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Authorisation

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Alkane Resources Ltd (ALK)

Christmas timing differences

Recommendation

Buy (Initiation)

Price

\$0.48

Target (12 months)

\$1.25 (unchanged)

Sector

Materials

Expected Return

Capital growth **>100%**

Dividend yield **0%**

Total expected return **>100%**

Company Data & Ratios

Enterprise value **\$317.3m**

Market cap **\$290.7m**

Issued capital **605.5m**

Free float **80%**

Avg. daily val. (52wk) **\$798k**

12 month price range **\$0.38 - \$0.705**

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.53	0.46	0.65
Absolute (%)	-8.6	5.5	-25.6
Rel market (%)	-9.3	1.1	-37.9

Absolute Price



SOURCE: IRESS

2QFY25: weaker gold production on GIC build.

Gold sales was 16.6koz (vs BPe of 18.8koz), and down relative to 1Q. Gold-in-Circuit (GIC) increased by 1.7koz due to downtime over the Christmas period, which should unwind early in 3Q. The average gold sale price was A\$3,582/oz (vs BPe A\$3,516/oz). 6.3koz was sold into forward contracts at A\$2,791/oz vs an average spot price of A\$4,067/oz. AISC was elevated at A\$3,053/oz (vs BPe A\$2,352/oz) due to the impact of the increase in GIC. FY25 guidance was maintained at 70koz to 80koz at All-in-Sustaining Capital (AISC) costs of A\$2,400/oz to A\$2,600/oz. AISC is elevated for FY25, as decline development is undertaken at the new Roswell UG mine.

Discussion and changes to forecasts.

FY25 gold production is now expected to be 2H weighted. We forecast FY25 production at the lower end of guidance (72koz, with sales 74koz), with AISC at the upper end of guidance (\$2,575/oz). With this update we reduce our AUD:USD exchange rate forecasts to FY25: 0.64, FY26: 0.63, FY27: 0.67, decreasing our estimates by FY25: -6%, FY26: -10% and FY27: -4%. EPS changes in this report include: FY25 +13%, FY26 +25% and FY27 +10% driven by our updated foreign exchange rates.

Investment view: Maintain Buy and TP\$1.25ps.

We maintain our Target Price and buy recommendation. ALK continues to be undervalued based on our valuation of the Tomingley Gold Operation alone, which should enter FY26 with an 80kozpa production rate. Comparable ASX gold producers currently average \$9k enterprise value per annual ounce produced (EV/ozp), ranging from \$5.3k/ozp to \$15k/ozp. ALK's current EV/ozp (considering >80kzpa from FY26) is \$4k/ozp. And ALK's forward EV/EBITDA is 1.8 vs the comparable average of 5.9. We expect a market re-rate for ALK's share price is likely, once expansion plans are concluded, and the businesses new earnings level is demonstrated, which are currently being enhanced by a supportive gold price environment.

Earnings Forecast

Year end June 30	2024a	2025e	2026e	2027e
Sales (A\$m)	173	272	319	366
EBITDA (A\$m)	59	119	176	177
NPAT (reported) (A\$m)	18	56	92	79
NPAT (adjusted) (A\$m)	17	56	92	79
EPS (adjusted) (¢ps)	2.9	9.2	15.2	13.0
EPS growth (%)	(59)	217	64	(14)
PER (x)	16.4	5.2	3.2	3.7
FCF Yield (%)	-24.3	2.7	6.4	40.6
EV/EBITDA (x)	5.3	2.7	1.8	1.8
Dividend (¢ps)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	NA	NA	NA	NA
ROE (%)	6	15	20	15

SOURCE: BELL POTTER SECURITIES ESTIMATES

Changes to forecasts and valuation.

Changes to our forecasts

In addition to updating our model for the 2QFY25 production and cost report, we make the following changes to our forecasts:

- Exchange rate forecasts: we reduce our AUD:USD exchange rate forecasts to FY25: 0.64, FY26: 0.63, FY27: 0.67, decreasing our estimates by FY25: -6%, FY26: -10% and FY27: -4%.
- Tomingley Expansion Project capital: we delay the remaining expenditure for expansion work. We forecast further significant expenditure will not be incurred until 3QCY25. We forecast residual capital expenditure of \$100m.

We make other minor production and costs forecast changes.

The net impacts of these changes are summarised in the table below.

Table 1 - Changes to our forecasts									
Year ending 30 June	Previous			New			Change		
	2025e	2026e	2027e	2025e	2026e	2027e	2025e	2026e	2027e
Prices & currency									
Gold (US\$/oz)	2,626	2,600	2,511	2,626	2,600	2,511	0%	0%	0%
US\$/A\$	0.68	0.70	0.70	0.64	0.63	0.67	-6%	-10%	-4%
Gold (A\$/oz)	3,833	3,714	3,588	4,082	4,131	3,749	6%	11%	4%
Production									
Ore milled (kt)	1,089	1,150	1,500	1,083	1,150	1,500	-1%	0%	0%
Gold sold (koz)	75	87	105	74	87	105	-1%	0%	0%
Earnings									
Revenue (\$m)	261	296	354.0	272	319	366	4%	8%	3%
EBITDA (\$m)	110	154	165	119	176	177	9%	14%	7%
EBIT (\$m)	68	106	98	77	130	107	14%	22%	9%
NPAT (adjusted) (\$m)	49	73	71	56	92	79	14%	25%	10%
EPS (adjusted) (cps)	8.1	12.2	11.8	9.2	15.2	13.0	13%	25%	10%
PER (x)	6.0	4.0	4.1	5.2	3.2	3.7	-13%	-21%	-10%
DPS (reported) (cps)	na	na	na	na	na	na			
Yield (%)	na	na	na	na	na	na			
Price Target (\$/sh)		1.25			1.25			0%	

EPS changes in this report include: FY25 +13%, FY26 +25% and FY27 +10% mainly driven by our increased gold price forecasts.

Valuation

Our valuation for ALK is based upon the 12-month forward NPV of our forecast free cash flows from the Tomingley Gold Operation. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the exploration value of the North Molong Porphyry Project (NMPP), which comprises a risked Scoping Study based development scenario for Boda/Kaiser, and other exploration assets. We also include a discounted cash flow estimate of corporate costs, adjust for ALK's last reported net cash position and dilute our valuation for in-the-money options. The table below summarises our valuation for ALK.

Table 2 - ALK sum-of-the-parts valuation summary

Ordinary shares (m)		605.5	
Options in the money (m)		5.7	
Diluted (m)		611.2	
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Sum-of-the-parts		\$m	\$/sh
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Tomingley Gold Project (unrisked NPV10)		639	1.05
Corporate overheads and exploration expenses		-44	(0.07)
NMMP and other exploration		170	0.28
Investments		3	0.01
Subtotal		768	1.27
Net Cash (debt)		6.7	0.01
Total (undiluted)		775	1.28
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Add options in the money (m)		5.7	-
Add cash		-	-
Total (diluted)		775	1.27

We maintain our rounded Target Price of \$1.25/sh, and maintain our Buy recommendation.

Alkane Resources Ltd (ALK)

Company description

ALK is an exploration, mining and investment company. ALK has a long history of project development and operation. ALK is an established gold producer and maintains a multi-commodity exploration portfolio. ALK's portfolio of assets includes:

- The Tomingley Gold Operation (100% interest): Presently producing at around 60kozpa, ALK have announced the 'Tomingley Gold Extension Project', to extend the life of Tomingley beyond 2030, and increase production up to ~100kozpa to 110kozpa.
- The Northern Molong Porphyry Project (100% interest): At the NMPP, ALK is exploring and developing porphyry gold-copper deposits and has identified five target areas (Kaiser/Duke, Boda, Comobella, Driell Creek and Finns Crossing).

Investment thesis: Buy.

We maintain our BUY recommendation given our forecast TSR (based on our sum-of-the-parts valuation), in accordance with our rating structure. Our investment thesis is based on:

- Tomingley Gold Project (TGO): (NSW, 100%) post expansion, TGO is forecast to yield ~100-to-110kozpa production from FY27 to ~FY32. The expansion will increase processing plant throughput to 1.5 Mtpa (from 1.0 Mtpa), and target higher gold recovery, and mine the San Antonio / Roswell deposits, which have Resources of 1.206 Moz of gold. Total TGO deposits have Resources of ~1.65 Moz of gold (at 2.15g/t Au, June 2024). Ore Reserves total 697 koz of gold (at 1.9g/t Au, June 2024).
- Northern Molong Porphyry Project (NMPP): (NSW, 100%). ALK's is exploring at the NMPP for very-large gold/copper porphyry deposits. The NMPP is approximately 120km north of Newcrest Mining Ltd.'s (NCM, not rated) Cadia Valley Operations (one of Australia's largest gold mines). At the NMPP, ALK has defined a very large Resource base, that might support very large mining operation in the future. Currently, ALK retains an exploration focus at the NMPP. Combined Mineral Resources (MR) totalled 796Mt at 0.58g/t AuEq for 14.7Moz AuEq (8.28Moz Au, 1.46Mt Cu).
- Investment situation: The TGO expansion will elevate gold production and earnings to a more significant level, and enhance ALK as a growth platform. Resource definition activities at the NMPP are complete, reducing exploration spend. We expect ALK to continue to optimise the Boda / Kaiser Project and pursue options to commercialise the project.

Resource sector risks

Risks include, but are not limited to:

- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks due to the inherent hazards of the operating environment and the human resource intensity of the activities undertaken.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Table 3 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS								
Year ending June	Unit	2023a	2024a	2025e	2026e	2027e	Year ending June	Unit	2023a	2024a	2025e	2026e	2027e		
PROFIT AND LOSS							FINANCIAL RATIOS								
Year ending June	Unit	2023a	2024a	2025e	2026e	2027e	Year ending June	Unit	2023a	2024a	2025e	2026e	2027e		
Revenue	\$m	190.5	173.0	272.2	318.7	366.1	VALUATION								
Expense	\$m	(96.1)	(113.9)	(153.2)	(142.3)	(189.4)	NPAT	\$m	42.4	17.7	56.0	91.9	78.9		
EBITDA	\$m	94.4	59.1	119.0	176.4	176.6	Reported EPS	c/sh	7.1	2.9	9.2	15.2	13.0		
Depreciation	\$m	(35.6)	(35.5)	(42.0)	(46.6)	(69.8)	Adjusted EPS	c/sh	7.0	2.9	9.2	15.2	13.0		
EBIT	\$m	58.8	23.6	77.0	129.8	106.9	EPS growth	%	39.8	58.9	216.7	64.2	14.1		
Net interest expense	\$m	1.341	0.2	(0.9)	1.5	5.9	PER	x	6.8x	16.4x	5.2x	3.2x	3.7x		
Unrealised gains (Impairments)	\$m	-	0.1	-	-	-	DPS	c/sh	-	-	-	-	-		
Other	\$m	0.430	0.5	-	-	-	Franking	%	NA	NA	NA	NA	NA		
PBT	\$m	60.6	24.4	76.1	131.3	112.8	Yield	%	-	-	-	-	-		
Tax expense	\$m	(18.1)	(6.8)	(20.1)	(39.4)	(33.8)	FCF/share	c/sh	0.7	11.7	1.3	3.1	19.5		
NPAT (reported)	\$m	42.4	17.7	56.0	91.9	78.9	P/FCFPS	x	69.7x	-4.1x	37.6x	15.6x	2.5x		
NPAT (underlying)	\$m	42.1	17.5	56.0	91.9	78.9	EV/EBITDA	x	3.3x	5.3x	2.7x	1.8x	1.8x		
CASH FLOW							LIQUIDITY & LEVERAGE								
Year ending June	Unit	2023a	2024a	2025e	2026e	2027e	EBITDA margin	%	49.8	34.5	43.7	55.3	48.3		
OPERATING CASHFLOW							EBIT margin	%	31.1	14.0	28.3	40.7	29.2		
Receipts	\$m	190.5	173.0	272.0	318.5	365.3	Return on assets	%	10.3	3.8	10.6	14.6	12.2		
Payments	\$m	(90.0)	(109.6)	(147.0)	(131.0)	(177.1)	Return on equity	%	14.1	5.7	15.3	20.1	14.7		
Tax	\$m	-	-	(20.1)	(39.4)	(33.8)	ASSUMPTIONS - Prices								
Net interest	\$m	1.9	1.8	(0.9)	1.5	5.9	Year ending June - average	Unit	2023a	2024a	2025e	2026e	2027e		
Other	\$m	(6.8)	(12.3)	(9.2)	(11.2)	(12.8)	Gold price	US\$/oz	1,842	2,084	2,626	2,600	2,511		
Operating cash flow	\$m	95.5	52.9	94.9	138.4	147.4	Copper price	US\$/t	8,289	8,447	9,357	9,921	10,362		
INVESTING CASHFLOW							AUD:USD	A\$/US\$	0.67	0.66	0.64	0.63	0.67		
Property, plant and equipment	\$m	(33.7)	(115.8)	(81.2)	(116.0)	(29.4)	Gold price	AS\$/oz	2,738	3,180	4,082	4,131	3,749		
Mine development	\$m	-	-	-	-	-	Copper price	AS\$/t	12,317	12,888	14,537	15,751	15,469		
Exploration & evaluation	\$m	(58.1)	(19.5)	(5.9)	(3.8)	-	ASSUMPTIONS - Production								
Other	\$m	0.4	11.8	-	-	-	Year ending June	Unit	2023a	2024a	2025e	2026e	2027e		
Investing cash flow	\$m	(91.4)	(123.5)	(87.1)	(119.8)	(29.4)	Processed - Ore Tonnes	kt	1,069	1,133	1,083	1,150	1,500		
Free Cash Flow	\$m	4.1	(70.6)	7.7	18.6	118.0	Processed - Gold Grade	g/t Au	2.52	2.00	2.37	2.57	2.37		
FINANCING CASHFLOW							Gold Sold	koz	70	58	74	87	105		
Share issues/(buy-backs)	\$m	(0.0)	(0.0)	-	-	-	VALUATION								
Debt proceeds	\$m	6.7	43.8	20.8	19.0	-	Ordinary shares (m)		605.5		605.5		605.5		
Debt repayments	\$m	(8.2)	(7.5)	(13.2)	(4.7)	(68.3)	Options in the money (m)		5.7		5.7		5.7		
Dividends	\$m	-	-	-	-	-	Diluted (m)		611.2		611.2		611.2		
Other	\$m	(0.2)	(0.4)	-	-	-	Sum-of-the-parts								
Financing cash flow	\$m	(1.7)	35.8	7.6	14.3	(68.3)	current	\$m	\$/sh	+12 months	\$m	\$/sh	+24 months	\$m	\$/sh
Change in cash	\$m	2.4	(34.8)	15.3	32.9	49.7	Operations	618	1.01	639	1.05	646	1.06		
BALANCE SHEET							Corporate	(48)	-0.08	(44)	-0.07	(39)	-0.06		
Year ending June	Unit	2023a	2024a	2025e	2026e	2027e	Exploration	170	0.28	170	0.28	170	0.28		
ASSETS							Investments	3	0.00	3	0.00	3	0.00		
Cash & short term investments	\$m	80.3	45.5	60.8	93.7	143.4	Subtotal	743	1.23	768	1.27	780	1.29		
Accounts receivable	\$m	5.2	3.8	4.0	4.2	5.0	Net cash (debt)	(27)	-0.04	7	0.01	76	0.13		
Property, plant & equipment	\$m	161.3	271.8	315.0	384.4	344.0	Total (undiluted)	716	1.18	775	1.28	855	1.41		
Mine development expenditure	\$m	21.9	22.2	23.3	21.0	28.8	Add options in the money (m)	5.7	-	5.7	-	5.7	-		
Exploration & evaluation	\$m	111.1	101.4	103.3	107.1	107.1	Add cash	-	-	-	-	-	-		
Other	\$m	32.4	19.9	19.9	19.9	19.9	Total (diluted)	716.1	1.17	774.7	1.27	855.2	1.40		
Total assets	\$m	412.2	464.7	526.4	630.4	648.3	MAJOR SHAREHOLDERS								
LIABILITIES							Shareholder								
Accounts payable	\$m	23.5	23.7	21.9	19.7	27.0	Abbotsleigh Pty Ltd.			%		m			
Income tax payable	\$m	7.3	5.1	5.1	5.1	5.1	Ian Gandel				9.6	58.0			
Borrowings	\$m	13.5	49.0	56.2	70.5	2.6	Van Eck Associates Corporation				8.8	53.2			
Other	\$m	67.9	77.4	77.8	77.8	77.8	Dimensional Fund Advisors LP				3.6	21.8			
Total liabilities	\$m	112.2	155.3	161.1	173.2	112.2	The Vanguard Group, Inc.				3.0	18.3			
SHAREHOLDER'S EQUITY												2.9	17.5		
Share capital	\$m	222.2	223.3	223.3	223.3	223.3	CAPITAL STRUCTURE								
Reserves	\$m	(75.2)	(85.2)	(85.2)	(85.2)	(85.2)	Shares on issue	m					605.5		
Retained earnings	\$m	152.9	171.2	227.2	319.1	398.0	Total shares on issue	m					605.5		
Total equity	\$m	300.0	309.4	365.4	457.2	536.2	Share price	\$/sh					0.480		
Weighted average shares	m	598.2	605.5	605.5	605.5	605.5	Market capitalisation	\$m					290.7		
							Net cash	\$m					-26.6		
							Enterprise value (undiluted)	\$m					317.3		
							Options outstanding (m)	m	(price \$0.00 per share)				5.7		
							Options (in the money)	m					5.7		
							Issued shares (diluted for options)	m					611.2		
							Market capitalisation (diluted)	m					293.4		
							Net cash + options	\$m					-26.6		
							Enterprise value (diluted)	\$m					320.0		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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