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Millennium Minerals (MOY)

Strong start to guidance delivery

Recommendation

Buy (unchanged)

Price

\$0.23

Target (12 months)

\$0.28 (previously \$0.27)

GICS Sector

Materials

Expected Return

Capital growth	21.7%
Dividend yield	0.0%
Total expected return	21.7%

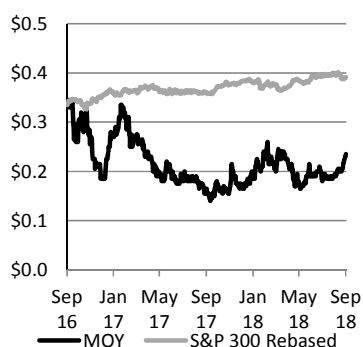
Company Data & Ratios

Enterprise value	\$168.6m
Market cap	\$182.2m
Issued capital	792.0m
Free float	52%
Avg. daily val. (52wk)	\$264,000
12 month price range	\$0.14-\$0.26

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.19	0.21	0.16
Absolute (%)	23.7	14.6	51.6
Rel market (%)	25.8	11.9	43.7

Absolute Price



SOURCE: IRESS

Production ramping up ahead of schedule

MOY has recently updated the market on its progress towards meeting its 2HCY18 production guidance and the targeted 100kozpa production rate at its Nullagine gold project in WA. Combined with the Sulphide Plant Expansion project, on track for commissioning in 1QCY19, the coming quarters mark an inflexion point for MOY. The latest update reports that a production rate of 400oz/day has been achieved from the end of August, including a peak of 540oz on August 31st, compared with a targeted run-rate of 340oz/day. MOY states that it is well placed to meet its production guidance of 20-22koz for the September quarter and 25koz for the December quarter. Guidance for CY18 remains 75-80koz at AISC of A\$1,280-A\$1,350/oz.

Improvements on all key metrics

The drivers of the improved performance include higher head grade, increased mining rate and significantly increased mill throughput. Grade is king and improvements here have resulted from the ahead-of-schedule development of the Bartons underground and higher grade open-pit ore. Mining rates have lifted from 400,000bcm per month to 600,000bcm per month and milling rates have increased from an average 154kt per month to 175kt per month, both through more efficient production strategies. In relation to the Sulphide Plant Expansion, civil works have commenced and long-lead items have been ordered. Successful implementation of this project will be the catalyst for a re-optimisation of MOY's entire Resource inventory, which includes ~700koz in the Measured and Indicated categories (thus available for conversion to Reserves).

Investment Thesis – Buy, Target Price \$0.28/sh

MOY has kicked off 2HCY18 in very positive fashion. The delivery of 2018 guidance and successful commissioning in 1QCY19 of the Sulphide Plant Expansion would see a tough June 2018 quarter marking the bottom for MOY and a good time to build exposure to a turnaround story. We retain our Buy recommendation on a target price increased by 3.7% to \$0.28/sh.

Earnings Forecast

Year end 31 December	2017a	2018e	2019e	2020e
Sales (A\$m)	116	140	188	197
EBITDA (A\$m)	22	29	49	62
NPAT (reported) (A\$m)	(6)	6	26	31
NPAT (adjusted) (A\$m)	(4)	6	26	31
EPS (adjusted) (cps)	(0.6)	0.8	3.2	3.9
EPS growth (%)	-132%	nm	327%	21%
PER (x)	nm	30.3	7.1	5.8
FCF Yield (%)	-4%	0%	17%	24%
EV/EBITDA (x)	7.6	5.9	3.4	2.7
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-8%	8%	29%	26%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Strong start to guidance delivery

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The latest update reports that a production rate of 400oz/day has been achieved from the end of August, including a peak of 540oz on August 31st, compared with a targeted run-rate of 340oz/day. MOY states that it is well placed to meet its production guidance of 20-22koz for the September quarter and 25koz for the December quarter. Guidance for CY18 remains 75-80koz at AISC of A\$1,280-A\$1,350/oz.

We point out that these run-rates – depending upon mill utilisation and availability – would deliver production well ahead of the guidance range. We continue to model production and costs in-line with guidance (our forecast for CY18 is for 77.9koz at AISC of A\$1,340/oz) but this is evidence that MOY may outperform these targets.

In our view, although the market is pricing in delivery of guidance to some degree (it barely flinched at the June quarter production and cost report), outperformance of these metrics would likely be a strong positive catalyst for the share price.

Improvements on all key metrics

The drivers of the improved performance include higher head grade, increased mining rate and significantly increased mill throughput.

Grade is king and improvements here have resulted from the ahead-of-schedule development of the Bartons underground, where better-than-anticipated ground conditions have enabled rapid development rates (+400m developed in August by a single jumbo) and the examination of a variation to the mining schedule (top-down as opposed to bottom-up) which could see delivery of production ore ahead of schedule. Meanwhile, high grade development ore has contributed to an increased mill head grades and higher production.

Mining rates have lifted from 400,000bcm per month to 600,000bcm per month and milling rates have increased from an average 154kt per month to 175kt per month, both through more efficient production strategies which are expected to be sustained into 2019.

Sulphide expansion the key driver

In relation to the Sulphide Plant Expansion, civil works have commenced and long-lead items have been ordered. Successful implementation of this project will be the catalyst for a re-optimisation of MOY's entire Resource inventory, which includes ~700koz in the Measured and Indicated categories (thus available for conversion to Reserves).

This is the single biggest value driver for MOY as not only will it potentially result in increased conversion of Resources to Reserves but may also:

- Make higher grade Resources viable, sustaining higher head grades over the long term;
- Result in increased scale of mining operations, further driving efficiencies;
- Support larger economic Reserves for base-load mill feed; and
- Open up exploration at depth across MOY's extensive tenement package.

Changes to our forecasts

Following the latest update we have made the following changes to our modelled assumptions:

- Updated for the latest quarterly production and cost results;
- Updated for the last reported hedge book position;
- Updated for the latest Reserve and Resource statement;
- Assumed a reduced debt drawdown over the next 12 months – we had previously assumed the full \$17.5m of the Investec facility would be drawn down, we now assume just \$10m will be drawn following the encouraging production update;
- Updated for the current capital structure;
- Updated for our latest commodity price and exchange rate assumptions; and
- Rolled our model forward.

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

Table 1 - Changes to earnings estimates

Year ending 30 June	Previous			New			Change		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Prices & currency									
Gold (US\$/oz)	1,340	1,390	1,440	1,320	1,380	1,410	-1%	-1%	-2%
Silver (US\$/oz)	18	19	19	17	17	17	-8%	-9%	-9%
US\$/A\$	0.78	0.76	0.75	0.76	0.75	0.75	-3%	-1%	0%
Production & costs									
Ore milled (kt)	1,839	1,950	1,960	1,826	1,950	1,960	-1%	0%	0%
Gold produced (koz)	78	102	105	78	102	105	0%	0%	0%
Cash costs (A\$/oz)	1,149	1,084	1,131	1,205	1,077	1,043	5%	-1%	-8%
AISC (A\$/oz)	1,290	1,291	1,325	1,340	1,285	1,235	4%	0%	-7%
Earnings									
Revenue (A\$m)	133	187	201	140	188	197	5%	1%	-2%
EBITDA (A\$m)	22	47	56	29	49	62	30%	4%	9%
EBIT (A\$m)	0	24	33	6	25	38	nm	4%	13%
NPAT (adjusted) (A\$m)	(0.1)	24.5	30.0	6.0	25.7	31.2	na	5%	4%
EPS (reported) (cps)	(0.0)	3.1	3.8	0.8	3.2	3.9	na	5%	4%
PER (x)	nm	7.4	6.1	30.3	7.1	5.8	na	(0.3)	(0.2)
EPS growth (%)	nm	nm	22%	nm	327%	21%	na	na	-1%
DPS (reported) (cps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (\$/sh)	0.25	0.27	0.29	0.26	0.28	0.31	5%	7%	7%
Price Target (\$/sh)		0.27			0.28			4%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Upcoming catalysts

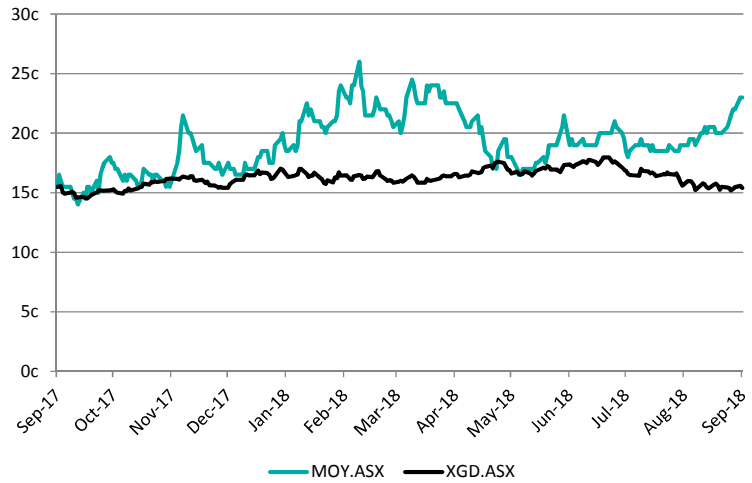
Upcoming catalysts for MOY include:

- Ongoing production and exploration updates;
- The September quarter production and cost report;
- Progress reports on the Sulphide Plant Expansion project and its ultimate delivery in 1QCY19; and
- Global Resource and Reserve re-optimisations driven by the economic processing of refractory ores in the Resource base;

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 1 - MOY relative share price performance vs XGD



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

We see potential for a replay of the sector outperformance from December 2017 through to mid-2018.

Millennium Minerals Ltd (MOY)

Company description

MOY is a gold exploration and production company whose primary asset is its 100% owned Nullagine Gold Project, located approximately 200km north of Newman in the Pilbara region of Western Australia. Since commencing production in 2012, ore feed to the mill has largely consisted of open-pit oxide material, sourced from multiple deposits across the +40km strike length of MOY's 280km² tenement package. The bulk of this however remains largely under-explored due to drilling having been focussed on shallow extensions to known deposits. This has been successful in delineating sufficient free-milling oxide Reserves to underpin a 2 year mine life, but has left much of the landholding effectively untested. Very little drilling outside the main deposits extends deeper than 150m below surface. MOY is now showing there are opportunities to expand and monetise the entire Resource base. It has recently confirmed the technical viability of an expanded processing route to treat refractory sulphide mineralisation which makes up the majority of its Resource base. These developments could result in a significant increase to the Resource base, a much higher rate of conversion to Reserves and a material extension to the life-of-mine (lom) at Nullagine.

Investment Thesis – Buy, Target Price \$0.28/sh

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Valuation and Recommendation – Buy, TP\$0.28/sh

Our target price is based upon the 12-month forward NPV of our forecast free cash flows from the Nullagine Project. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the value of the exploration potential of the balance of the Nullagine tenements and a discounted cash flow estimate of corporate costs. Our valuation is estimated on a fully diluted basis.

Table 2 – MOY sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	\$m	\$/sh
Project (un-risked NPV10)	194.9	0.25
Other exploration	45.0	0.06
Corporate overheads	(21.0)	(0.03)
Subtotal	218.9	0.28
Net cash (debt)	18.2	0.02
Total (undiluted)	237.1	0.30
Dilutive effect of options		(0.02)
Add cash	1.7	0.00
Total (diluted)	238.7	0.28

SOURCE: BELL POTTER ESTIMATES

With upside of 21.7% from the current share price to our valuation, we make a Buy recommendation in conformity with our rating structure.

Resource sector risks

Risks to MOY include, but are not limited to:

- **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.
- **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.
- **Operating and capital cost fluctuations.** Markets for 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 operating resource companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **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 December	Unit	2016a	2017a	2018e	2019e	2020e	Year ending December	Unit	2016a	2017a	2018e	2019e	2020e
Revenue	\$m	141.6	115.6	139.8	188.1	197.2	VALUATION						
Expense	\$m	(99.5)	(93.5)	(111.2)	(138.9)	(135.6)	NPAT	\$m	17.1	(5.6)	6.0	25.7	31.2
EBITDA	\$m	42.1	22.1	28.5	49.2	61.6	Reported EPS	c/sh	2.3	(0.7)	0.8	3.2	3.9
Depreciation	\$m	(21.9)	(25.3)	(22.4)	(24.0)	(24.1)	Adjusted EPS	c/sh	2.3	(0.6)	0.8	3.2	3.9
EBIT	\$m	20.1	(3.2)	6.1	25.3	37.5	EPS growth	%	nm	-132%	nm	327%	21%
Net interest expense	\$m	0.2	0.3	(0.1)	0.4	1.2	PER	x	10.2x	nm	30.3x	7.1x	5.8x
Unrealised gains (Impairments)	\$m	(0.1)	(1.1)	-	-	-	DPS	c/sh	-	-	-	-	-
Other	\$m	(3.1)	(1.6)	-	-	-	Franking	%	0%	0%	0%	0%	0%
PBT	\$m	17.1	(5.6)	6.0	25.7	38.8	Yield	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	7.5	FCF/share	c/sh	2.1	(0.9)	0.0	3.9	5.6
NPAT (reported)	\$m	17.1	(5.6)	6.0	25.7	31.2	P/FCFPS	x	11.0x	-24.6x	671.0x	5.8x	4.1x
NPAT (underlying)	\$m	17.2	(4.5)	6.0	25.7	31.2	EV/EBITDA	x	4.0x	7.6x	5.9x	3.4x	2.7x
							EBITDA margin	%	30%	19%	20%	26%	31%
							EBIT margin	%	14%	nm	4%	13%	19%
							Return on assets	%	32%	-5%	5%	18%	18%
							Return on equity	%	45%	-8%	8%	29%	26%
							LIQUIDITY & LEVERAGE						
							Net debt (cash)	\$m	-	-	(18)	(49)	(94)
							ND / E	%	0%	0%	-24%	-48%	-70%
							ND / (ND + E)	%	0%	0%	-31%	-92%	-231%
							EBITDA / Interest	x	-259.6x	-65.7x	nm	-113.7x	-49.3x
							ORE RESERVE AND MINERAL RESOURCE						
							Nullagine Gold Project				Mt	g/t Au	(koz)
							Mineral Resources						
							Measured				4.040	1.5	190.5
							Indicated				9.660	1.6	509.1
							Inferred				8.220	1.5	407.5
							Total				21.920	1.6	1,107.1
							Ore Reserve						
							Proven				1.670	1.2	67.1
							Probable				4.350	1.7	237.6
							Total				6.020	1.6	304.7
							ASSUMPTIONS - Prices						
							Year ending December (avg)	Unit	2016a	2017a	2018e	2019e	2020e
							Gold	US\$/oz	\$1,250	\$1,260	\$1,320	\$1,380	\$1,410
							Silver	US\$/oz	\$17.13	\$17.06	\$16.51	\$16.85	\$17.48
							Gold	A\$/oz	\$1,679	\$1,644	\$1,748	\$1,840	\$1,880
							Silver	A\$/oz	\$22.99	\$22.26	\$21.85	\$22.46	\$23.31
							Currency						
							AUD:USD	A\$/US\$	0.74	0.77	0.76	0.75	0.75
							ASSUMPTIONS - Production & costs						
							Year ending December	Unit	2016a	2017a	2018e	2019e	2020e
							Gold production						
							Ore tonnes processed	kt	1,988	1,916	1,826	1,950	1,960
							Head grade	g/t Au	1.5	1.3	1.5	1.9	2.0
							Gold produced	koz	86.3	72.8	77.9	102.2	104.9
							Costs						
							Cash costs / oz Au	A\$/oz	\$1,028	\$1,196	\$1,205	\$1,077	\$1,043
							All-in-Sustaining-Costs (AISC)	A\$/oz	\$1,213	\$1,372	\$1,340	\$1,285	\$1,235
							VALUATION						
							Ordinary shares (m)						792.0
							Options in the money (m)						49.7
							Total shares diluted (m)						841.7
							Sum-of-the-parts						
								\$m	\$/sh	\$m	\$/sh	\$m	\$/sh
							Project (unrisked NPV10)	181.2	0.23	194.9	0.25	180.0	0.23
							Other exploration	45.0	0.06	45.0	0.06	45.0	0.06
							Corporate overheads	(21.3)	(0.03)	(21.0)	(0.03)	(18.2)	(0.02)
							Subtotal	204.9	0.26	218.9	0.28	206.8	0.26
							Net cash (debt)	13.6	0.02	18.2	0.02	49.3	0.06
							Total (undiluted)	218.5	0.28	237.1	0.30	256.2	0.32
							Dilutive effect of options		(0.02)		(0.02)		(0.02)
							Add cash from options	1.7	0.00	1.7	0.00	1.7	0.00
							Total (diluted)	220.2	0.26	238.7	0.28	257.8	0.31
							MAJOR SHAREHOLDERS						
							Shareholder		%	m			
							IMC Group		47.9%	379.0			
							Old Mutual		1.8%	14.3			

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

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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