

Alkane Resources

Q123 results

A strong opening

Alkane's Q123 operational results, announced today, were notably ahead of our forecasts, driven by both mill throughput (which operated at an elevated rate equivalent to 1.08Mtpa) and head grade (which, at 2.75g/t, was materially ahead of our expectations) to result in gold production for the quarter of 19,489oz (cf guidance for FY23 of 55-60koz). Given these results, our forecasts are under review.

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	11.8	N/A
06/22	165.0	52.1	3.68	0.00	17.1	N/A
06/23e	140.1	37.8	4.45	0.00	14.2	N/A

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

At the same time that production was higher than our expectations, unit costs were 9% lower, with C1 site cash costs of A\$1,095/oz (cf our expectation of A\$1,202/oz) and all-in sustaining costs (AISC) of A\$1,191/oz (cf our expectation of A\$1,649/oz – albeit this latter figure was depressed by a negative A\$265/oz adjustment for working capital). In general, operations were adversely affected by unusually high levels of rainfall in New South Wales but were more than offset by a head grade that was above even the company's expectations. In the light of these results, we think that it is highly unlikely that Alkane will not achieve its guidance for FY23 of 55–60koz for production at an AISC of A\$1,650–1,900/oz. Alkane has two major near-term catalysts in prospect namely, approvals for the Tomingley Gold Extension Project and a maiden resource at its Kaiser prospect northwest of Boda in the Northern Molong Porphyry Project. The former is now anticipated 'in the current quarter' (we anticipate in December), while the latter is now expected in Q323 (ie Q1 CY23) – we expect in February.

In the meantime, we note that, despite the recent falls in the gold price in US dollar terms, the concurrent falls in the value of the Australian dollar mean that, in local currency terms, gold is trading at levels that are higher than any quarter in FY22 and which will also, in Alkane's case, be augmented on a short-term basis by in-the-money hedges put in place in recent months. At the time of our last note on Alkane, our valuation continued to be underpinned by Tomingley, which we then estimated contributed 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. Where before these had been the only two tangible contributors to Alkane's valuation, they had, at that time, been joined by Boda, which we estimated was worth an immediate US\$125.5m (or US\$0.21/share or A\$0.31/share) to Alkane either as an in-situ resource or as a development project, albeit with the proviso that the project-based valuation would increase inexorably, both as a result of continued resource increases and upgrades and as a result of Alkane's de-risking the project by achieving future development milestones. As such, we calculated that Alkane's share price was more than 100% covered by the value of tangible assets (cf 56% previously), with up to A\$0.59/share in additional upside available in the form of further exploration success in the Northern Molong Porphyry Project as well as the ever-increasing probability of the Roswell underground extension project being sanctioned.

Metals and mining

17 October 2022

Price **A\$0.63**
Market cap **A\$377m**

A\$1.6012/US\$

Cash (A\$m) as at end-September 78.2

Shares in issue 598.5m

Free float 76%

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 project, which is shaping up to be a tier 1 alkalic porphyry district.

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