

# Alkane Resources

## Forecast and valuation upgraded

Q319 results

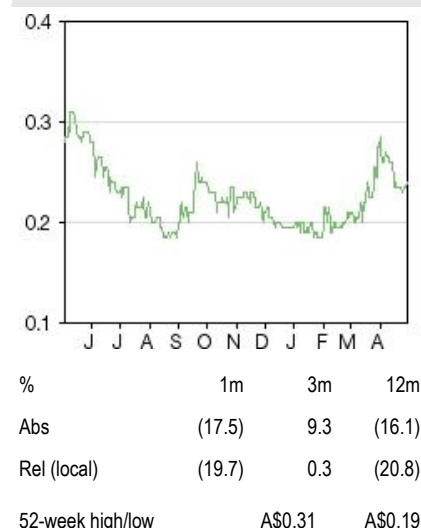
Metals & mining

2 May 2019

**Price** **A\$0.24**  
**Market cap** **A\$119m**

Net cash (A\$m) at 31 March 2019 72.4  
 Shares in issue 506.1m  
 Free float 78%  
 Code ALKX  
 Primary exchange ASX  
 Secondary exchange OTCQX

### Share price performance



### 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

Q419 results 25 July 2019  
 FY19 results 25 October 2019  
 Q120 results 30 October 2019  
 Q220 Results 30 January 2020

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Q319 was a strong quarter for Alkane Resources, with gold production from the stockpile at Tomingley Gold Mine above expectations. As a result, we have increased forecast gold production for FY19 to 44,000oz from 40,000oz and increased gold sold to 48,800oz from 41,500oz. We have also decreased our forecast all-in sustaining cost to A\$1,059/oz Au from A\$1,108/oz Au.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
06/17	117.8	6.6	0.02	0.00	12.0	N/A
06/18	130.0	31.5	0.05	0.00	4.8	N/A
06/19e	85.1	23.5	0.03	0.00	8.0	N/A
06/20e	57.3	10.6	(0.00)	0.00	N/A	N/A

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

## Higher-grade stockpile leads to forecast upgrade

As part of Alkane's transition from open pit mining to underground mining, it is treating the mid-grade stockpile at Tomingley before transitioning to the low-grade stockpile for the rest of the financial year. During Q319, 10,669oz of gold were produced, with 10,791oz sold, at an all-in sustaining cost (AISC) of A\$956/oz. The higher than expected level of production led management to increase guidance to 42,000–47,000oz for the financial year from 35,000–40,000oz (announced on 30 January 2019). Management also advised it has decreased guidance for AISC to A\$950–1,100/oz from A\$1,050–1,150/oz.

## Improved metrics result in EBITDA forecast upgrade

Our revenue forecast for FY19 has increased to A\$85.1m from A\$73.9m, with our cost of sales forecast increasing to A\$45.7m from A\$43.7m. As a result, our EBITDA forecast increases to A\$29.9m from A\$20.7m and PBT increases to A\$23.5m from A\$14.3m.

## Increased stake in Calidus Resources

Alkane Resources has invested an additional A\$2.16m in ASX-listed gold junior, Calidus Resources, increasing its holding in the company to 15.2% from 10.19%. Calidus is currently completing a pre-feasibility study (PFS) at its 1.25Moz Warawoona Gold Project, located in the Pilbara Region of Western Australia.

## Valuation: Increased on Tomingley improvements

Alkane's increased interest in Calidus Resources and updates to the potential cash flow from the Tomingley Gold Mine increase our valuation of these components to A\$0.30/share from A\$0.27/share. Assuming Alkane secures development funding for Dubbo and the prices of metals improve to the level it expects over the next three years, our valuation could increase to A\$0.47/share from A\$0.44/share.

## Strong Q319 leads to FY19 forecast upgrade

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Q319 was stronger than anticipated for Alkane Resources, due to the mid-grade stockpile being higher-grade than expected. As a result we have upgraded our forecast for the year compared to our [previous update note](#) and our [initiation note](#).

## Financials

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### Year-on-year comparison (nine months)

Revenue for 9M18 totalled \$72.2m, down 24.5% from A\$95.6m in 9M18, despite a 3.1% increase in the realised gold price to A\$1,749/oz in 9M19 from A\$1,696/oz. The decline in revenue was driven by the move to underground mining, which reduced gold production by 37.0% to 37,414oz in 9M19 compared to 59,398oz in 9M18, with gold sales reduced by 26.7% to 41,288oz in 9M19 compared to 56,344oz in 9M18. AISC declined 0.6% during 9M19 to A\$991/oz Au from A\$997/oz Au in 9M18. Net cash increased to A\$72.4m at the end of Q319, up 19.5% from A\$60.6m at the end of Q318.

### Quarter-on-quarter comparison

Q3 revenue totalled \$19.9m, down 51.3% from A\$40.9m in Q219, despite a 7.3% increase in the realised gold price to A\$1,841/oz from A\$1,716/oz. The substantial reduction in quarter-on-quarter revenue was driven by the reduction in gold inventory in Q219. Gold production was slightly down, by 4.0% to 10,669oz during Q319, from 11,111oz in Q219, while gold sales were 54.7% down to 10,791oz in Q319 from 23,841oz in Q219. AISC declined 9.0% during Q319 to A\$956/oz Au from A\$1,051/oz Au in Q219. Net cash decreased 1.7% to A\$72.4m in Q319 from A\$73.7m in Q219.

### Changes to our forecasts

**Operational changes:** gold production forecasts for FY19 increase to 44,000oz of gold from 40,000oz. Forecast gold sales increase to 48,800oz Au from our prior 41,500oz Au. Forecast AISC has been reduced to A\$1,059/oz Au from A\$1,108/oz Au.

**Income statement changes:** revenue for FY19 increases to A\$85.1m from A\$73.9m, with cost of sales increasing to A\$45.7m from A\$43.7m. As a result, EBITDA increases to A\$29.9m from A\$20.7m and PBT to A\$23.5m from A\$14.3m.

**Cash flow statement changes:** our estimated operating cash flow for FY19 has increased to A\$26.4m from A\$19.9m, with cash used in investing activities increasing to A\$30.2m from A\$25.4m, largely due to increased forecast exploration expense for FY19 to A\$12.8m from A\$10m and the increased investment in Calidus to A\$6.5m from A\$4.3m. As a result, we estimate net cash at end FY19 of A\$68.3m (previously A\$66.5m), down c 5% from A\$72.0m at end FY18.

## Valuation

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The total effect of all the updates to our forecasts is an increase in our valuation of the Tomingley Gold Mine to A\$0.30/share, with our valuation of Alkane's 15.2% holding in Calidus Resources largely unchanged at A\$0.012/share, from A\$0.008/share. Our valuation of the Dubbo Project has not changed and, assuming Alkane secures initial development funding for Dubbo in Q419 (financial year) and the prices of metals improve to the level the company expects over the next three years, our valuation could increase to A\$0.47/share, previously A\$0.44/share.

**Exhibit 1: Financial summary**

	A\$'000s	2017	2018	2019e	2020e	2021e	2022e
30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		117,792.0	129,974.0	85,130.1	57,266.8	75,445.5	174,103.7
Cost of Sales		(57,073.0)	(51,304.0)	(45,724.0)	(26,549.7)	(36,469.9)	(104,172.4)
Gross Profit		60,719.0	78,670.0	39,406.1	30,717.0	38,975.6	69,931.3
EBITDA		49,333.0	68,578.0	29,906.1	21,027.0	29,091.8	59,849.8
Normalised operating profit		7,607.0	32,107.0	22,652.9	13,651.8	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	22,652.9	13,651.8	0.0	0.0
Net Interest		(1,035.0)	(603.0)	819.2	(3,021.0)	(25,190.1)	(32,841.1)
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	0.0	33,356.6	0.0
Profit before tax (norm)		6,572.0	31,504.0	23,472.1	10,630.7	(25,190.1)	(32,841.1)
Profit before tax (reported)		(33,568.0)	31,316.0	23,472.1	10,630.7	8,166.5	(32,841.1)
Reported tax		4,631.0	(6,845.0)	(5,993.0)	(10,996.8)	0.0	0.0
Profit after tax (norm)		11,203.0	24,659.0	17,479.1	(366.1)	(25,190.1)	(32,841.1)
Profit after tax (reported)		(28,937.0)	24,471.0	17,479.1	10,630.7	8,166.5	(32,841.1)
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	17,479.1	(366.1)	(25,190.1)	(32,841.1)
Net income (reported)		(28,937.0)	24,471.0	17,479.1	10,630.7	8,166.5	(32,841.1)
Basic average number of shares outstanding (m)		503	506	506	524	733	1,135
EPS – basic normalised (\$)		0.02	0.05	0.03	(0.00)	(0.03)	(0.03)
EPS – diluted normalised (\$)		0.02	0.05	0.03	(0.00)	(0.03)	(0.03)
EPS – basic reported (\$)		(0.06)	0.05	0.03	0.02	0.01	(0.03)
Dividend (\$)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	10.3	(-34.5)	(-32.7)	31.7	130.8
Gross margin (%)		51.5	60.5	46.3	53.6	51.7	40.2
EBITDA margin (%)		41.9	52.8	35.1	36.7	38.6	34.4
Normalised operating margin (%)		6.5	24.7	26.6	23.8	0.0	0.0
<b>BALANCE SHEET</b>							
Fixed assets		148,474.0	138,275.0	160,684.1	344,778.9	736,464.5	904,496.5
Intangible assets		83,107.0	93,136.0	105,917.0	100,289.8	110,289.8	120,289.8
Tangible assets		60,627.0	36,266.0	39,376.3	229,098.3	610,783.9	768,815.9
Investments & other		4,740.0	8,873.0	15,390.8	15,390.8	15,390.8	15,390.8
Current assets		54,276.0	93,306.0	83,024.0	12,313.2	18,314.0	24,196.8
Stocks		9,644.0	19,153.0	12,895.0	2,196.5	2,893.8	6,677.9
Debtors		2,445.0	2,030.0	1,864.0	4,706.9	6,201.0	14,309.9
Cash & cash equivalents		41,969.0	72,003.0	68,265.0	4,789.8	8,099.2	1,588.9
Other		218.0	120.0	0.0	620.0	1,120.0	1,620.0
Current liabilities		(19,335.0)	(27,430.0)	(21,583.0)	(17,025.3)	(34,586.6)	(47,802.2)
Creditors		(11,166.0)	(9,299.0)	(8,255.0)	(2,182.2)	(2,997.5)	(8,562.1)
Tax and social security		0.0	(6,929.0)	(6,929.0)	(5,423.1)	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)	(6,399.0)	(9,420.0)	(31,589.1)	(39,240.1)
Long-term liabilities		18,488.0	13,647.0	17,215.0	(17,785.0)	(242,785.0)	(312,785.0)
Long-term borrowings		0.0	0.0	0.0	(35,000.0)	(260,000.0)	(330,000.0)
Other long-term liabilities		18,488.0	13,647.0	17,215.0	17,215.0	17,215.0	17,215.0
Net assets		201,903.0	217,798.0	239,340.1	322,281.8	477,406.9	568,106.0
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		201,903.0	217,798.0	239,340.1	322,281.8	477,406.9	568,106.0
<b>CASH FLOW</b>							
Operating cash flow before WC and tax		49,333.0	68,578.0	29,906.1	21,027.0	29,091.8	59,849.8
Working capital		5,518.0	(9,498.0)	577.0	1,782.8	(1,376.1)	(6,328.4)
Exceptional & other		672.0	2,823.0	706.0	500.0	500.0	500.0
Tax		0.0	(6,845.0)	(5,993.0)	(12,502.7)	(5,423.1)	0.0
Net operating cash flow		55,523.0	55,058.0	25,196.1	10,807.1	22,792.7	54,021.4
Capex		(33,551.0)	(9,224.0)	(10,363.5)	(197,597.3)	(411,277.4)	(218,381.8)
Acquisitions/disposals		53.0	0.0	0.0	54,540.0	0.0	0.0
Net interest		(1,035.0)	(603.0)	819.2	0.0	(3,021.0)	(25,190.1)
Equity financing		3,471.0	(5.0)	0.0	10,000.0	100,000.0	80,000.0
Exploration and Evaluation		(10,154.0)	(10,969.0)	(12,781.0)	(13,000.0)	(10,000.0)	(10,000.0)
Other		2,963.0	(4,317.0)	(7,017.8)	36,775.0	79,815.2	43,040.2
Net cash flow		17,270.0	29,940.0	(4,147.0)	(98,475.2)	(221,690.6)	(76,510.3)
Opening net debt/(cash)		(24,455.0)	(41,969.0)	(72,003.0)	(68,265.0)	30,210.2	251,900.8
FX		0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		244.0	94.0	409.0	0.0	0.0	0.0
Closing net debt/(cash)		(41,969.0)	(72,003.0)	(68,265.0)	30,210.2	251,900.8	328,411.1

Source: Company accounts, Edison Investment Research

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