Private Client Research

17 September 2019

Regis Resources

Operations review

Regis Resources (RRL) presented at the Denver Gold Forum and in this note Ord Minnett outlines the key points from the presentation.

1. Operating risks remain elevated as the Duketon operation gradually transitions underground and permitting delays continue to push out any development at the McPhillamys project.
2. We don't expect any gold production from McPhillamys before FY23 (six months later than previously forecast) and we have increased our capital expenditure estimate by 10% to $300 million.
3. In time we see plenty of optimisation and life extension at all operations.

Regis continues to be a great cash generator, in our view, but for now **we maintain our Hold recommendation and lower our target price to $4.80 from $5.30**.

- **Transition to underground –** Known for being an efficient open pit miner (only), the future is linked to progressing deposits underground. This starts with the Rosemont deposit (with first ore expected this quarter) and growing to one-third of group production by FY22. Once successfully implemented, this should open up a valuable inventory for the future if the geology is right. Saracen Minerals (SAR, not covered) is a good recent example of a gold company creating shareholder value by moving its operations underground. Higher-grade underground ore to the plant typically displaces low-grade ore, lifts production and lowers unit costs.
- **McPhillamys –** Gold development projects such as McPhillamys are increasingly scarce and valuable especially in Australia. The project is taking longer than originally envisaged when purchased in 2014, although the gold price and the inclusion of the Discovery Ridge inventory into the plan will have improved project economics for the next optimisation, in our view.
- **Duketon –** The Duketon acquisition for $25m has tripled Regis's landholding and locked up 90% of the belt. It will take time to incorporate into exploration programs, although the ground looks prospective.
- **Hedge book –** Previous management's fondness of a hedge book means Regis does offer a little less leverage to higher prices than its peers (about 20% of Duketon's reserves, or 10% when including McPhillamys). Contracts are spot-deferred, but management is keen to remove at least the more out-of-the-money contracts at a rate of 10,000oz per quarter.
- **Valuation –** We assume a 4.5-year mine life at Duketon North and 7.5 years at Duketon South. We include 580,000oz from the Rosemont underground mine versus the 123,000oz starter reserve, but no other underground feed (such as Garden Well). At McPhillamys, we model $310m of capital expenditure and first production in September 2022, with 18-month permitting and 18-month construction timeframes.

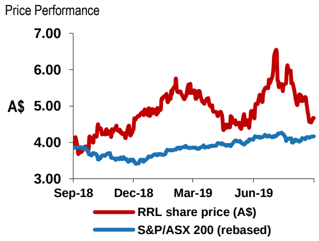
Recommendation
Hold

Risk
Higher

Target price
▼$4.80

Previous
$5.30

Last price
$4.67



Price Performance

	YTD	1m	3m	12m
Abs	-3.3%	-17.1%	-3.9%	2.6%
Rel	-21.9%	-18.9%	-6.1%	2.3%

Company Data

Shares O/S (mn)	506
52-week range ($)	6.72-3.65
Market cap ($ mn)	1,626.67
Exchange rate	1.45
Free float(%)	95.7%
3M - Avg daily vol (mn)	5.12
3M - Avg daily val ($ mn)	19.0
Volatility (90 Day)	49
Index	ASX 100
BBG BUY|HOLD|SELL	4|5|6

Key Metrics (FYE Jun)

$ in millions	**FY19A**	**FY20E**	**FY21E**	**FY22E**
Financial Estimates				
Revenue	654	809	961	906
EBITDA	300	421	587	547
Adj. EBITDA	300	421	587	547
Adj. EBIT	238	362	524	484
Adj. net income	169	257	373	347
Net income	169	257	373	347
Adj. EPS	0.33	0.51	0.74	0.68
BBG EPS	0.33	0.39	0.41	-
Net debt	(205)	(294)	(474)	(471)
Cashflow from operations	238	325	445	419
Investing cashflow	(134)	(135)	(95)	(245)
FCFF	156	216	373	196
Margins and Growth				
Revenue growth	7.8%	23.8%	18.8%	(5.7%)
EBITDA growth	(4.7%)	40.4%	39.5%	(6.8%)
Adj. EPS growth	(2.9%)	52.3%	44.9%	(6.9%)
Ratios				
Adj. tax rate	29.6%	30.0%	30.0%	30.0%
Net debt/EBITDA	NM	NM	NM	NM
ROCE	24.9%	32.1%	37.8%	29.3%
ROE	25.1%	32.6%	38.5%	30.0%
Valuation				
FCFF yield	6.6%	9.1%	15.8%	8.3%
Dividend yield	3.6%	5.4%	7.9%	7.3%
EV/EBITDA	8.0	5.5	3.6	3.9
Adj. P/E	14.0	9.2	6.4	6.8
P/ BV	-	-	-	-

Summary Investment Thesis and Valuation

Investment Thesis

Regis Resources is an ASX-listed gold company with operating assets in Western Australia and a key development project (McPhillamys) in central NSW. The company has a strong balance sheet and solid operational performance. However, continued risk around McPhillamys' timelines and with the stock trading around our price target, it remains Hold rated.

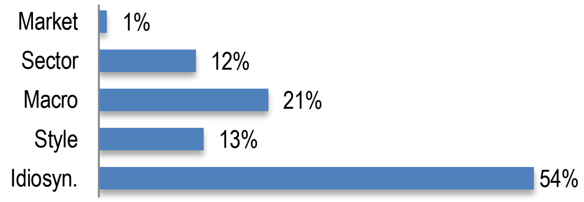
Valuation

Our Dec-20 price target is based on 1.2x NPV using an 8% discount rate, in line with our approach for the Australian mid-cap gold sector.

Risks to Rating and Price Target

Upside/downside risks to our rating and price target include: 1) movements in commodities, currencies, production and capex relative to our forecasts; 2) changes to tax, legislation and other operating conditions; and 3) significant exploration success, leading to extensions to mine life.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Australia	0.15	-0.08
Sect: Materials	0.32	0.34
Ind: Materials	0.14	0.16
Macro:		
Non-Energy Commod	0.52	0.42
Australian Dollar Spot	0.39	0.34
US Dollar	-0.24	-0.25
Quant Styles:		
Size	0.47	0.29
Value	-0.15	-0.17
LowVol	0.23	0.15

Sources for: Performance Drivers – Bloomberg, Ord Minnett Quantitative and Derivatives Strategy; all other tables are company data and Ord Minnett estimates.

RRL OPERATIONAL AND FINANCIAL SUMMARY DATA

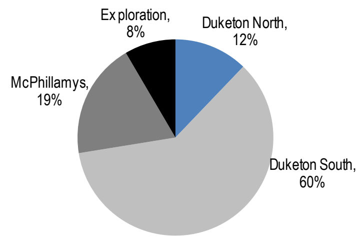
Fiscal year end 30-Jun

COMMODITY & CURRENCY	Unit	FY18	FY19	FY20e	FY21e	FY22e	FY23e
Gold	(US$/oz)	1,298	1,263	1,505	1,489	1,467	1,445
Copper	(US$/lb)	3.08	2.79	2.70	2.65	2.65	2.83
Silver	(US$/oz)	16.72	15.00	17.17	17.06	17.36	19.50
Australian dollar	AUD:USD	0.78	0.72	0.66	0.67	0.69	0.71
KEY OPERATIONAL METRICS							
Production							
Duketon North	(koz)	107	89	86	98	98	98
Duketon South	(koz)	254	275	270	330	330	311
McPhillamys	(koz)	0	0	0	0	0	123
Total	**(koz)**	**361**	**363**	**356**	**429**	**429**	**533**
			Guidance	**340-370**			
All-in Sustaining Costs							
Duketon North	(A$/oz)	827	1057	1215	940	806	798
Duketon South	(A$/oz)	932	1021	1155	877	872	837
McPhillamys	(A$/oz)	0	0	0	0	0	1717
Total	**(A$/oz)**	**901**	**1030**	**1169**	**891**	**857**	**1034**
			Guidance	**1125-1195**			
CAPEX							
Sustaining	(A$m)	25	25	45	25	25	35
Expansion	(A$m)	35	40	60	40	190	82
Total	**(A$m)**	**60**	**65**	**105**	**65**	**215**	**117**
Exploration	(A$m)	32	36	30	30	30	30
P&L							
Revenue	(A$m)	606	654	809	961	906	1077
EBITDA	**(A$m)**	**314**	**300**	**421**	**587**	**547**	**549**
D&A	(A$m)	64	61	58	63	63	103
Tax	(A$m)	75	71	110	160	149	137
NPAT	**(A$m)**	**174**	**169**	**257**	**373**	**347**	**320**
Free cash flow	**(A$m)**	**141**	**105**	**190**	**350**	**174**	**285**
VALUATION METRICS							
EV/EBITDA		7.1	7.0	4.8	3.2	3.4	3.2
EV/FCF		11.9	11.8	9.1	4.9	9.2	5.5
P/E		14.0	13.2	9.1	6.3	6.7	7.3
FCF Yield		7.8%	7.8%	9.6%	16.3%	8.7%	13.5%
Dividend Yield		3.5%	3.5%	4.3%	7.2%	7.6%	7.0%
Net Debt/EBITDA		-0.6	-0.7	-0.7	-0.8	-0.9	-1.1
Gearing		-39.5%	-40.5%	-51.1%	-79.4%	-61.1%	-73.5%

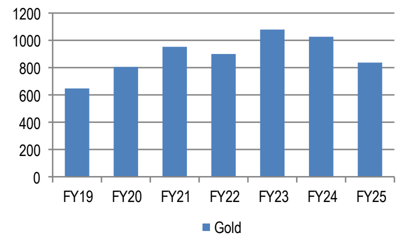
Dec-20 NPV	A$m	A$/sh
Duketon North	216	0.43
Duketon South	1070	2.11
McPhillamys	339	0.67
Corporate costs (tax-adju	-69	-0.14
Exploration	150	0.30
Hedging	-149	-0.29
Gross asset value	**1556**	**3.07**
Less: Net debt	-474	-0.94
Valuation	**2031**	**4.00**

Price target	**4.80**	
Discount rate (nominal)	8%	
Shares on issue (m)	507.2	

Asset valuation breakdown



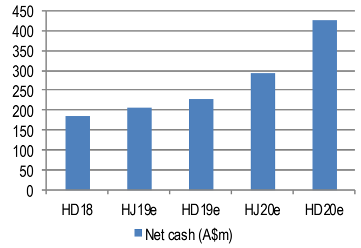
Revenue by commodity (A$m)



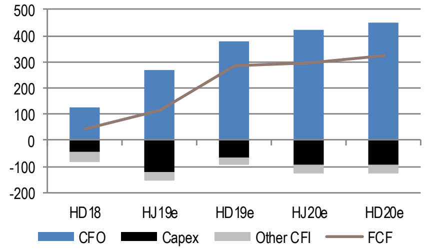
RESOURCES & RESERVES (as at Mar-19)

Gold Reserves (P&P)	Mt	g/t	moz	Gold Resources	Mt	g/t	moz
Duketon North	13.7	0.99	0.433	Duketon North	57.1	0.76	1.40
Duketon South	38.5	1.27	1.578	Duketon South	125.9	1.01	4.11
McPhillamys	60.8	1.04	2.023	McPhillamys & Disco	80.2	1.04	2.68
Total	**112.9**	**1.11**	**4.034**	**Total**	**263.2**	**1.0**	**8.19**

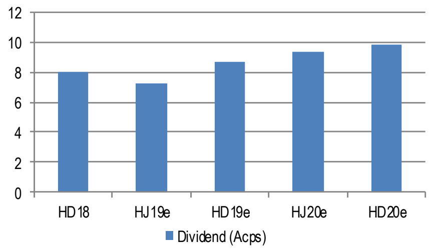
Net Debt



Free Cash Flow



Dividend (Acps)



Source: Company data and Ord Minnett estimates.

Investment Thesis, Valuation and Risks

Regis Resources *(Hold; Price Target: $4.80)*

Investment Thesis

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Valuation

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Dec-20 NPV	A$m	A$/sh
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Exploration	150	0.30
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Gross asset value	**1556**	**3.07**
Less: Net debt	-474	-0.94
Valuation	**2031**	**4.00**

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Risks to Rating and Price Target

Upside/downside risks to our rating and price target include: 1) movements in commodities, currencies, production and capex relative to our forecasts; 2) changes to tax, legislation and other operating conditions; and 3) significant exploration success, leading to extensions to mine life.

Regis Resources

$ in millions, year end Jun

Profit And Loss	FY18	FY19	FY20E	FY21E	FY22E
Revenue	**606**	**654**	**809**	**961**	**906**
Revenue growth	*11.5%*	*7.8%*	*23.8%*	*18.8%*	*(5.7%)*
COGS	(279)	(332)	(364)	(350)	(335)
EBITDA	**314**	**300**	**421**	**587**	**547**
EBITDA growth	*24.8%*	*(4.7%)*	*40.4%*	*39.5%*	*(6.8%)*
EBITDA margin	*51.8%*	*45.8%*	*52.0%*	*61.1%*	*60.3%*
Amortisation	0	0	0	0	0
Depreciation	(64)	(61)	(58)	(63)	(63)
EBIT	**250**	**238**	**362**	**524**	**484**
EBIT growth	*28.5%*	*(4.6%)*	*52.0%*	*44.6%*	*(7.6%)*
EBIT margin	*41.2%*	*36.5%*	*44.8%*	*54.5%*	*53.4%*
Net Interest	(1)	2	5	9	12
Pre-Tax Profit	**249**	**240**	**368**	**533**	**496**
Tax	(75)	(71)	(110)	(160)	(149)
Tax Rate	*30.0%*	*29.6%*	*30.0%*	*30.0%*	*30.0%*
Minorities				-	-
Abnormals (post tax)	0	0	0	0	0
Reported NPAT	**174**	**169**	**257**	**373**	**347**
Normalised NPAT	**174**	**169**	**257**	**373**	**347**
Growth	*28.6%*	*(2.8%)*	*52.3%*	*44.9%*	*(6.9%)*
End of Period Shares	507	507	507	507	507
EFPOWA	507	507	507	507	507
Reported EPS	0.34	0.33	0.51	0.74	0.68
Normalised EPS	**0.34**	**0.33**	**0.51**	**0.74**	**0.68**
Growth	*28.3%*	*(2.9%)*	*52.3%*	*44.9%*	*(6.9%)*
DPS	0.16	0.17	0.25	0.37	0.34
Growth	*6.7%*	*4.9%*	*51.1%*	*44.9%*	*(6.9%)*
DPS/EPS payout	46.6%	50.4%	50.0%	50.0%	50.0%

Cash Flow Statement	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	314	300	421	587	547
Net Interest (Paid)/Recd	1	4	5	9	12
Tax Paid	(37)	(67)	(110)	(160)	(149)
(Inc)/Dec in Working Capital	-	-	-	-	-
Other Operating Items	21	8	9	9	9
Operating Cash Flow	**259**	**238**	**325**	**445**	**419**
Net Capex	(83)	(81)	(105)	(65)	(215)
Net Acquisitions	0	0	0	0	0
Other Investing cashflows	(34)	(52)	(30)	(30)	(30)
Investing Cash Flow	**(118)**	**(134)**	**(135)**	**(95)**	**(245)**
Inc/(Dec) in Borrowings	(2)	(0)	0	0	0
Equity Issued	0	0	0	0	0
Dividends Paid	(81)	(81)	(101)	(169)	(178)
Other Financing Cashflows	2	2	0	0	0
Financing Cash Flow	**(80)**	**(80)**	**(101)**	**(169)**	**(178)**
Net Cash Flow	61	25	88	181	(3)

Valuation Summary	$m	ps
Current mkt capitalisation	2,364.21	4.67
Price Target		4.80
Capital growth to price target		2.8%

Trading Multiples	FY18	FY19	FY20E	FY21E	FY22E
PE Pre-abnormals	13.6	14.0	9.2	6.4	6.8
PE Reported	13.6	14.0	9.2	6.4	6.8
EV/EBITDA	7.7	8.0	5.5	3.6	3.9
EV/EBIT	9.6	10.0	6.3	4.0	4.4

Key Ratios	FY18	FY19	FY20E	FY21E	FY22E
Dividend Yield	3.4%	3.6%	5.4%	7.9%	7.3%
Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Return on Assets (%)	23.1%	19.4%	25.7%	31.6%	25.4%
Return on Equity (%)	29.6%	25.1%	32.6%	38.5%	30.0%
ROIC (%)	-	-	-	-	-

Leverage	FY18	FY19	FY20E	FY21E	FY22E
Gearing (Net Debt / Equity)	NM	NM	NM	NM	NM
Gearing (ND / (ND + E))	(39.5%)	(40.5%)	(51.1%)	(79.4%)	(61.1%)
Net Debt / EBITDA	NM	NM	NM	NM	NM
EBIT Interest Cover (x)	196.3	(144.0)	(66.5)	(58.3)	(39.7)

Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
Cash	181	206	294	475	471
Receivables	27	8	8	8	8
Investments	-	-	-	-	-
Inventories	43	59	59	59	59
Other Current Assets	2	3	3	3	3
Total Current Assets	**253**	**274**	**363**	**544**	**540**
Net PPE	195	219	265	268	420
Total Intangibles	-	-	-	-	-
Other Non Current Assets	374	430	451	472	493
Total Non Current Assets	**569**	**649**	**716**	**740**	**913**
Total Assets	**823**	**923**	**1,079**	**1,283**	**1,453**
Creditors	49	60	60	60	60
Current Borrowings	1	0	0	0	0
Total Current Liabilities	**67**	**75**	**75**	**75**	**75**
Non Current Borrowings	0	0	0	0	0
Non Current Provisions					
Other Non Current Liabilities	75	81	81	81	81
Total Non Current Liabilities	119	136	136	136	136
Total Liabilities	**186**	**211**	**211**	**211**	**211**
Equity	433	435	435	435	435
Reserves	30	31	31	31	31
Retained Profits	174	246	402	606	776
Outside Equity Interests				-	-
Total Shareholders Equity	**637**	**712**	**868**	**1,072**	**1,242**
Adj.Net Debt	(180)	(205)	(294)	(474)	(471)

Source: Company reports and Ord Minnett estimates.

Please contact your Ord Minnett Adviser for further information on our document.

Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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