

De Grey Mining



Mallina growing; DFS expected in 1QFY24

Key Points

- Overall resources were up 10% to 11.7Moz while, importantly, M&I resources (enough confidence to include in reserves) are up 18% to 8.1Moz.
- DEG is set to release the Mallina DFS in 1QFY24 and continues advancing funding options concurrently. FID is expected during FY24.
- DEG ended 4QFY23 with A\$113m in cash and no debt. It also invested A\$10m in Novo resources (DEG has a 11.6% interest in Novo) in the quarter.

- Resource up 10%:** Mallina's overall resource (including Hemi and the Regional deposits) has grown 10% (1.1Moz) to 278Mt at 1.3g/t for 11.7Moz over the prior May 2022 estimate. Key areas of growth include a 1.0Moz resource growth at Hemi to 236Mt at 1.3g/t for 9.5Moz with the remainder coming from the regional deposits. The company also comments that all deposits are open at depth while some remain open along strike.
- M&I resource up 18%:** Importantly, Mallina's measured and indicated (M&I) resources (adequate geological confidence for reserve conversion) were up 18% to 189Mt at 1.3g/t for 8.1Moz. Key areas of M&I growth were from the higher-grade deposits of Diucon and Eagle at Hemi.
- DFS on track for 1QFY24:** The company will use the updated resource estimate to inform the upcoming DFS. DEG notes that the increase in M&I resources was aimed at improving the overall ore reserve in the DFS which de-risks the project and maximises Mallina's debt carrying capacity. The company comments that the DFS remains on track for completion in 1QFY24.
- A\$113m in cash:** DEG ended the quarter with A\$113m in cash (down from A\$145.6m at end 3QFY24) and no debt. It also made an A\$10m investment in Novo resources (DEG has a 11.6% interest in Novo) in the quarter.

Earnings changes: Incorporating the 4QFY23 result drives an 8% decrease to FY23 EPS and <1% changes to earnings from FY24 onward.

Valuation: Our price target of A\$1.90 is unchanged (1.1x NAV)

Catalyst: Completion of Mallina's DFS (expected 1QFY24) is a key near-term catalyst for DEG

Investment Thesis and Recommendation

Outperform. DEG is set to deliver the Mallina's DFS in 1QFY24 which will lead into the finalisation of funding and an FID in FY24. Exploration activities are continuing with the company targeting resource and reserve growth.

Metals & Mining Australia



**Andrew
Bowler**



**Hayden
Bairstow**



**Jon
Scholtz**



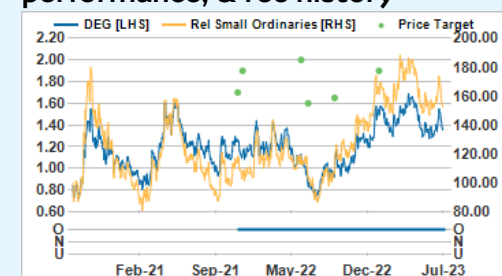
**Adam
Baker**

DEG AU	Outperform
Price (at 25 Jul 2023)	AUD1.36
12-month target	AUD1.90
12 month TSR (%)	39.2
Volatility Index	High
Market Cap (Local) (m)	1,923
Market Cap (USD) (m)	1,298
30-day avg turnover (AUD)(m)	4.6

Investment Fundamentals

Year end 30 Jun	2022A	2023E	2024E	2025E
Revenue (m)	0.0	0.1	0.0	0.0
EBITDA (m)	(9.0)	(15.8)	(8.2)	(8.6)
EBITDA growth (%)	(87.8)	(76.0)	48.0	(4.9)
EBIT (m)	(10.6)	(19.4)	(8.2)	(12.0)
EBIT growth (%)	(96.0)	(81.9)	57.4	(45.4)
Reported profit (m)	(10.5)	(16.7)	(3.0)	(35.8)
Adjusted profit (m)	(10.5)	(16.7)	(3.0)	(35.8)
EPS adj (€)	(0.8)	(1.1)	(0.1)	(1.7)
EPS adj growth (%)	(85.5)	(38.9)	86.7	(1,090.4)
PER adj (x)	NM	NM	NM	NM
Total DPS growth (%)	0.0	0.0	0.0	0.0
Total div yield (%)	0.0	0.0	0.0	0.0
Franking (%)	NM	NM	NM	NM
ROA (%)	(4.2)	(5.2)	(1.2)	(0.9)
ROE (%)	(4.5)	(4.8)	(0.4)	(3.8)
EV/EBITDA (x)	(190.0)	(124.5)	(330.4)	(315.1)
Net debt/equity (x)	(21.4)	(26.6)	(34.2)	50.9
P/BV (x)	6.5	5.1	3.0	3.2

DEG AU rel Small Ordinaries performance, & rec history

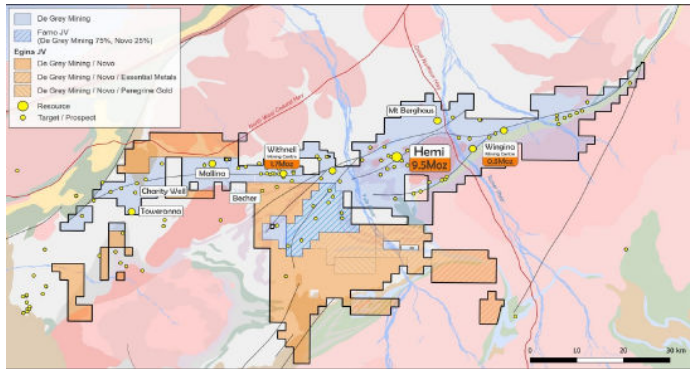


Source: FactSet, Macquarie Research, Jul 2023 (all figures in AUD unless noted, TP in AUD)

Key Risks to Investment Thesis

- Movements in commodity prices and exchange rates present a significant risk to our earnings forecasts and valuation. We also make assumptions within our forecasts for production, capital expenditure, and operating costs in addition to exchange rates. Variances in these assumptions versus our base case present material risks both to the upside and downside to our earnings forecasts and valuation.

Figure 1 - Mallina Gold Project showing main gold deposits



Source: DEG, July 2023

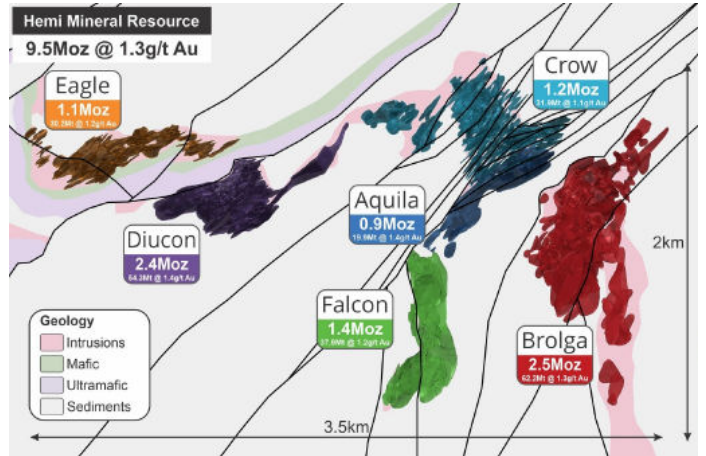
Resource growth

- **Resource up 10%:** Mallina's overall resource (including Hemi and the Regional deposits) has grown 10% (1.1Moz) to 278Mt at 1.3g/t for 11.7Moz over the prior May 2022 estimate. Key areas of growth include a 1.0Moz resource growth at Hemi to 236Mt at 1.3g/t for 9.5Moz with the remainder coming from the regional deposits. The company also comments that all deposits are open at depth while some remain open along strike.
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Company Description

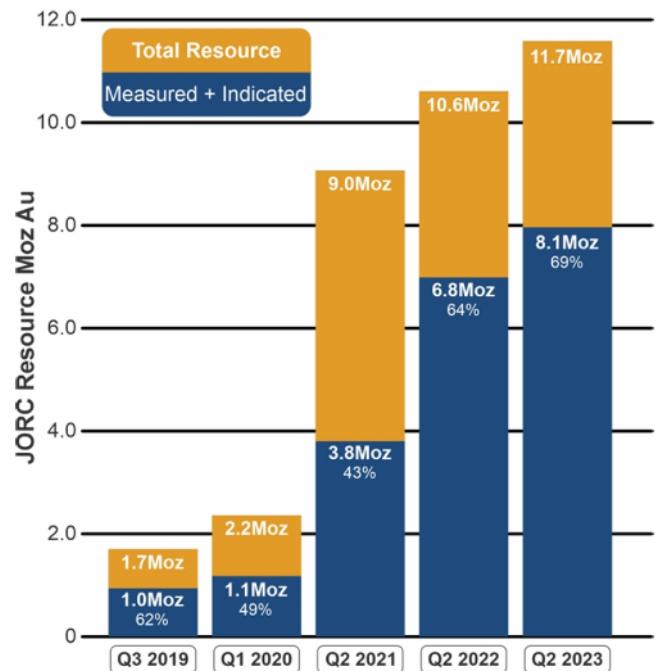
De Grey Mining (DEG) is a gold exploration and development company that 100% owns the Mallina gold project in the Pilbara of Western Australia. Mallina is located within a 60 minute drive of Port Headland and close to existing iron ore operations in the Pilbara. DEG is focussed on developing a world-class mine at Mallina project which has a total gold resource of +11Moz.

Figure 2 - Hemi gold deposits resource areas.



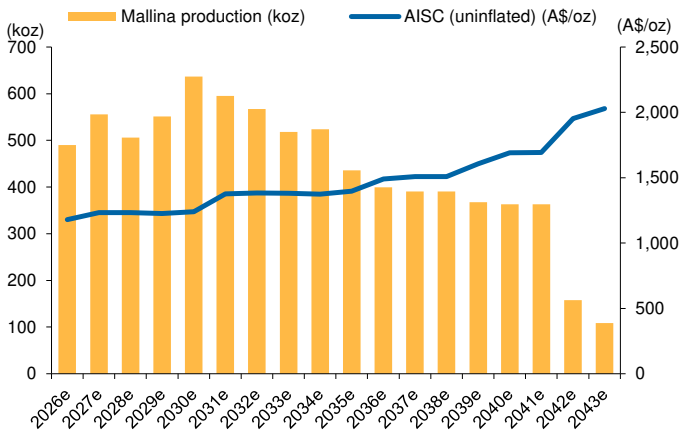
Source: DEG, July 2023

Figure 3 - Five year Mallina Gold Project Mineral Resource Growth



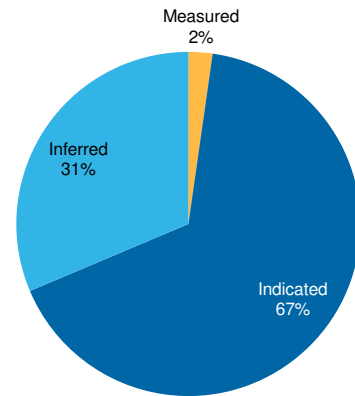
Source: DEG, July 2023

Figure 4 - DEG production and AISC outlook



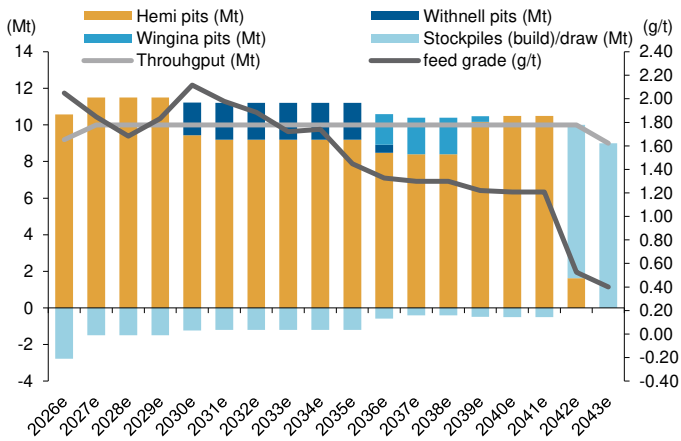
Source: DEG, Macquarie Research, July 2023

Figure 5 - Mallina resource breakdown



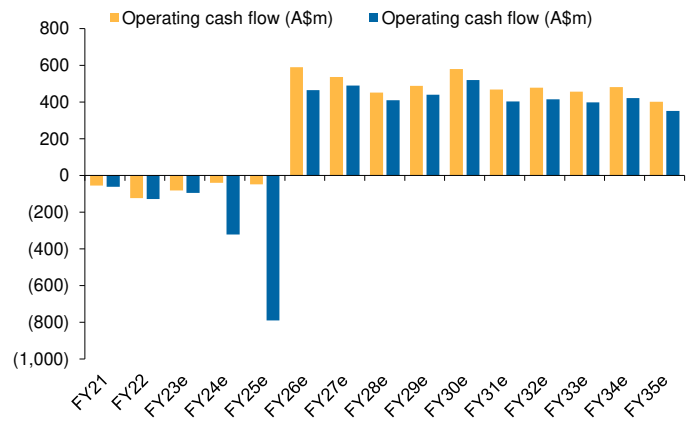
Source: DEG, Macquarie Research, July 2023

Figure 6 - Ore source breakdown and grade profile



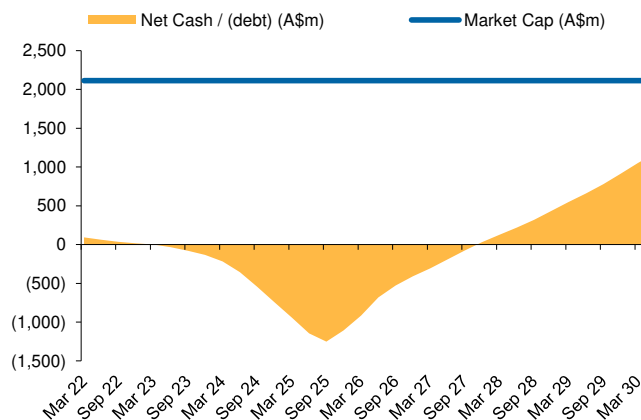
Source: DEG, Macquarie Research, July 2023

Figure 7 - DEG cash flow outlook



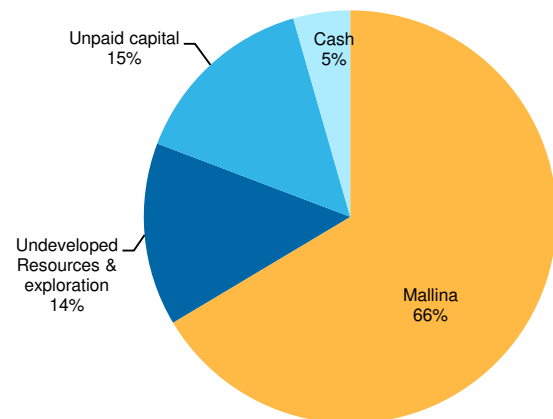
Source: DEG, Macquarie Research, July 2023

Figure 8 - Net cash build vs market cap



Source: DEG, Macquarie Research, July 2023

Figure 9 - DEG NPV breakdown



Source: DEG, Macquarie Research, July 2023

Figure 10 - DEG model summary

De Grey Mining											
ASX: DEG	Price: (A\$ps)	1.35						Year end: Jun	Rating: Outperform	Up/dn	TSR
	Mkt cap: (A\$m)	2,114						Diluted shares (m)	1565.6	Target: 1.90	41% 41%

ASSUMPTIONS		FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Exchange Rate	A\$/US\$	0.73	0.67	0.67	0.69	0.70	0.70	0.70
Spot Gold	(US\$/oz)	1,834	1,832	1,844	1,838	1,875	1,850	1,746

RATIO ANALYSIS		FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Diluted share capital	m	1,369.7	1,565.6	2,115.6	2,115.6	2,115.6	2,115.6	2,115.6
EPS (diluted and pre sig. items)	Ac	-0.8	-1.1	-0.1	-1.7	18.2	19.6	15.3
P/E	x	nm	nm	nm	nm	7.4x	6.9x	8.8x
CFPS	Ac	(9.1)	(5.2)	(1.9)	(2.3)	27.8	25.4	21.3
P/CF	x	-14.9x	-25.8x	-71.6x	-58.1x	4.8x	5.3x	6.3x
DPS	Ac	0.0	0.0	0.0	0.0	0.0	3.0	4.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	3.0%
Franking Level	%	0%	0%	0%	0%	0%	0%	0%
Book value per share	x	0.21	0.27	0.45	0.43	0.61	0.81	0.91
P/Book value	x	6.4x	5.1x	3.0x	3.1x	2.2x	1.7x	1.5x
R.O.E. (pre sig items)	%	-4%	-4%	0%	-4%	30%	24%	17%
R.O.A. (pre sig items)	%	-3%	-4%	-1%	-1%	28%	32%	22%
Interest Cover	x	105.0x	7.4x	1.6x	-0.5x	13.8x	25.3x	-78.0x
EBITDA per share	A\$ps	-0.01	-0.01	0.00	-0.01	0.34	0.36	0.29
EV/EBITDA	x	nm	nm	nm	nm	3.0x	2.1x	2.2x
Free cash flow yield	%	(6%)	(4%)	(15%)	(37%)	22%	23%	19%

ATTRIBUTABLE MINE OUTPUT		FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Gold production (equ)								
Mallina	(koz)	-	-	-	-	490	556	506
Total	(koz)	-	-	-	-	490	556	506
Cash costs								
C1 Cash cost (inflated)	(A\$/oz)	-	-	-	-	1,089	1,170	1,208
AISC (inflated)	(A\$/oz)	-	-	-	-	1,251	1,334	1,368
EV/Production	(A\$/oz)	-	-	-	-	5,829	4,255	4,076

OPERATIONAL OUTLOOK		FY26e	FY27e	FY28e	FY29e	FY30e	FY31e	FY32e	FY33e	FY36e	FY37e	FY38e	FY39e	FY40e	FY41e	FY42e	FY43e
(koz)																	
Mallina		490	556	506	490	490	490	490	490	490	490	490	490	490	490	490	490
AISC (inflated)(A\$/oz)		1,089	1,170	1,208	1,251	1,334	1,368	1,368	1,368	1,368	1,368	1,368	1,368	1,368	1,368	1,368	1,368
Macq gold price outlook (A\$/oz)		1,834	1,832	1,844	1,838	1,875	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850

EARNINGS		FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Sales Revenue	A\$m	0	0	0	0	1,265	1,469	1,265
Other Revenue	A\$m	1	0	0	0	0	0	0
Total Revenue	A\$m	1	0	0	0	1,265	1,469	1,265
Operating Costs	A\$m	0	0	0	0	(544)	(691)	(646)
Operational EBITDA	A\$m	1	0	0	0	721	779	619
Exploration Expense/Write-offs	A\$m	0	(2)	0	(3)	(4)	(4)	(4)
Corporate & Other Costs	A\$m	(10)	(16)	(8)	(9)	(8)	(9)	(9)
EBITDA	A\$m	(9)	(18)	(8)	(12)	709	766	605
D&A	A\$m	(2)	(1)	0	0	(110)	(150)	(150)
EBIT	A\$m	(11)	(19)	(8)	(12)	599	616	455
Net Interest	A\$m	0	3	5	(24)	(44)	(24)	6
Profit Before Tax	A\$m	(11)	(17)	(3)	(36)	556	591	461
Tax Expense	A\$m	0	0	0	0	(171)	(177)	(138)
Minorities	A\$m	0	0	0	0	0	0	0
Adjusted NPAT	A\$m	(11)	(17)	(3)	(36)	385	414	323
Significant Items (post tax)	A\$m	0	0	0	0	0	0	0
Reported NPAT	A\$m	(11)	(17)	(3)	(36)	385	414	323

CASHFLOW		FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Net Profit	A\$m	(11)	(17)	(3)	(36)	385	414	323
Interest/Tax/D&A	A\$m	(117)	(66)	(37)	(13)	267	96	114
Working Capital/other	A\$m	3	1	0	0	(63)	26	15
Net Operating Cashflow	A\$m	(124)	(82)	(40)	(49)	589	537	451
Capex	A\$m	(4)	(3)	(282)	(740)	(125)	(46)	(42)
Investments	A\$m	0	(10)	0	0	0	0	0
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0
Free cash flow	A\$m	(128)	(95)	(322)	(790)	464	490	409
Dividends Paid	A\$m	0	0	0	0	0	0	(106)
Debt	A\$m	(0)	(0)	0	650	(50)	(600)	0
Equity Issuance	A\$m	121	144	536	0	0	0	0
Other	A\$m	0	0	0	0	0	0	0
Net Financing Cashflow	A\$m	120	144	536	650	(50)	(600)	(106)
Net change in cash	A\$m	(7)	49	214	(140)	414	(110)	303

BALANCE SHEET		FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Cash	A\$m	63	113	327	187	602	492	796
PP&E & Mine Development	A\$m	9	11	293	1,033	1,048	945	837
Exploration	A\$m	234	290	327	340	353	365	371
Total Assets	A\$m	312	430	964	1,577	2,121	1,898	2,086
Debt	A\$m	2	2	2	652	602	2	2
Total Liabilities	A\$m	23	14	14	664	823	185	156
Total Net Assets / Equity	A\$m	288	416	950	914	1,299	1,713	1,930
Net Debt / (Cash)	A\$m	(62)	(111)	(325)	465	0	(490)	(794)
Gearing (net debt/(nd + equity))	%	(27%)	(36%)	(52%)	34%	0%	(40%)	(70%)
Gearing (net debt/equity)	%	(21%)	(27%)	(34%)	51%	0%	(29%)	(41%)

EQUITY DCF VALUATION		Spot prices		Macquarie forecasts	
Projects		A\$m	A\$ps	A\$m	A\$ps
Mallina		4,869	2.30	2,412	1.14
Undeveloped Resources & exploration		534	0.25	521	0.25
Unpaid capital		536	0.25	536	0.25
Forwards/hedging		0	0.00	0	0.00
Corporate		(76)	(0.04)	(77)	(0.04)
NVO stake		9	0.00	9	0.00
Cash		162	0.08	162	0.08
Debt (inc. leases)		(2)	(0.00)	(2)	(0.00)
Net Equity Value (@ 5% WACC)		6,032	2.85	3,561	1.68
Price Target (1.1 x NAV)					1.90
P/NAV					0.80x

Key Quant Pick

The quant model currently holds a neutral view on De Grey Mining. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Profitability, indicating this stock is not efficiently converting investments to earnings; proxied by ratios like ROE or ROA.

Macquarie Alpha Model: Key rankings

The Macquarie Quant's flagship Alpha model is a dynamic multi-factor model based on a staple of quant factors such as value, momentum, revisions, quality, and risk.

	Global	Market (Country)	Sector
	Whole Universe	Australia & NZ	Metals & Mining
Macquarie Alpha Model	10851/17568	285/420	380/670
Fundamental (Consensus) *	3123/17568	40/420	139/670

* based on Total Shareholder Return = Consensus Price target / Current Price

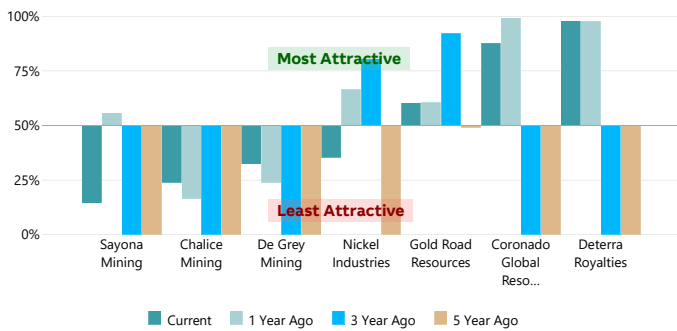
Alpha Model Decomposition

The Macquarie Alpha is decomposed into its sector and market relative factor & styles exposures (a higher/better percentile is coded in green, whilst lower in red).

Factors / Styles	Percentile relative to		Core factors in definition
	sectors (/670)	market (/420)	
ALPHA	43%	32%	See all the styles below
VALUE	11%	15%	Book, CF, Yield, Earnings Multiples
ANALYST	90%	83%	Revisions (Earnings, Recommendations)
MOMENTUM	84%	80%	Price Momentum
GROWTH	38%	33%	EPS, Sales (Forecast, Historic)
PROFITABILITY	6%	8%	ROE, Margin, Asset Turnover
QUALITY	19%	24%	Accruals, Earn Stability, Cash Conversion
CAPITAL	15%	19%	Investment/Capex, Net share issuance
LIQUIDITY	61%	52%	Size, Turnover, Analyst Coverage
RISK	61%	62%	Beta, Volatility, Earn.Cert, Leverage
TECHNICAL	92%	88%	MACD, RSI, Bollinger, Williams R, etc

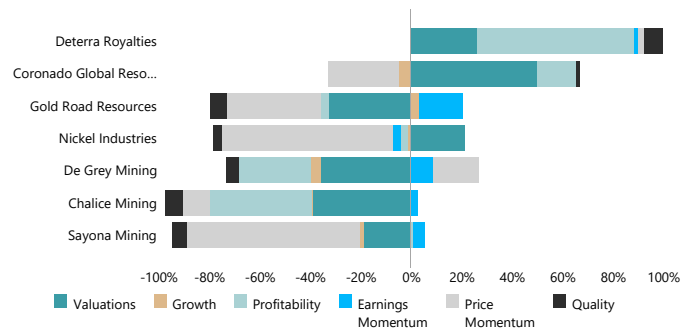
Current and Historical Alpha Model Rank

The chart shows the Macquarie Alpha model ranking against the company's peers and over recent history.



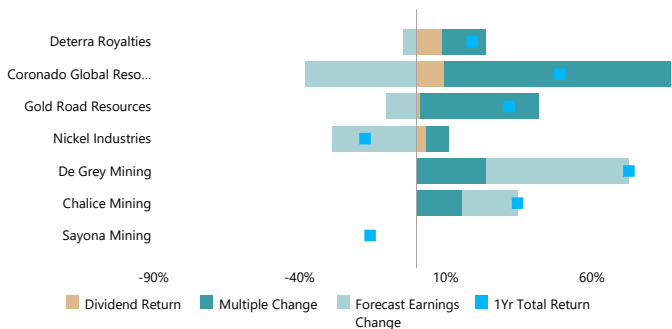
Factors driving the Alpha Model vs peers

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



Drivers of Stock Return

Breakdown of 1-year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



Macquarie Style Returns over last year

Recent performance to Macquarie style factors

Australia & NZ	Monthly Factor Long-Short Returns for												Last 5 Years (ann)	Last 10 Years (ann)
	Jun - 23	May - 23	Apr - 23	Mar - 23	Feb - 23	Jan - 23	Dec - 22	Nov - 22	Oct - 22	Sep - 22	Aug - 22	Jul - 22		
ALPHA	2%	1%	-3%	0%	0%	-1%	-1%	-3%	0%	4%	6%	-8%	-5%	0%
VALUE	4%	3%	-3%	-5%	-1%	-2%	1%	2%	-2%	4%	6%	-10%	1%	-2%
ANALYST	-1%	-1%	0%	-1%	0%	0%	-3%	-5%	-3%	5%	5%	0%	8%	5%
MOMENTUM	0%	-1%	-3%	1%	-4%	-4%	-2%	0%	-3%	2%	5%	-8%	-14%	-3%
GROWTH	2%	5%	-2%	0%	-3%	-4%	0%	-6%	3%	-1%	5%	0%	-9%	-1%
PROFITABILITY	6%	-1%	-4%	3%	-5%	4%	-3%	5%	-2%	4%	-3%	2%	3%	3%
QUALITY	1%	3%	-2%	-1%	0%	-2%	-1%	2%	-6%	0%	-2%	-1%	-11%	-8%
CAPITAL	1%	0%	-1%	4%	-3%	-2%	0%	1%	1%	-3%	1%	-3%	-2%	0%
LIQUIDITY	0%	0%	0%	1%	-9%	0%	2%	4%	1%	2%	1%	-5%	-2%	-1%
RISK	0%	3%	-1%	-4%	6%	-5%	0%	-2%	-3%	1%	0%	-6%	1%	0%
TECHNICAL	0%	1%	3%	4%	1%	3%	-1%	8%	4%	0%	3%	-3%	12%	10%

Source (all charts): FactSet, Refinitiv, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative Team: maccapequitiesresearchquantglobal@macquarie.com. Explanation for items on this page can be found at <https://www.macquarieinsights.com/rp/d/rp/OTUyMzg1>

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Important Disclosures

Recommendation definitions	Volatility index definition	Financial definitions
<p>Macquarie – Asia and USA Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – Australia/New Zealand Outperform – expected return >10% Neutral – expected return from 0% to 10% Underperform – expected return <0%</p> <p>During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions.</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high – highest risk – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 25-40% in a year.</p> <p>Low – stock should be expected to move up or down at least 15-25% in a year. * Applicable to select stocks in Asia/Australia/NZ</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions for quarter ending 30 June 2023

	AU/NZ	Asia	USA	
Outperform	56.88%	63.90%	63.89%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
Neutral	36.88%	23.06%	33.33%	(for global coverage by Macquarie, 1.22% of stocks followed are investment banking clients)
Underperform	6.25%	13.04%	2.78%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

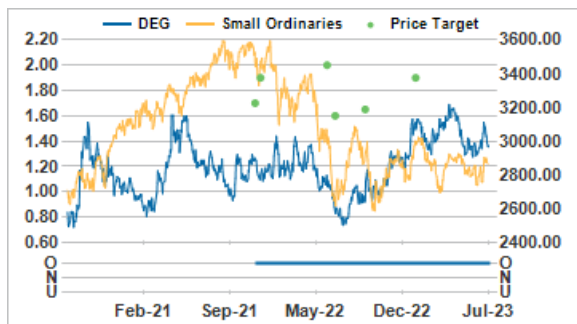
Company-Specific Disclosures

Company Name	Disclosure
De Grey Mining (DEG AU) Outperform 12-month target: AUD1.90 - 1.1 x sum-of-the-parts NAV Valuation: AUD 1.68 - DCF (WACC 5.0%, beta 0.4, ERP 5.0%, RFR 3.1%, TGR 2.6%) Price: AUD1.36	Macquarie Group Limited together with its affiliates owns a net long of 0.5% or more of the equity securities of De Grey Mining Ltd. Macquarie analyst(s) involved with the preparation of this research has, in the past 12 months, visited material operations of De Grey Mining Limited. The company furnished local transportation as part of this site visit, which was authorized in adherence with Macquarie policy requirements. Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of De Grey Mining Ltd.

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Recommendation history

Company name	Date	Recommendation	Target price
De Grey Mining (DEG AU)	17-Jan-2023	Outperform	AUD 1.90
	8-Sep-2022	Outperform	AUD 1.65
	22-Jun-2022	Outperform	AUD 1.60



1-Jun-2022	Outperform	AUD 2.00
10-Dec-2021	Outperform	AUD 1.90
26-Nov-2021	Outperform	AUD 1.70

Sensitivity analysis:

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