

Alkane Resources Ltd

BUY

Materials Gold
13 January 2025

2Q FY25 Production: Slightly softer. Valuation gap remains, but cash coming?

EVENT

Alkane Resources Limited (ALK) released its December quarterly results. Key takeaways include:

- Production: 14.9koz (MA est. 16.8koz)
- Gold sales: 16.6koz at an average realised price of A\$3,582/oz (16.8koz at A\$3,595/oz)
- AISC: A\$3,053/oz (A\$2,755/oz)
- Cash: \$35.0m (\$43.7m)
- Reiterate FY25 production (70-80koz) and cost (A\$2,400-2,600/oz) guidance (we forecast 72.9koz @ \$2,500/oz for FY25)

IMPACT

Quarterly production came in below our expectations, though this appears largely timing-related, with management indicating ~1.7koz build in 'gold in circuit' during the quarter implying a notional 'production' figure of 16.6koz. Despite the shortfall in production (against our forecast), sales aligned closely, and the company reiterated the outlook for full year FY25 production. The quarter also provided clearer visibility on AISC, which missed against our estimates - primarily driven by A\$254/oz in non-cash inventory movements due to inventory drawdown (gold sales were slightly higher than gold produced), while other costs remained broadly in line Q on Q. The cash position was lower than our estimates, although this was largely due to forecasts of an additional \$10m debt drawdown prior to the second phase of the expansion program commencing.

Phase one of the Tomingley Extension Program is now effectively complete, with the final component—the paste plant—scheduled for commissioning in March 2025. Stage two of the expansion program was set to begin almost immediately, with the commencement of the Newell Highway Road diversion (~\$50m) to enable the establishment of the new open pits. However, given the successful completion of stage one, rising gold prices (and therefore expected cashflow), combined with the persistent underperformance of ALK's share price, it is evident that the market is not currently recognising the company's growth trajectory.

As we have previously highlighted in our [1Q note](#), we move to reflect a pause in capital spending by deferring the commencement of the final stage of the expansion for a further 6 months. This should see the company build cash from this point forward, without the requirement for any additional debt (over the current \$45m drawn). On our updated timing assumptions, cash is estimated to reach a peak of \$57.2m on commencement of phase 2 (compared to \$28.7m previously).

Our NAV and P/Adj. CF (4.0x) price target remains unchanged at \$0.75/share.

INVESTMENT VIEW

ALK remains inexpensive, trading at a significant discount to our underlying valuation (-56%). In a crowded space, we think it has been difficult to attract investor attention given the modest scale of the business (80-110koz Au annually) along with the ongoing capital spend to deliver the Tomingley growth project. Now is a logical time to revisit the timing of the remaining capital spend, with an opportunity to pause and let cash build on the back of the 80koz+ run rate which the operation should now be capable of. If we have seen the peak in debt, and the March and June quarters are able to demonstrate meaningful free cashflow, ALK should see greater institutional interest in what has been a reliable asset (and management team) for more than 5 years. Such an observed discount is not unheard of (with the likes of PNR and VAU also trading at a comparable discount), and it is unlikely to change with consistent performance alone. ALK can potentially engineer a balance sheet position which provides management the flexibility to set the agenda with more aggressive capital management options. We retain our Buy rating, but ALK will need to demand investors attention in a crowded field - albeit at a time of record prices.

Y/E JUN 30	2024a	2025e	2026e	2027e
EBITDA	60.4	94.3	124.9	146.0
NPAT	17.7	25.2	41.6	53.5

All figures are in AUD.

COMPANY UPDATE

Ticker	ALK
Stock Price	\$0.48
Target Price	\$0.75
Forecast Capital Return	56.3%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12Mth	56.3%

COMPANY MARKET DATA

Market Cap	\$289.7m
Free Float (%)	67.8%
Enterprise Value	\$313.2m
Shares on issue	603.5m
52-wk Range	\$0.38 - \$0.71

ESTIMATE CHANGES 2024a 2025e 2026e 2027e

NPAT - new	17.7	25.2	41.6	53.5
NPAT - old	17.7	28.1	49.5	70.5
% Change	0.0%	(10.3)%	(15.9)%	(24.2)%
EPS (Dil.) (¢) - new	2.9	4.1	6.8	8.7
EPS (Dil.) (¢) - old	2.9	4.6	8.1	11.5
% Change	0.0%	(10.3)%	(15.9)%	(24.2)%
DPS (¢) - new	0.0	0.0	0.0	0.0
DPS (¢) - old	0.0	0.0	0.0	0.0
% Change	0.0%	0.0%	0.0%	0.0%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE



ANALYST

Paul Hissey

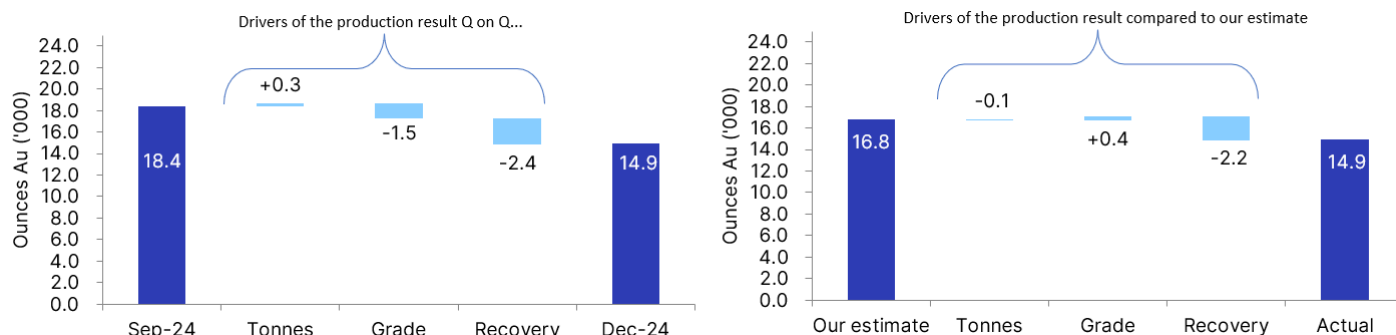
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RESULT RECONCILIATION

The production miss against our estimates was largely a function of timing, with a build of ~1.7koz gold-in-circuit at quarter's end effectively the difference. As illustrated below, implied recovery was lower Q on Q and against our estimates due to the increase in gold-in-circuit, although, we note that metallurgical recoveries for the quarter were ~84% (broadly in line Q on Q) as outlined in the commentary.

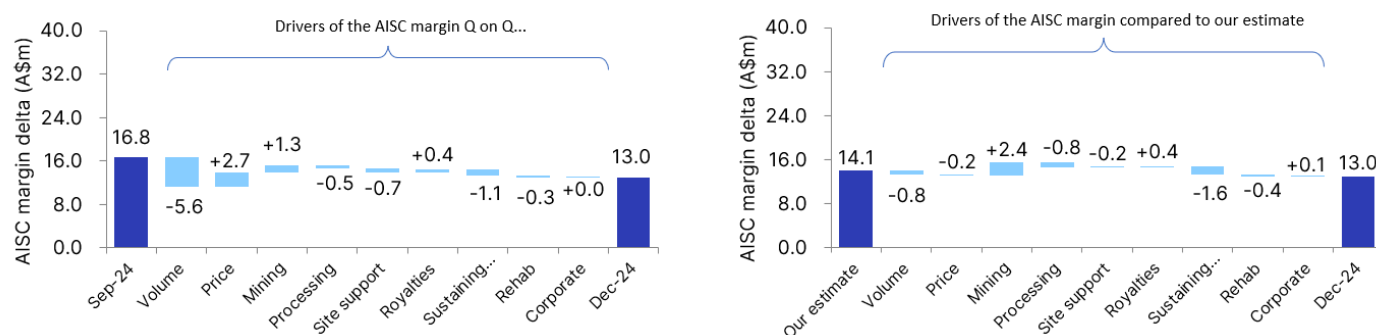
Figure 1: Production reconciliation (Q on Q and MA Estimate)



Source: Company reports, MA Research estimates

AISC margin declined quarter-on-quarter, primarily due to a reduction in gold sold. This impact was partially mitigated by favourable gold price movements and lower mining costs. Compared to our estimates, the AISC margin was negatively affected by lower-than-expected gold sales and higher sustaining capital expenditure. However, this was again partially offset by lower-than-anticipated mining costs, while other expenses remained largely in line with our forecasts.

Figure 2: AISC margin reconciliation (Q on Q and MA Estimate)



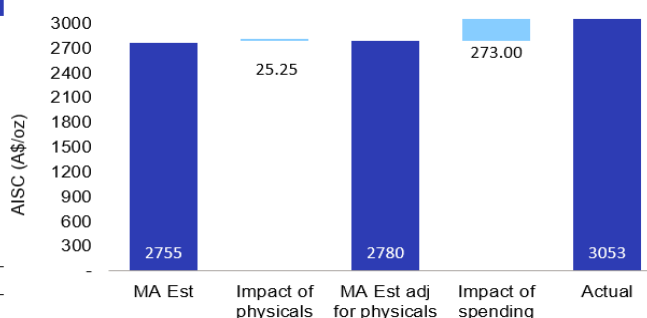
Source: Company reports, MA Research estimates

As illustrated below, the largest driver of the AISC miss against our estimates was the non-cash charge of ~\$4.2m related to the net effect from GIC and inventory movement. Specifically, the recognition of costs related to the sale of bullion on hand. Excluding this impact, the net variance of other cost items against our estimates was minimal (~\$0.1m).

Figure 3: Production reconciliation (Q on Q and MA Estimate)

		Sep Q	MA Est.	Dec Q
Surface works	A\$m	0.67	1.35	0.73
Mining	A\$m	21.21	21.60	19.84
Processing	A\$m	8.39	8.10	8.87
Site Support	A\$m	3.22	3.78	3.95
Royalties	A\$m	2.13	2.07	1.71
Sustaining Capital	A\$m	8.48	8.00	9.58
GIC/inventory Movement	A\$m	-5.83	0.00	4.21
Rehabilitation	A\$m	0.47	0.40	0.78
Corporate	A\$m	0.97	1.00	0.94
Selected costs	A\$m	39.73	46.30	50.61

Unit cost denominator koz Au 18.21 16.81 16.58



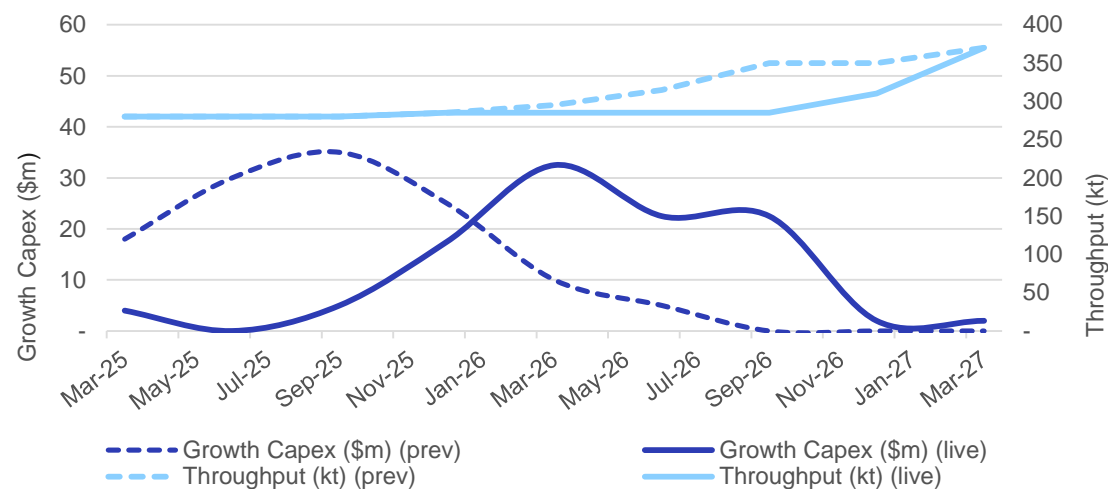
Source: Company reports, MA Research estimates

EARNINGS CHANGE AND VALUATION

We have made the following changes to our model:

- Roll forward of NPV valuation.
- We have revised our estimates for the timing of the phase two capital program, now assuming that expenditure will commence in September 2025 (previously March 2025). This delay in spending pushes out the production gains from the expansion, contributing to the decline in financial metrics for FY26 and FY27, as outlined in Figure 5. The updated capex profile and subsequent impact on throughput is outlined in Figure 4 below.

Figure 4: Updated Phase Two capex and throughput profile



Source: Company reports, MA Research estimates

- Given the changes to the capital spend profile, we have also adjusted our debt drawdown assumptions. We now anticipate a total of \$30m will be drawn in \$10m instalments across March, June, and September 2026, compared to our previous assumption that the full \$30m would be drawn throughout CY2025.

The net effect of these changes results in no change to our target price (\$0.75/share).

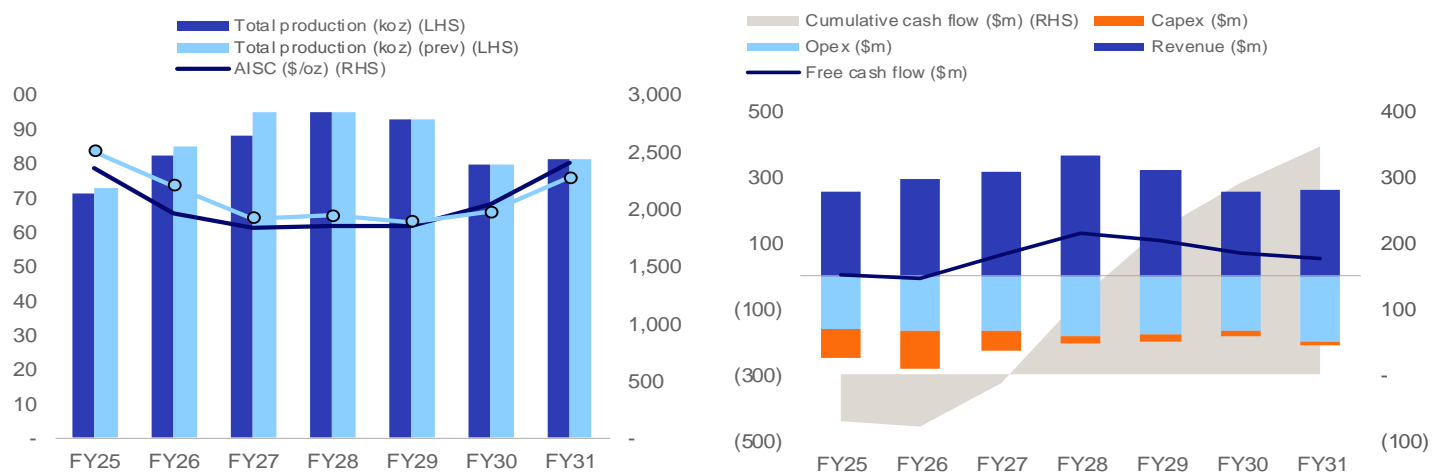
Figure 5: Changes to our outlook...

FINANCIALS		FY24	FY25e	▲	FY26e	▲	FY27e	▲
Revenue	\$m	173.0	257.6	(0.4%)	294.3	(3.8%)	316.6	(8.0%)
EBITDA	\$m	60.4	94.3	(6.3%)	124.9	(12.1%)	146.0	(17.4%)
NPAT	\$m	17.7	25.2	(10.3%)	41.6	(15.9%)	53.5	(24.2%)
EPS	c/share	2.9	4.1	(10.3%)	6.8	(15.9%)	8.7	(24.2%)
Dividend	c/share	0.0	0.0	-	0.0	-	0.0	-
OpCF	\$m	52.9	85.2	2.3%	107.9	(9.7%)	123.8	(15.3%)
Sust. Capex	\$m	23.1	34.1	4.9%	32.0	-	24.0	-
FCF (OpCF - Sust. Capex)	\$m	29.8	51.1	0.7%	75.9	(13.3%)	99.8	(18.3%)
VALUATION								
P/FCF valuation	Multiple	4.0 x		Prev	0.78	New	0.73	(7.4%)
NPV				Prev	0.76	New	0.77	0.6%
SHARE PRICE TARGET	(50:50 blend)			Prev	0.75	New	0.75	-

Source: Company reports, MA Research estimates

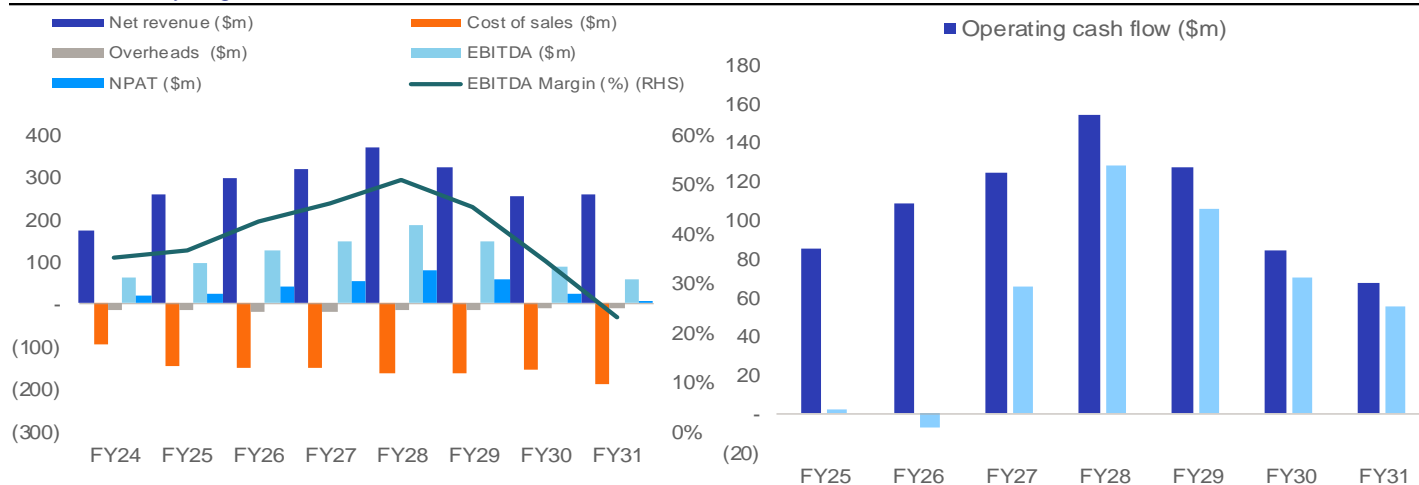
CHART PACK –ALKANE RESOURCES LIMITED

Left: Production and C1, Right: Annual cashflow



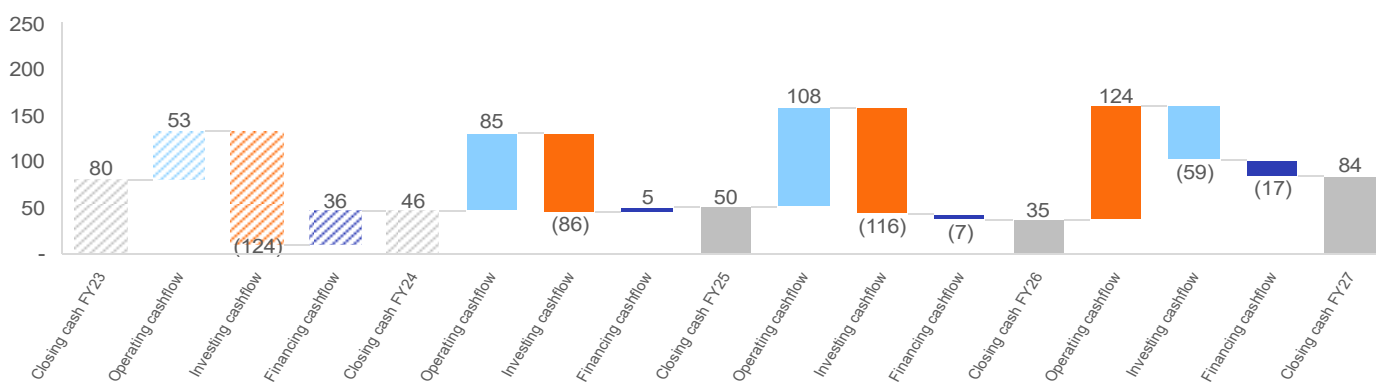
Source: MA Research Estimates, company announcements

Left: Profitability, Right: OPCF and FCF



Source: MA Research Estimates, company announcements

Cashflow waterfall



Source: MA Research Estimates, company announcements

Alkane Resources Limited

ALK-AU

Rating: **BUY**
Price Target: **0.75**

PROFIT AND LOSS (\$ m)	2023A	2024A	2025E	2026E	2027E
Revenue	190.3	173.0	257.6	294.3	316.6
Operating costs	(94.7)	(112.6)	(163.3)	(169.5)	(170.6)
EBITDA	95.6	60.4	94.3	124.9	146.0
Depreciation	(36.3)	(36.1)	(54.2)	(62.8)	(67.3)
EBIT	59.2	24.3	40.0	62.1	78.7
Net Interest	1.3	0.2	(4.0)	(2.6)	(2.3)
PBT	60.6	24.4	36.0	59.5	76.4
Tax	(18.1)	(6.8)	(10.8)	(17.8)	(22.9)
NPAT Adj	42.5	17.7	25.2	41.6	53.5
Adj	-	-	-	-	-
NPAT Rep	42.5	17.7	25.2	41.6	53.5
CASHFLOW (\$ m)	2023A	2024A	2025E	2026E	2027E
Receipts	190.5	173.0	257.6	294.3	316.6
Payments to Suppliers	(97.1)	(114.5)	(162.9)	(166.5)	(167.6)
Cash Tax Paid	-	-	(7.5)	(17.3)	(22.9)
Interest Income	2.5	2.4	1.0	1.2	1.1
Interest Expense	(0.6)	(0.6)	(5.0)	(3.8)	(3.5)
Other	0.2	(7.3)	2.0	-	-
NET OPERATING CASHFLOW	95.5	52.9	85.2	107.9	123.8
Sustaining capex	(25.7)	(23.1)	(34.1)	(32.0)	(24.0)
Non-sustaining capex	(69.9)	(114.8)	(49.4)	(83.5)	(34.5)
Acquisitions/Divestments	0.6	12.1	-	-	-
Exploration	(58.1)	(19.5)	(5.4)	(6.0)	(6.0)
Other	61.6	21.8	2.8	6.0	6.0
NET INVESTING CASHFLOW	(91.4)	(123.5)	(86.1)	(115.5)	(58.5)
Debt drawdown (repayment)	(15)	36.3	4.6	(6.8)	(16.8)
Equity issuance	-	-	-	-	-
Dividends	-	-	-	-	-
Other/Issuance costs	(0.2)	(0.5)	0.6	-	-
NET FINANCING CASHFLOW	(1.7)	35.8	5.2	(6.8)	(16.8)
FX impact	-	-	-	-	-
Change in Cash	2.4	(34.8)	4.3	(14.4)	48.5
Closing cash position	80.3	45.5	49.8	35.5	84.0
BALANCE SHEET (\$ m)	2023A	2024A	2025E	2026E	2027E
Cash	80.3	45.5	49.8	35.5	84.0
Receivables	5.2	3.8	3.8	3.8	3.8
Inventory	21.9	22.2	23.9	23.9	23.9
Other	-	0.4	1.0	1.0	1.0
Current Assets	107.4	72.0	78.6	64.2	112.7
Mine Properties/PPE	111.1	271.8	295.6	342.3	327.5
Exploration and Evaluation	161.3	101.4	106.8	112.8	118.8
Other	32.4	19.5	18.9	18.9	18.9
Non-Current Assets	304.8	392.7	421.3	474.0	465.2
TOTAL ASSETS	412.2	464.7	499.9	538.3	577.9
ST Debt	7.4	16.1	26.8	26.8	26.8
Trade payables	23.5	23.7	23.7	23.7	23.7
Provisions	5.4	6.9	6.9	6.9	6.9
Other	7.4	5.6	5.6	5.6	5.6
Current Liabilities	43.7	52.4	63.0	63.0	63.0
LT Debt	6.2	32.9	26.8	20.0	3.2
Trade payables	-	-	-	-	-
Provisions	17.4	22.0	25.4	25.9	25.9
Other	44.9	48.1	48.1	48.1	48.1
Non-Current Liabilities	68.5	103.0	100.3	94.0	77.2
TOTAL LIABILITIES	112.2	155.3	163.3	157.0	140.2
NET ASSETS	300.0	309.4	336.6	381.2	437.7
Issued Capital	222.2	223.3	225.3	228.3	231.3
Retained profits	152.9	171.2	196.5	238.1	291.6
Other	(75.2)	(85.2)	(85.2)	(85.2)	(85.2)
TOTAL EQUITY	300.0	309.4	336.6	381.2	437.7

KEY STOCK INFO				
Share price(\$)	0.48		12 mo. high (\$)	0.74
Issued Capital (m sh)	603		12 mo. low (\$)	0.38
Options (m sh) ¹	9.7			
Fully diluted (m sh)	613		5 day Avg Volume (m sh)	0.75
Market Cap (\$m)	289.7			
Net Debt (\$m)	23.5			
Enterprise Value (\$m)	313.2			

RESOURCES AND RESERVES		Prov.	Prob.	Total	
Reserves (koz)		40	690	730	
		Meas.	Ind.	Inf.	
Resource (koz)		130	1060	490	
				1690	
KEY ASSUMPTIONS	2023A	2024A	2025E	2026E	2027E
Gold price (A\$/oz)	2,640	3,177	3,977	4,068	3,958
AUD:USD	0.69	0.65	0.66	0.66	0.66
Tomingley T/put (kt)	1,069	1,133	1,093	1,135	1,335
Tomingley grade (g/t Au)	2.4	2.0	2.3	2.5	2.3
Tomingley recovery (%)	84.6%	78.1%	85.8%	90.0%	90.0%
Tomingley prod. (koz)	70.6	57.1	70.8	82.1	88.1
Tomingley sust. Cap (\$m)	26	23	34	32	24
Tomingley AISC (\$/oz)	1,602	2,137	2,360	1,955	1,834
Tomingley Gr. Cap (\$m)	47	95	44	78	29
Net Mine cashflow (\$m)	(18)	(88)	3	18	97
Mine life out to:	2032	NPV @ 12 %:			\$405m
EBITDA Margin	50%	35%	37%	42%	46%
Guidance prod (koz Au)			70-80	85-95	100-110
Guidance AISC (A\$/oz)			2400-2600	1800-2000	1900-2100

VALUATION		NPV		P/A dj. CF	
		\$m	\$/sh		\$m
Tomingley pre-tax	405	0.66		NTM Oper. CF	100
				NTM Sust Capex	(32)
				Adj. CF	68
	405	0.66		Multiple	4.0x
Exploration (incl. Boda)	181.0				181.0
Tax	(84.0)				-
Corporate	(23.4)				-
Net debt (incl. leases)	(23.5)				(23.5)
Bullion	4.5				4.5
Other (incl. listed investments)	3.3				3.3
Total valuation (\$m)	462.5				438.4
Total per share (\$/share)	0.77				0.73

PRICE TARGET	50%	0.75	50%		
METRICS	2023A	2024A	2025E	2026E	2027E
Adj. EPS (c/share)	7.10	2.93	4.18	6.90	8.86
P/E	6.8	16.4	11.5x	7.0x	5.4x
EV/EBITDA	3.3x	5.2x	3.3x	2.5x	2.1x
DPS (c/share)	-	-	-	-	-
Dividend Yield	-	-	-	-	-
Payout ratio	-	-	-	-	-
FCF Yield	13%	-22.5%	-0.3%	-2.4%	20.8%
ROE	14.2%	5.7%	7.5%	10.9%	12.2%
Net Debt/EBITDA	-	-	0.0x	0.1x	-0.4x
Net Debt/Net Debt + Equity	-	-	0.07	0.06	0.05

Alkane Resources Ltd (ALK) Market Cap: \$289.7m Stock Price: \$0.48 Target Price: \$0.75 Buy

Y/E JUN 30

PROFIT & LOSS (\$)	2023A	2024A	2025E	2026E	2027E
Revenue	190.3	173.0	257.6	294.3	316.6
Growth	15.3%	(9.1)%	48.9%	14.3%	7.6%
EBITDA	95.6	60.4	94.3	124.9	146.0
Growth	7.4%	(36.8)%	56.1%	32.5%	17.0%
Dep'n & Amort.	(36.3)	(36.1)	(54.2)	(62.8)	(67.3)
EBIT	59.2	24.3	40.0	62.1	78.7
Growth	10.0%	(59.0)%	65.0%	55.1%	26.8%
Net interest Expense	1.3	0.2	(4.0)	(2.6)	(2.3)
Interest Expense	2.4	2.5	1.0	1.2	1.1
Profit Before Tax	60.6	24.4	36.0	59.5	76.4
Tax	(18.1)	(6.8)	(10.8)	(17.8)	(22.9)
Tax Rate (%)	(29.9)%	(27.7)%	(30.0)%	(30.0)%	(30.0)%
Minorities / Abnormal items	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	42.5	17.7	25.2	41.6	53.5
Growth	59.1%	(58.4)%	42.8%	65.0%	28.4%
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	42.5	17.7	25.2	41.6	53.5
EPS Underlying (Diluted) (¢)	7.0	2.9	4.1	6.8	8.7
Growth	58.5%	(58.8)%	42.6%	65.0%	28.4%

BALANCE SHEET (\$)	2023A	2024A	2025E	2026E	2027E
Cash	80.3	45.5	49.8	35.5	84.0
Inventory	21.9	22.2	23.9	23.9	23.9
Current Receivable	5.2	3.8	3.8	3.8	3.8
PPE	272.4	373.2	402.4	455.1	446.3
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	32.4	19.9	20.0	20.0	20.0
Total Assets	412.2	464.7	499.9	538.3	577.9
Current Payables	23.5	23.7	23.7	23.7	23.7
ST Debt	7.4	16.1	26.8	26.8	26.8
LT Debt	6.2	32.9	26.8	20.0	3.2
Provisions	22.8	28.9	32.2	32.8	32.8
Other	52.4	53.7	53.7	53.7	53.7
Total Liabilities	112.2	155.3	163.3	157.0	140.2
Net Assets	300.0	309.4	336.6	381.2	437.7
Equity & Reserves	147.1	138.1	140.1	143.1	146.1
Retained Profits	152.9	171.2	196.5	238.1	291.6
Shareholders' Equity	300.0	309.4	336.6	381.2	437.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	300.0	309.4	336.6	381.2	437.7

CASHFLOW (\$)	2023A	2024A	2025E	2026E	2027E
EBITDA	95.6	60.4	94.3	124.9	146.0
Net Interest	1.9	1.8	(4.0)	(2.6)	(2.3)
Tax	0.0	0.0	(7.5)	(17.3)	(22.9)
Δ in Working Capital	(3.0)	(1.2)	1.6	0.0	0.0
Other	1.1	(8.0)	0.7	3.0	3.0
Operating Cash Flow	95.5	52.9	85.2	107.9	123.8
Growth	10.5%	(44.6)%	61.0%	26.7%	14.7%
Capex	(91.8)	(135.5)	(83.5)	(115.5)	(58.5)
Acquisitions	(5.6)	(1.1)	0.0	0.0	0.0
Divestments	6.2	13.2	0.0	0.0	0.0
Other	(0.3)	(0.1)	(2.6)	0.0	0.0
Investing Cash Flow	(91.4)	(123.5)	(86.1)	(115.5)	(58.5)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(1.5)	36.3	4.6	(6.8)	(16.8)
Other	(0.2)	(0.5)	0.6	0.0	0.0
Financing Cash Flow	(1.7)	35.8	5.2	(6.8)	(16.8)
FX / Non Cash items	0.0	0.0	0.0	0.0	0.0
Change in Cash	2.4	(34.8)	4.3	(14.4)	48.5
Free Cash Flow	3.7	(82.6)	1.7	(7.6)	65.3

VALUATION SUMMARY	
Market Cap	\$289.7m
Shares on issue	603.5m
Stock Price	\$0.48
Target Price	\$0.75
Estimated Total Return - 12 Mth	56.3%
12 Mth Fwd Dividend Yield	0.0%

VALUATION		A\$m
NPV Valuation		
Tomingley		404.7
Tax expense		(84.0)
Corporate and Admin		(23.4)
Exploration		181.0
Net cash (debt)		(23.5)
Listed Investments		3.3
Other		4.5
Total		462.5

P/FCF Valuation		
NTM operating cashflow		100.3
NTM Sustaining Capital		(32.0)
NTM FCF		68.3
Target Multiple		4.0x
Value		273.2
Exploration		181.0
Net cash (debt)		(23.5)
Listed Investments		3.3
Other		4.5
Total		438.4

Blended valuation		450.5
Shares on issue (m)		603.5
Value per share		0.75

ASSUMPTIONS	2023A	2024A	2025E	2026E	2027E
AUD/USD	0.69	0.65	0.66	0.66	0.66
Gold Price (\$US/oz)	1,808	2,075	2,627	2,685	2,612
Tomingley					
Production (koz Au)	70	57	71	82	88
AISC (A\$/oz)	1,602	2,137	2,360	1,955	1,834

MARGINS	2023A	2024A	2025E	2026E	2027E
EBITDA	50.2%	34.9%	36.6%	42.4%	46.1%
EBIT	31.1%	14.0%	15.5%	21.1%	24.9%
NPAT	22.3%	10.2%	9.8%	14.1%	16.9%

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Key Risks to the Investment Thesis

Upside risks to the Target Price: 1) Commodity price exposure – particularly gold; 2) Declining local currency exchange rate; 3) Further exploration success across the tenement package; 4) Operational efficiencies which may lead to enhanced asset performance.

Downside risks to the Target Price: 1) Operational risks around mining and processing (power interruptions, ground stability); 2) Commodity and currency moves in the opposite direction; 3) Unexpected M&A which could have a dilutive effect on the capital structure.

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Distribution of Ratings as at 13 January 2025

SELL	HOLD	BUY
1.06%	26.60%	72.34%

Alkane Resources Ltd Rating History as of 01-10-2025



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