Medallion Metals Ltd

(MM8 $0.18) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Kyle De Souza	15th July 2022	$0.60/sh ▼ from $0.80/sh

MM8 Updated MRE Exceeds Expectations.

Event

MM8 Release Updated MRE for Kundip.

Impact

- Resources increase to **16.4Mt @ 2.1g/t Au and 0.2% Cu for 1.1Moz Au and 50kt Cu**; representing an ~64% increase in total contained gold, and the first time that copper (potential credit) has been included in the MRE
  - Resource growth exceeded our expectation for both contained metal and grade
  - Near surface (<150m) Resource of 14Mt @ 1.9g/t Au and 0.2% Cu - highly amenable to open pit extraction
  - Underground potential (>150m) Resource of 1.7Mt @ 3.9g/t Au and 0.9% Cu – increasing gold and copper grades at depth
  - 67% of the MRE is in the high confidence Indicated category, with 80% within the top 150m from surface
  - Resource underpins our view that this could be another Deflector in the making – providing an attractive development opportunity
- The Company has 19,000m of drilling that is yet to be included in the MRE.
  - We note that some of the strongest results to date have come from recent drilling and could have a positive impact on grades in the updated MRE expected in Q4CY22.

Action

We initiated on MM8 backing the management team and the quality of the assets in the portfolio. Assets which remain underexplored with significant upside potential in Au and base metals. With recent drill results some of the best to date, we believe that the MRE expected later in CY22 will reach the minimum requirement for a long life mine. We have line of sight on a conservative development scenario which sees delivery of a 80-100kozpa operation utilizing open pit and underground mining and conservative costs.

Noting sector wide devaluations in Gold developers of ~40% since we initiated, inflated costs and general sentiment toward Au and Cu, we consider a fully diluted and funded operation risked appropriately. MM8 remains the highest grade out of its competitor basket run by an industry leading executive with a proven track record of taking projects into production and generating shareholder value. We maintain our Speculative Buy recommendation however, reduce our Price Target from $0.80/sh to $0.60/sh, noting general market sentiment.

Key Catalysts

- Drill results
- M&A
- MRE Update expected CY22

Medallion Metals Ltd	Year End 30 June	
Share Price	**0.18**	**A$/sh**
Price Target	**0.60**	**A$/sh**
Valuation	0.56	A$/sh

Shares on issue	233	m, diluted *
Market Capitalisation	35	A$m
Enterprise Value	34	A$m
Debt	4	A$m
Cash	5	A$m
Largest Shareholder	Bolong Investments 26.5%	

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%

Company Details

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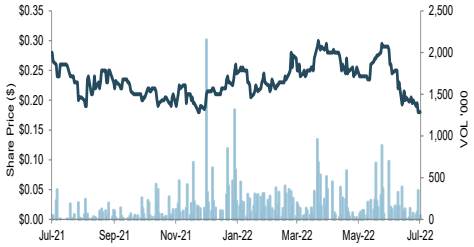
https://www.medallionmetals.com.au

Share Price Chart



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Analysis

A PFS was completed pre-IPO and is a strong base to continue mining studies toward rapid development of the asset once a critical base has been achieved. We see 1.5Mot as this critical base.

The Company will focus on geological modelling and exploration planning whilst assays are awaited for 19,000m of drilling..

Under inflated conditions open-pit mines continue to out-perform underground operations which are high cost and require specialized workforces. With 80% of the Resource in the top 150m, we see open-pit mining as the first step into production topped up by underground material.

MM8 remains one of the highest-grade advanced explorers in Western Australia after DVP and MGV.

We look at all aspects of the mine's feasibility in our modelling.

- Open Pit and Underground
- Open Pit only
- Underground only

Our analysis suggests that a combination of open pit and underground could be utilized based on DCF analysis (notwithstanding the complexities technically of each).

We have revised our mining assumptions in light of the updated MRE – noting resource growth as a significant de-risking event in the development of a mining scenario.

1. Reduced our open pit mining costs and maintain open pit dilution at 20%
2. We increase our underground mining cost assumptions
3. We model a 0.4% underground grade for Cu (somewhere between the 0.2% above 150m below surface and 0.9% seen below 150m below surface)
4. We increase our underground mining rate and increase dilution from 15% to 25% assuming a 3m average drive thickness.
5. We model a 1.24Mtpa throughput (1Mtpa from Open Pits and 240ktpa from Underground)
6. We model higher capex for startup of $100m noting inflation vs $84 used in PFS 2020.
7. We model sustaining capex of $78m v $80m in the PFS
8. Discount rate maintained at 12%
9. We use the EH pridce deck in our modelling which assumes the following long term prices;
    a. Au price of US$1700/oz
    b. Cu price of US$3.50/lb
    c. Currency rate USD:AUD of 0.74.

Base on these assumptions we see a production rate of 80-90kopa being achieved with line of sight to 100kozpa with the updated MRE expected later in the year.

We cross reference our modelling with a competitor analysis and note that the average EV:Rsc Oz for developers AUC, BRB & KIN are $48/Rsc Oz. Medallion currently has an EV:Rsc Oz of $31/oz and on that metric alone demonstrates the re-rate opportunity.

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Developer/Explorer	14/07/2022	Price	M Cap	Net Cash/ (Debt)	EV	Resource	Reserve	EV/Rsc	EV/ Rsv	
Company	**Ticker**	**A$/sh**	**A$m**	**A$m**	**A$m**	**koz**	**koz**	**A$/oz**	**A$/oz**	
Bellevue Gold Ltd	BGL	0.69	696	151	545	3,000	690	182	790	9.90
Genesis Minerals	GMD	1.20	422	124	299	2,017	0	148	na	1.60
Calidus Resources	CAI	0.65	255	-80	335	1,714	547	195	612	1.06
Musgrave Minerals	MGV	0.24	129	13	116	659	0	176	na	3.20
Medallion Metals	MM8	0.18	35	0.8	34	1,104	270	31	127	2.10
Ausgold Limited	AUC	0.04	87	12	75	1,837	0	41	na	1.26
Breaker Res NL	BRB	0.19	60	8	52	981	0	53	na	1.50
KIN Min NL	KIN	0.08	70	6	64	1,275	283	50	226	1.28
Saturn Metals	STN	0.30	39	10	29	944	0	31	na	0.80
Average All								101	439	2.52
Average Developers (GMD, CAI)								172		
Average Advanced Explorers (AUC, BRB, KIN)								48		1.35

We note since initiating, developer EV:Rsc Oz metrics have fallen on average 40% on the back of gold price and market sentiment. Using these metrics, we can reverse engineer the share price of MM8 to 27cps. However, noting the grade of Au (nearly 40% higher than the basket of similar companies) and the presence of Cu this should carry a higher EV:Rsc Oz metric in our view.

Our modelling considers the development of a 1.1Moz Resource, for a 750koz assumed Reserve. Under a fully diluted and fully funded model. Utilising the current Resource of 1.1Moz Au we see the Company valuation at $345m (of which $295m is expected as Post Tax profit) broken down into the following SOTP evaluation;

ASSET VALUATION	A$m	A$/sh
(+) RGP	295	0.48
(+) JP	-	-
(-) Corporate	(11)	(0.02)
(+/-) Hedging	-	-
(+) Exploration	59	0.10
(+) Unpaid Capital	-	-
(+) Cash	4.8	0.01
(-) Debt	(4)	(0.01)
Total	**344**	**0.56**

We note that Exploration carries a modest valuation of $59m noting the significant upside potential in the region. We also do not include the potential of Meridian and Gem Restored which could be material in future production scenarios.

We also highlight the significance of a processing facility being built in the district, and the potential to unlock value at stranded assets.

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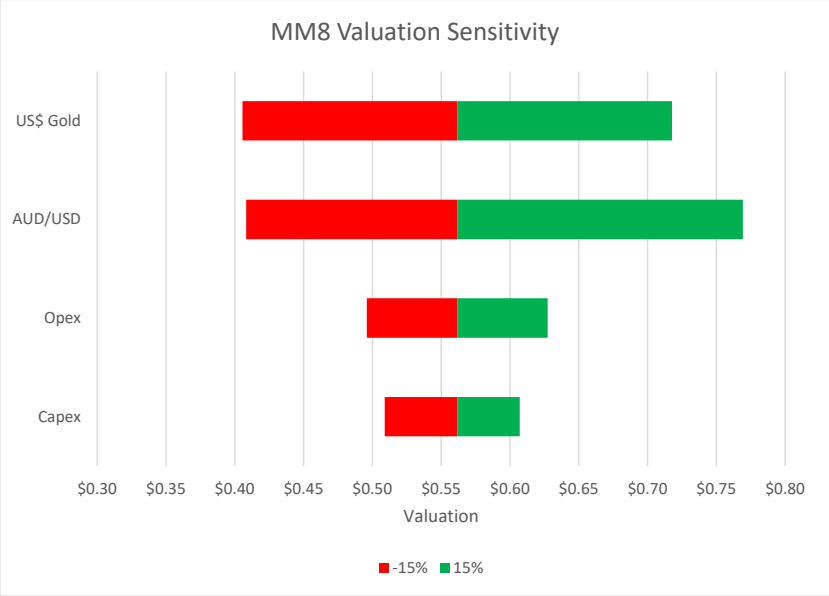
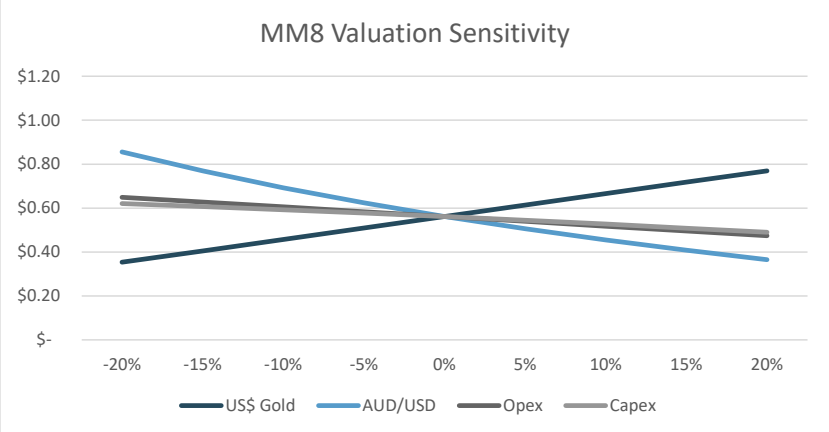
Key Variables

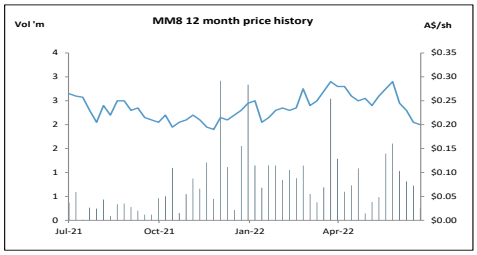
Val/sh		Gold $								
	$0.56	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	$0.23	$0.27	$0.32	$0.36	$0.41	$0.45	$0.50	$0.54	$0.59
	10%	$0.27	$0.31	$0.36	$0.41	$0.45	$0.50	$0.55	$0.60	$0.64
	5%	$0.31	$0.36	$0.41	$0.46	$0.51	$0.56	$0.60	$0.65	$0.70
	0%	$0.35	$0.41	$0.46	$0.51	$0.56	$0.61	$0.67	$0.72	$0.77
	-5%	$0.40	$0.46	$0.51	$0.57	$0.62	$0.68	$0.73	$0.79	$0.84
	-10%	$0.46	$0.52	$0.58	$0.63	$0.69	$0.75	$0.81	$0.87	$0.92
	-15%	$0.52	$0.59	$0.65	$0.71	$0.77	$0.83	$0.89	$0.95	$1.01

Euroz Forecast	FY'2022	FY'2023	FY'2024	FY'2025
Gold (US$/lb)	$1,834.67	$1,800	$1,750	$1,700
AUDUSD	$0.73	$0.73	$0.74	$0.74





Our Share Price Sensitivity



Our Market Sensitivity

Price Target $0.60/sh
Valuation $0.56/sh

Bull Scenario $0.80/sh
Gold sentiment changes pushing prices up. Updated MRE achieves 1.5Moz milestone.

Base Scenario $0.60/sh
Development of a 1Moz resource. Gold price modelled at US$1700/oz in the long term.

Bear Scenario $0.30/sh
Company defers project development

Company Summary

Medallion Metals is a Gold develope operating in Ravensthorpe, Western Australia. The company is run by experienced mining executives with a track record of taking assets into production. The keystone asset is the Ravensthorpe Gold Project (RGP) with a Resource of 1.1Moz @ 2.1g/t Au and 0.2% Cu. An upgraded Resource expected in CY22 is targeting 1.5Moz from drill assays which are yet to be processed. We see a development scenario likely under certain conditions.

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