

SANTANA MINERALS (SMI)

PRELIMINARY ECONOMICS: COMPELLING VS KARLAWINDA+OKVAU

Analyst

Carlos Crowley Vazquez

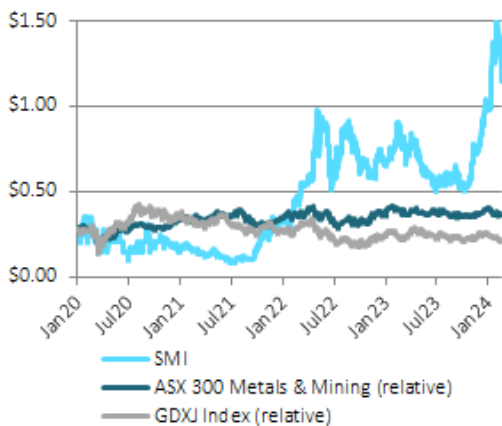
Date

7 March 2024

**SPEC
BUY**

SHARE PRICE	TARGET PRICE	IMPLIED RETURN
\$1.37	\$2.50	83%

SHARE PRICE CHART



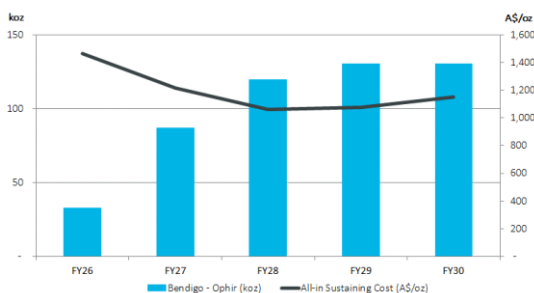
COMPANY DATA & RATIOS

Share Price (\$ per share)	\$1.37
Target Price (\$ per share)	\$2.50
Implied Return (%)	83%
Enterprise Value (\$m)	286
Diluted MCap (\$m)	296
Diluted Shares (m)	217
Avg Daily Value (\$m)	0.29
Free Float (%)	91%
GICS	Materials
Commodity	Gold

MAJOR SHAREHOLDERS

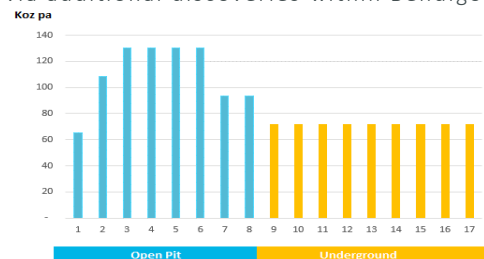
Regal Partners	7.9%
Kim Bunting	7.6%
Board & Management	8.6%

RISE AND SHINE INDICATIVE PROFILE



INITIAL 8 YEAR, LOW-COST OPEN PIT CASH COW...

SMI announced its initial mining assessment for RAS (IMA), comprising an initial open pit with an underground operation. The scale of mining and processing for the open pit is 1.5Mtpa (lower vs BOEQ expected 2Mtpa) and 0.8Mtpa for underground. It is based on a conservative optimisation of the MRE (US\$1,650/oz Au, dilution) recovering only 73% of the RAS resource (1.6Moz Au) via: (i) 8-year open pit (12.1Mt@2.5g/t Au for 972koz) and (ii) 9-year underground (6.5Mt@3.1 g/t Au for 656koz). From a cost perspective, strips are higher (12.5:1 vs BOEQ expected 8:1) and mining, processing, G&A costs are 5-10% lower (vs BOEQ expected), resulting in AISCs of A\$1,260/oz o/c and A\$1,550/oz u/g. Capex guidance was not provided (we maintain \$150m estimate) and added \$60m for u/g development. If the o/p and u/g operations are developed sequentially, we envisage the production profile illustrated below and potential to improve plant utilisation (53% years 9+) via additional discoveries within Bendigo Ophir.



Source: BOEQ estimates, Company

The IMA confirms our view that RAS is an attractive, low-risk development (un-risked NPV@8% of A\$1.1Bn) and SMI remains materially undervalued (FD EV/NAV = 25%).

COMPELLING VS VERY ATTRACTIVE COMPS!

There are no emerging ASX gold developers comparable to SMI. However, based on production scale, AISCs and mine life, SMI's RAS is comparable to CMM's Karlawinda and EMR's Okvau while trading at an uncommanding EV/Resource multiple of <\$95/oz.

MAINTAIN RATING, TARGET PRICE REDUCED TO \$2.50

We have updated our financial model to reflect the optimised mine development and have adopted key IMA parameters. We note that the estimated level of accuracy for inputs (+/-20%) is higher vs a scoping study, which combined with the updated MRE supports a reduction in risking from 50% to 40%. Next key milestones include PFS (expected June 24) and lodgement of permit applications (following PFS). We maintain our SPEC BUY recommendation and have reduced our target price (prev. \$2.65) to \$2.50 reflecting a potential return of 83%.

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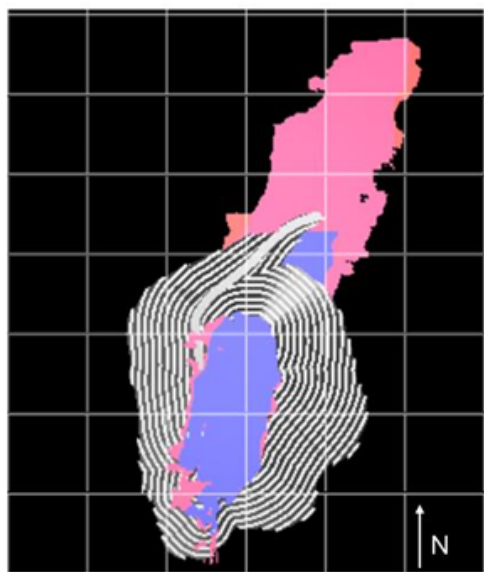
SUMMARY OF RISE AND SHINE INITIAL MINING ASSESSMENT

OPEN PIT FIRST FOLLOWED BY UNDERGROUND DEVELOPMENT

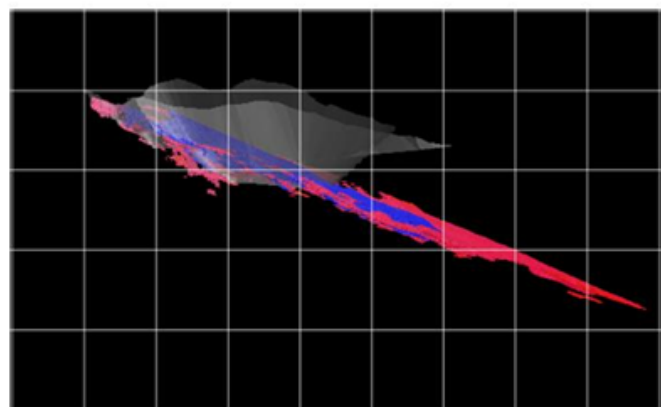
We think that the outlined development strategy makes perfect sense and note conservative/very conservative parameters in the MRE optimisation:

1. Open Pit: targeting recovery of 12.1Mt @ 2.5g/t Au under optimised and very conservative MRE parameters (i.e. US\$1,650/oz, 18% dilution, 45 degrees overall slope angles, 12.5:1 strip ratio) at a 1.5Mtpa mining and processing rate.

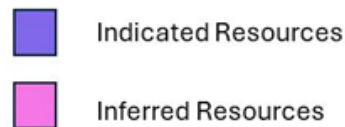
FIGURE1: RAS OPEN PIT PLAN VIEW AND CROSS SECTION



Plan view: Conceptual open pit and resource



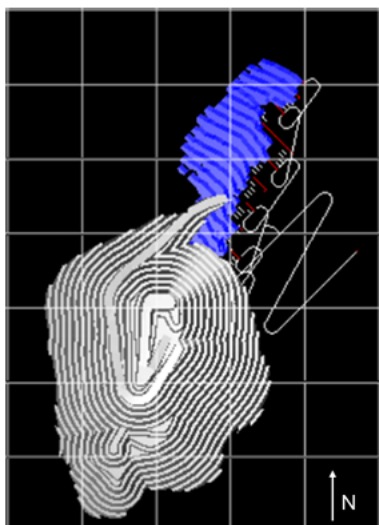
Long section view: Conceptual open pit and resource



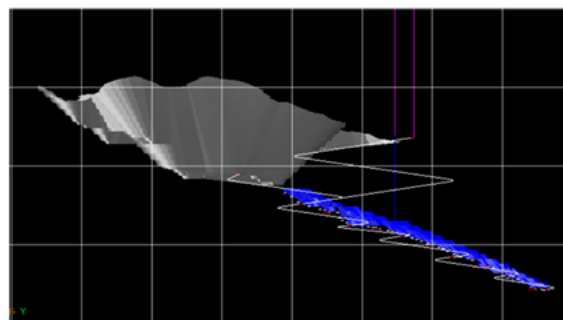
Source: Company.

2. Underground: targeting recovery of 6.5Mt @ 3.1g/t under optimised and very conservative MRE parameters (i.e. US\$1,650/oz, +22% dilution) at a 0.8Mtpa mining rate.

FIGURE1: RAS UNDERGROUND MINE PLAN VIEW AND CROSS SECTION



Plan View: Conceptual Underground Mining



Long section View: Conceptual Underground mining

Source: Company.

IMA ASSUMPTIONS VS BOEQ ESTIMATES

The table below illustrates key IMA parameters vs BOEQ previous and current assumptions:

TABLE 1: UPDATED KEY ASSUMPTIONS

Key Parameter	IMA	BOEQ previous	BOEQ current
Open Pit			
Mining Inventory	12.0Mt @ 2.5 g/t Au	29.3Mt @ 2.0 g/t	12.0Mt @ 2.5 g/t Au
Mining and Production Rate	1.5Mtpa	2.0Mtpa	1.5Mtpa
Strip Ratio	12.5:1	8.0:1	12.5:1
Met recoveries	90%	90%	90%
Royalties	RSHL (Vendor) 1.5% Crown 2% Land Access 1% up to 0.5Moz, then 1.5% up to 1.0Moz then 2% above 1.0Moz	RSHL (Vendor) 1.5% Crown 10% NPAT Land Access 1%	RSHL (Vendor) 1.5% Crown 10% NPAT Land Access 1% up to 0.5Moz, then 1.5% up to 1.0Moz then 2% above 1.0Moz
Mining cost A\$/t	3.7	4.0	3.7
Processing cost A\$/t	18.0	20	18
G&A A\$/t	3.3	3.5	3.3
Underground			
Mining Inventory	6.5Mt @ 3.1 g/t Au	-	6.5Mt @ 3.1 g/t Au
Royalties	RSHL (Vendor) 1.5% Crown 2% Land Access 1%	RSHL (Vendor) 1.5% Crown 10% NPAT Land Access 1%	RSHL (Vendor) 1.5% Crown 10% NPAT Land Access 1%
Mining cost A\$/t	88.0	-	88.0

Source: Company, BOEQ estimates.

KEY COMPS

PEER GROUP

Santana's Rise and Shine key parameters include:

1. Open pit mine life of 8 years, average production 110koz Au p.a. (peak 130koz Au p.a.) at average AISC of A\$1,260/oz and, if developed sequentially,
2. Underground mine life 9 years, average production 72koz Au p.a. at average AISC of A\$1,550/oz

As the largest proportion of value at RAS sits within the initial open pit operation, the most comparable mines include Capricorn Metals (ASX:CMM) Karlawinda (although this operation has a larger mine/processing scale with a much lower grade) and Emerald Resources (ASX:EMR) Okvau (although this mine is located in a riskier jurisdiction).

TABLE 2: RAS BENCHMARKING

Company	Project	Location	Production	AISC		Mine Life	
Santana	RAS	NZ	110kozpa	1,260	for o/c	8	+ 9 ug
Capricorn	Karlawinda	WA	120kozpa	1,320	FY24 Guidance	10	
Emerald	Okvau	Cambodia	110kozpa	1,255	FY24 Guidance	7	

Source: Company Presentations, BOEQ estimates

Enterprise values for CMM and EMR illustrate SMI's re-rating potential, assuming RAS is developed into production (within the above parameters) on time and budget (post feasibility work and capex in the order of \$150m is spent) and with no significant ramp up issues. Both CMM and EMR have some value embedded for emerging projects beyond Karlawinda (Mount Gibson, MRE 2.7Moz Au) and Okvau (Bulls Eye, no MRE). However, SMI's uncommanding EV/Resource multiple of \$95/oz appears low vs CMM and particularly vs EMR (even assuming 2-3x resource upside) and does not reflect the material exploration upside across Bendigo-Ophir.

TABLE 3: SMI RELATIVE VALUATION METRICS

	Shares #	Price A\$	Mcap A\$m	Cash A\$m	Debt A\$m	EV A\$m	Resource Moz	EV/Resource A\$/oz
SMI	177.8	1.37	242.7	10.0	0	232.7	2.46	94.6
CMM	377.4	5.20	1,962.5	160.1	50	1,852.4	5.47	338.5
EMR	625.81	3.12	1,952.5	137.7	40	1,854.8	1.07	1,733.5

Source: IRESS, BOEQ estimates

MODEL UPDATE

MATERIAL CHANGES

We have updated our model to reflect key IMA parameters, with the exception of Crown Royalties (estimated as 10% of NPAT vs 2% of Revenue). We have also assumed that the u/g operation is developed sequentially (year 9) and added \$60m in development capex across the life of the underground mine. Risking was reduced from 50% to 40% following the combination of Updated MRE (Indicated Resource supports PFS and conversion to Reserve) and relative high level of input accuracy for IMA (+/-20% vs typical +/-35% for scoping studies).

MODEL SUMMARY: FINANCIALS & NAV



Santana Minerals

Code: SMI

Stock Details

Recommendation:	SPEC BUY		
Target	\$2.50	Share Price	\$1.37
NAV	\$2.49	52 Week High	\$1.57
Implied Return	83%	52 Week Low	\$0.49

Enterprise Value	\$286m
Diluted MCap	\$296m
Diluted Shares	217m
Free Float	91%
Avg Daily Value	\$0.29m

Macro Assumptions	FY23	FY24E	FY25E	FY26E	FY27
Exchange Rate (A\$/US\$)	0.68	0.70	0.70	0.70	0.70
Gold Price (US\$/oz)	1,873	2,075	2,163	2,225	2,325
Gold Price Realised (A\$/oz)	2,763	2,964	3,089	3,179	3,321

Profit & Loss (A\$m)	FY23	FY24E	FY25E	FY26E	FY27
Revenue	-	-	-	105	289
Operating Costs	-	-	-	(45)	(99)
Operating Profit	-	-	-	60	190
Corporate & Other	(1)	(2)	(2)	(3)	(4)
Exploration Expense / Impt	(6)	-	-	-	-
EBITDA	(7)	(2)	(2)	57	186
D&A	-	-	-	(6)	(15)
EBIT	(7)	(2)	(2)	51	171
Net Interest Expense	0	0	0	(3)	(6)
Pre-Tax Profit	(7)	(2)	(2)	48	165
Tax Expense	-	-	-	(14)	(46)
Underlying Profit	(7)	(2)	(2)	35	119
Significant Items (post tax)	-	-	-	-	-
Reported Profit	(7)	(2)	(2)	35	119

Cash Flow (A\$m)	FY23	FY24E	FY25E	FY26E	FY27
Operating Cashflow	(1)	(2)	(2)	57	186
Tax	-	-	-	-	(28)
Net Interest	0	0	0	(3)	(6)
Net Operating Cash Flow	(1)	(2)	(2)	54	152
Exploration	(9)	(11)	(11)	(5)	(2)
Capex	(0)	-	(100)	(53)	(6)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(9)	(11)	(111)	(58)	(8)
Equity Issue	27	-	77	2	1
Borrowing / Repayments	-	-	105	-	(35)
Dividends	-	-	-	-	-
Other	(2)	-	-	-	-
Net Financing Cash Flow	25	-	182	2	(34)
Change in Cash Position	15	(12)	69	(1)	110
FX Adjustments	-	-	-	-	-
Cash Balance	17	5	74	73	182

Balance Sheet (A\$m)	FY23	FY24E	FY25E	FY26E	FY27
Cash	17	5	74	73	182
Other Current Assets	1	1	1	1	1
PP&E	0	0	100	148	139
Exploration & Development	22	32	43	48	50
Other Non Current Assets	0	0	0	0	0
Total Assets	40	38	219	269	372
Debt	-	-	105	105	70
Other Liabilities	1	1	1	15	33
Net Assets	39	37	113	149	269

Ratio Analysis		FY23	FY24E	FY25E	FY26E	FY27
Diluted Shares	m	217	217	279	282	283
EPS - Diluted	Ac	(3.4)	(0.7)	(0.8)	12.3	42.0
P/E	x	n.m.	n.m.	n.m.	11.1x	3.2x
CFPS - Diluted	Ac	(0.6)	(0.7)	(0.8)	19.2	53.6
P/CF	x	n.m.	n.m.	n.m.	7.1x	2.5x
FCF - Diluted	Ac	(0.6)	(0.7)	(36.5)	1.4	53.5
P/FCF	x	n.m.	n.m.	n.m.	n.m.	2.6x

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	279	292	412	417	274
EV/EBITDA	x	(40.8x)	(184.9x)	(206.1x)	7.3x	1.5x
ROE	%	(18%)	(4%)	(2%)	23%	44%
ROA	%	(17%)	(4%)	(1%)	13%	32%

Net Debt / (Cash)		(17)	(5)	31	32	(112)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	18%	(71%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	22%	(42%)

Resource

RAS	Mt	g/t	koz	
Indicated	17.10	2.4	1,293	
Inferred	13.7	2.1	923	
Total RAS	30.8	2.2	2,216	EV/oz
CIM, SHR & SRE	6.2	1.2	244	129
Global Resource	37	2.1	2,460	116

Earnings Sensitivity		FY26E	FY27E	FY26E	FY27E
Gold Price	US\$/oz	+10%	A\$m	A\$m	%
Exchange Rate	A\$/US\$	-10%	5	15	14%
			8	19	25%
					21%

Valuation	Discount	Stake	A\$m	A\$/sh
Bendigo-Ophir (unrisked)	-	100%	1,055	3.75
Bendigo-Ophir (risk-adjusted)	40%	100%	633	2.25
Exploration			50	0.18
Corporate & Other			(34)	(0.12)
Debt			-	-
Cash			10	0.04
Option Strikes			42	0.15
Risk adjusted NAV			701	2.49
				0.55

Source: Blue Ocean Equities

CONTACTS

RESEARCH

CARLOS CROWLEY VAZQUEZ

Senior Resources Analyst
P +61 2 8072 2909
E carloscrowley@boeq.com.au

REX ADAMS

Mining Consultant
P +61 2 8072 2921
E radams@boeq.com.au

RICHARD CLOSE

Senior Resources Analyst
P +61 2 8072 2900
E richardclose@boeq.com.au

CHRISTIAN ANGELIS

Research Analyst
P +61 2 8072 2935
E christianangelis@boeq.com.au

STUART TURNER

Senior Equity Analyst
P +61 2 8072 2923
E stuartturner@boeq.com.au

JAMES TRACEY

Senior Equity Analyst
P +61 2 8072 2921
E jamestracey@boeq.com.au

MATHAN SOMASUNDARAM

Market Portfolio Strategy
P +61 2 8072 2916
E mathan@boeq.com.au

SALES & TRADING

ADAM STRATTON

Director Sales & Trading
P +61 2 8072 2913
E adamstratton@boeq.com.au

SCOTT HILDEBRAND

Director Sales & Trading
P +61 2 8072 2922
E scotthildebrand@boeq.com.au

GAVIN TODD

Institutional Sales & Trading
P +61 2 8072 2922
E gavintodd@boeq.com.au

SCOTT CALCRAFT

Institutional Sales & Trading
P +61 2 8072 2916
E scalcraft@boeq.com.au

ADRIAN SCOTT

Institutional Sales & Trading
P +61 2 8072 2927
E adrianscott@boeq.com.au

JOSIE NICOL

Sales & Trading Associate
P +61 2 8072 2931
E josienicol@boeq.com.au

HEAD OFFICE

BLUE OCEAN EQUITIES PTY. LTD.

AFSL No. 412765
ABN 53 151186935

P +61 2 8072 2988

E info@boeq.com.au

W blueoceanequities.com.au

Level 29, 88 Phillip Street
Sydney NSW 2000
Australia

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Blue Ocean Equities Pty Limited acted as Co-Manager for the Santana Minerals Placement in May 2023.

The Analyst of this report owns shares in Santana Minerals.

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