

Friday, 17 November 2023

## Lady Julie – Sleeping Giant?

Analyst | Patrick Streater

<b>Stock</b>	<b>Magnetic Resources (MAU)</b>
<b>Recommendation</b>	<b>SPEC BUY</b>
<b>Current Price</b>	<b>\$1.00</b>
<b>Target Price</b>	<b>\$1.80</b>

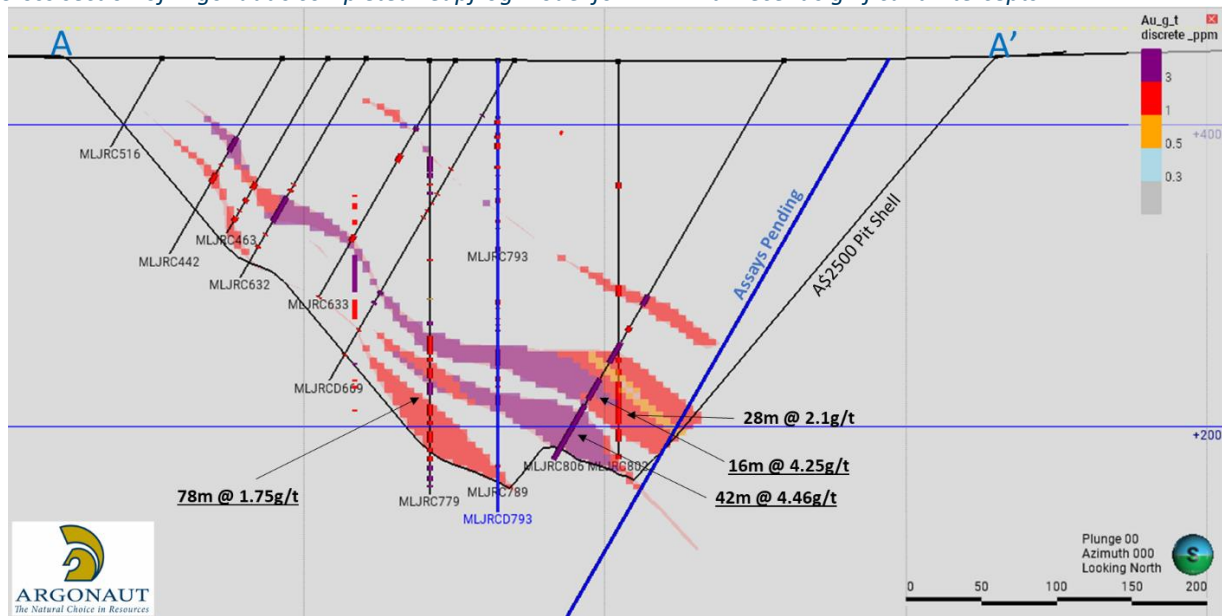
### Quick Read

Recent drilling at Magnetic Resources' Lady Julie North 4 (LJN4) indicates a significant discovery unfolding in the Laverton region of WA. In this note, Argonaut provides some context to the recent drill results and some initial estimates of the potential deposit size. Exploration potential at depth is material with drilling currently underway that could evolve LJN4 into a deposit with an endowment akin to other significant gold deposits in the Laverton region.

### Key Points

**Argonauts Model and Inventory:** Using currently reported drilling by MAU, Argonaut models a potential inventory of 778Koz at 2.34g/t (1.0g/t Cut-off) for LJN4. Extensional drilling at depth for LJN4 is currently underway so we anticipate the next LJN4 resource update will exceed our estimates and likely turn into a +1Moz deposit captured within a large 1000m x 600m single open pit.

*Figure 1: Cross section of Argonaut's completed Leapfrog model for LJN4 with recent significant intercepts.*



Source: Argonaut Research, MAU reported drill data

**Growing deposit in an active M&A region:** The LJN4 deposit location is ideal - only 15km from two existing mills (Mt Morgans - ASX: GMD & Granny Smith - JSE: GFI). Consolidation of the Leonora region by Genesis first focused on securing milling capacity. With two mills now under GMD ownership, consolidating ounces in the ground may be the next step before other producers in the area start making their own moves. The Granny Smith Mill is running under capacity - treating 1.58Mt in 2022, less than 50% of its 3.5Mtpa nameplate design.

### Recommendation

Argonaut provides a speculative buy recommendation for MAU with a price target of \$1.80/share on the back of a pending LJN4 resource upgrade and further exploration drill results down plunge of LJN4. An exploration story worth following over the next 6-months.

Please refer to important disclosures from page 8

<b>Magnetic Resources NL</b>	Shares (m)	265
ASX: MAU	Share price (A\$)	1.00
	Market Cap (A\$m)	265

Analyst: Patrick Streater  
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Key metrics	FY23	FY24E	FY25E	FY26E	FY27E
EPS (Ac)	(3.11)	(3.05)	(3.46)	(3.21)	18.87
DPS (Ac)	0.00	0.00	0.00	0.00	0.00
P/E (x)	(2.7)	(3.1)	(3.6)	(3.6)	21.1
EV/Ebit (x)	(36.5)	(32.2)	(29.0)	(29.5)	2.1
EV/Ebitda (x)	(36.6)	(32.3)	(29.2)	(29.7)	2.1
EV/Production (x)	0	0	0	0	2,896
Free cash flow yield (%)	(2.2%)	(3.3%)	(3.8%)	(4.4%)	28.8%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt (cash) (A\$m)	(4.1)	(9.5)	(23.1)	(11.6)	(87.8)
Gearing (%)	1,029.8%	(36.9%)	(87.2%)	(40.6%)	(1,067.0%)

Profit & Loss	FY23	FY24E	FY25E	FY26E	FY27E
Sales revenue (A\$m)	0.0	0.0	0.0	0.0	197.2
Operating costs (A\$m)	0.0	0.0	0.0	0.0	(103.1)
Exploration expense (A\$m)	(4.5)	(6.0)	(6.2)	(6.4)	(6.6)
Corporate overhead (A\$m)	(2.6)	(1.9)	(2.1)	(2.1)	(2.2)
Ebitda (A\$m)	(7.1)	(7.9)	(8.3)	(8.5)	85.3
Depreciation (A\$m)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Ebit (A\$m)	(7.1)	(7.9)	(8.3)	(8.6)	85.2
Net interest (A\$m)	0.0	(0.3)	(1.2)	(1.0)	(1.1)
Pre-tax profit (A\$m)	(7.1)	(8.2)	(9.5)	(9.5)	84.1
Tax (A\$m)	0.0	0.0	0.0	0.0	(28.2)
Underlying earnings (A\$m)	(7.1)	(8.2)	(9.5)	(9.5)	55.9
Exceptional items (A\$m)	0.0	0.0	0.0	0.0	0.0
Reported Earnings (A\$m)	(7.1)	(8.2)	(9.5)	(9.5)	55.9

Cash flow statement	FY23	FY24E	FY25E	FY26E	FY27E
Net profit (A\$m)	(7.1)	(8.2)	(9.5)	(9.5)	55.9
Depreciation (A\$m)	0.0	0.0	0.0	0.0	0.0
Exploration, interest and tax (A\$m)	4.5	6.9	7.3	7.3	35.6
Working Capital (A\$m)	0.2	0.0	0.0	(1.4)	(6.0)
Other (A\$m)	1.1	0.0	0.0	0.0	0.0
Operating cash flow (A\$m)	(1.3)	(1.2)	(2.2)	(3.5)	85.6
Capital expenditure (A\$m)	0.0	(1.5)	(2.0)	(2.0)	(3.4)
Exploration (A\$m)	(4.6)	(6.0)	(6.0)	(6.0)	(6.0)
Other (A\$m)	0.0	0.0	0.0	0.0	0.0
Free cash flow (A\$m)	(5.9)	(8.8)	(10.2)	(11.5)	76.2
Dividends (A\$m)	0.0	0.0	0.0	0.0	0.0
Equity (A\$m)	8.0	14.2	23.8	23.8	0.0
Debt draw / (repay) (A\$m)	(0.0)	0.0	0.0	0.0	0.0
Net cash flow (A\$m)	2.1	5.4	13.6	12.2	76.2

Balance sheet	FY23	FY24E	FY25E	FY26E	FY27E
Current assets					
Cash at bank (A\$m)	4.1	9.5	23.1	11.6	87.8
Receivables (A\$m)	0.2	0.2	0.2	2.0	10.0
Inventories (A\$m)	0.0	0.0	0.0	1.0	9.0
Other (A\$m)	0.0	0.0	0.0	0.0	0.0
Current assets (A\$m)	4.3	9.7	23.3	14.6	106.8
Non-Current assets					
PP&E and Development (A\$m)	0.0	1.5	3.4	5.4	8.7
Exploration & evaluation (A\$m)	0.0	0.0	0.0	0.0	0.0
Other (A\$m)	0.2	0.2	0.2	0.2	0.2
Non-Current assets (A\$m)	0.2	1.7	3.6	5.6	8.9
Total assets (A\$m)	4.5	11.4	26.9	20.2	115.7
Current liabilities					
Payables (A\$m)	0.6	0.6	0.6	2.0	12.0
Short-term debt (A\$m)	0.0	0.0	0.0	0.0	0.0
Other (A\$m)	0.2	0.0	0.0	0.0	0.0
Current Liabilities (A\$m)	0.8	0.6	0.6	2.0	12.0
Non-current liabilities					
Long-term debt (A\$m)	0.0	0.0	0.0	0.0	0.0
Lease liabilities (A\$m)	0.0	0.0	0.0	0.0	0.0
Provisions (A\$m)	0.0	25.5	26.7	28.1	29.5
Deferred tax (A\$m)	0.0	0.0	0.0	0.0	28.2
Other (A\$m)	0.0	(50.0)	(50.0)	(50.0)	(50.0)
Non-Current liabilities (A\$m)	0.0	(24.5)	(23.3)	(21.9)	7.7
Total liabilities (A\$m)	0.8	(23.9)	(22.7)	(19.9)	19.7
Net assets (A\$m)	3.7	35.3	49.6	40.1	96.0
Equity					
Contributed equity (A\$m)	54.6	68.8	92.6	116.3	116.3
Accumulated earnings (losses)	(50.9)	(33.5)	(42.9)	(76.2)	(20.3)
Total attributable equity	3.7	35.3	49.6	40.1	96.0
Minorities (A\$m)	0.0	0.0	0.0	0.0	0.0
Total Equity (A\$m)	3.7	35.3	49.6	40.1	96.0

<b>Recommendation</b>	<b>SPECULATIVE BUY</b>
Price Target (A\$)	1.80
TSR (%)	80.0%

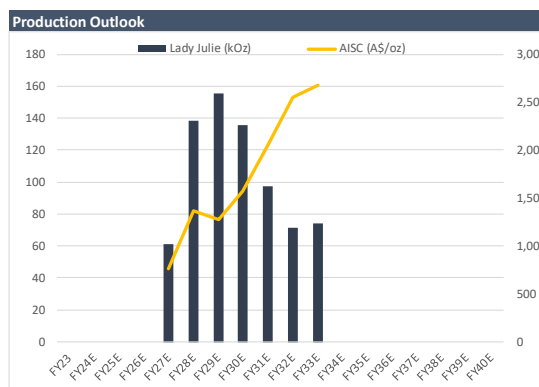


Commodity price assumption	FY23	FY24E	FY25E	FY26E	FY27E
Gold price (US\$/Oz)	1,832	1,944	2,088	2,100	2,100
A\$/US\$ exchange rate (x)	0.673	0.637	0.635	0.645	0.650
Gold price (A\$/Oz)	2,722	3,051	3,287	3,256	3,231

Mine production details	FY23	FY24E	FY25E	FY26E	FY27E
<b>Gold production</b>					
Lady Julie (kOz)	0.0	0.0	0.0	0.0	61.0
<b>Total (kOz)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>61.0</b>

<b>AISC</b>					
Lady Julie (A\$/Oz)	0	0	0	0	764

Group (A\$/Oz)	nm	nm	nm	nm	764
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<b>Reserves and Resources</b>				
<b>Ore reserves</b>				
<b>Project</b>	<b>Ore (mt)</b>	<b>(g/t)</b>	<b>(kOz)</b>	
Lady Julie	0.0	0.00	0	
Other	0.0	0.00	0	
<b>Total</b>	<b>0.0</b>	<b>0.00</b>	<b>0</b>	
EV/Reserve (A\$/Oz)				

<b>Mineral Resources</b>				
<b>Project</b>	<b>Ore (mt)</b>	<b>(g/t)</b>	<b>(kOz)</b>	
Lady Julie	13.5	1.40	605	
Other	0.0	0.00	0	
<b>Total</b>	<b>13.5</b>	<b>1.40</b>	<b>605</b>	
EV/Resource (A\$/Oz)				430

<b>Board and Management</b>				
Eric Lim	Non-Executive Chairman			
George Sakalidis	Managing Director			
Hian Siang Chan	Non-Executive Director			
Ben Donovan	Non-Executive Director			

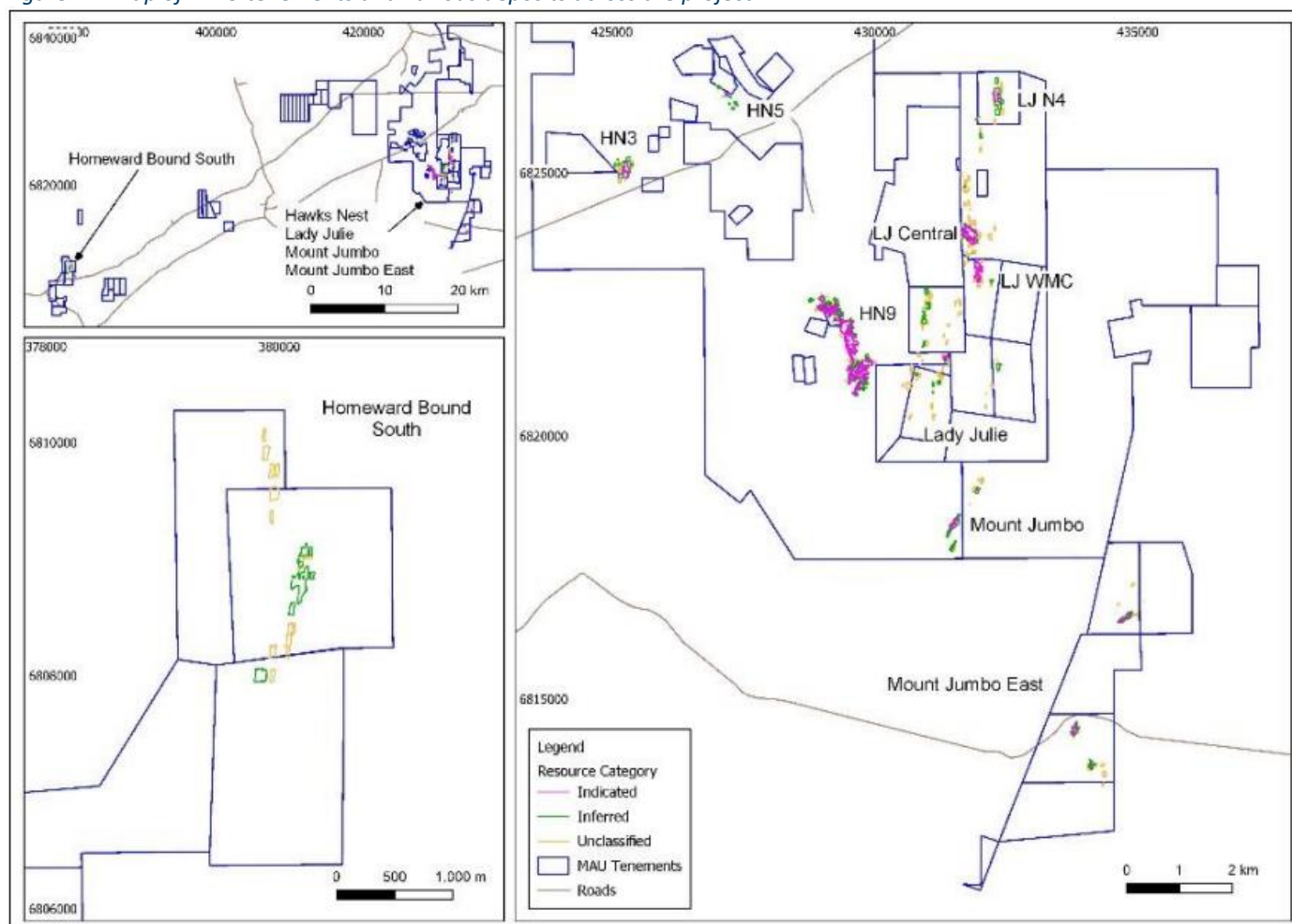
Substantial shareholders	Shares (m)	Stake (%)
Chim Seng Oan	37.8	14.3%
Choon Kong Lim	16.4	6.2%
Dale Alcock	29.2	11.0%
Top 20	190.2	71.9%

Valuation	Spot Prices		Argonaut forecasts	
Asset	A\$m	A\$/sh	A\$m	A\$/sh
Lady Julie	511.3	1.86	426.4	1.55
Other	0.0	0.00	0.0	0.00
Resources	50.0	0.18	50.0	0.18
Hedge book	0.0	0.00	0.0	0.00
Corporate overhead	(13.0)	(0.05)	(13.0)	(0.05)
Unpaid capital	5.6	0.02	5.6	0.02
Cash	5.0	0.02	5.0	0.02
Debt	0.0	0.00	0.0	0.00
Total	540.3	1.96	474.0	1.72
Price Target (50/50 spot/base case)				1.80

## Project Background

Magnetic Resources started exploring the Laverton area in 2017 with initial grants of the Hawks Nest tenure in 2017, followed by the acquisition of the Lady Julie tenements in 2020/2021. MAU tenements cover a 8km strike position of the Chatter Box Shear Zone which hosts Goldfield's Wallaby deposit to the south (+5Moz endowment). MAU's drilling to date at the has defined a total resource of 605kOz at 1.4g/t Au from six deposits at the project (Lady Julie, Mt Jumbo, HN3, HN5, HN9 & Homeward Bound South).

Figure 1 – Map of MAU tenements and various deposits across the project.



Source: MAU

Figure 2 – MAU Lady Julie and Hawk Nest Project total resources.

Classification	Au Cutoff	Volume	Tonnes	Density	Au	Ounces
Indicated	0.50	1,870,000	4,775,000	2.55	1.32	203,100
Inferred	0.50	3,256,000	8,692,000	2.59	1.44	402,160
Total	0.50	5,226,000	13,467,000	2.58	1.40	605,260

Source: MAU

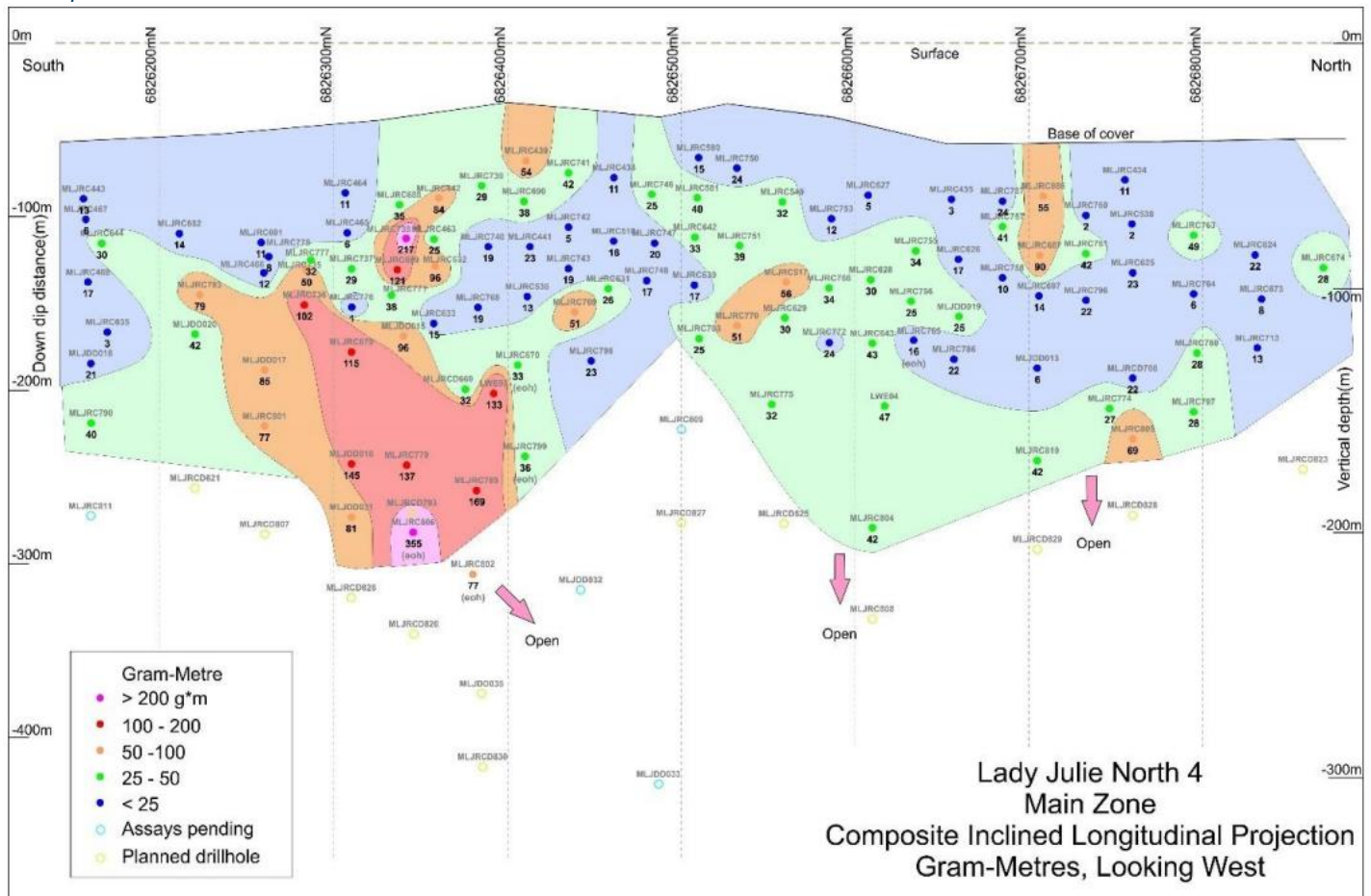
## Lady Julie North 4 (LJN4) Recent Results

### Recent results indicate a significant discovery

Drilling to date has defined economic mineralisation over a 750m strike length and at least 250m below surface. The majority of mineralisation is hosted within a single lode dipping 45° to the east with average true widths of 10-15m in the northern area. Recent drilling has also defined a high-grade shoot at the southern end of the deposit that strikes over 150m with an average gram metre tenor of +50gm (true thickness), with peak results of 355gm. This higher-grade shoot is associated with the development of additional lodes within the hanging wall stratigraphy which remain open at depth and along strike to the north. True widths of the high-grade shoot are significant, almost 50-60m. A selected highlight of recent results at LJN4 include:

- 126m at 2.82 g/t Au
- 37m at 6.5 g/t Au
- 61m at 3.56 g/t Au
- 112m at 1.75 g/t Au
- 19m at 9.56 g/t Au
- 34m at 5.05 g/t Au
- 85m at 1.6 g/t Au
- 67m at 1.8 g/t Au
- 42.1m at 2.84 g/t Au
- 21m at 5.37 g/t Au

Figure 3 - Long Section of the LJN4 deposit showing completed and planned drilling. Mineralisation is plotted as true thickness gram-metre plots.



Source: MAU



## Argonaut's LJN4 Model & Inventory Estimate

### Argonaut LJN4 Inventory Estimate

Argonaut has completed a 3D Leapfrog model for the LJN4 deposit incorporating all reported drilling by MAU as of 15<sup>th</sup> November. Argonaut's model an LJN4 inventory of 10.3Mt at 2.34 g/t Au for 778Koz using 1.0 g/t Au cut off. Mineralisation is modelled within four lodes across the LJN4 deposit down to a depth of 270m below surface. It is important to note that Argonaut's model only captures +1.0g/t intercepts which has been MAU's cut-off grade for its ASX reporting. Therefore, Argonaut's model does not capture mineralisation between 0.5-1g/t that would add additional ounces to our inventory estimate.

MAU's is actively drilling out the depth extents to LJN4 so we would expect a MRE update for LJN4 that exceeds our estimates once further drilling is completed. Once MAU has completed its current drill program, Argonaut expects MAU to eventually report a +1Moz resource for LJN4. The results of further drilling down plunge of the +50gm shoot are significant catalyst for the project. Extension of the high-grade shoot at depth gives potential for an underground resource at LJN4 that could deliver a MRE well above our initial 1Moz estimates.

Figure 4 – Plan view LJN4 deposit with completed drilling and +1g/t Au intercepts

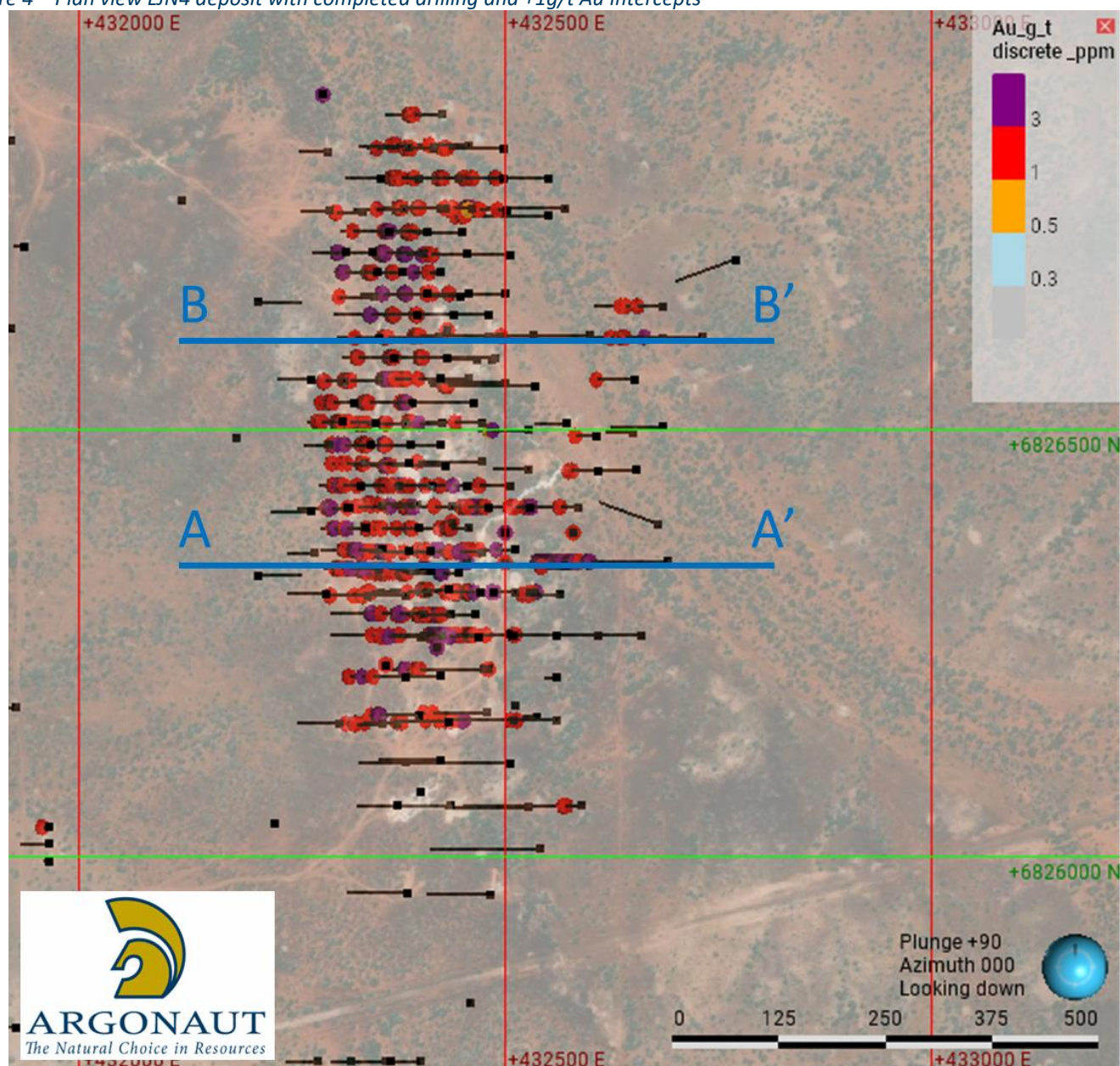
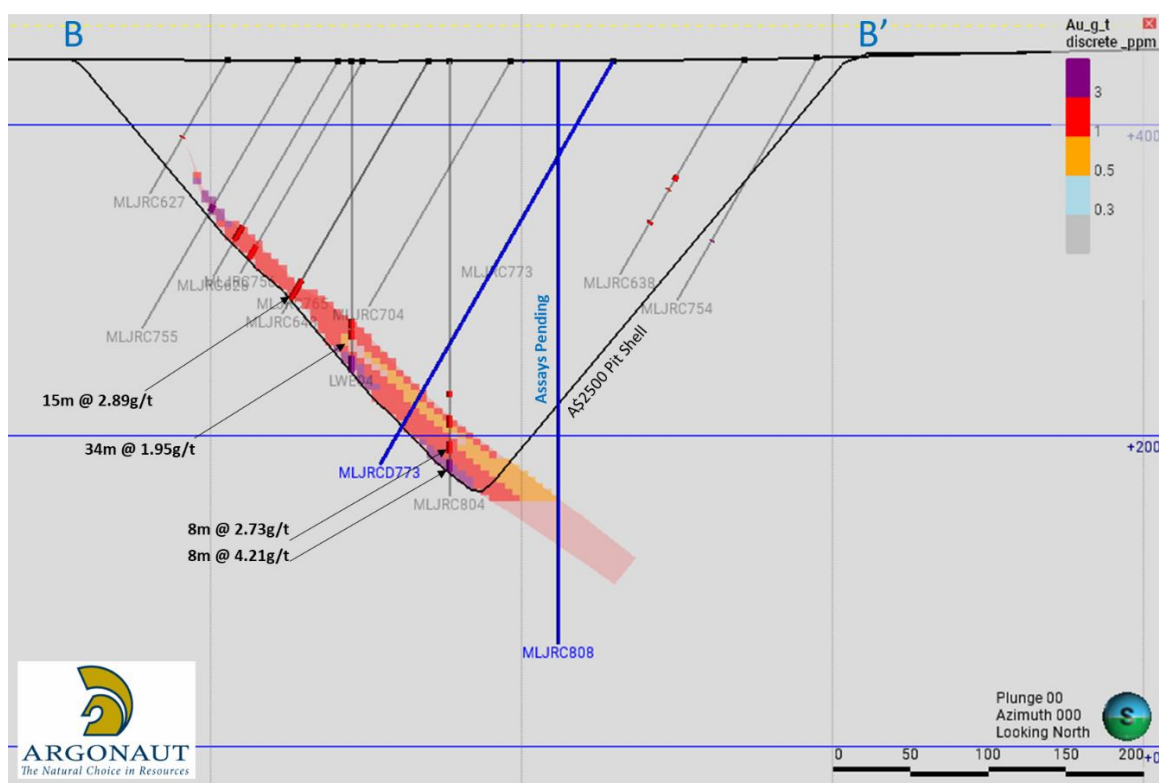


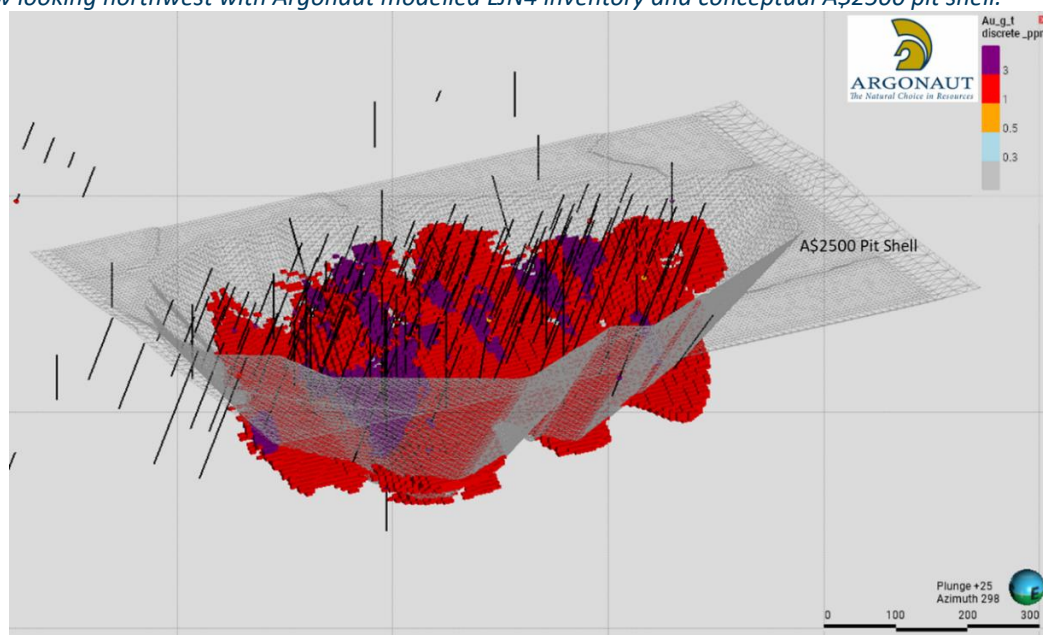
Figure 5 - Cross section of LJN4 with select significant intercepts label. MAU planned drilling in blue.



Source: Argonaut Research

Argonaut's mining scenario for LJN4 is a single open pit operation with staged cut backs over a 7 year mining period. Given the deposits proximity to existing mills (Mt Morgan's & Granny Smith), we consider the most likely development scenario is through these existing mills via toll treating or a project acquisition. Our mining scenario uses a A\$2500/Oz pit optimisation that captures a mining inventory of 769Koz at a diluted mined grade of 2.24g/t Au (1.0g/t Au COG). Total material movement over the seven year period is 137Mt with a 11.8 waste:ore strip ratio. Our valuation model delivers a post tax NPV<sub>5</sub> for LJN4 of A\$426M under a toll treating scenario over 7 years.

Figure 6 – 3D view looking northwest with Argonaut modelled LJN4 inventory and conceptual A\$2500 pit shell.



Source: Argonaut Research



Three drill rigs are currently onsite at LJN4 to complete a 5,215m (15-hole) program testing down dip of extensions to mineralisation on aggressive 100-150m step outs. The full 750m strike length of the deposit will be tested but with a focus on depth extensions to a +100gm shoot at the southern end of LJN4. If MAU can replicate recent high tenor intercepts at depth, Argonaut anticipates a material MRE upgrade for LJN4 that will position LJN4 as one of the better undeveloped gold assets in the Leonora/Laverton region not owned by a producer.

Figure 7: 3D view looking southwest with MLJ's scatter and program as blue traces.

### Key Project Risks:

**Argonauts Inventory Model and Exploration Results** – Argonaut’s inventory model is derived from reported drill data but excludes key geology, survey, and density data. Argonaut cautions readers that it does not meet JORC Reporting standards and should not be interpreted as such.

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**Important Information**

The publishing analyst owns shares in Magnetic Resources (MAU).

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