EUROZ HARTLEYS

RESOURCE UPDATE | PUBLISHED ON 15 FEBRUARY 2023

MM8: 1.6 Moz AuEq Copper-Gold Resource at Ravensthorpe

MM8.ASX | MEDALLION METALS LIMITED | MATERIALS | METALS & MINING

PRICE
A$ 0.14 /sh

TARGET PRICE
A$ 0.60 /sh
(UNCHANGED)

RECOMMENDATION
SPECULATIVE BUY
(UNCHANGED)

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Event

Medallion has upgraded the Ravensthorpe Gold Project (RGP) Mineral Resource from 1.1 Moz (1.3Moz AuEq) to 1.3Moz Au (1.6Moz AuEq inc. Copper).

Impact

The RGP is one of the largest and highest-grade undeveloped gold projects in Western Australia (with a copper sweetener).

Results are expected to underpin a development scenario that considers a production target of 100kozpa AuEq.

62% of the resource is in the high-confidence Indicated category, with growth at a cost of $15/oz on an AuEq basis. 78% of funds spent in-ground.

Grade has largely remained the same with Gem (the largest ore body and baselode feed in our modelling) seeing a slight increase in grade and subsequently, overall ounces. 72% of the Gem resource is in the high confidence Indicated category.

We note recent drill results contain some of the highest Au and Cu grades to date which may suggest grades increasing with depth. The Deflector analogy holding true.

PFS studies are ongoing and are expected mid-2023.

We update the assumptions in our financial model for changes to expected production and costs.

Action

We maintain our Speculative Buy recommendation for MM8 backing the world-class team of mine developers, and (all) staff that are uniquely aligned with shareholders. The RGP is on granted mining leases, shallow (average 100m deep), located close to the major rural and mining hub of Ravensthorpe (with just 2.4km/40km strike drilled), with world-class infrastructure, strong local support and commodities in favour by the market (Au and Cu).

MM8 is considerably undervalued against its developer peers with an EV:Rsc of $16/oz vs $44/oz average of its peer basket, this reaffirms the valuation on our risked DCF methodology used in generating a PT.

We maintain our Price Target of $0.60/sh weighted toward spot Au of A$2655/oz assuming moderate resource growth, and a 8+ year outlook at +100kozpa AuEq.

Catalyst

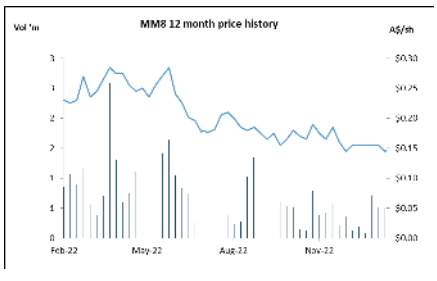
- M&A
- PFS
- Ongoing exploration results.
- MRE Update

MARKET STATISTICS		
Share Price	**0.14**	**A$/sh**
Price Target	0.60	A$/sh
Valuation Spot A$2665oz	0.44	A$/sh
Valuation using EH Deck	0.31	A$/sh
Issued Capital		
Fully Paid Ord	195.0	m
Options (var. prices)	11.5	m
Total Dil. FPOrd	**206.5**	**m**
Market Capitalisation (dil)	$27	m
Enterprise Value	$29	m
Cash	$2.8	m
Debt	$4	m

Directors	
John Fitzgerald	Chair
Paul Bennett	MD
Ed Ainscough	NED
Tony James	NED

Shareholders	
Bolong Investments	26.5%
Langyu International	10.5%
Aurora Prospects	9.1%
Fan Rong Minerals	8.8%
Top 20	**88.3%**

Performance



Source: Euroz Hartleys

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Analysis

MM8 have grown the resource at the RGP from 674koz to 1.3Moz since listing.

A site visit in 2022 was a first-hand look into the technical rigour behind the growth to date, with the company delivering a clear strategy to discover minable tonnes.

The Company has made a large investment in diamond drilling, resulting in a greater understanding of the structural controls of the ore body. Results that speak for themselves, particularly for recent intercepts of high-grade Au and Cu. Could Copper become the dominant mineral at depth?

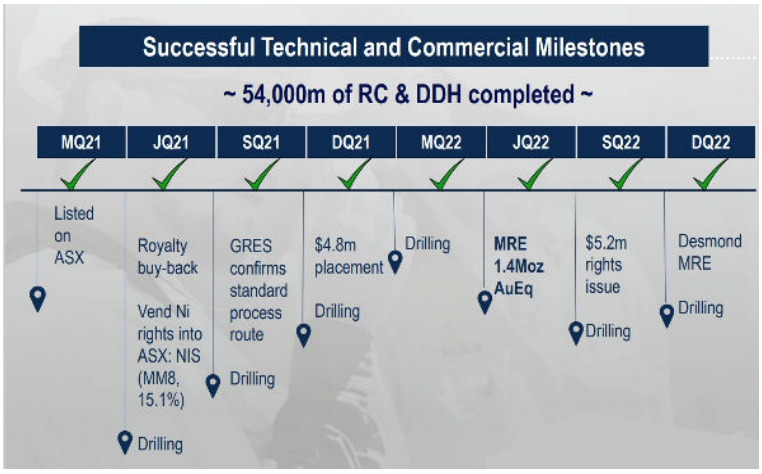
We note that just 2.5km of the 40km strike has been drilled.

We expect that the resource will continue to grow to +1.5Moz noting the project remains open along strike and at depth.

Timeline

If we take a step back and look at the work completed by the Company since its listing in 2020, there is no doubting the enormity of what has been achieved by the MM8 team. This too during COVID.

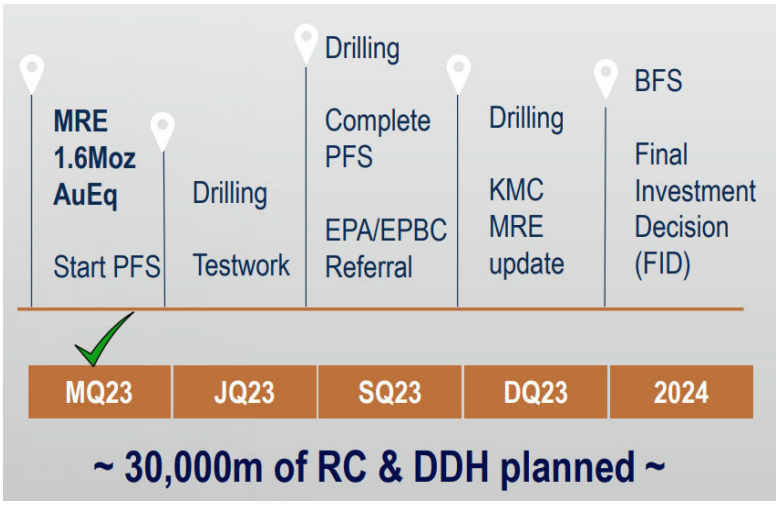
Figure 1: Company progress since listing. All major milestones achieved.



Source: MM8 Investor Presentation 13/2/2023

The Company has also guided future plans which lead to development outcomes for shareholders. We use this as a guide for our updated model

Figure 2: What we can expect in the near term.



Source: MM8 Investor Presentation 13/2/2023

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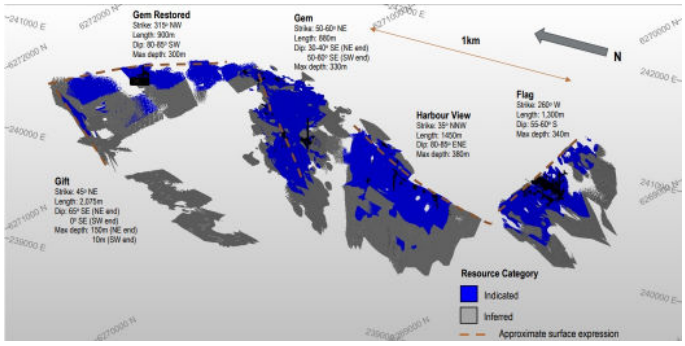
Resource growth has come predominantly from Gem, Flag and Gift.

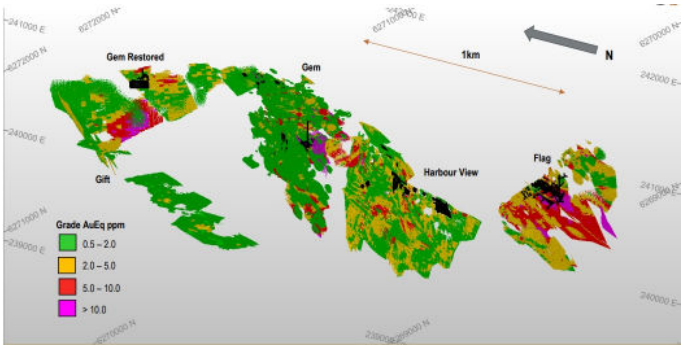
Gem forms the baseload feed in our modelling with high grade supplemented from Flag and Gift. The increase in tonnes and grade at Gem, coupled with nearly ¾ in the indicated status significantly re-risks a development scenario. Further with multiple ore sources, we see flexibility in the mine schedule and greater fleet utilisation.

Figure 3: Isometric view of the RGP by Resource Category



Source:

Figure 4: Isometric view of the RGP by Grade



Source:

Key differences between the MRE from June 22 and Feb 23 are below.

Figure 5: Growth in Resources by Ore-body at the RGP. The majority of growth has come from Gem, Flag and Gift.

Source: Euroz Hartleys/MM8

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Modelling Assumptions

Figure 6: Differences between previous and current modelling for valuation.

Open Pit	July 2022 MRE	Feb 2023 MRE
Open Pit Dilution	20%	15%
Open Pit Tonnes	**11,680,000.00**	**14,514,966.67**
Open Pit Au Grade	2.10	2.40
Open Pit Cu Grade	0.20%	0.20%
Open Pit Contained Ounces	788,592.92	1,120,000.00
Open Pit Contained Copper	23,360.00	29,029.93
Open Pit Mining Rate	1,000,000.00	1,250,000.00
Cost/BCM	**4.00**	**4.00**
Cost Per Tonne	**17.60**	**14.40**
Strip Ratio	**10.00**	**8.00**
Underground		
Thickness	3.00	3.00
Strike	1,000.00	750.00
Density	2.95	2.95
Dilution	25%	20%
Depth	200.00	200.00
Recovery of Resource	53%	53%
Resource Ounces	239,008.47	196,328.39
In-Situ Grade Au (Mined)	4.20	4.60
In-Situ Grade Cu (Mined)	0.40%	0.90%
Diluted Grade Au	3.36	3.83
Diluted Grade Cu	0.32%	0.75%
Underground Mining Rate	240,000.00	250,000.00
Underground Mining Cost	120.00	120.00
Processing Cost	30.00	45.00
Mined ounces	915,267.41	1,224,054.05
Capital		
Pre-Strip Costs	20.0	20.0
Pre-Production Capex	80.0	120.0
Sustaining Capex over LOM	84.0	100.0
Open Pit Start Date	1/07/2025	1/07/2025
Underground Start Date	1/07/2025	1/01/2026
Discount Rate	12%	12%
Debt	65 @ 40cps	82.5 @ 40cps
Equity	65.0	82.5

Source: Euroz Hartleys

Key differences between the previous model and the current model are;

- Increase in grades for gold mining in the open pit and underground. Assume lower-grade material will be stockpiled, and only high-grade processed.
- Recovery of the underground resources has increased noting how shallow the ore body is.
- Total mined from open pits and underground has increased to 1.5Mtpa.
- Strip ratio reduced from 10 to 8 in the open pits.
- Mill size has increased from 1.24Mtpa to 1.5Mtpa.
- Pre-Production Capex increased to $120m (from $80m) and sustaining capex over the LOM increased to $100m (from $80m).
- Debt to Equity remains at $^{50}/_{50}$ and capex for build completed at 40cps.
- We increase processing costs from $30/t to $45/t using SLR's Deflector costs as a guide.

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Modelling Results

Our previous valuation using EH Deck Prices for the July 2022 MRE was $0.45/sh (@ Spot was $0.56/sh). Out PT was based on resource growth to 1.5Moz Au with ounces produced from underground and open pit split evenly.

Under these (Feb 2022 MRE) revised assumptions, we modify assumptions so that open pits form the baseload feed, with ⅔ of the ounces coming from the (lower cost) pits. So whilst we have inflated costs, the proportion of lower-cost ounces has increased, and as such our PT (based on a DCF methodology) has not changed. Our Valuation is based on a 1.3Moz resource, 12 years of open-pit mining and 6 years of underground mining occurring simultaneously. Our PT is based on a 1.7Moz resource, 12 years of open-pit mining and 10 years of underground mining occurring simultaneously.

Our current (1.3Moz Au) Valuation PNAV12% is $279m (or $0.31/sh dil.) using the EH Price Deck (LT Au Price of US$1700/os and AUD:USD of 0.74). If we consider the PNAV12% at spot prices of A$2665/oz we get a PNAV12% of $390m (or $0.44/sh dil).

Our PT is based on potential growth as exploration continues in FY23 and FY24 prior to a BFS in CY 2024. With ~600koz of growth in just 2 years, we assume 400koz of resource growth in one year is a reasonable assumption. Particularly when we consider a large proportion of that time was spent analysing structural data.

Our PT Valuation is based on a potential 1.6Moz Au Resource. PNAV12% is $405m (or $0.46/sh dil.) using the EH Price Desk (LT Au Price of US$1700/oz and AUD:USD of 0.74). If we consider the PNAV12% at spot prices of A$2665/oz we get a PNAV12% of $538m (or $0.60/sh)

Figure 7: Gold Advanced Explorer/Developer Comps

Developer/Explorer		Price	M Cap	Net Cash/(Debt)	EV	Resource	Reserve	EV/Rsc	EV/Rsv	Grade
Company	Ticker	A$/sh	A$m	A$m	A$m	koz	koz	A$/oz	A$/oz	g/t
Santana Minerals Ltd	**SMI**	0.91	135	7	128	2,909	0	44	na	2.3
Musgrave Minerals	**MGV**	0.20	115	15	101	927	0	109	na	3.2
Ausgold Limited	**AUC**	0.05	99	6	93	2,160	1,280	43	73	1.3
Breaker Res NL	**BRB**	0.28	91	77	13	981	0	14	na	1.5
KIN Min NL	**KIN**	0.05	57	-1	58	1,407	283	41	205	1.3
Meeka Metals Limited	**MEK**	0.05	51	7	45	1,115	0	40	na	3.0
Medallion Metals.	**MM8**	0.14	20	-1	21	1,300	0	16	na	2.1
Average								44	139	

Source: Euro Hartleys

We use EV: Rsc comps to determine relative valuation. MM8 is undervalued against global gold developers on the ASX with an EV of $16/oz vs $44/oz on average.

Under advanced explorer/developer metrics, a 1.3Moz deposit @ $44/oz would carry an EV of $60m (or $0.26/sh). Medallion has an EV of just $29m at $0.14/sh.

Considering MM8 has the 3rd highest grade out of the advanced explorers/developers we think there is compelling value in the stock.

If we consider producer metrics - the average EV: RSc for the ASX gold producers (excluding NST and EVN) is $161/oz we get an EV of $209m (or $0.91/sh) for a 1.3Moz deposit.

If we take an average of the Advanced Explorer/Developer and Producer comp valuations we get an average valuation price of $0.52. This falls in line with our current DCF valuation methodology, with the exception that MM8 is higher grade than most of the Competitor basket.

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Figure 8: Australian Gold Producer Metrics

Producer	14/02/2022	Price	M Cap	Net Cash	EV	Resource	Reserve	EV:Rsc	EV:Rsv	Prod'n	EV/prod	AISC	EV: Margin
Company		A$/sh	A$m	A$m	A$m	koz	koz	A$/oz	A$/oz	kozpa	A$/oz	A$/oz	x Rsv*
Gold Road Res Ltd	GOR	1.51	1,620	81	1,539	4,710	2,230	327	690	182	8,455	1,249	0.5
Regis Resources	RRL	2.02	1,518	-149	1,667	10,190	4,710	164	354	472	3,531	1,384	0.3
Capricorn Metals	CMM	4.13	1,511	32	1,479	5,046	1,344	293	1,100	122	12,122	1,200	0.8
Silver Lake Resource	SLR	1.14	1,065	253	811	6,865	1,954	118	415	270	3,005	2,000	0.6
Ramelius Resources	RMS	0.89	777	177	600	5,400	1,100	111	545	260	2,308	1,868	0.7
St Barbara Limited	SBM	0.66	531	-98	629	11,555	6,005	54	105	296	2,124	1,874	0.1
Red 5 Limited	RED	0.19	503	-137	640	5,280	2,660	121	240	172	3,719	1,795	0.3
Westgold Resources.	WGX	1.02	478	159	319	7,940	2,131	40	150	250	1,277	1,755	0.2
Alkane Resources Ltd	ALK	0.66	392	72	320	1,749	674	183	475	59	5,427	1,657	0.5
Pantoro Limited	PNR	0.09	157	-5	161	2,678	597	60	270	61	2,646	1,663	0.3
Aurelia Metals Ltd	AMI	0.12	155	11	144	1,212	348	118	412	83	1,730	2,300	1.1
Ora Banda Mining Ltd	OBM	0.10	133	11	121	2,140	470	57	258	58	2,093	2,500	1.6
Beacon Minerals	BCN	0.03	101	4	97	195	119	499	819	20	4,859	1,880	1.0
Calidus Resources	CAI	0.26	99	-90	188	1,662	600	113	314	60	3,141	2,350	1.0
Average								161	439		4,031	1,820	1

Source: Euroz Hartleys

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Medallion Metals Limited (MM8.ASX) | Price A$0.14 | Target price A$0.60 | Recommendation Speculative Buy;

Price, target price and rating as at 15 February 2023 (not covered)*

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