

# De Grey Mining Limited

Precious Metals - Developer/Explorer

9 September 2022

**Rating**  
**SPECULATIVE BUY**  
unchanged

**Price Target**  
**A\$2.15** ↑  
from A\$1.80

**DEG-ASX**

**Price**  
**A\$1.09**

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## World-class asset poised to get even better

**Mallina PFS recap:** DEG released a Pre-Feasibility Study (PFS) highlighting the world-class potential of its Mallina Gold Project (MGP). The PFS outlines an impressive production profile of 540kozpa (peak 637kozpa) at AISCs of A\$1,280/oz, over the first 10 years of its ~14-year mine life. Overall, the PFS outcomes were a significant improvement, with production up 27%, AISCs down 5%, and capex in line with our previous assumptions.

### CGe, new and old, vs PFS and SS outcomes

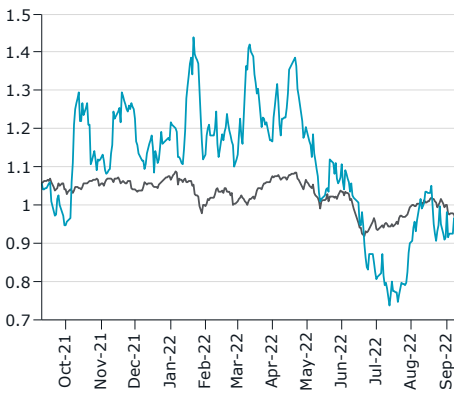
Metric	Unit	New CGe	PFS	Prior CGe	SS
Throughput	Mtpa	10	10	10	10
Avg. Head Grade	g/t	1.6	1.6	1.4	1.4
Strip ratio (first 10 years)	x	6.1	6.1	4.6	4.8
Avg. Recoveries	%	93.6%	93.6%	93.0%	93.0%
Production LOM	koz	7.4	6.4	6.4	4.3
Production (first 10 years)	kozpa	539	540	426	427
First Production	year	FY26	CY25	FY26	FY26
Ore Source	OP/UG	Open Pit	Open Pit	Open Pit	Open Pit
Mine Life	years	15	13.6	15.0	10.0
Capex	A\$m	1,100	1,053	1,000	893
Long-term Gold Price	A\$/oz	2,742	2,400	2,742	2,400
Avg. AISC (first 10 years)	A\$/oz	1,285	1,280	1,350	1,224

Source: Company reports, Canaccord Genuity estimates

### Market Data

52-Week Range (A\$) :	0.73 - 1.47
Avg Daily Vol (M) :	6.2
Market Cap (A\$m) :	1,541.0
Shares Out. (M) :	1,410.5
Net Debt (Cash) (A\$m) :	(63.5)
Enterprise Value (A\$m) :	1,477
Cash (A\$m) :	63.5
Long-Term Debt (A\$) :	0.0
NAV /Shr (A\$) :	2.13
NAV /Shr (5%) :	2.96
Net Cash (A\$m) :	63.5
Major Shareholders:	DGO Gold 16%, Van Eck 6%

FYE Jun	2021A	2022E	2023E	2024E
Gold Production (000oz)	0	0	0	0
All in Sustaining Cost (Gold) (US\$ / oz)	0	0	0	0



— DEG  
— S&P/ASX 300 (rebased)  
Source: FactSet

Priced as of close of business 9 September 2022

**Maiden Hemi Reserve provides strong confidence in further growth.** Hemi's maiden Reserve of 5.1Moz @ 1.5g/t Au represents an impressive ~88% conversion from the Measured and Indicated (M+I) Resource, as well as a 15% uplift in grade. In our view, this bodes well for further conversion of new and current Resources. Hemi alone has an Inferred Resource of 2.7Moz @ 1.1g/t Au (2.3Moz at <370m below surface), which could represent more than 2Moz of additional Reserves given the current conversion rate.

**Growth / expansion opportunities.** There remains a number of opportunities to further improve on the PFS outcomes, in our view. These include 1) growing the existing Resource/Reserve base via Resource extension drilling and/or new discoveries (recent Diucon hit of 359m at 1.2g/t Au, including 19.3m @ 7.4g/t Au 200m outside the current Resource); 2) plant de-bottlenecking; 3) pit optimisation and 4) assessing the potential for underground mining to occur in parallel with open pit mining. The company highlighted that increased throughput of 1Mtpa could translate to a potential lift in annual production of ~50-150kozpa, depending on if ore is open pit or underground sourced.

**Project timeline and funding, targeting DFS and FID mid-CY23.** DEG is targeting a final investment decision (FID) by mid-CY23 in parallel with the completion of a DFS with first production targeted for CY25 (CGe FY26). The PFS estimates capex of \$1.05bn, and we conservatively assume total pre-production capex of A\$1.1bn funded 60:40 debt:equity, noting commentary in the PFS that initial indications from financiers suggest a higher proportion of the capex could be funded via debt over equity. We also model DEG undertaking a A\$100m cap raise in FY23 to fund ongoing exploration and studies and forecast the company ending FY23 with A\$73m in cash.

**Model revisions.** We have updated our model, with our production forecasts over the initial 10 years increasing by 20% on average to ~540kozpa and AISCs decreasing by 5% to A\$1,285/oz. We incorporate slightly higher capex of A\$1.1bn as well as slightly longer LOM of 15 years, assuming additional ounces are defined to support a ~400kozpa production profile in years 11-15. Our EBITDA and FCF forecasts over the first 10 years have increased on average by 30% and 29%, respectively.

**Valuation and recommendation.** On incorporating the changes noted above our PT increases to \$2.15 (previously \$1.80). SPEC BUY maintained.

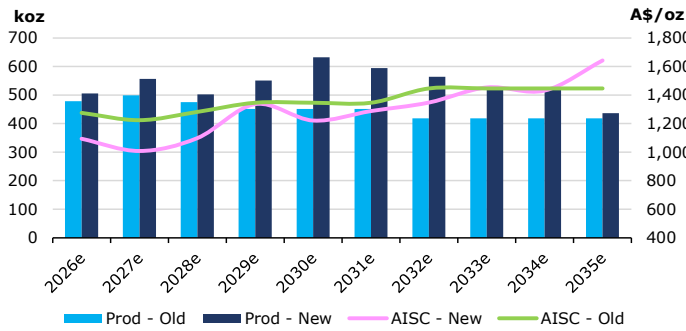
Figure 1: Financial Summary

De Grey Mining		ASX:DEG		Rating:	SPEC BUY
Analyst:	Tim McCormack			Target Price:	A\$2.15
Date:	9/09/2022				
Year End:	June				
Market Information					
Share Price	A\$	1.09			
Market Capitalisation	A\$m	1,541.0			
12 Month Hi	A\$	1.47			
12 Month Lo	A\$	0.73			
Average daily turnover (3 month)	m	6,213			
Issued Capital	m	1410.5			
Options	m	7.4			
Fully Diluted	m	1418.0			
Valuation		A\$m	A\$/share		
Hemi	NPV @ 10%	2,738.0	1.51		
Exploration & Projects		600.0	0.33		
Corporate		(71.8)	(0.04)		
Hedging (flat forward)		-	-		
Cash & Bullion		63.5	0.04		
Debt		-	-		
Equity Raised		525.0	0.29		
<b>TOTAL NAV</b>		<b>3,854.7</b>	<b>2.13</b>		
Price:NAV			0.51x		
NAV at Spot US\$1,719/oz, AUDUSD \$0.68			1.84		
<b>Target Price (1.00 x NAV)</b>			<b>2.15</b>		
Assumptions					
	2021a	2022e	2023e	2024e	
Gold Price (US\$/oz)	1,851	1,830	1,790	1,879	
AUD:USD	0.75	0.73	0.68	0.68	
Gold Price (A\$/oz)	2,476	2,516	2,631	2,777	
Sensitivity					
<p>The chart shows two lines: Gold Price (solid line with square markers) and US\$ Exchange Rate (dashed line with circle markers). The Gold Price line starts at approximately \$2.70 at -15% and decreases to about \$1.60 at 15%. The US\$ Exchange Rate line starts at approximately \$1.60 at -15% and increases to about \$2.70 at 15%.</p>					
Production Metrics					
	2021a	2022e	2023e	2024e	
Gold production (koz)	0	0	0	0	
AISC (A\$/oz)	0	0	0	0	
Reserves & Resources					
		Mt	Grade	Moz	
Resources					
Measured		5	1.7	0.3	
Indicated		153	1.3	6.6	
Inferred		93	1.3	3.8	
<b>Total</b>		<b>251</b>	<b>1.3</b>	<b>10.6</b>	
Reserves					
Proved		0.0	0.0	0.0	
Probable		103.4	1.5	5.1	
<b>Reserves</b>		<b>103.4</b>	<b>1.5</b>	<b>5.1</b>	
Major shareholders					
Gold Road Resources				19.9%	
Jupiter Asset Management				8.1%	
Directors and Management				3.0%	
Company Description					
DEG is primary focus is the 100% owned Mallina Gold Project (MGP) in the Pilbara region of WA. The recent Hemi discovery is an intrusion-hosted form of gold mineralisation which has not been previously encountered in the Pilbara and with an aggressive exploration effort underway, the company should grow its existing 10.6Moz Resource considerably over the next 12 months.					
Profit & Loss (A\$m)					
	2021a	2022e	2023e	2024e	
Revenue	0.0	0.0	0.0	0.0	
Other Income	0.3	0.0	0.0	0.0	
Operating Costs including royalties	0.0	0.0	0.0	0.0	
Corporate, O'heads	-5.1	-12.6	-12.0	-12.0	
Exploration (Expensed/WO)	0.0	0.0	0.0	0.0	
<b>EBITDA</b>	<b>-4.8</b>	<b>-12.6</b>	<b>-12.0</b>	<b>-12.0</b>	
Dep'n	-0.6	0.0	0.0	0.0	
Net Interest	0.2	0.3	2.2	-13.6	
Tax	0.0	0.0	0.0	0.0	
NPAT (reported)	-5.3	-12.3	-9.8	-25.6	
Abnormals	0.0	0.0	0.0	0.0	
<b>NPAT</b>	<b>-5.3</b>	<b>-12.3</b>	<b>-9.8</b>	<b>-25.6</b>	
<i>EBITDA Margin</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	
<b>EV/EBITDA</b>	<b>-308.4x</b>	<b>-117.1x</b>	<b>-123.1x</b>	<b>-123.1x</b>	
<i>EPS</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	
<i>EPS Growth</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	
<i>PER</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	
<i>Dividend Per Share</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>	
<b>Dividend Yield</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	
Cash Flow (A\$m)					
	2021a	2022e	2023e	2024e	
Cash Receipts	0.0	0.5	0.0	0.0	
Cash paid to suppliers & employee:	-4.7	-12.6	-12.0	-12.0	
Tax Paid	0.0	0.0	0.0	0.0	
Net Interest	0.3	0.3	1.1	-21.3	
Other (Expl. & Eval)	0.3	-0.1	-0.1	0.0	
<b>Operating Cash Flow</b>	<b>-4.1</b>	<b>-11.9</b>	<b>-11.0</b>	<b>-33.3</b>	
Plant & Equipment	-5.9	0.0	0.0	0.0	
Capex	0.0	-3.5	0.0	-395.0	
Exploration & Evaluation	-50.9	-111.9	-80.0	-32.0	
Other	-0.4	0.0	0.0	0.0	
<b>Investing Cash Flow</b>	<b>-57.2</b>	<b>-115.4</b>	<b>-80.0</b>	<b>-427.0</b>	
Debt Drawdown (repayment)	0.0	0.0	0.0	675.0	
Share capital	108.9	126.0	100.0	425.0	
Dividends	0.0	0.0	0.0	0.0	
Financing Expenses	-4.7	-5.5	0.0	0.0	
Others	0.0	-0.5	0.0	0.0	
<b>Financing Cash Flow</b>	<b>104.2</b>	<b>119.9</b>	<b>100.0</b>	<b>1100.0</b>	
Opening Cash	28.2	70.9	63.5	72.6	
Increase / (Decrease) in cash	42.8	-7.4	9.0	639.7	
FX Impact	0.0	0.0	0.0	0.0	
<b>Closing Cash</b>	<b>71.0</b>	<b>63.5</b>	<b>72.5</b>	<b>712.3</b>	
<i>Op. Cashflow/Share</i>	<i>\$0.00</i>	<i>-\$0.01</i>	<i>-\$0.01</i>	<i>-\$0.02</i>	
<i>P/CF</i>	<i>-375.2x</i>	<i>-129.3x</i>	<i>-140.4x</i>	<i>-46.3x</i>	
<b>EV/FCF</b>	<b>-24.1x</b>	<b>-11.6x</b>	<b>-16.2x</b>	<b>-3.2x</b>	
<b>FCF Yield</b>	<b>-4%</b>	<b>-8%</b>	<b>-6%</b>	<b>-30%</b>	
Balance Sheet (A\$m)					
	2021a	2022e	2023e	2024e	
Cash + S/Term Deposits	70.9	63.5	72.6	712.3	
Other current assets	2.6	1.2	1.5	2.5	
<b>Current Assets</b>	<b>73.6</b>	<b>64.7</b>	<b>74.1</b>	<b>714.8</b>	
Mine Properties, Plant & Equip.	6.6	10.1	10.1	405.1	
Exploration & Develop.	114.4	226.3	306.3	338.3	
Other Non-current Assets	2.3	2.3	2.3	2.3	
Payables	17.3	0.0	0.1	0.6	
Short Term Debt	0.0	0.0	0.0	0.0	
Long Term Debt	0.0	0.0	0.0	675.0	
Other Liabilities	2.0	14.1	14.4	14.9	
<b>Net Assets</b>	<b>175.6</b>	<b>289.3</b>	<b>378.4</b>	<b>770.1</b>	
Shareholders Funds	235.9	361.9	461.9	886.9	
Reserves	1.3	1.3	1.3	1.3	
Retained Earnings	-61.6	-73.9	-84.8	-118.1	
<b>Total Equity</b>	<b>175.6</b>	<b>289.3</b>	<b>378.4</b>	<b>770.1</b>	
<i>Debt/Equity</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>88%</i>	
<i>Net Debt/EBITDA</i>	<i>17.3x</i>	<i>5.3x</i>	<i>6.6x</i>	<i>1.1x</i>	
<i>Net Interest Cover</i>	<i>-52.7x</i>	<i>-1146.9x</i>	<i>nm</i>	<i>-0.6x</i>	
<i>ROE</i>	<i>-3%</i>	<i>-4%</i>	<i>-3%</i>	<i>-3%</i>	
<i>ROIC</i>	<i>-4%</i>	<i>-5%</i>	<i>-3%</i>	<i>-3%</i>	
<i>Book Value/share</i>	<i>\$0.12</i>	<i>\$0.21</i>	<i>\$0.27</i>	<i>\$0.55</i>	

Source: Company Reports, Canaccord Genuity estimates, Factset

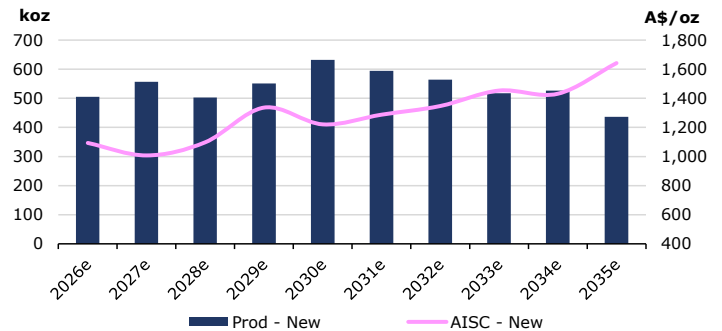
**Financial metrics and sensitivity analysis.** Figures 1 and 2 illustrate the changes to our production and AISC forecasts with annual production lifting on average by 17%, to ~550kozpa over the first five years of production (FY26-30), and AISCs declining by 11% on average to A\$1,151/oz.

**Figure 2: Production and AISC, old vs new**



Source: Company Reports, Canaccord Genuity estimates

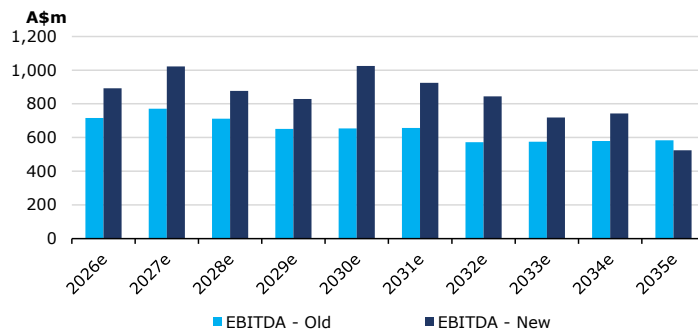
**Figure 3: Production and AISC**



Source: Company Reports, Canaccord Genuity estimates

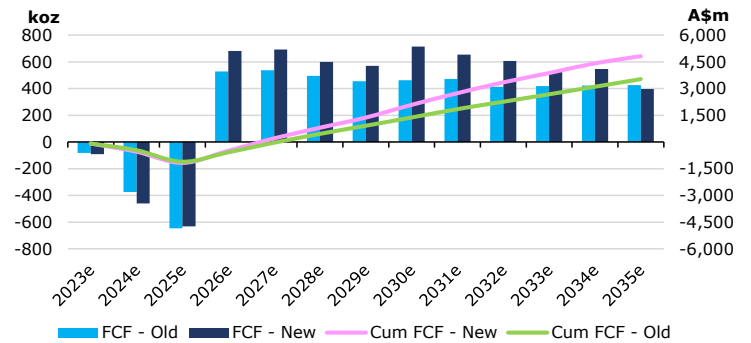
Figures 3 and 4 highlight our EBITDA and FCF forecasts, which have increased by 33% and 32%, respectively, over the FY26-30 period.

**Figure 4: EBITDA, old vs new**



Source: Company Reports, Canaccord Genuity estimates

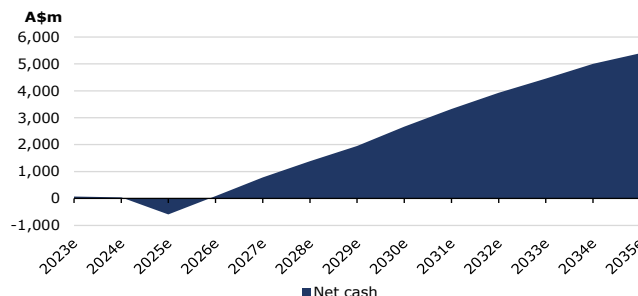
**Figure 5: FCF and cumulative FCF, old vs new**



Source: Company Reports, Canaccord Genuity estimates

We expect DEG to reach a net debt position of A\$593m in JunQ'25 (CGe cash of A\$82m) when construction is completed. Figure 7 shows our price target under different capex and US\$ gold price assumptions. Our price target is relatively sensitive to the US\$ gold price, with a 5-6% increase resulting in an 8-12% increase in our price target. Comparatively, our price target is relatively insensitive to capex with an 11-20% increase in our assumed capex decreasing our price target by only 5-7%.

**Figure 6: Net cash forecast**



Source: Company Reports, Canaccord Genuity estimates

**Figure 7: Price target sensitivity to capex and US\$ gold price**

		Capex A\$m					
		\$1,000	\$1,200	\$1,400	\$1,600	\$1,800	\$2,000
Gold Price US\$/oz	\$1,600	\$1.47	\$1.38	\$1.30	\$1.23	\$1.17	\$1.12
	\$1,700	\$1.65	\$1.54	\$1.45	\$1.38	\$1.31	\$1.25
	\$1,800	\$1.83	\$1.71	\$1.61	\$1.52	\$1.44	\$1.37
	\$1,900	\$2.01	\$1.88	\$1.76	\$1.67	\$1.58	\$1.50
	\$2,000	\$2.19	\$2.04	\$1.92	\$1.81	\$1.71	\$1.63
	\$2,100	\$2.37	\$2.21	\$2.07	\$1.95	\$1.85	\$1.76

Source: Company Reports, Canaccord Genuity estimates

**Capital and operating costs.** Figure 8 details the PFS’s capital cost estimate for the MGP, which totals A\$1,053m (CGe A\$1,100m), inclusive of a A\$100m growth allowance as well as A\$68m for pre-strip. As detailed above and illustrated in Figure 7, our valuation is relatively insensitive to movements in pre-production capex. Figure 9 provides a breakdown of the PFS’s estimated LOM AISC of A\$1,316/oz (CGe A\$1,330/oz) with cash operating costs representing 90% of the total AISC. Both capex and opex estimates are reported to have an accuracy of -15% to +25%.

**Figure 8: Pre-production capex breakdown (PFS)**

Area	Cost A\$m	% of total
Processing - Plant	489	46%
Processing - Infrastructure	115	11%
Processing - Indirects	41	4%
Infrastructure - Site	122	12%
EPCM/Owners	117	11%
Pre-strip	68	6%
Growth Allowance	100	9%
<b>TOTAL</b>	<b>1,053</b>	<b>100%</b>

Source: Company Reports

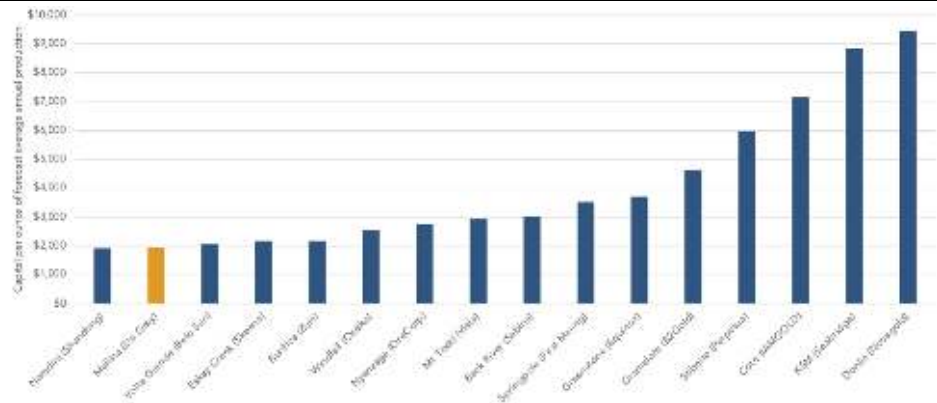
**Figure 9: LOM AISC breakdown (PFS)**

Area	A\$/oz Produced LOM	% of total
Mining	650	49%
Processing & Lab	509	39%
Administration	29	2%
<b>Cash Operating Costs</b>	<b>1,189</b>	<b>90%</b>
Non-Production Costs	19	1%
Royalties	60	5%
Sustaining & Project Capi	20	2%
Tailings Dam Wall Lifts	14	1%
Rehabilitation	15	1%
<b>TOTAL</b>	<b>1,316</b>	<b>100%</b>

Source: Company Reports

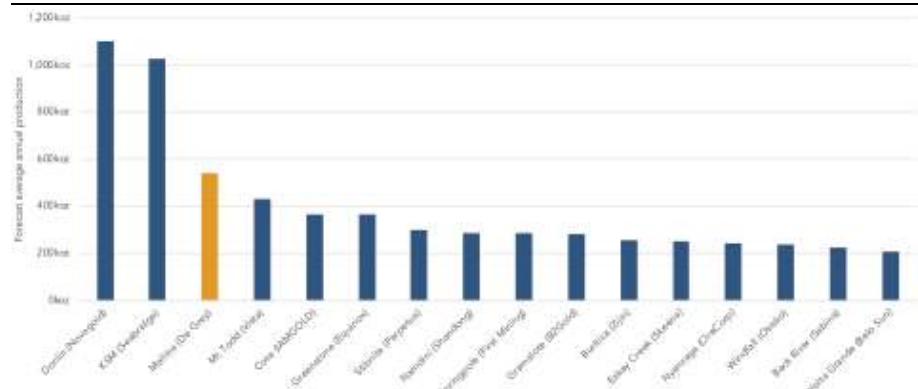
The MGP boasts one of the lowest capital intensities of a large-scale gold development project located in a Tier 1 jurisdiction (Figure 10) and is one of the largest undeveloped gold projects globally (Figure 11).

**Figure 10: World Gold Development Projects Capital Intensity (A\$/annual oz)**



Source: Company Reports

**Figure 11: World Gold Development Projects Scale (kozpa)**



Source: Company Reports

**Processing.** Figure 13 illustrates the proposed process flowsheet for the MGP. Testwork indicates average recoveries of 93.6% can be achieved using conventional carbon in leach (CIL) processing with the inclusion of flotation and sulphide oxidation stages. Sulphide oxidation is necessary due to the semi-refractory nature of the ore at Hemi, which means a portion of the gold is locked up in sulphide minerals which need to be oxidised in order for the gold to be recoverable.

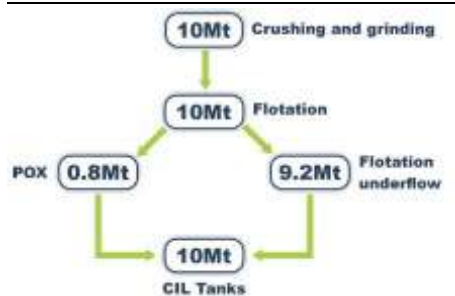
**Comminution.** A comminution trade-off study undertaken as part of the PFS recommended that DEG utilise high pressure grinding rolls (HPGR) for primary grinding as it provided the lowest capital and operating costs, lowest carbon emissions intensity and its delivery times aligned with DEG’s planned development schedule. HPGRs are a proven technology and are currently in use in gold plants of a similar scale to Hemi, including at the Tropicana and Boddington gold mines in Western Australia.

**Sulphide oxidation circuit.** A trade-off study was also completed to determine the best sulphide oxidation process with pressure oxidation (POx) and atmospheric oxidation (Albion process) being evaluated. POx was recommended as the preferred process, providing the lowest capital and operating costs due to the short residence time required and relatively low reagent consumption compared to other options. POx also has a +30-year long history with a number of improvements having been made to the process over the years, which in our view significantly reduces the technical risk relative to other newer and less-established processes. POx is currently utilised at a number of gold plants around the world including:

- Oceana Gold’s Macraes operation in New Zealand
- Evolution’s Red Lake operation in Canada
- Barrick and Newmont’s Goldstrike operation in the USA
- Barrick’s Porgera operation in PNG

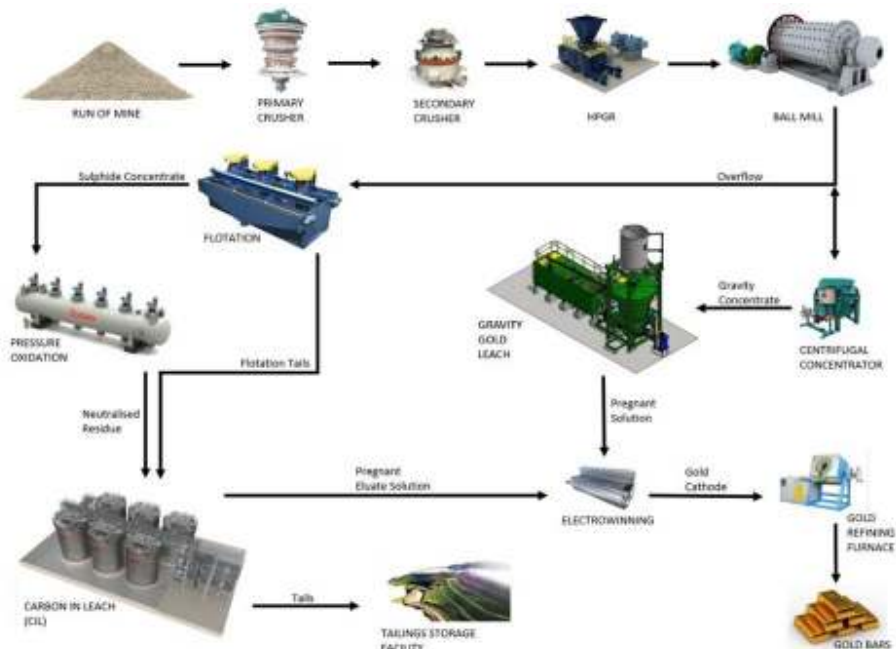
The POx plant is expected to have a throughput rate of 0.8Mtpa, significantly lower than the overall plant throughput size of 10Mtpa due to Hemi ore generating a low (8%) mass pull sulphide concentrate (Figure 7).

**Figure 12: Process plant throughputs**



Source: Company Reports

**Figure 13: Simplified process flowsheet**



Source: Company Reports

## Appendix: Important Disclosures

### **Analyst Certification**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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### **Sector Coverage**

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### **Investment Recommendation**

Date and time of first dissemination: September 09, 2022, 01:40 ET

Date and time of production: September 09, 2022, 01:40 ET

### **Target Price / Valuation Methodology:**

De Grey Mining Limited - DEG

We have based our valuation for DEG on a DCF analysis (forward curve NPV10%) for the MGP, assuming a standalone development scenario. We see good potential for DEG to delineate a 10Moz Resource at Hemi within 12 months, building on the existing 2.2Moz Resource which, in our view, should underpin a +375kozpa production scenario. Our valuation conservatively assumes first gold production in FY25, allowing 24 months from the Hemi maiden Resource (mid 2021) to complete infill drilling and Feasibility Studies followed by 18 months for project construction and commissioning.

### **Risks to achieving Target Price / Valuation:**

De Grey Mining Limited - DEG

### **Financing risks**

As a pre-production company with no material income, DEG is reliant on equity and debt markets to fund development of its assets and progress its regional exploration pipeline. Total development and working capital requirements are subject to completion of feasibility studies. There are no guarantees that studies will result in a positive investment decision for the MGP. Further, we can make no assurances that accessing these markets will be done without further dilution to shareholders.

### **Exploration risks**

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred Resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral Resources nor that the company will be able to convert the current mineral Resource into minable Reserves.

### **Operating risks**

If/when in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

### **Commodity price and currency fluctuations**

As with any mining company, DEG is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

**Distribution of Ratings:**

**Global Stock Ratings (as of 09/09/22)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	635	66.49%	34.17%
Hold	144	15.08%	17.36%
Sell	11	1.15%	18.18%
Speculative Buy	158	16.54%	39.87%
	955*	100.0%	

\*Total includes stocks that are Under Review

**Canaccord Genuity Ratings System**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**12-Month Recommendation History (as of date same as the Global Stock Ratings table)**

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**Required Company-Specific Disclosures (as of date of this publication)**

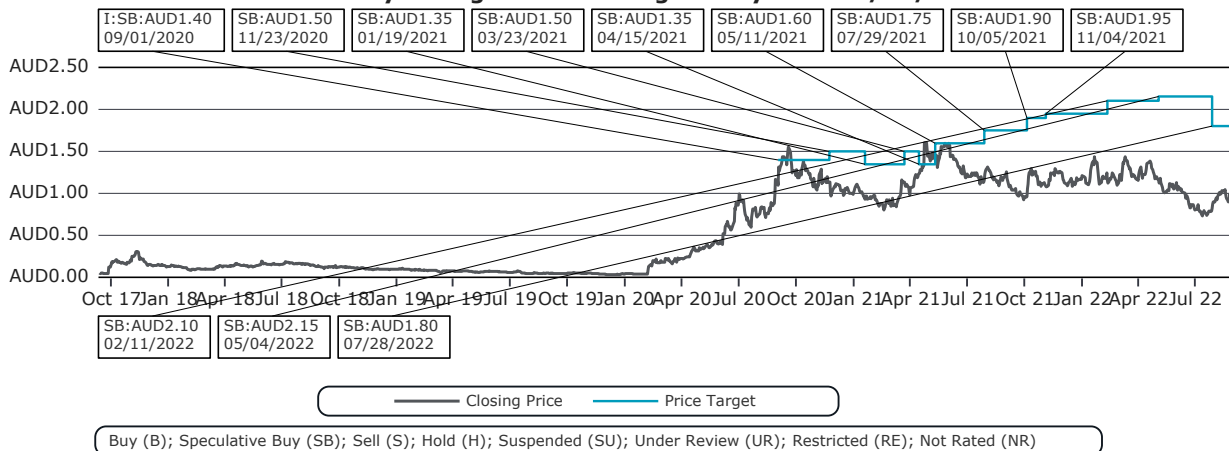
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**De Grey Mining Limited Rating History as of 09/08/2022**



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