

# Alkane Resources

H119 results

Profit after tax decreases by 10% y-o-y

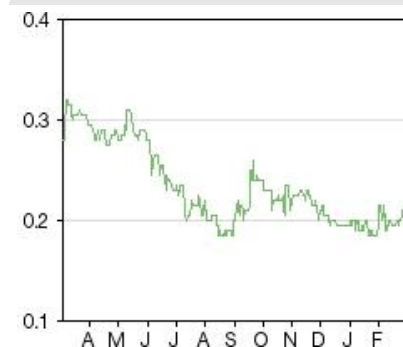
Metals &amp; mining

1 March 2019

**Price** **A\$0.21**  
**Market cap** **A\$106m**

Net cash (A\$m) at 31 December 2018	73.7
Shares in issue	506.1m
Free float	78%
Code	ALKX
Primary exchange	ASX
Secondary exchange	OTCQX

## Share price performance



%	1m	3m	12m
Abs	5.1	(2.4)	(29.3)
Rel (local)	(0.2)	(10.2)	(30.8)
52-week high/low		A\$0.3	A\$0.2

## Business description

Alkane Resources is an Australian production and development company. It previously produced 70,000oz of gold per year from the open pit operations at its Tomingley gold mine, but is now transitioning to underground operations and expects to produce around 32,000oz of gold pa.

## Next events

Q319 update	27 April 2019
FY19 results	25 October 2019

## Analyst

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Gold mining operations at Tomingley performed strongly, with Alkane Resources reporting profit after tax of A\$12.2m in H119 (the half year to December 2018) on the back of production of 26,754oz of gold. The 10% decline in net profit from A\$13.5m in H118, along with lower production volumes and grades, was expected, reflecting the cessation of open pit mining in January 2019 as Alkane transitions underground. Development of the underground operation at Tomingley is progressing on schedule, with both the main decline and vent portals established. During H219, we expect gold production volumes, c 13,000oz, and grades to continue to decline as Alkane will be processing the mid-grade stockpile until ore from underground is extracted at some point in H219.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
06/17	117.8	6.6	0.02	0.00	10.5	N/A
06/18	130.0	31.5	0.05	0.00	4.2	N/A
06/19e	73.9	14.3	0.02	0.00	10.5	N/A
06/20e	47.9	1.7	(0.01)	0.00	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## H119 revenue declined 11% y-o-y

H119 revenue from gold sales totalled A\$52.4m, down 11% from A\$58.7m in H118, despite a 2% increase in the average gold price received to US\$1,717/oz in H119 from US\$1,688/oz in H118. Gold sales decreased 12% to 30,497oz in H119 from 34,794oz in H118. Net profit after tax decreased by 10% to A\$12.2m in H119 from A\$13.5m in H118, with a 1% reduction in all-in sustaining costs (AISC) to A\$1,005/oz from A\$1,013/oz Au, contributing to a reduction in operating costs.

## Gold production down 34% y-o-y

Gold production during H119 totalled 26,745oz, down 34% from 40,764oz in H118, largely as a result of a 12% reduction in processed ore volume, which comprised a 40% reduction in tonnes mined, and a 22% reduction in head grade caused by open pit mining reaching the end of its life.

## Cash, bullion & investments position remains strong

Alkane's net cash, bullion and investments position remained strong at A\$80.5m, and the balance sheet remains debt free. Guidance for the year of 35,000oz to 40,000oz of gold produced at an AISC of A\$1,050–1,150/oz remains in line with our forecasts, which are unchanged.

## Valuation: Underpinned by cash and Tomingley

We maintain our valuation for Alkane's interest in Calidus Resources and the potential cash flow from Tomingley at A\$0.27/share. Assuming Alkane secures the development funding for Dubbo in the first half of this calendar year, and the prices of metals improve to the level it expects over the next three years, our valuation could increase to A\$0.44/share.

**Exhibit 1: Financial summary**

	A\$'000s	2017	2018	2019e	2020e	2021e	2022e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		117,792.0	129,974.0	73,904.4	47,935.9	69,860.3	172,877.6
Cost of Sales		(57,073.0)	(51,304.0)	(43,686.7)	(26,739.4)	(36,730.4)	(104,916.4)
Gross Profit		60,719.0	78,670.0	30,217.7	21,196.5	33,130.0	67,961.1
EBITDA		49,333.0	68,578.0	20,717.7	11,506.5	23,246.2	57,879.7
Normalised operating profit		7,607.0	32,107.0	13,464.5	4,071.6	0.0	0.0
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		7,607.0	32,107.0	13,464.5	4,071.6	0.0	0.0
Net Interest		(1,035.0)	(603.0)	798.1	(2,336.4)	(24,199.7)	(32,122.5)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(40,140.0)	(188.0)	0.0	(1,200.0)	33,912.8	0.0
Profit before tax (norm)		6,572.0	31,504.0	14,262.6	1,735.2	(24,199.7)	(32,122.5)
Profit before tax (reported)		(33,568.0)	31,316.0	14,262.6	535.2	9,713.1	(32,122.5)
Reported tax		4,631.0	(6,845.0)	(3,390.7)	(8,912.0)	0.0	0.0
Profit after tax (norm)		11,203.0	24,659.0	10,872.0	(7,176.8)	(24,199.7)	(32,122.5)
Profit after tax (reported)		(28,937.0)	24,471.0	10,872.0	535.2	9,713.1	(32,122.5)
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		11,203.0	24,659.0	10,872.0	(7,176.8)	(24,199.7)	(32,122.5)
Net income (reported)		(28,937.0)	24,471.0	10,872.0	535.2	9,713.1	(32,122.5)
Basic average number of shares outstanding (m)		503	506	506	550	853	1,366
EPS – basic normalised (\$)		0.02	0.05	0.02	(0.01)	(0.03)	(0.02)
EPS – diluted normalised (\$)		0.02	0.05	0.02	(0.01)	(0.03)	(0.02)
EPS – basic reported (\$)		(0.06)	0.05	0.02	0.00	0.01	(0.02)
Dividend (\$)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	10.3	(43.1)	(35.1)	45.7	147.5
Gross margin (%)		51.5	60.5	40.9	44.2	47.4	39.3
EBITDA margin (%)		41.9	52.8	28.0	24.0	33.3	33.5
Normalised operating margin (%)		6.5	24.7	18.2	8.5	0.0	0.0
<b>BALANCE SHEET</b>							
Fixed assets		148,474.0	138,275.0	156,450.1	339,396.7	740,365.7	911,927.7
Intangible assets		83,107.0	93,136.0	103,136.0	94,508.8	104,508.8	114,508.8
Tangible assets		60,627.0	36,266.0	39,674.5	230,748.3	621,217.3	782,779.3
Investments & other		4,740.0	8,873.0	13,639.6	14,139.6	14,639.6	14,639.6
Current assets		54,276.0	93,306.0	75,417.6	18,034.6	27,544.4	26,234.6
Stocks		9,644.0	19,153.0	2,834.7	1,838.6	2,679.6	6,630.9
Debtors		2,445.0	2,030.0	6,074.3	3,939.9	5,741.9	14,209.1
Cash & cash equivalents		41,969.0	72,003.0	66,508.6	11,636.1	18,002.8	3,774.5
Other		218.0	120.0	0.0	620.0	1,120.0	1,620.0
Current liabilities		(19,335.0)	(27,430.0)	(18,272.8)	(23,386.5)	(36,386.5)	(45,703.2)
Creditors		(11,166.0)	(9,299.0)	(3,590.7)	(2,197.8)	(3,018.9)	(8,623.3)
Tax and social security		0.0	(6,929.0)	(1,672.1)	(4,395.0)	0.0	0.0
Short-term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Other		(8,169.0)	(11,202.0)	(13,010.0)	(16,793.8)	(33,367.6)	(37,079.9)
Long-term liabilities		18,488.0	13,647.0	13,647.0	(21,353.0)	(246,353.0)	(311,353.0)
Long-term borrowings		0.0	0.0	0.0	(35,000.0)	(260,000.0)	(325,000.0)
Other long-term liabilities		18,488.0	13,647.0	13,647.0	13,647.0	13,647.0	13,647.0
Net assets		201,903.0	217,798.0	227,242.0	312,691.8	485,170.5	581,106.1
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		201,903.0	217,798.0	227,242.0	312,691.8	485,170.5	581,106.1
<b>CASH FLOW</b>							
Operating cash flow before WC and tax		49,333.0	68,578.0	20,717.7	11,506.5	23,246.2	57,879.7
Working capital		5,518.0	(9,498.0)	6,565.7	1,737.5	(1,821.8)	(6,814.2)
Exceptional & other		672.0	2,823.0	500.0	500.0	500.0	500.0
Tax		0.0	(6,845.0)	(8,647.6)	(6,189.1)	(4,395.0)	0.0
Net operating cash flow		55,523.0	55,058.0	19,135.8	7,554.9	17,529.4	51,565.5
Capex		(33,551.0)	(9,224.0)	(10,661.7)	(199,008.7)	(414,215.1)	(219,941.7)
Acquisitions/disposals		53.0	0.0	0.0	54,540.0	0.0	0.0
Net interest		(1,035.0)	(603.0)	798.1	0.0	(2,336.4)	(24,199.7)
Equity financing		3,471.0	(5.0)	0.0	20,000.0	110,000.0	80,000.0
Exploration and Evaluation		(10,154.0)	(10,969.0)	(10,000.0)	(10,000.0)	(10,000.0)	(10,000.0)
Other		2,963.0	(4,317.0)	(4,766.6)	37,041.3	80,388.9	43,347.6
Net cash flow		17,270.0	29,940.0	(5,494.4)	(89,872.5)	(218,633.2)	(79,228.3)
Opening net debt/(cash)		(24,455.0)	(41,969.0)	(72,003.0)	(66,508.6)	23,363.9	241,997.2
FX		0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		244.0	94.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(41,969.0)	(72,003.0)	(66,508.6)	23,363.9	241,997.2	321,225.5

Source: Company accounts, Edison Investment Research

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