

# Monarch Mining Corporation

Resource upgrade

Beaufor resources up 136%, valuation up 20%

Metals & mining

Monarch Mining Corporation's potentially high-return gold projects in the well-established Abitibi gold belt have reported a 136% increase in measured and indicated (M&I) resources at its Beaufor asset to 219,200oz of gold, with total measured, indicated and inferred (MI&I) up 178% to 341,700oz. We have added a six-year life extension and now forecast an 11-year life for Beaufor, which is set to start production by June 2022. Croinor is planned for start-up in FY24/25. Ongoing exploration could lead to more life extensions. McKenzie Break and Swanson could add further value in the future. Meanwhile an additional C\$11.3m has been raised from a royalty transaction and C\$13.5m from debt financing increasing gross cash to over C\$43m. We have increased our valuation by 20% to C\$1.19/share.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/21e	0.0	(4.0)	(5.9)	0.0	N/A	N/A
06/22e	20.5	(3.8)	(5.2)	0.0	N/A	N/A
06/23e	56.3	15.5	16.1	7.4	5.5	8.4
06/24e	74.7	21.1	16.9	14.2	5.2	16.2

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Listed in January 2021, no historical data.

## Significant Beaufor mine life extension likely

The planned re-start of Beaufor and Beacon mill entered a new phase with the expansion to 219,200oz M&I ounces (up 136.5% from its previous 92,700oz) presenting a six-year life extension to the previous 4.5 years. This, together with an increase in cash resources to C\$43m on the back of four successful equity, royalty and debt transactions should easily enable Monarch to recommission its two main mining assets. Monarch moved into recruiting mode in mid-June and is set to restart production by mid-2022. It will focus on operating Beaufor from a vertical shaft and a production ramp. The ongoing 42,500-metre drilling programme has more than doubled the potential mine life in less than six months. This is confirmation of the incredible ability of the Abitibi gold belt to continue to produce gold resources.

## Successive transactions bolster balance sheet

Since January 2021, Monarch has raised C\$42m comprising of C\$10.1m flow-through shares issued, C\$6.7m raised in a bought deal private placement of units, a C\$11.3m royalty transaction with Gold Royalty Corp and a C\$13.5m debt senior secured term loan from Investissement Québec. Its bolstered balance sheet increases confidence in operational outlook and mine extension upside.

## Valuation: C\$1.19/share including next tier assets

Our valuation of C\$1.19/share comprises C\$0.89/share for Beaufor and Croinor, starting operations in FY22 and C\$0.30/share for next tier assets. This increase in value from our previous C\$0.99/share validates the mine life extension upside we presented in our [initiation note](#). Further upside remains through additional life extensions and unlocking value in the tier two assets of McKenzie Break and Swanson through corporate action or bringing them into production.

6 August 2021

**Price** **C\$0.88**

**Market cap** **C\$69m**

US\$/C\$1.25

Net cash (C\$m) at 31 March 2021 19.0

Shares in issue 78.0

Free float 84%

Code GBAR/GBARF

Primary exchange TSX

Secondary exchange OTC

### Share price performance



% 1m 3m 12m

Abs (5.4) 8.6 N/A

Rel (local) (5.8) 3.0 N/A

52-week high/low C\$1.16 C\$0.6

### Business description

Monarch Mining Corporation is a Canadian gold explorer with two near-term projects and two second tier projects in the Abitibi, Quebec, gold belt.

### Next events

Q421 results August 2021

### Analyst

René Hochreiter +44 (0)20 3077 5700

[mining@edisongroup.com](mailto:mining@edisongroup.com)

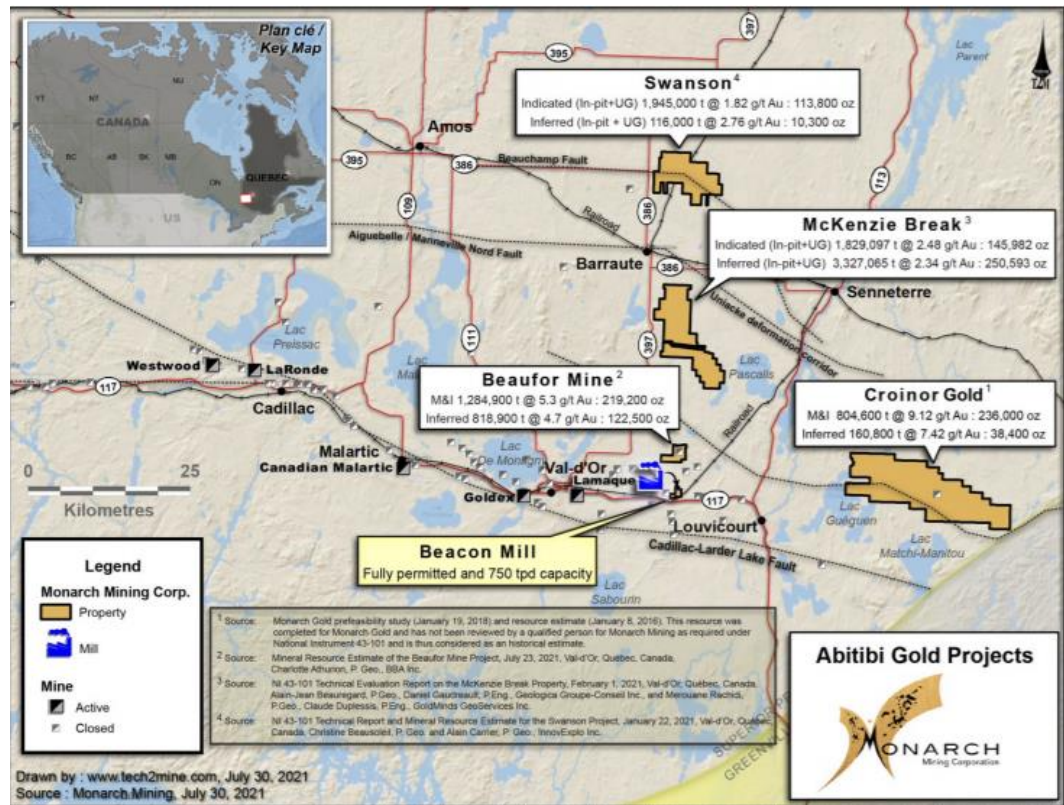
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## Drilling success supports mine life extensions

Monarch Mining has the potential to become a 25–65Koz pa gold producer in one of the most prospective areas for gold exploration in the world (Exhibit 1). With its track record of adding 11oz of gold for every metre of exploration drilled in the Abitibi gold belt, there is every reason to believe that the current 63,200m drilling programme could further add significant resources to its MI&I resources.

**Exhibit 1: Location of Monarch’s projects, Abitibi, Quebec**



Source: Monarch Mining, 2021

### Main risk/reward: Highly geared to mine life

We see the principal risks and sensitivity to Monarch Mining as extending the life of the mines and accelerating or delaying bringing the Croinor mine into production in FY24, which is our base case. This is in addition to the normal risks of execution and the gold price. The risks related to the cash position and the ability to finance in order to bring Beaufor and Croinor into production have been largely removed through successful funding transactions year-to-date. The mine extension upside we flagged in our initiation note sensitivities has now in part been formalised in our valuation, although further upside remains through additional life extension potential for Beaufor and Croinor. This upside is dependent on additions to MI&I, but with continued investment in exploration and recent successes, we are optimistic.

### Conclusion: Drill as much as possible

The exploration programme has already added significant new resources to the company’s MI&I resources statement and is likely to do so again in this highly prospective gold belt. Management is

aware that this is the way to add the most value to this early-stage company and therefore intends to maintain a high level of exploration and development spend going forward.

## Financials

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Our forecasts for FY21 remain unchanged with a 5.9c/share loss driven by running costs and Beaufor only coming online in FY22. We have increased our FY22 forecast loss from 4.6c/share to 5.2c/share with the pre-tax loss increasing from C\$3.2m to C\$3.8m primarily for two reasons.

The first relates to the 23 July 2021 [announced transaction](#) with Gold Royalty Corp whereby Monarch has sold a C\$2.50/t royalty interest on all material processed through the Beacon mill originating from the Beaufor mine operations and a 2.5% net smelter return royalty on each of the Croinor, McKenzie Break and Swanson properties for a C\$11.25m consideration. With Beaufor expected to come into production in FY22, the royalty payment increases cost of sales in our forecast.

The second relates to the C\$13.5m senior secured loan agreement with Investissement Québec, which was announced on 3 August 2021. Although this helps to bolster Monarch's current gross cash position to over C\$43m (as of [August 2021](#)), this three-year term loan attracts finance cost at 6% until the restart of Beaufor, 5% during the first year of production and 4% thereafter. We have increased our finance costs assumptions to account for the loan.

The impact of these two transactions continues into our post-FY22 forecasts as well with FY23 earnings cut from 17.9c/share to 16.1c/share and FY24 cut from 19.4c/share to 16.9c/share. However, this near-term negative impact on our forecasts is more than offset by mine life extensions, which have resulted in dividends under our base case continuing until FY28 where they ceased in FY26 previously. We have based our mine life projection on the latest available M&I and our assumed ore production schedule, which is driven by the company's NI 43-101 technical reports, allowing for production levels to remain flat in the additional forecast years.

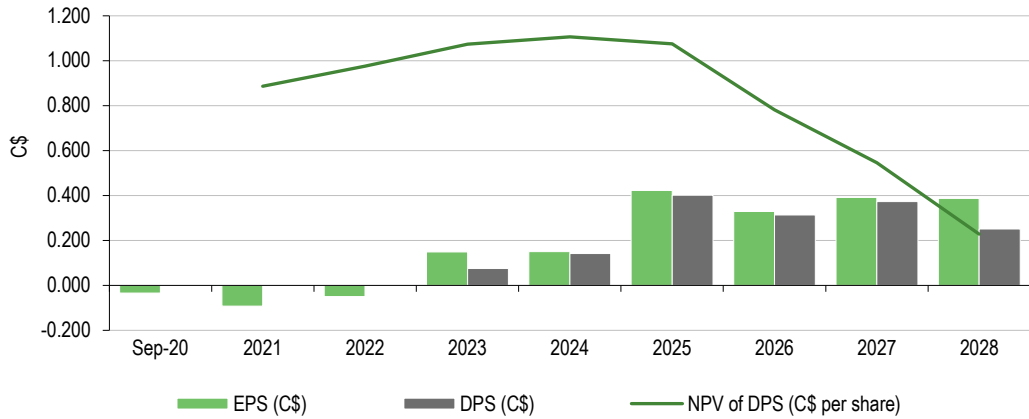
Our forecasts now also allow for the impact of the bought deal private placement of units that was upsized from C\$6m to C\$6.7m since our previous note.

## Valuation

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We have increased our core valuation relating to Beaufor and Croinor by 29% to C\$0.89/share on the back of the forecast life extension for Beaufor. This increase is driven by an extended dividend payment profile as represented below.

**Exhibit 2: Valuation and dividend forecasts – base case to FY28**



Source: Edison Investment Research

Our base case core valuation does not include further life extensions or dividend payments after FY28, although we flag the potential for this to occur, which could lead to further upside. Our valuation for the tier two assets is based on a peer resource valuation of 12 gold producers in Canada with price appreciation since our initiation report offsetting dilution due to share issuance, leaving our valuation at C\$0.30/share. Although Monarch’s recent exploration successes present upside potential for this valuation through either corporate action or bringing them into production, we have taken a conservative approach. Our revised total valuation is C\$1.19/share, which is a 20% increase on our previous value of C\$0.99/share. This uplift illustrates the sensitivity of Monarch’s valuation to mine life extensions, which we flagged in our initiation note.

**Exhibit 3: Financial summary**

C\$'000s	Sep 2020	FY21e	FY22e	FY23e	FY24e
June	Pro forma	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue	0	0	20,505	56,269	74,699
Cost of Sales	0	0	(11,383)	(31,694)	(44,191)
Gross Profit	0	0	9,122	24,575	30,509
EBITDA	(1,883)	(3,790)	(3,378)	15,949	21,700
Operating Profit (before amort. and except.)	(1,883)	(3,790)	(3,378)	15,949	21,700
Amortisation	0	(2,500)	(1,328)	(1,477)	(1,509)
Exceptionals	188	250	1,500	500	0
Other	0	0	0	0	0
Operating Profit	(1,695)	(6,040)	(3,206)	14,973	20,191
Net Interest	(69)	(206)	(436)	(456)	(631)
Profit Before Tax (norm)	(1,952)	(3,996)	(3,814)	15,493	21,069
Profit Before Tax (FRS 3)	(1,764)	(6,246)	(3,642)	14,517	19,560
Tax	467	0	0	(2,918)	(7,882)
Profit After Tax (norm)	(1,485)	(3,996)	(3,814)	12,577	13,189
Profit After Tax (FRS 3)	(1,297)	(6,246)	(3,642)	11,599	11,678
Average Number of Shares Outstanding (m)	66.3	68.0	73.9	78.0	78.0
EPS - normalised (c)	(2.2)	(5.9)	(5.2)	16.1	16.9
EPS - normalised and fully diluted (c)	(2.2)	(5.7)	(4.9)	15.0	15.7
EPS - (IFRS) (c)	(2.0)	(9.2)	(4.9)	14.9	15.0
Dividend per share (c)	0.0	0.0	0.0	7.4	14.2
Gross Margin (%)	N/A	N/A	44.5	43.7	40.8
EBITDA Margin (%)	N/A	N/A	-16.5	28.3	29.0
Operating Margin (before GW and except.) (%)	N/A	N/A	-16.5	28.3	29.0
<b>BALANCE SHEET</b>					
Fixed Assets	36,504	36,504	37,989	38,313	65,944
Intangible Assets	14,319	14,319	14,319	14,319	14,319
Tangible Assets	13,282	13,282	14,767	15,090	42,721
Investments	8,903	8,903	8,903	8,903	8,903
Current Assets	20,920	19,439	44,023	60,188	41,568
Stocks	1,192	1,192	1,139	3,126	4,150
Debtors	2,122	2,122	2,079	5,704	7,572
Cash	14,000	14,520	39,200	49,752	28,240
Other	3,605	1,605	1,605	1,605	1,605
Current Liabilities	(2,698)	(2,695)	(9,337)	(13,900)	(16,707)
Creditors	(2,666)	(2,666)	(2,557)	(7,120)	(9,928)
Short term borrowings	(32)	(29)	(6,779)	(6,779)	(6,779)
Long Term Liabilities	(10,671)	(8,797)	(15,873)	(16,699)	(17,025)
Long term borrowings	(26)	(29)	(6,779)	(6,779)	(6,779)
Other long term liabilities	(10,644)	(8,768)	(9,093)	(9,919)	(10,245)
Net Assets	44,056	44,452	56,803	67,902	73,780
<b>CASH FLOW</b>					
Operating Cash Flow	0	(3,464)	(3,064)	15,226	21,941
Net Interest	0	(206)	(436)	(456)	(631)
Tax	0	0	0	(2,418)	(7,882)
Capex	0	(500)	(2,813)	(1,800)	(29,140)
Acquisitions/disposals	0	0	0	0	0
Financing	0	4,690	17,493	0	0
Dividends	0	0	0	0	(5,800)
Net Cash Flow	0	520	11,180	10,552	(21,512)
Opening net debt/(cash)	0	(13,941)	(14,461)	(25,641)	(36,193)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(13,941)	(14,461)	(25,641)	(36,193)	(14,682)

Source: Source: Monarch Mining accounts, Edison Investment Research. Note: We do not show historical figures and instead show pro forma FY20 figures published in September 2020, reflecting that on 10 November 2020 Yamana bought the Wasamac mine and Camflo mill from Monarch Gold and, as such, there are no historical numbers that are relevant to Monarch Mining.

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia