2.3	526	0.2%	15.9	1,769	2.6	148	0.2%	3.6	8,823	2.4	675	0.2%	19.5

Source: MM8

Argonaut Mining Scenario and Valuation

We have used Medallion's feasibility study numbers as a starting point, with resource growth and industry-wide cost escalations factored in

We have updated our mining scenario used as a basis for valuation. Overall, most assumptions are in-line with those presented in the feasibility study outlined in Medallion's prospectus. Key changes in our model when compared to the feasibility study include:

- Scale up of assumed mining inventory based on exploration success and the recently updated Resource Estimate
- Increase in cost assumptions
- Addition of assumed open-pit mining at Gem Restored
- Assumption of gold sales via concentrate and dore, and copper sales via concentrate

As discussed earlier, when modelling updated mining inventories for the Kundip Mining Centre it is not a simple case of ratcheting up the feasibility study numbers by the delta of each line of the Resource between the prior and new estimates. Using a nominal RL for reporting of open-pit resources blurs the line between what will eventually be mined in a pit and what will be mined from underground, and having resources above the RL reported above a 0.5 g/t AuEq cut means we are unable to reliably discern

grades/tonnages for material in this domain that may be mined using underground methodologies.

We assume that the bulk of the additions will be mined via open-pit. There remains scope to further grow the existing undergrounds, and potentially extend current open-pit only lodes underground

Larger open-pit inventories result in higher assumed strip ratios in most cases

For now, we will continue to assume that the bulk of the additions will be mined via open-pit. The case for an additional underground mine at Gem is strengthening in our view, and detailed study work will be required to identify the optimal transition points at the other lodes. All deposits remain open at depth, and in the case of Harbour View and Gem Restored some of the better grades are at the deposits deepest drilled points to date so we expect further growth to mining inventories here.

Key changes to our mining assumptions are outlined in tables 3 and 4. Table 3 shows assumptions post the Resource update (informing our updated mining scenario), Table 4 shows previous assumptions. An increase in mining inventory results in larger assumed pre-strips and higher strip ratios, except in the case of Gem Restored where grade has also dropped in comparison to our previous thumb suck estimate. Copper grades have also been updated to reflect MM8's estimates.

Table 3: Updated Argonaut Mining Assumptions

Argo Assumptions 06/22	Gold			Copper		Mining	
	kt	g/t	kozs	%	ktCu	Strip (w:o)	Pre-Strip (\$M)
Flag Underground	450	4.9	70	0.3%	1.4	-	-
Harbour View Underground	650	4.6	96	1.1%	7.2	-	-
Flag Open Pit	183	4.1	24	0.4%	0.7	5.0	3.0
Harbour View Open Pit	500	2.5	40	0.3%	1.5	7.0	5.0
Gem Open Pit	5,200	1.8	300	0.1%	5.2	5.0	6.0
Gem Restored Open Pit	500	2.5	40	0.2%	1.0	5.0	2.0
Sum	7,483	2.4	571	0.2%	16.9	-	-

Source: Argonaut

Table 4: Previous Argonaut Mining Assumptions

Argo Assumptions 04/22	Gold			Copper		Mining	
	kt	g/t	kozs	%	ktCu	Strip (w:o)	Pre-Strip (\$M)
Flag Underground	450	4.9	70	0.50%	2.3	-	-
Harbour View Underground	650	4.6	96	0.90%	5.9	-	-
Flag Open Pit	183	4.1	24	0.20%	0.4	5.0	3.0
Harbour View Open Pit	253	2.5	20	0.30%	0.8	5.0	3.0
Gem Open Pit	3,208	1.8	186	0.05%	1.6	3.5	4.0
Gem Restored Open Pit	160	4.0	21	0.20%	0.3	5.0	1.0
Sum	4,904	2.6	417	0.23%	11.1	-	-

Source: Argonaut

We assume a pre-production capital requirement of \$180M for the construction of a standalone 1Mtpa CIL processing facility and float circuit, plus other non-mining related infrastructure

At peak, we currently model just shy of 100kozs gold produced in year four, extensions to underground inventories may make this run rate sustainable longer term

We consider a standalone operation the only viable route for Medallion to monetise Ravensthorpe due to the remote location and metallurgy of the ore. Our larger assumed mining inventory lends itself to a larger operation. We now assume \$180M in pre-production capital expenditure for the construction of an assumed 1Mtpa CIL processing facility and float circuit and other non-mining related infrastructure (prior \$140M for 800ktpa). We estimate a further \$240M LOM capex inclusive of capitalised underground development and sustaining capex.

We assume mining to commence in late CY24, with full scale production reached by CY26. Peak gold production in our model is just shy of 100kozs in year four, extensions to undergrounds will likely make this run-rate sustainable longer term.

Our mining assumptions are based on boiler-plate assumptions, as such, they are low confidence estimates. We will continue to refine our model as the project advances.

At this stage we make no allowances for Cu precipitate production using the ReCYN process, as the project progresses, and we see more detail on this process this may provide improved revenue in our model from copper production.

We assume a treatment cost of \$20/t of CIL ore, and \$38/t of float ore.

For processing we assume a treatment cost of \$20/t of CIL ore. For concentration and shipping of the gold/copper concentrate we assume \$38/t of ore. We assume 92% gold recovery for the standard CIL gold ore, and 95% gold recovery to a concentrate for the floated component. For copper, we've assumed a conservative 70% recovery to concentrate. As there are no reported penalty metals, we assume the concentrate will be a saleable product and have therefore assumed 95% payability for both the copper and gold metal in con.

We model 570koz Au produced over a ten year mine-life, new discoveries are likely which will grow this inventory

We have assumed 570koz Au produced over a ten year mine-life, we think that new discoveries are likely, both at virgin deposits, such as Ariel/Meridian and through expansions to the known undergrounds. Factoring in assumed operating costs and copper credits we derive a LOM average C1 cash cost of \$800/oz and an AISC of \$900/oz. Our assumed CAIC over LOM is \$1611/oz, heavily influenced by debt repayments.

Argonaut has used internal gold price estimates which average to US\$1750/oz Au and US\$8k/t Cu across the life of the project, and an AUD to USD currency conversion rate of \$0.725.

We assume \$220M in pre-production funding through a 50:50 debt to equity split. Plus a near-term \$20M raise to fund ongoing exploration and study work

An \$110M debt facility and \$110M equity raise at a \$0.25 subscription price have been used to fund pre-production capital in our model. We also assume a near-term \$20M equity raise to fund ongoing study work and exploration at a \$0.25 subscription price. This results in equity dilution in present value terms of A\$129M. As the project expands and it approaches the 1.5Mozs that Medallion targets as critical mass, we expect the share price to appreciate. If this were to occur the ratio of pre-production capex to current EV would lessen, reducing the equity dilution for current holders.

Using a 7% real after-tax discount rate we value the Ravensthorpe Project at \$209M, or \$1.07 per share

Using a 7% real after-tax discount rate we value the Ravensthorpe Project at \$209M, or \$1.07 per share (prior \$147M/\$0.75 per share).

We assign a nominal exploration valuation to the Ravensthorpe Gold Project equal to 20% of the projects post tax valuation, or A\$42M. All known deposits are unconstrained at depth. All being equal, fresh rock ore is worth more than oxide/transitional ore due to the higher demonstrated copper recovery.

As a sum of parts, Argonaut values Medallion Metals at \$98M, or \$0.50 per share

As a sum of parts, Argonaut values Medallion Metals at \$98M, or \$0.50 per share. This valuation includes Argonaut's mining scenario for the Ravensthorpe project, a nominal exploration valuation, current cash and equivalents, and the current \$4M debt commitment to be paid at decision to mine. Corporate overheads and equity dilution are also included.

Table 5: Medallion Metals Valuation Summary.

Valuation summary	A\$M	A\$/sh
Ravensthorpe Gold Project 7% real after tax	209	1.07
Exploration	42	0.21
Corporate Overheads	-28	-0.14
Cash and bullion	5	0.03
Debt	-4	-0.02
Tax benefit	2	0.01
Hedging	0	0.00
Option/equity dilution	-129	-0.66
NAV	98	0.50

Source: Argonaut

If we were to use a lower discount rate of 5%, the Ravensthorpe gold project NPV would increase to \$255M

If current spot gold and exchange rate were used our estimated Ravensthorpe Gold Project NPV would be \$264M

Key risks to Valuation

All else staying equal, if we were to use a lower discount rate of 5%, the Ravensthorpe gold project NPV would increase to \$255M or \$1.30 per share.

Argonaut's valuation of the Ravensthorpe Gold Project is highly sensitive to both gold price and exchange rate. We have used Argonaut's internal gold price estimate of US\$1750 and exchange rate of 0.725 AUD:USD across the life of the project. Of note, if current spot gold (US\$1820) and exchange rate (0.69) were used our estimated Ravensthorpe Gold Project NPV would be \$264M.

Table 6: Argonaut Mining Scenario for Ravensthorpe Gold Project NPV in AUD under varying gold price/exchange rate and Cu price.

		Gold Price (US\$/oz)					
		-10%	-5%	Base	+5%	+10%	+15%
		1575	1662.5	1750	1837.5	1925	2012.5
AUD:USD	0.80	99	125	151	176	202	228
	0.75	133	161	188	216	243	271
	0.725	152	180	209	237	266	294
	0.70	172	201	231	260	290	319
	0.65	217	248	280	312	344	375
		Cu (US\$/t)					
		7,200	7,600	8,000	8,400	8,800	9,200
	0.725	204	206	209	211	214	216

Source: Argonaut

Metallurgical testwork and processing design is in its infancy, early indications looking promising. Processing remains a key risk in our view as the metallurgy of the project is more complicated than the majority of producing gold mines. Our assumed metal recovery is more conservative than the numbers presented previously by Medallion to factor in this risk.

Cost inflation remains a key risk to the project

Argonaut has assumed \$180M for the construction of the processing facility and associated infrastructure. This is centred around an 1Mtpa processing facility. We consider our estimate to be on the high side, but prudent in the current inflationary cost environment. We have limited visibility on the timeframe to production and the cost environment at that future time.

To fund the pre-production capital expenditure Argonaut has assumed A\$220M in capital required, funded by a 50:50 equity raise to debt split. If Medallion were able to secure a higher proportion of debt funding NAV would improve. Similarly, assumed future equity dilution is exacerbated by the large amount of assumed funding required in comparison to Medallion's current EV.

The project is located in the vicinity of the Kundip Nature Reserve and environmental sensitivities are common in the south-west of WA. This risk is slightly mitigated by historical mining completed at the project

A final key risk is environmental and mining approvals. The project is located in the vicinity of the Kundip Nature Reserve and environmental sensitivities are common in the south-west of WA. This risk is slightly mitigated by historical mining completed at the project but will be a key consideration for Medallion as it advances the project.

The Ravensthorpe Gold Project holds significant exploration upside, with potential for new discoveries and to expand the known

We consider our current mining model a starting point. We maintain the Ravensthorpe Gold Project holds significant exploration upside, with potential for new discoveries and to expand the known. We think Medallion is on its way to defining a project capable of a “mid-tier” production profile.

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The Analyst holds shares in MM8

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