

Alkane Resources

Tomingley Gold Extension Project approved

As expected, the NSW Minister for Planning has approved Alkane's Tomingley Gold Extension Project, allowing both open-cut mining at the Roswell and San Antonio deposits (including underground mining at the former) and extending the mine life to 2032. The approval accepts a processing rate of up to 1.75Mtpa, with underground mining due to commence at Roswell before the end of CY23. Financing has been secured via A\$50m of debt funding from Macquarie Bank, together with 100koz of gold hedging at a weighted average price of A\$2,825/oz (US\$1,928/oz).

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/21	127.8	46.3	5.35	0.00	12.3	N/A
06/22	165.0	52.1	3.68	0.00	18.0	N/A
06/23e	140.1	37.8	4.45	0.00	14.8	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Following Tomingley gold mine's impressive production and financial results in H123, after which FY23 company guidance was updated to 62,000–70,000oz Au at an all-in sustaining cost (AISC) of A\$1,550–1,800/oz (previously 55,000–60,000oz Au at an AISC of A\$1,650–1,900/oz), Alkane has now achieved approval for project extension at Tomingley.

This approval permits open-cut mining at the Roswell and San Antonio deposits (including underground mining at the former), resulting in the diversion of a section of the Newell Highway. Commissioned in 2014, the processing plant is to be upgraded from 1Mtpa to 1.75Mtpa to account for the increased rate of mining from three gold deposits to five. Underground mining is expected to commence at Roswell before the end of CY23 pending applications for the environmental protection licence and mining lease (which cannot now be refused) and completion of updated management plans, potentially extending the mine life at Tomingley to 2032. Additionally, Alkane's second near-term prospect continues to advance via an exploratory drill programme in the Northern Molong Porphyry Project, north-west of Boda.

Execution of the A\$50m finance facility with Macquarie Bank is expected to fund the Tomingley Gold Extension Project. This facility is an amendment to a pre-existing agreement used for hedging. Although the key terms are confidential, an agreement for 100koz of gold production across the debt service period (March 2024 to December 2026) is to be used for hedging purposes (c 40% of expected production over the period). The first debt drawdown is permitted on the approval of the mining lease, expected in mid-2023, with the loan tenor running to 31 December 2026.

We calculate that Alkane's share price is more than 100% covered by the book value of tangible assets underpinned by Tomingley at A\$0.57/share to Alkane's valuation. Liquid assets in the form of Alkane's holdings in Calidus and Genesis contributed a further A\$0.06/share, with Boda estimated at US\$125.5m (US\$0.21/share or A\$0.31/share). Also, up to A\$0.58/share in additional upside is available in the form of further exploration success in the Northern Molong Porphyry Project. We will review our forecasts and valuation in due course.

Extension project approval

Metals and mining

24 February 2023

Price **A\$0.66**

Market cap **A\$395m**

A\$1.4631/US\$

Net cash (A\$m) at 31 December 2022 86.1

Shares in issue 598.5m

Free float 65%

Code ALK

Primary exchange ASX

Secondary exchange OTC QX

Share price performance



Business description

Alkane Resources has two main assets in Central West New South Wales: the Tomingley gold mine, where recent exploration has increased the mine life by at least eight years from FY23 to FY31, and its Northern Molong Porphyry project, which is shaping up to be a tier 1 alkalic porphyry district.

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