



Comparative Valuations

So, how often have you heard a company representative say “we are undervalued with respect to our peers”? It is a comment we have heard a lot in our time as analysts, and the company may well be undervalued as compared to its peers - but there often is a reason for this and more often than not the market is correct.

You may notice that we usually include a peer group in our research, with this comparing various metrics of the selected companies. How we compare companies will depend upon the stage that they are at, including:

- 1) Exploration companies, with no defined resources,
- 2) Exploration and development companies with defined resources, and
- 3) Producers.

In this piece we will concentrate on the first two cases above – producers bring a different level of complexity to the process!

You will also note that there is usually a disclaimer, basically saying ‘take care with comparisons’, and ‘that they are to be treated as an indicative guide only’. This is important – there are a number of uncertainties in these comparisons.

These reasons for differences include, but are not limited to (with all other things remaining equal):

- Location and prospectivity of the company’s activities
- Grade of mineralisation
- Potential size of a deposit
- What other projects a company may have in its portfolio
- Perception of management
- Cash in the bank (when the market realises that a company needs to raise cash the price is commonly discounted)
- Marketing and exposure – there are cases of companies flying under the radar, and thus not getting the exposure to potential investors that would lift their share price.

Exploration Companies – No Resources

Really the only way to compare and rank these companies is by their market capitalisation, or else the enterprise value of their projects. Even then there is room for confusion and grey areas, and as already mentioned this is an indicative comparison method only and could almost be considered more qualitative rather than quantitative.

The first of these relates to the market capitalisation – this can be calculated in a number of ways:

- Undiluted - the market capitalisation based on quoted securities only – shares, escrow shares and listed options
- Partially diluted - as above, but including those unlisted options (and in the case of the TSX, warrants) that are in the money
- Fully diluted – market capitalisation taking into account all quoted and unquoted securities

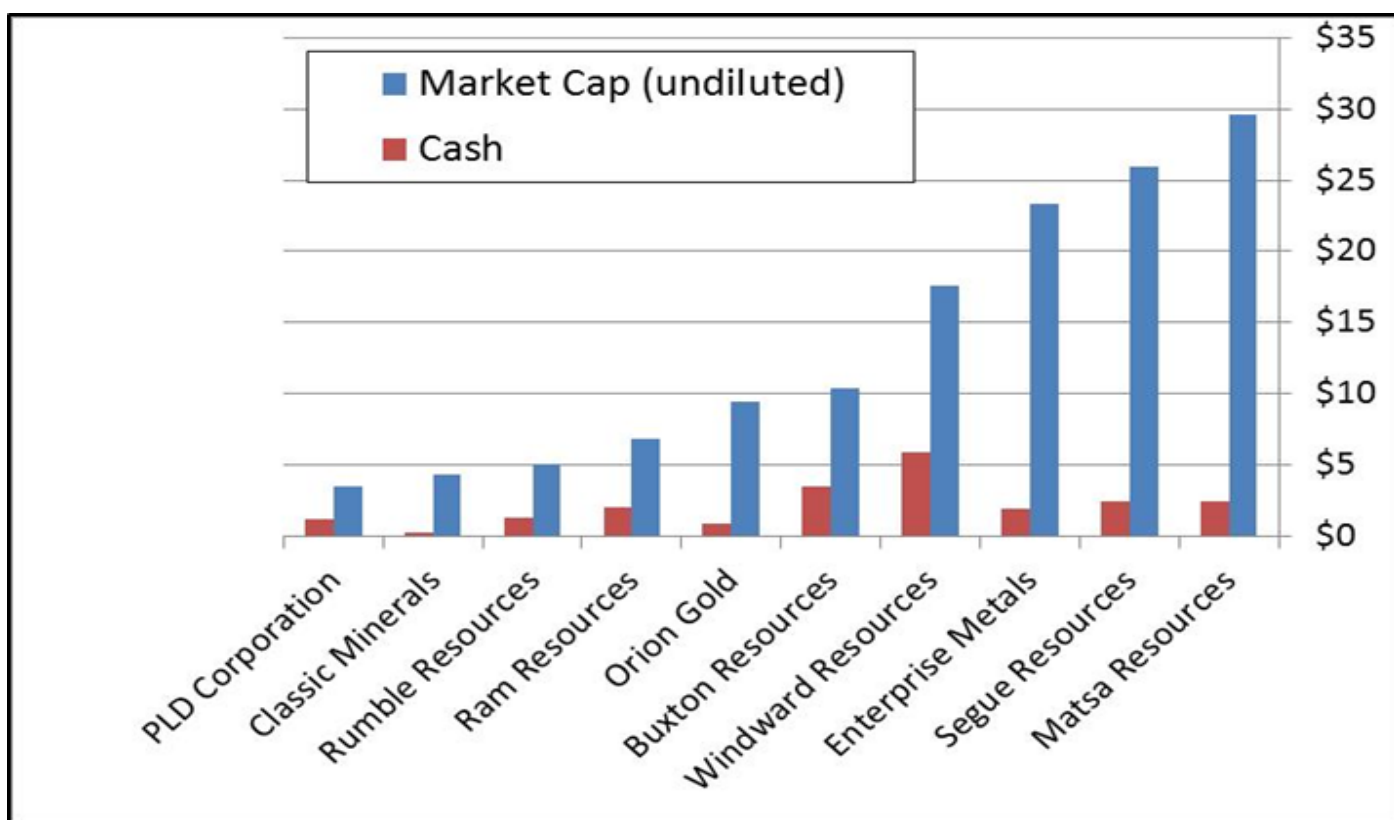
We tend to use the latter case in comparing market capitalisations; however this will vary from analyst to analyst.

The second measurement of a company's value is the enterprise value. This is market capitalisation less cash (and cash equivalents) plus debt (including convertible notes). Again this can be undiluted, partially or fully diluted, and gives an idea of the value of a company's projects. A way to think of enterprise value is as a takeover price – to take over a company, the acquirer will need to buy the shares, assume the debt and keep the assets.

An example of comparative valuations was with Rumble Resources. This was a comparison of companies operating in the Fraser Range. We also cover PLD Corporation which is included in the following table. Not included in the following table is Sirius, which is now a developer having discovered the Nova-Bollinger deposits and also Sheffield Resources, whose current market capitalisation of around \$100 million is largely backed by the world-class Thunderbird mineral sands project.

The graph we used in the Rumble note is below. Here using the undiluted market capitalisation, and also shown current cash positions.

Rumble Resources Peer Comparison



Source: IRESS, company reports

You will notice the wide range of market capitalisations. This shows fundamental differences between the companies, even though they are considered as a peer group. These reasons include, amongst others:

A number of companies, in addition to their Fraser Range properties, hold other properties, although they may be concentrating their activities on the Fraser Range,

Some are operating in what is currently perceived as the most prospective part of the Fraser Range (there is a discussion of the perceived prospectivity of the Fraser Range in the Rumble research note), and therefore may trade at a premium to companies outside of this central "Fraser Zone".

Herein lies a difficulty – how do you value, say, just each company's Fraser Range projects where a company has other projects? This is generally beyond the scope of a note, with exploration property valuation being a rather inexact science – it is in effect an educated estimate!

However, what this does show is the relative leverage that can be gained from a discovery – if, say Rumble and Matsa (which has a large, diversified portfolio of projects) both made the same discovery, you would get much better leverage with Rumble.

As a final point, at the time of the Nova-Bollinger discovery, Sirius had a similar enterprise value to that of Rumble now, and it is now a +\$1 billion company.

Exploration and Development Companies with Defined Resources

The next case to discuss is comparing companies with defined resources. Here we will look at two recent notes – Anova Metals, a pure gold play, and Avalon Minerals, a copper/iron developer.

The main method used here is the enterprise value per unit of metal in the relevant company's resources. Here again there are uncertainties, and figures need to be treated with care. These include (and yet again are not limited to):

- Do you use the diluted, partially diluted or undiluted enterprise value,
- Either total resources, measured and indicated resources or reserves can be used,
- Do you include resources over all the companies' projects, or just their key project in the comparison?

Tending to use total resources over the whole of a company's portfolio on a fully diluted basis. An example of this below is Chesser Resources, which has 100% of the Kestanelik Project (12.47Mt @ 1.86g/t Au) and 50% of Sisorta (14.55Mt @ 0.67g/t Au). Also equity ownership of a project needs to be taken into account in the comparatives.

Below is the example used for Anova Metals. This includes ASX and TSX listed companies at various stages of development – please be aware of the notes at the end of the table.

Anova Metals Peer Comparison

Company	Code	Location	Last Price AUD	EV Diluted (A\$m)	Global Resource (Mt)	Au Grade (g/t)	Company Equity Share	Contained Au Moz Coy Share	EV/oz Au equity share	EV/M & l oz Au equity share	Project Stage
Romarco Minerals	R: TSX	USA	\$0.707	\$462.6	91	1.65	100%	4.84	\$95.57	\$114.55	Permitting
Papillon Resources*	PIR: ASX	Mali	\$1.490	\$481.5	68	2.35	100%	5.15	\$93.43	\$103.81	PFS Completed
Premier Gold	PG: TSX	Canada, USA	\$2.677	\$395.9	122	2.31	97%	8.82	\$44.88	\$72.20	Feasibility
Midway Gold	MDW: TSX	USA	\$1.232	\$218.5	482	0.63	58%	5.74	\$38.03	\$47.09	Construction
Probe Minerals	PRB: TSX	Canada	\$2.192	\$169.4	84	1.65	100%	4.46	\$38.00	\$43.07	Resource Definition
Chesser Resources*	CHZ: ASX	Turkey	\$0.145	\$31.7	27	1.22	86%	0.90	\$35.02	\$112.01	PFS - Asset for sale
Golden Queen	GQM: TSX	USA	\$1.323	\$32.3	159	0.50	50%	1.29	\$25.07	\$26.83	Construction
Gascoyne Resources*	GCY: ASX	Australia	\$0.150	\$22.9	35	1.57	92%	1.61	\$14.21	\$34.68	PFS Completed
Atlantic Gold	AGB: ASX	Canada	\$0.300	\$13.3	23	1.62	81%	0.98	\$13.51	\$21.90	Feasibility
Unity Mining	UML: ASX	Australia	\$0.010	\$4.7	3	5.52	100%	0.61	\$7.74	\$9.34	Producer - Henty Permitted - Daroues
Anova Metals	AWW: ASX	USA	\$0.040	\$7.7	16	1.98	100%	1.02	\$7.49	\$16.65	Permitting
Sabina Gold & Silver	SBB: TSX	Canada	\$0.546	\$53.3	37	6.12	100%	7.19	\$7.42	\$10.13	PFS
Victoria Gold	VIT: TSX	Canada	\$0.111	\$8.7	300	0.65	100%	6.31	\$1.37	\$1.79	Permitting
Chalice Gold	CHN: ASX	Canada	\$0.115	-\$10.6	17	2.30	100%	1.27	-\$8.38	-\$15.73	PEA completed

Source: IRESS, Company reports

* Papillon merged with B2Gold, with the shares suspended from trading on September 23, 2014 – The EV represents that as of the time of suspension

Chesser is in the process of selling the 746,000oz Kestanelik deposit for US\$40 million, or US\$53/oz

*Gascoyne has entered into a HoA with Monument Mining (TSX.V: MMY) to form a 50:50 exploration and development JV – this is yet to be finalized

The key things that will effect valuations here include grade, size and metallurgy of resources (e.g. quality and hence economic potential of the resource) and project stage. In the current market funding is also critical – companies that are funded towards development will trade at a significant premium over those that are seeking funding. Location can also play a part here, with more remote locations commonly adding to capital and operating costs, and hence adversely affecting project economics.

The above table shows a broad trend of increasing EV per ounce with project stage, grade and resource size, but does show anomalies, however which can be explained. One clear anomaly is Victoria Gold – it has a similar resource to Midway Gold’s Pan Project, however on an EV/ounce value is only at around 3% of that of Midway. Is this due to the project stage (permitting vs construction), location (Nevada vs the Yukon), some other factors, or most likely a combination of all? This is something potential investors would need to look at.

Another point raised in the above table is one of companies trading at below cash backing, as shown by Chalice Gold, with a market capitalization of \$37 million and cash of \$44 million. In the current market we have seen a number of examples of companies with large cash reserves being valued at or below cash, with no value ascribed to projects, even if the projects have merit. The same may apply partially to Victoria Gold, with cash of C\$32 million and a market capitalisation of C\$40 million.

The next case is where a company has polymetallic resources, and below is the peer comparison table as used in our recent note on Avalon Minerals (ASX: AVI). All points raised above are still valid here – this case throws up a few more factors to be considered.

Avalon Minerals Peer Comparison

Company	Location	Last Price AUD	EV Diluted (\$m)	Equity Resource (Kt)	CuEq Grade (%)	IGV/t resource	EV/t Resource	EV/IGV	Key Project Stage	Metals (all resources)
Finders Resources	Indonesia	\$0.160	\$273.0	14,515	1.73%	\$132	\$18.81	14.30%	Production, Expansion	Cu, Au, Ag
Tiger Resources	DRC	\$0.240	\$337.6	49,000	1.38%	\$105	\$6.89	6.58%	Production	Cu, Co
Hillgrove Resources	South Australia	\$0.540	\$99.0	31,290	0.90%	\$68	\$3.16	4.63%	Production	Cu, Au, Ag
Avanco Resources	Brazil	\$0.090	\$125.9	63,280	1.45%	\$110	\$1.99	1.81%	Development	Cu, Au
Altona Mining	Queensland	\$0.230	\$104.5	265,800	0.60%	\$45	\$0.39	0.87%	DFS	Cu, Au
Hot Chili	Chile	\$0.230	\$79.1	227,215	0.53%	\$40	\$0.35	0.86%	DFS	Cu, Au, Mo
Northern Iron	Norway	\$0.087	\$100.8	475,000	0.58%	\$44	\$0.21	0.48%	Production	Fe
Rex Minerals	South Australia	\$0.235	\$31.1	337,000	0.98%	\$74	\$0.09	0.12%	DFS	Cu, Au, Fe
Avalon Minerals	Sweden	\$0.004	\$4.0	76,560	1.18%	\$89	\$0.05	0.06%	PFS	Cu, Au, Fe
Hannans Reward	Sweden	\$0.006	\$2.9	398,300	0.76%	\$58	\$0.01	0.01%	Scoping	Cu, Au, Fe

Source: IRESS, Company reports

You will note in the above table quoted grades as “CuEq%”. This reflects the in-ground value (“IGV”) of the mineralisation expressed as an equivalent copper grade. This is calculated by summing the values of each potentially economic metal in the mineralisation to get the in-ground value per tonne of resource, and then calculating the copper grade that would give this value.

In carrying out calculations, for the purposes of an indicative comparison, potential metallurgical recoveries are not taken into account. This contrasts to the requirements of public releases by listed companies, where metallurgical recoveries do need to be taken into account when reporting equivalent grades.

Here we have used copper as the comparison metal, given that the potential majority of each company’s cash flow (with the exception of Northern Iron) will be from copper.

Another key metric in the above table is “EV/IGV”. This reflects the proportion of the in-ground value of mineralisation reflected in the share price. It is important to remember that the in-ground value is significantly higher than the expected cash flows from a project. A starting point rule of thumb is that the NPV of a project (which may or may not be similar to a company’s EV) will be around 10% of the in-ground value. This allows for recoveries, operating and capital costs.

Operating and capital costs will also be dependent upon the resource type. For example, bulk commodities will generally have higher operating and capital costs per unit of in-ground value, and hence a lower NPV. This is particularly relevant to the peers for Avalon, where magnetite is thrown into the mix in a few of the peers.

As can be seen in the above table there is general trend in increasing EV/IGV with project stage and in-ground value per tonne of mineralisation, however again the table does throw up anomalies.

Conclusions

I hope we have explained the rationale and processes behind the peer comparisons and relative valuations between generally non-producing companies in notes that we write.

Some clear points arise from the discussion

There are general trends in comparative valuations, with increase in value driven with project stage and potential economics of a project

Such trends and comparisons are indicative only – these need to be treated with care, and there are usually reasons for the discrepancies and anomalies from the general expected trends in values

No two companies are identical, again reinforcing the indicative nature of comparative valuations

These methods however are a valuable tool in company and market analysis.