

## De Grey Mining

## A future top 5 Australian gold producer, initiating coverage with a Neutral

Initiating Coverage: NEUTRAL | PO: 1.70 AUD | Price: 1.53 AUD

## 510koz p.a. Hemi gold discovery a foundation project

We initiate coverage of De Grey Mining (DEG) with a Neutral rating and \$1.70/share price objective based on 1.0x NPV. DEG is a gold exploration company with a pathway to becoming a ~510koz p.a gold producer from its 100% owned Hemi discovery located within DEG's Mallina Gold Project in Western Australia. With a definitive feasibility study (DFS), final investment decision and project funding solution for the A\$1.2bn Hemi gold discovery due in the coming months, we see de-risking catalysts ahead. We think Hemi sits as a tier 1 asset which from 1H CY26 could deliver cash operating margins in excess of A\$1,500/oz p.a over 10 yrs and catapult DEG into the top 5 Australian gold producers by volume. However, on our DEG valuation and risk profile vs our gold coverage peers we see only moderate upside based on their current share price and rate DEG a Neutral. Key risks to our view include DFS and funding outcomes, project execution and gold prices.

## Exploration success provides potential further upside

In 3 years DEG has taken Hemi from an exploration target to DFS with a 5moz reserve and a 12moz resource. We think gold exploration looks prospective within the Pilbara and could be the biggest driver of valuation upside for DEG outside the current Hemi mine plan. A combination of exploration strategy and tenement holdings is their biggest asset in delivering growth opportunities across Mallina with the potential for either additional mine life or an increase in base case plant throughput. Cashflow from Hemi will allow an increase in focus on both near mine and regional exploration targets for potential replications of Hemi and growth in reserves and resources.

## \$1.2bn capex requires funding, FCF the saviour

The estimated A\$1.2bn capex requirement to develop Hemi poses a significant hurdle for DEG. We find project economics strong with a 45% IRR on our base case and we hypothetically assume DEG complete project financing by way of a \$600m debt facility and \$600m equity raising. We forecast gearing to peak at ~33% in 1H FY26 yet forecast strong FCF in FY27+ to ease balance sheet pressure.

Estimates (Jun) (A\$)	2021A	2022A	2023E	2024E	2025E
Net Profit b/f Abnormals	(5)	(11)	(10)	(28)	(32)
EPS	(0.004)	(0.008)	(0.006)	(0.014)	(0.016)
EPS Change (YoY)	3.0%	-84.5%	15.8%	-108.5%	-15.6%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.008)	(0.007)	(0.006)	(0.096)	(0.289)
<b>Valuation (Jun)</b>					
P/E	NM	NM	NM	NM	NM
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	-387.40x	-226.10x	-161.24x	-184.48x	-223.51x
Free Cash Flow Yield*	-0.420%	-0.411%	-0.413%	-8.23%	-24.69%

\* For full definitions of *IQ*method<sup>SM</sup> measures, see page 20.

17 July 2023

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## Stock Data

Price	1.53 AUD
Price Objective	1.70 AUD
Date Established	17-Jul-2023
Investment Opinion	C-2-9
52-Week Range	0.740 AUD-1.72 AUD
Mrkt Val / Shares Out (mn)	1,647 USD / 1,561.6
Market Value (mn)	2,389 AUD
Average Daily Value (mn)	5.02 USD
Free Float	74.7%
BofA Ticker / Exchange	DGMLF / ASX
Bloomberg / Reuters	DEG AU / DEG.AX
ROE (2023E)	-2.8%
Net Dbt to Eqty (Jun-2022A)	-22.0%

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**Refer to important disclosures on page 21 to 23. Analyst Certification on page 19. Price Objective Basis/Risk on page 19.**

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Timestamp: 16 July 2023 03:30PM EDT

# iQprofile<sup>SM</sup> De Grey Mining

Key Income Statement Data (Jun)	2021A	2022A	2023E	2024E	2025E
<b>(A\$ Millions)</b>					
<b>Sales</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Associates & Other Revenue	0	1	0	0	0
Operating Expenses	(5)	(10)	(14)	(14)	(15)
<b>EBITDA</b>	<b>(5)</b>	<b>(9)</b>	<b>(14)</b>	<b>(14)</b>	<b>(15)</b>
Depreciation & Amortization	(1)	(2)	(2)	(2)	(2)
<b>EBIT</b>	<b>(5)</b>	<b>(11)</b>	<b>(16)</b>	<b>(16)</b>	<b>(17)</b>
Net Interest & Other income	0	0	6	(11)	(15)
Pretax Income	(5)	(11)	(10)	(28)	(32)
Tax (expense) / Benefit	0	0	0	0	0
Outside Equity interest in Npat	0	0	0	0	0
<b>Preference dividends</b>	NA	NA	NA	NA	NA
<b>Net Profit b/f Abnormals</b>	<b>(5)</b>	<b>(11)</b>	<b>(10)</b>	<b>(28)</b>	<b>(32)</b>
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	(5)	(11)	(10)	(28)	(32)

Key Cash Flow Statement Data	2021A	2022A	2023E	2024E	2025E
EBITDA	(5)	(9)	(14)	(14)	(15)
Change in Working Capital	(5)	(7)	(14)	(14)	(15)
Other C'flow Items before int & tax	0	0	0	0	0
Net Interest Paid	0	0	6	(11)	(15)
Tax Paid	0	0	0	0	0
Other C'flow from Operations	5	9	14	14	15
<b>Cash Flow from Operations</b>	<b>(4)</b>	<b>(6)</b>	<b>(8)</b>	<b>(26)</b>	<b>(30)</b>
Capital Expenditure (PP&E)	(6)	(4)	(2)	(171)	(560)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other C'flow from Investing	(51)	(118)	(66)	(36)	(36)
<b>Cash Flow from Investing</b>	<b>(57)</b>	<b>(121)</b>	<b>(68)</b>	<b>(207)</b>	<b>(596)</b>
Shares Issue / (Repurchase)	109	126	149	600	0
Dividend paid	0	0	0	0	0
Other C'flow from Financing	(5)	(6)	(5)	600	0
<b>Cash Flow from Financing</b>	<b>104</b>	<b>120</b>	<b>144</b>	<b>1,200</b>	<b>0</b>
Free Cash Flow	(10)	(10)	(10)	(197)	(590)
Net Debt	(71)	(63)	(131)	(498)	127

Key Balance Sheet Data	2021A	2022A	2023E	2024E	2025E
Cash Equivalents	71	63	131	1,098	473
Receivables & Inventories	2	2	1	1	1
Property, Plant & Equipment	7	9	9	178	736
Intangibles	0	0	0	0	0
Other assets	118	237	293	329	365
<b>Total Assets</b>	<b>197</b>	<b>312</b>	<b>434</b>	<b>1,606</b>	<b>1,574</b>
Payables	17	18	5	5	5
<b>Provisions</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Short term debt & Long term debt	0	0	0	600	600
Other Liabilities	3	3	3	3	3
<b>Total Liabilities</b>	<b>21</b>	<b>23</b>	<b>11</b>	<b>611</b>	<b>611</b>
<b>Total Equity</b>	<b>176</b>	<b>288</b>	<b>423</b>	<b>995</b>	<b>963</b>

iQ <sup>method SM</sup> - Bus Performance*	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-3.7%	-4.0%	-2.5%	2.3%	2.3%
Return on Equity	-4.2%	-4.5%	-2.8%	-3.9%	-3.3%
Operating Margin	NA	NA	NA	NA	NA
EBITDA Margin	-1,809.9%	-1,538.7%	-31,218.4%	NA	NA

iQ <sup>method SM</sup> - Quality of Earnings*	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	0.6x	0.8x	0.9x	0.9x
Dividend Payout Ratio	0%	0%	0%	0%	0%
Tax Rate (Reported)	0%	0%	0%	0%	0%
Net Debt-to-Equity Ratio	-40.4%	-22.0%	-31.0%	-50.1%	13.2%
Interest Cover	-53.0x	-65.8x	-282.5x	-0.3x	-0.2x

Key Metrics	2021A	2022A	2023E	2024E	2025E
Franking	100%	100%	100%	100%	100%

\* For full definitions of iQ<sup>method SM</sup> measures, see page 20.

## Company Sector

Gold & Precious Metals

## Company Description

De Grey Mining is an ASX-listed gold explorer. DEG has 100% ownership of the Mallina Gold Project and >1,500km<sup>2</sup> of highly attractive exploration tenements in the Pilbara, Western Australia. DEG are advancing their Mallina project with a plan to becoming a gold producer by 2026.

## Investment Rationale

DEG are on the pathway to becoming a gold producer in the next 3 years with the development of the Mallina Gold Project. The high returning, quality asset is worthy of a tier 1 classification which will see gold production in excess of 500koz p.a and 1st quartile AISC over the first 10 years. With potential of further mine life extension and growth of reserves and resources. Though given the pre-construction stage of the project we see higher risk vs their mid-cap gold peers.

## Stock Data

Price to Book Value

5.6x



## Investment summary

We initiate coverage of DEG with a Neutral rating and \$1.70/sh price objective based on 1.0x NPV in-line with their single asset peers. DEG is a mid-cap gold explorer with market cap of A\$2.1bn and 100% ownership of their flagship Mallina Gold Project (MGP) in Western Australia. While Australia is a tier 1 jurisdiction for mining, greenfield exploration success and discovery of economic gold mineral deposits is diminishing, highlighting the significance of the Hemi discovery.

### Key drivers for our Neutral rating

1. **Hemi pathway to production:** MGP provides De Grey with the opportunity to develop a high quality, long life and high returning asset, generating an IRR ~45% on our estimates (including development capex of A\$1.2bn). We think the production scale of ~510koz p.a, all-in-sustaining costs (AISC) of ~A\$1,360 over the first 10 years and a mine life of 16 years with potential beyond that shows the quality of the project in a landscape of aging WA assets. Hemi is placed to sit within the top 4 gold producing assets in Australia and in the 1<sup>st</sup> quartile of AISC. We acknowledge the metallurgical complexities associated with refractory sulphide gold ore vs standard processing ore poses a risk on production execution. But see technical risk as low given the success of other large scale sulphide deposits currently in production.
2. **Exploration position:** In our view DEG hold exploration tenements which have been historically under-explored for gold and hold the potential to host both replications of the Hemi style sulphide gold mineralisation and structurally hosted primary gold deposits. We believe the combination of multiple open pit exploration targets and underground optionality beneath the Hemi mineral resources provides DEG with mine life extension opportunities beyond the current 16 years.
3. **Valuation and project risk:** Our view is that given the early stage of the DEG's maiden Hemi project vs our Australian gold coverage peers there is increased risk for DEG. We see the delivery of the DFS and FID as crucial stages to project de-risking progression and note the pending mining lease approvals which have not yet been granted. Based on valuation and PO for DEG versus the current share price, our neutral recommendation assumes balanced risk to the upside and downside.

### Key near term catalysts

- Release of the Mallina Gold Project Definitive Feasibility Study (DFS) in September quarter 2023. The Feasibility Study will give further updates on reserves and resources and clarity on operating and cost assumptions but more importantly capex expectations for project build.
- Release of Project financing completion and final investment decision (FID) in 2H-2023 will be a significant catalyst and milestone for DEG, providing certainty on funding outcomes.

### Key risks

In our view the key risks for our Neutral rating on DEG relate to the outcomes of the Mallina DFS study, project funding outcomes, execution risk on project development and gold price assumptions. Any deviation from our base case assumptions on production, capex, operating cost, ownership structure or project funding has the potential to impact our forecasts and valuation for DEG.



# Focus charts

## Exhibit 1: Headline stats for Hemi (PFS vs BofAe)

We are conservative on production and costs but see mine life extension

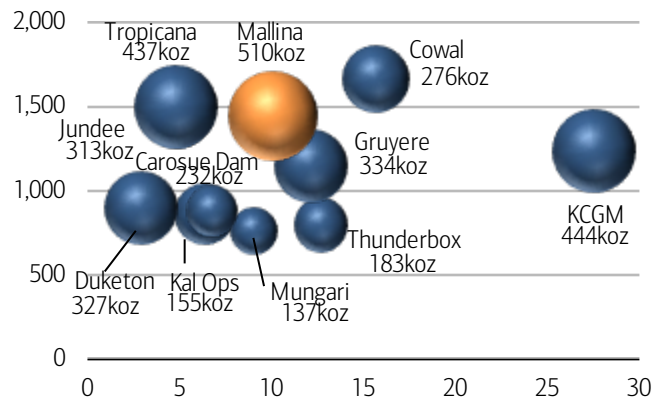
	PFS	BofAe
Construction start	CY23	CY24
First production	CY25	CY26
Mine life	13.6 yrs	16.5 yrs
Strip ratio	6.1:1 w:o	6.1:1
Mill throughput	10 Mtpa	10
Grade	1.6 g/t	1.6
Recovery rate	93.6 %	93
Avg Gold production (years 1-10)	540 koz pa	510
Recovered ounces (LOM)	6.4 Moz	7.9
AISC (years 1-10)	1,280 A\$/oz	1,360
Capex	1,053 A\$m	1,200
NPV (5% WACC DEG, 8% BofA)	2,700 A\$m	3,470

Source: BofA Global Research, company data

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## Exhibit 3: Operating margin (\$/oz) vs reserve life vs FY23e production

On BofAe Mallina will average \$1,500/oz operating margin for 10yrs

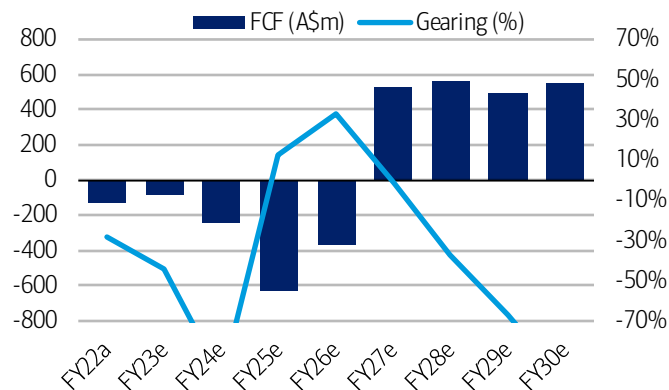


Source: BofA Global Research Estimates

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## Exhibit 5: FCF and gearing profile

Gearing to peak at 33% in 1H FY26e

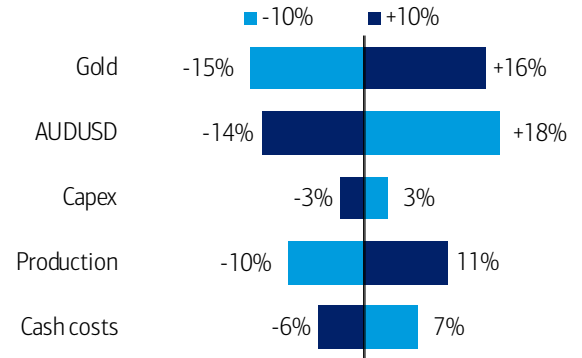


Source: BofA Global Research Estimates

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## Exhibit 2: NPV sensitivity

Gold price, AUDUSD has the most impact to our NPV

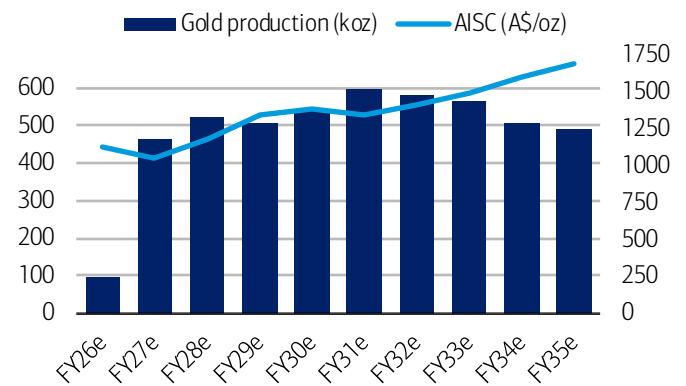


Source: BofA Global Research

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## Exhibit 4: Production and AISC cost profile

Years 1-10 will see production av 510koz p.a and AISC ~A\$1,360/oz

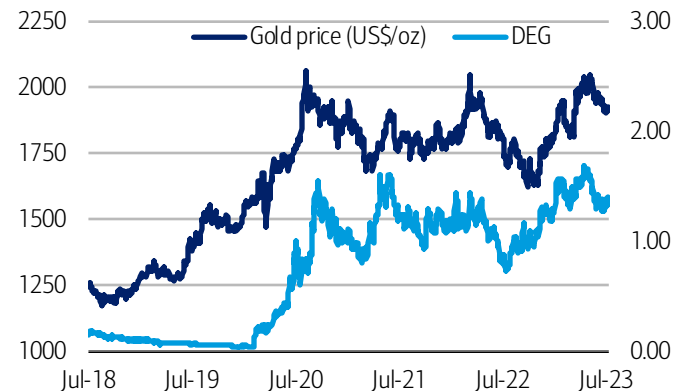


Source: BofA Global Research Estimates

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## Exhibit 6: DEG share price vs Gold price (US\$/oz)

Direct correlation between gold price performance and DEG



Source: BofA Global Research

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## Valuation

We rate DEG a Neutral with a price objective of A\$1.70/share, based on a 1.0x multiple of our NPV that is based on a DCF valuation. We set a 1.0x multiple which is set in-line with their single asset portfolio peers and apply a 75% risk weighting to their Mallina project given the risk associated with the project at pre-construction stage. We assume a WACC of 8.0% on a market risk premium of 5.5% and risk-free rate of 2.5%.

### Exhibit 7: NPV summary table

We value DEG at \$1.70/sh

NPV	A\$m	Risk weighting	A\$ps
Mallina	2,429	75%	1.19
Exploration	450		0.22
<b>Operating assets</b>	<b>2,879</b>		<b>1.41</b>
Corporate	(92)		-0.04
Net cash/(debt)	689		0.34
<b>Total</b>	<b>3,476</b>		<b>1.70</b>
Multiple to NPV			1.0
<b>Price Objective</b>			<b>1.70</b>

Source: BofA Global Research estimates.

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### Exhibit 8: BofA Global commodity prices

We forecast a lift in gold prices in FY24e

		FY22a	FY23e	FY24e	FY25e	FY26e	FY27e	LT (real)
Gold	US\$/oz	1,835	1,832	1,919	2,050	2,156	2,093	1,800
Silver	US\$/oz	24	22	23	24	26	27	26
AUDUSD	x	0.72	0.65	0.67	0.67	0.68	0.69	0.72

Source: Bloomberg, BofA Global Research Estimates

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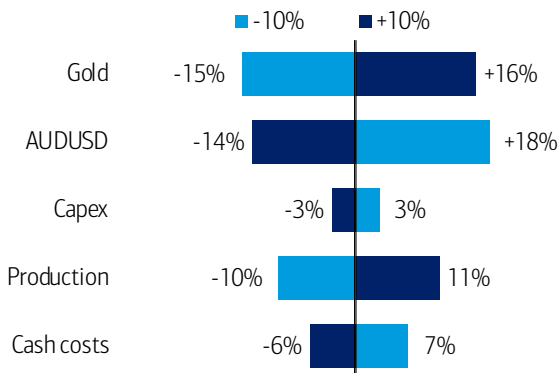
## Sensitivities

The greatest drivers to our valuation are gold price, AUDUSD and production rates (milled throughput). The sensitivity shows the impact a +/- 10% deviation to our base case will have on our valuation for DEG. Capex and operating costs have a smaller impact on valuation.

We assume a risk discount of 25% on the Mallina project and show what impacts different risk discounts have on our Mallina NPV risk discounts.

### Exhibit 9: NPV sensitivity

AUDUSD, gold price and production have greatest impact on NPV



Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 10: NPV sensitivity to project risk scenario

We assume a risk discount of 25% on Mallina

Risk discount	Mallina NPV/sh
0%	1.58
10%	1.43
20%	1.27
25%	1.19
30%	1.11
40%	0.95
50%	0.79

Source: BofA Global Research

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# Australian and global gold comps

## Exhibit 11: BofA gold companies under coverage

We initiate on DEG with a Buy rating

Gold Coverage	Rating	Price		TSR	Mkt Cap		EV		P/E		EV/EBITDA		Dividend Yield		FCF Yield		P/NPV
		\$/shr	\$/sh		US\$M	US\$M	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	
Northern Star	BUY	13.14	14.40	12%	10,084	10,667	32.8x	16.5x	8.4x	6.0x	2.6%	3.2%	4.5%	7.9%	1.00		
Evolution Mining	UNDERPERFORM	3.66	3.40	-5%	4,326	5,837	17.7x	9.1x	7.4x	5.2x	1.6%	3.1%	3.5%	9.3%	1.18		
Gold Road	BUY	1.64	1.90	17%	1,178	1,149	17.9x	13.7x	7.3x	5.6x	1.3%	1.9%	7.9%	11.3%	0.84		
Regis Resources	BUY	2.19	2.20	3%	1,012	1,190	n/a	11.1x	3.8x	2.6x	2.6%	3.9%	13.9%	18.5%	0.90		
De Grey Mining	NEUTRAL	1.55	1.70	10%	1,668	1,579	n/a	n/a	n/a	n/a			n/a	n/a	0.91		
<b>Average</b>				<b>7%</b>			<b>22.8x</b>	<b>12.6x</b>	<b>6.7x</b>	<b>4.9x</b>	<b>2.0%</b>	<b>3.0%</b>	<b>7.4%</b>	<b>11.7%</b>	<b>0.97</b>		
<b>Median</b>				<b>10%</b>			<b>17.9x</b>	<b>12.4x</b>	<b>7.4x</b>	<b>5.4x</b>	<b>2.1%</b>	<b>3.2%</b>	<b>6.2%</b>	<b>10.3%</b>	<b>0.91</b>		

Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH

## Exhibit 12: Global gold comps

DEG is a gold explorer vs global comps that are gold producers

Senior Gold Producers	Price	Mkt Cap	EV	P/E			EV/EBITDA			Dividend Yield			FCF Yield		
	\$/shr	US\$M	US\$M	CY23	CY24	CY25	CY23	CY24	CY25	CY23	CY24	CY25	CY23	CY24	CY25
Agnico Eagle	52.96	26,192	28,902	24.2x	25.0x	18.8x	8.9x	8.5x	7.2x	3.0%	3.0%	3.0%	3.5%	4.4%	6.3%
Barrick Gold	17.60	31,310	46,850	16.9x	13.8x	11.1x	8.2x	6.5x	5.7x	2.3%	2.6%	4.5%	4.4%	8.1%	12.2%
Newmont	45.47	36,136	40,896	21.9x	15.8x	11.3x	8.2x	6.7x	5.5x	3.5%	3.5%	5.7%	3.6%	8.1%	9.7%
<b>Average</b>				<b>21.0x</b>	<b>18.2x</b>	<b>13.7x</b>	<b>8.4x</b>	<b>7.2x</b>	<b>6.1x</b>	<b>2.9%</b>	<b>3.0%</b>	<b>4.4%</b>	<b>3.8%</b>	<b>6.8%</b>	<b>9.4%</b>
<b>Median</b>				<b>21.9x</b>	<b>15.8x</b>	<b>11.3x</b>	<b>8.2x</b>	<b>6.7x</b>	<b>5.7x</b>	<b>3.0%</b>	<b>3.0%</b>	<b>4.5%</b>	<b>3.6%</b>	<b>8.1%</b>	<b>9.7%</b>

Mid-Tier Gold Producers	Price	Mkt Cap	EV	P/E			EV/EBITDA			Dividend Yield			FCF Yield		
	\$/shr	US\$M	US\$M	CY23	CY24	CY25	CY23	CY24	CY25	CY23	CY24	CY25	CY23	CY24	CY25
AngloGold Ashanti	397.76	9,316	10,398	12.8x	11.3x	8.3x	5.5x	5.1x	4.2x	1.1%	1.0%	2.1%	3.2%	5.1%	11.2%
B2Gold	3.79	3,873	3,430	11.1x	14.0x	16.4x	3.2x	4.0x	4.6x	4.2%	4.2%	4.2%	6.4%	7.8%	7.7%
Centerra	8.48	1,415	957	53.9x	10.4x	19.6x	4.4x	2.6x	3.6x	3.3%	3.3%	3.3%	0.5%	13.0%	6.9%
Eldorado Gold	11.08	2,247	2,952	32.6x	34.6x	79.1x	7.0x	6.8x	6.6x	0.0%	0.0%	0.0%	-3.5%	-4.5%	-6.6%
Endeavour Mining	32.38	6,099	6,589	13.0x	7.9x	8.3x	4.7x	3.8x	3.2x	3.7%	2.8%	2.8%	5.2%	15.0%	23.5%
Gold Fields	272.48	13,532	14,368	13.9x	10.1x	8.3x	6.0x	4.6x	4.0x	2.2%	3.0%	3.6%	5.1%	12.0%	15.2%
Harmony	81.40	2,800	2,805	12.5x	10.4x	n/a	5.4x	4.8x	n/a	0.3%	1.2%	n/a	1.2%	5.7%	n/a
IAMGOLD	2.90	1,382	2,530	72.5x	58.0x	n/a	8.3x	6.1x	2.9x	0.0%	0.0%	0.0%	-55.0%	-15.3%	44.8%
Kinross Gold	5.12	6,285	9,383	14.2x	12.5x	6.7x	5.7x	5.6x	4.3x	2.3%	2.3%	2.3%	4.5%	9.5%	15.0%
Sibanye-Stillwater	7.18	5,079	5,411	6.9x	9.6x	7.6x	3.1x	3.5x	3.0x	4.3%	3.1%	3.9%	-0.3%	-3.4%	5.6%
SSR Mining Inc.	14.61	2,982	3,392	12.3x	14.2x	13.2x	6.0x	6.4x	6.3x	1.9%	1.9%	1.9%	4.0%	10.5%	11.4%
<b>Average</b>				<b>23.2x</b>	<b>17.6x</b>	<b>18.6x</b>	<b>5.4x</b>	<b>4.8x</b>	<b>4.3x</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.4%</b>	<b>-2.6%</b>	<b>5.0%</b>	<b>13.5%</b>
<b>Median</b>				<b>13.0x</b>	<b>11.3x</b>	<b>8.3x</b>	<b>5.5x</b>	<b>4.8x</b>	<b>4.1x</b>	<b>2.2%</b>	<b>2.3%</b>	<b>2.6%</b>	<b>3.2%</b>	<b>7.8%</b>	<b>11.3%</b>

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

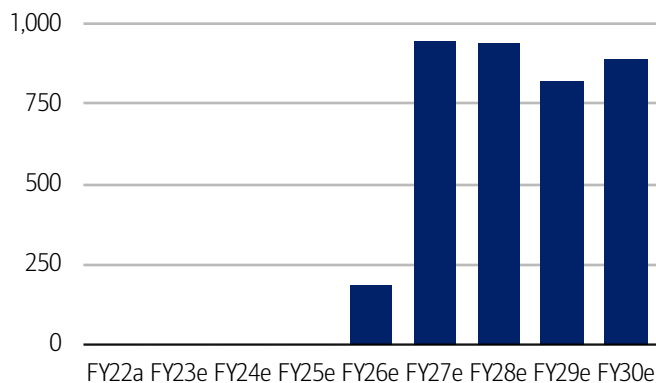


## Financial analysis

DEG is currently in pre-production stage with our expectations of commercial production to commence at Hemi in 2H FY26 driving future earnings and cash generation.

### Exhibit 13: EBITDA (A\$m)

Production to commence in 2H FY26



Source: BofA Global Research Estimates

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## Project financing

The company are anticipating completion of project finance during 2H 2023 to align with the upcoming release of the DFS and FID for the project. Based on the pre-feasibility study we assume a capex requirement of ~\$1.2bn which will be funded through a hypothetical capital structure involving a combination of debt and equity given DEG have limited cash available (\$146m at 31<sup>st</sup> March-23).

Our hypothetical capital structure assumptions:

- \$600m to be sourced through debt which assumes a peak gearing level of ~33% in 1H FY26e. We model a 6% interest rate on debt funding assumptions. The company has publicly stated that debt funding could go as high as \$800m, however we have conservatively used \$600m.
- We assume DEG will raise \$600m through an equity raising, with 483m shares issued at a 10% discount to their current share price. We note there is potential for deviation from our hypothetical equity raising base case upon DEG finalizing their project financing package.

We have run a scenario highlighting the impact different capital structures have on our NPV. We have taken a conservative approach.

### Exhibit 14: NPV sensitivity on funding package scenario analysis

We use a conservative \$600m debt, \$600m equity in our assumptions

Funding package		NPV/sh
Debt	Equity	
400	800	1.74
600	600	1.78
800	400	1.80
1000	200	1.87

Source: BofA Global Research

BofA GLOBAL RESEARCH

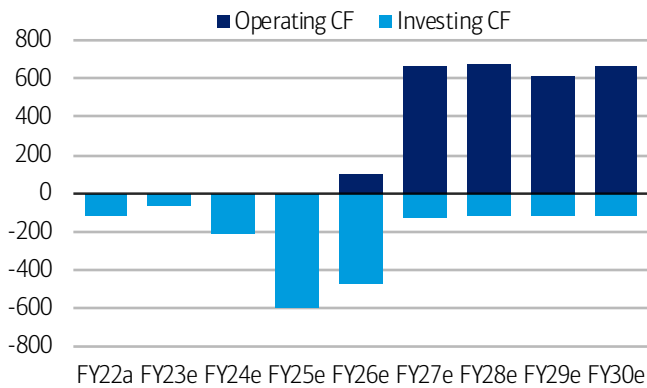


We assume that the company finalizes their financial package for project funding towards the end of 1H FY24 (end of CY23) along with FID. We forecast the capex spend on the project to commence in 2H FY24 which will see an increase in gearing until production commences.

Production from Mallina will commence in the 2H FY26 and forecast strong FCF from Mallina in FY27+. We estimate in the first 3 years of production DEG will generate \$1.5bn in FCF, forecasting a capex payback period for the project of <3 years.. Amongst our coverage DEG will have one of the highest rates of operating mine cashflow (including sustaining capex) per ounce of production of over A\$1,500/oz with current average amongst their peers of \$1,300/oz.

**Exhibit 15: Cashflow profile (A\$m)**

Strong operating margins driving FCF

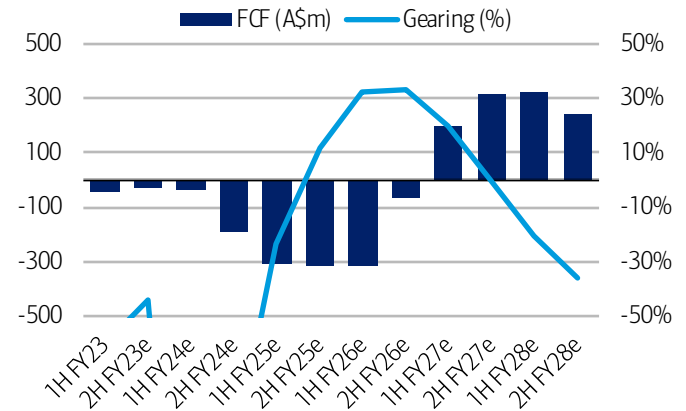


Source: BofA Global Research Estimates

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**Exhibit 16: FCF and gearing profile**

Gearing to peak in 1H FY26e



Source: BofA Global Research Estimates

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# Summary model

## Exhibit 17: De Grey Mining operating and financial summary

Hemi to commence production in 2H FY26 driving earnings

			FY20a	FY21a	FY22a	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Inputs	Gold	US\$/oz	1,563	1,850	1,835	1,832	1,919	2,050	2,156	2,093	2,055	2,072	2,123
	Silver	US\$/oz	17	25	24	22	23	24	26	27	29	30	31
	AUDUSD	x	0.67	0.75	0.72	0.65	0.67	0.67	0.68	0.69	0.71	0.72	0.72
Production	Milled tonnes	Mt							1,900	8,900	10,000	10,000	10,000
	Grade	g/t							1.70	1.75	1.75	1.70	1.80
	Recovery	%							92%	93%	93%	93%	93%
	Gold production	koz							96	465	523	508	538
	AISC	A\$/oz prod							1,127	1,050	1,176	1,343	1,377
Financials	Revenue	A\$m	0	0	1	0	0	0	295	1,399	1,513	1,463	1,587
	EBITDA	A\$m	-4	-5	-9	-14	-14	-15	182	944	939	822	889
	D&A	A\$m	0	1	2	2	2	2	21	88	102	104	107
	EBIT	A\$m	-4	-5	-11	-16	-16	-17	162	856	837	718	782
	NPAT	A\$m	-4	-5	-11	-10	-28	-32	67	559	579	525	599
	EPS	cps	0	0	-1	-1	-1	-2	3	27	28	26	29
	DPS	cps	0	0	0	0	0	0	0	0	0	0	0
	Operating cashflows	A\$m	-2	-4	-6	-8	-26	-30	87	647	680	630	706
	Capex (inc. exploration)	A\$m	16	57	121	58	207	596	470	129	116	118	119
	Free cash flow	A\$m	-28	-61	-128	-76	-233	-626	-383	518	564	512	587
	Financing cashflow	A\$m	55	104	120	144	1,200	0	0	-100	-200	-200	-100
	Cash	A\$m	28	71	63	131	1,098	473	90	508	872	1,183	1,670
	Total assets	A\$m	80	197	312	434	1,606	1,574	1,641	2,100	2,478	2,804	3,303
	Total liabilities	A\$m	5	21	23	11	611	611	611	511	311	111	11
Equity	A\$m	75	176	288	423	995	963	1,030	1,589	2,168	2,693	3,293	
Net Debt	A\$m	-28	-71	-63	-131	-498	127	510	-8	-572	-1,083	-1,670	
ROCE	%	-5%	-3%	-4%	-4%	-2%	-2%	16%	54%	39%	27%	24%	
Gearing	%	-60%	-68%	-28%	-45%	-100%	12%	33%	0%	-36%	-67%	-103%	
Payout ratio	%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Shares on issue	m	1173	1292	1409	1561	2044	2044	2044	2044	2044	2044	2044	
Reserves	Tonnes	Mt	103										
	Grade	g/t	1.50										
	Ounces	Koz	5,139										
Resources	Tonnes	Mt	278.1										
	Grade	g/t	1.30										
	Ounces	Koz	11,747										

Source: Company data, BofA Global Research

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## Company overview

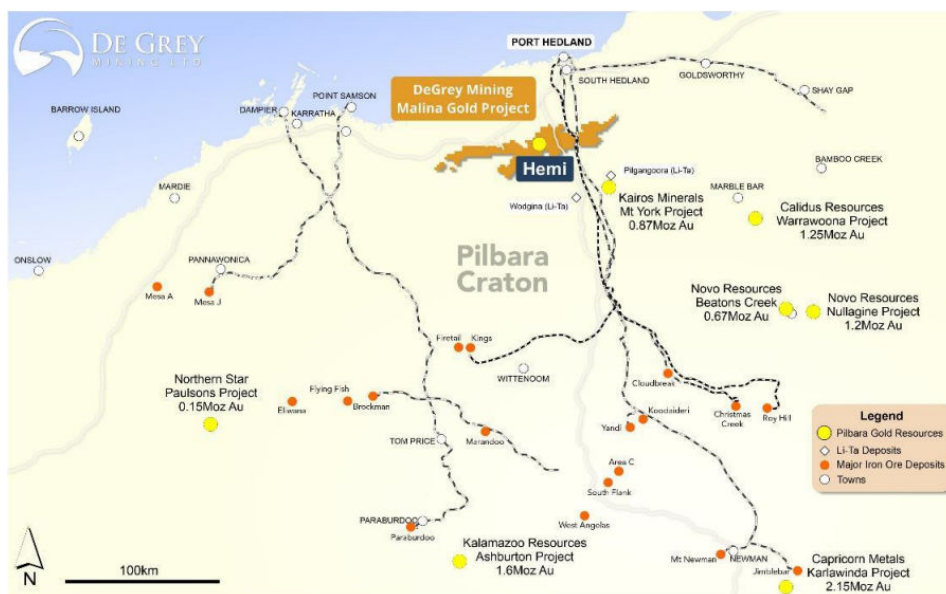
De Grey Mining is a mid-cap (A\$2.1bn market cap) gold exploration company focused on exploration at their 100% owned Mallina Gold Project (MGP) and transitioning to a gold producer over the next 3 years with the development of the Hemi asset.

### Mallina Gold Project

Mallina is located in the Pilbara region, Western Australia, approximately 85km south of Port Hedland. DEG has a tenement holding of ~2,500km<sup>2</sup> (including joint ventures) which holds their flagship Hemi asset. The project is in an advantageous position, in-close proximity to already established infrastructure set up to service local communities and existing mines in the Pilbara including roads, port facilities (Port Hedland), gas pipelines and power.

#### Exhibit 18: DEG tenement holding and Mallina project location

Located in close proximity to road, port, gas and power infrastructure



Source: De Grey Mining

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### Mallina Project summary

Our base case assumptions for MGP are based broadly upon the PFS released in Sept-22.

#### 22. Key takeaway for our outlook on Hemi:

- Plant throughput rate of 10mtpa on our base case. We note there could be the potential for expansion beyond this if there is continued exploration success and increase to reserves and resources
- Over the first 5 years we model a grade in excess of reserve grade with grade to get up to a peak of 2.0g/t in FY31 before stepping down to the reserve grade of Hemi at 1.4g/t. We have the grade profiling following the inputs of the PFS where the early years ore mined will be sourced from the open pits where grade is elevated particular from Falcon and Aquila.
- We remain conservative on recovery rates at 93% (PFS of 93.6%). On our numbers, increases in recoveries yields a very small lift in gold production. For every extra 1% gain on recovery rates that adds an addition ~5koz p.a (at no additional cost).
- We model a mine life of 16.5 years which we think reflects the exploration potential for DEG and we believe there is high likelihood of further extension beyond this. We



think longer term production (post yr 10) will average around 420koz pa which is higher than DEG’s PFS and a resulting factor for the higher IRR of 45% (DEG 41%).

- Given the inflationary environment since the PFS was released we believe capex for development of the project is likely to be ~A\$1.2bn. It is a significant capex requirement for a company that currently has no revenue stream but given the strong project economics and cash flow potential this will not be an issue in our view.

**Exhibit 19: BofA base case for Hemi vs PFS outcomes**

We hold a conservative view on recoveries and costs

	PFS	BofAe
Construction start	CY23	CY24
First production	CY25	CY26
Mine life	13.6 yrs	16.5
Strip ratio	6.1:1 w:o	6.1:1
Mill throughput	10 Mtpa	10
Grade	1.6 g/t	1.6
Recovery rate	93.6 %	93
Avg Gold production (years 1-10)	540 koz pa	510
Recovered ounces (LOM)	6.4 Moz	7.9
AISC (years 1-10)	1,280 A\$/oz	1,360
Capex	1,053 A\$m	1,200
NPV (8% WACC DEG, 8% BofA)	2,700 A\$m	3,470

Source: BofA Global Research, company data

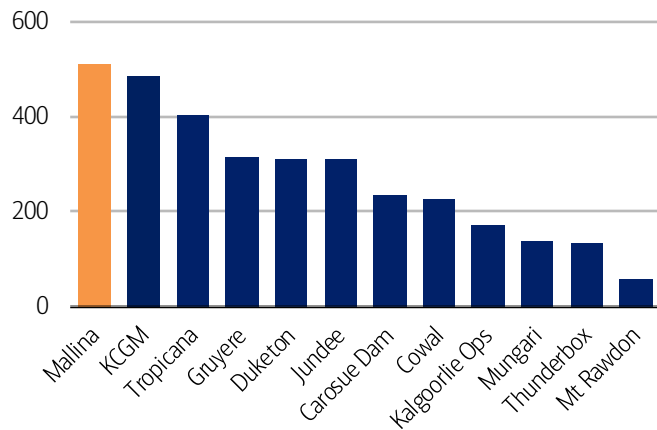
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Based on our gold coverage, Mallina will be the 2<sup>nd</sup> largest producing asset behind KCGM. While Mallina as of FY22 production rates will be the highest producer we note that KCGM is currently ramping up to 650koz p.a by FY26.

We are conservative on costs and model an average AISC A\$1,360/oz over years 1-10, it sits comfortably in the 1<sup>st</sup> quartile cash costs. While on a processing unit cost basis Mallina is higher than their peers at \$24/t vs ~18/t due to the sulphide gold processing circuit, their high gold production is the enabler of low AISC.

**Exhibit 20: FY22 production by mine vs Mallina**

Mallina will be the 2<sup>nd</sup> largest asset with yr 1-10 av. 510koz p.a

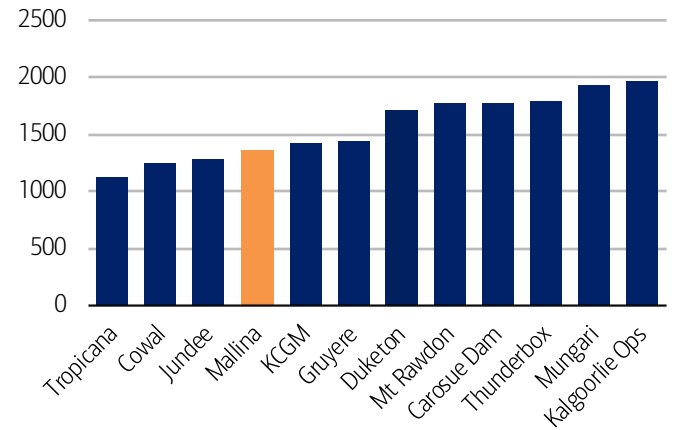


Source: Company data, BofA Global Research

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**Exhibit 21: FY22 AISC by mine vs Mallina yr 1-10. AISC (A\$/oz)**

Mallina will av. ~A\$1,360/oz-



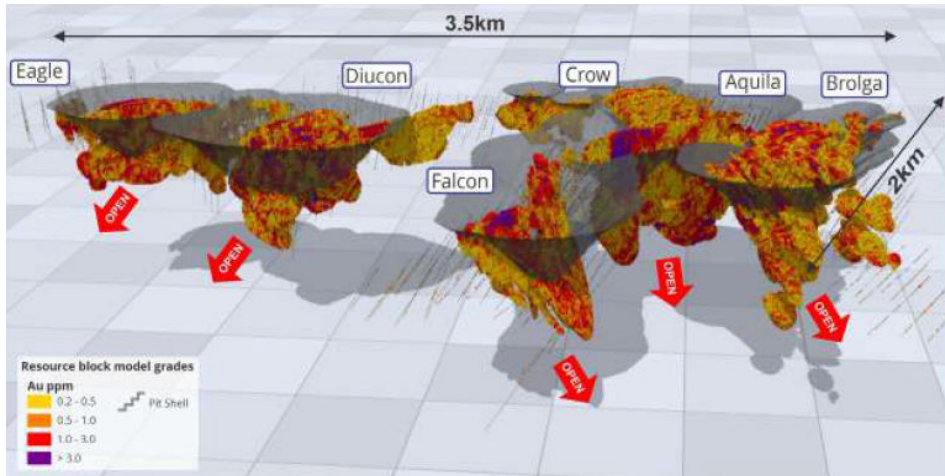
Source: Company data, BofA Global Research

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**Exhibit 22: Production at Hemi will be underpinned by 6 deposits**

Mining will commence at the low strip Brolga open pit



Source: De Grey Mining

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DEG key dates and milestone timeline for Hemi (BofA base case):

- Sept Quarter-2023 – release of DFS to be underpinned with inclusion of further resources and reserves from drilling completed since the release of the Pre-Feasibility Study in Sept-22.
- 2H CY23 – FID and completion of funding arrangements for project development approval
- Anticipated mine permit receipt late CY23 (mining lease application lodged Nov-21)
- Late 2023 to mid-2026 – construction
- Mid-2026 – commercial production

**Metallurgy and Processing**

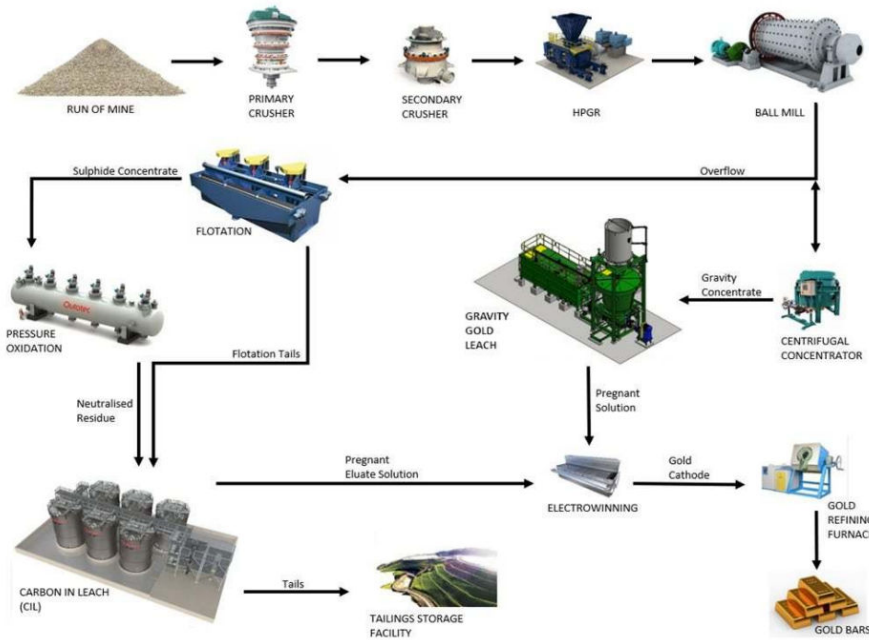
Metallurgically Hemi is more complex than gold deposit which run standardized carbon-in-leach (CIL) processing plants for extraction of the gold. Hemi is predominantly a refractory sulphide hosted gold orebody with a smaller percentage of the gold able to be recovered exclusively by CIL or free milling circuit. Extraction of the gold from the sulphide minerals (arsenopyrite and pyrite) requires the use of a pressure oxidation (autoclave) circuit to decouple the gold from the sulphides for successful gold recovery. The pressure oxidation technology is not new and has been used for extraction of sulphide gold deposits over the last 20+ years.

Key metallurgical and processing points for Hemi:

- Utilizes high pressure grind roller (HGPR) to create additional fines and microfractures within the ore material for increased recoveries.
- Flotation circuit tailings can recover gold using standard CIL processing.
- Pressure oxidation (POx) circuit will convert the sulphide concentrate to a gold bearing residue for CIL processing. POx throughput of ~800ktpa.
- Lower processing costs than operations that require 100% of ores to be treated through POx circuit.

**Exhibit 23: Processing flow chart for Hemi**

HPGR and POx circuit additions for the refractory sulphide gold ore



Source: De Grey Mining

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**Geology and exploration**

The Hemi mining centre consists of 6 separate deposits; Brolga, Aquila, crow, Falcon, Diucon and Eagle. Gold mineralisation across the 6 deposits is very similar and characterised by fine grained gold primarily hosted in sulphide (arsenopyrite and pyrite) rich veining within diorite intrusives. Regional deposits such as Withnell and Wingina are structurally controlled with gold mineralisation hosted in stacked quartz veining. The grade profiling at Hemi shows that grade is lowering at depth which we will continue to analyse as drilling continues and confidence in ore distribution increases.

Across Hemi, there is limited cover with the deposits on average sitting ~30-40m below surface requiring minimal pre-stripping. The shallow depth of the mineralisation is also desirable from an exploration perspective as it allows for easier identification of targets and lower costs associated with exploration activities in particular drilling costs.

DEG's current reserves and resources of 5moz and 11 moz respectively, approximately 80% is hosted within sulphides and the remaining 20% is primary gold hosted in structurally controlled veining. We assume that over Mallina's 16 year mine life (BofA base case) they extract 8.6moz which includes 5.1 moz from reserves and 3.5moz of resource ounces. We believe this is conservative as it correlates to a ~50% conversion rate of resources to economically mineable ounces.

**Exhibit 24: DEG Mineral Resources (as at 31-May-22)**

Regional exploration targets provide gold resource growth potential

Mining Centre	Tonnes (mt)	Grade (g/t)	Ounces (koz)
Hemi	236.5	1.30	9,508
Withnell	29.7	1.80	1,701
Wingina	11.9	1.40	538
<b>Total</b>	<b>278</b>	<b>1.30</b>	<b>11,747</b>

Source: Company data

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**Exhibit 25: DEG Ore Reserves (as at Sept-22)**

We expect reserve growth with infill drilling

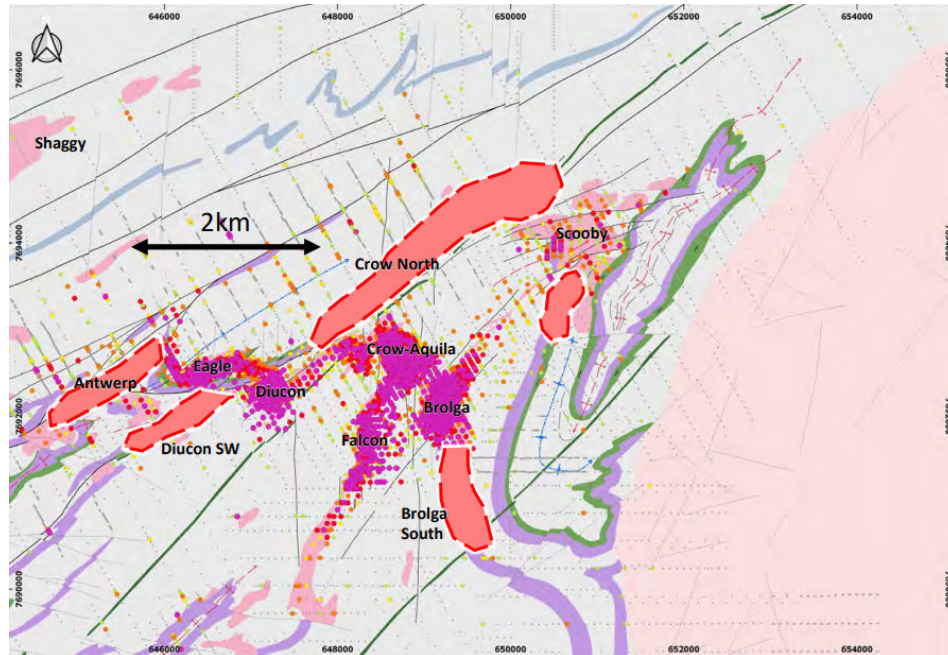
Mining Centre	Tonnes (mt)	Grade (g/t)	Ounces (koz)
Hemi	103	1.50	5,139
<b>Total</b>	<b>103</b>	<b>1.50</b>	<b>5,139</b>

Source: Company data

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**Exhibit 26: Near mine open pit extension targets**

Exploration currently targeting extensional opportunities to current open pit plan



Source: De Grey Mining

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Regional exploration targets over DEG’s tenement holding shows significant number of targets looking at both intrusion targets (same as Hemi) where the gold mineralisation is hosted in the sulphide veining and structural (shear-hosted) gold mineralisation where primary gold is hosted within quartz veining. We view the outlook for regional exploration as highly prospective and we believe with further exploration there is the high likelihood of further growth to resources. And given the close proximity (~50km) to the proposed Mallina processing plant the regional targets are within trucking distance and could provide further optionality for production sources across Mallina.

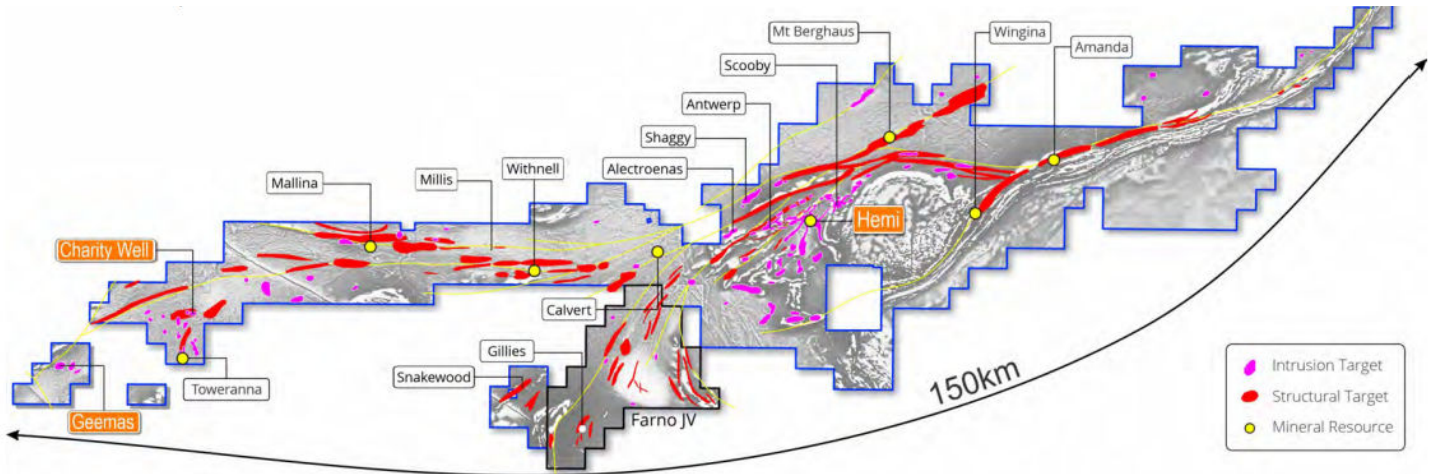
Limited drilling has focussed on the regional targets since discovery of Hemi and we think that once production has commenced this will provide cashflow for a ramp up in exploration activities.





**Exhibit 27: Regional exploration targets within Mallina gold project tenement holding**

Significant exploration upside for DEG targeting both intrusion style gold (Hemi) and structural hosted gold mineralisation



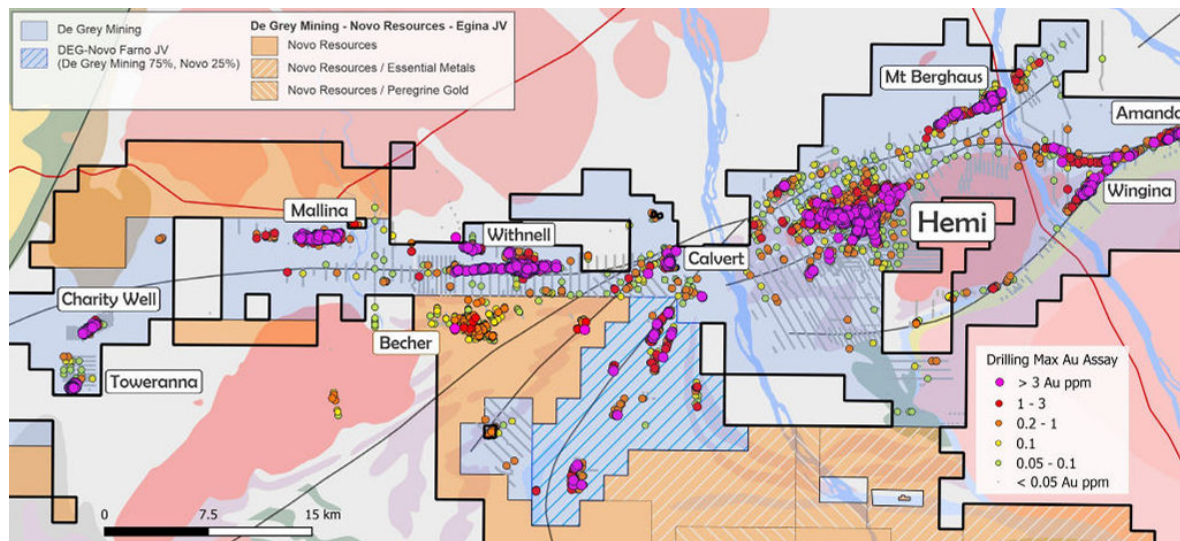
Source: De Grey Mining

**Exploration earn-in agreement with Novo Resources**

The recent exploration agreement signed with Novo Resources allows DEG increased exposure to the highly prized exploration tenements directly adjacent to their current Mallina Gold Project. In our view \$35m (\$10m spent and a further \$25m to be committed over 4 years) opens the door to further targets within the additional ~1100km<sup>2</sup> land package that are trucking distance to Hemi. The Egina JV tenements have had limited exploration with Bercher the main target drilled to date showing replications of Hemi style mineralisation.

**Exhibit 28: DEG and Novo JV tenements**

Bercher is of similar style to Hemi and is yet to announce a maiden resource



Source: De Grey Mining



## Key people for DEG

### Glenn Jardine (Managing Director)

Mr. Jardine is a senior mining executive with direct experience growing resource companies from early stage exploration through to multi-operation entities. This includes taking projects through feasibility studies, equity funding, debt financing, project development and operations.

### Andy Beckwith (Executive Technical Director)

Mr. Beckwith has over 30 years of Geological and Management experience. His more recent roles include successfully building Westgold to circa 5M ounces of resources as Managing Director and prior to that, senior roles with Anglo Gold Australia.

### Simon Lill (Non-Executive Chairman)

Mr. Lill has a BSc and a Masters of Business Administration. He has been a corporate adviser with Trident Capital Pty Ltd for the last 5 years. He has over 25 years' experience in stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries.

### Peter Hood AO (Non-Executive Director)

Mr. Hood, a Chemical Engineer, has had a distinguished career in the Australian Mining and Chemical Industries. Currently he holds positions on the board of two other ASX listed companies; GR Engineering and Matrix Composites and Engineering Ltd.

### Paul Harvey (Non-Executive Director)

Mr. Harvey holds a Bachelor of Engineering (Mining) and is an experienced resource executive with operational and projects leadership built from over 35 years global in the resources sector. His recent roles include leadership positions at South32 (2015 – 2020).

### Emma Scotney (Non-Executive Director)

Ms Scotney is a highly experienced Business Advisor and Corporate Lawyer who has over 25 years combined expertise in the property, agricultural and mining industries. She has extensive expertise in advising on corporate, financial and commercial matters, including M&A and corporate governance policy. Ms Scotney also currently holds the position of Non-executive Director ASX listed Minerals 260 Limited.





## Key risks

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The key risk factors to our forecasts and valuation include:

### Project risk

DEG faces risks associated with developing the Mallina gold project. When developing mining projects there is construction, execution and capex risks associated with delivery of the project to the production stage. Any deviation from base case assumptions during the development stage has the potential to impact the returns on the project and earnings for DEG.

### Technical risk

DEG's Mallina project is a sulphide/refractory gold deposit and there is increased technical risk associated with the more complex metallurgical nature of the ore (vs standard primary gold mineralisation). The Mallina sulphide ore requires a combination of processing technologies (high pressure grinding and pressure oxidation) to extract the gold. Gold production from Mallina is dependent on the success of metallurgical processing and gold recoveries with any impacts during the metallurgical recovery process having the ability to affect gold production output.

### Commodity and currency risk

DEG is exposed to gold prices and any fluctuations in commodity price can impact the company's business and financial performance. Gold prices continue to remain driven by investment demand rather than the fundamental supply/demand balance. Global inflationary pressures over the last 12 months and strengthening USD versus AUD have depressed investor demand in the gold market increasing uncertainty in the commodity. Currency movements can impact DEG's earnings as commodities are USD denominated and their costs are AUD denominated.

### Ore reserves and mineral resources estimates

The volume and grade of DEG's mineral resource and reserve estimates are based on material assumptions that may prove incorrect. Any changes in geological interpretation or mineralisation understanding have the potential to impact DEG's mineral resources or ore reserves which could impact project economics at Mallina.

### Financing risk

Development of the Mallina gold project is dependent upon DEG obtaining the funding to meet the project requirements. If DEG is unable to access the funding, then this places the project at risk or if the mix of funding varies from our assumptions then this has the potential to impact our valuation and/or earnings outlook for the company.



## Price objective basis & risk

### De Grey Mining (DGMLF)

Our \$1.70/share price objective is based on 1.0x our DCF derived NPV. Our DCF based valuation has the following assumptions: 1) WACC of 8.0% (nominal) assuming a risk free rate of 2.5% and equity premium of 5.5%. 2) we apply a 75% weighting to their Mallina Gold Project given the risk associated with projects in pre-construction phase. 3) Exploration success will drive extensions to mine life through regional and near mine targets.

Upside risks to our PO are 1) exploration success and mine life extension, 2) gold price and 3) increase in production profiling and lower costs for Mallina in the upcoming feasibility study.

Downside risks to our PO are 1) capex cost increases to develop Mallina. 2) changes to production and cost profiling of Mallina in the upcoming feasibility study, 3) lower gold price assumptions and 4) project execution risk

## Analyst Certification

I, Meredith Schwarz, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### APR - Metals, Mining & Steel Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Anhui Conch	AHCHF	914 HK	Matty Zhao
	Anhui Conch -A	AHCAF	600585 CH	Matty Zhao
	Banpu Pcl	XJCEF	BANPUTB	Kornsun Suksumrun
	Baosteel	BAOSF	600019 CH	Matty Zhao
	Chalco	ALMMF	2600 HK	Matty Zhao
	Chalco -A	XAMTF	601600 CH	Matty Zhao
	China Shenhua	CUAEF	1088 HK	Matty Zhao
	China Shenhua	XCUAF	601088 CH	Matty Zhao
	CMOC	CMCLF	3993 HK	Miriam Chan, CFA
	CMOC	XCMUF	603993 CH	Miriam Chan, CFA
	CNBM	CBUMF	3323 HK	Matty Zhao
	Ganfeng Lithium	GNENF	1772 HK	Matty Zhao
	Ganfeng Lithium	XMOZF	002460 CH	Matty Zhao
	Jiangxi Copper	JJAXF	358 HK	Matty Zhao
	Jiangxi Copper	JGXCF	600362 CH	Matty Zhao
	Maanshan Iron & Steel	MAANF	323 HK	Matty Zhao
	Maanshan Iron & Steel -A	MISIF	600808 CH	Matty Zhao
	Nickel Asia Corporation	NCKAF	NIKLM	Philip Albert Felix
	POSCO Holdings	PKXFF	005490 KS	KJ Hwang
	POSCO Holdings	PKX	PKX US	KJ Hwang
	Semirara Mining Corporation	SMIRF	SCC PM	Julian Roxas
	Sichuan Yahua Industrial Group	XVHEF	002497 CH	Edward Leung, CFA
	Tianqi Lithium	TQLCF	002466 CH	Matty Zhao
	Tianqi Lithium	XYECF	9696 HK	Matty Zhao
	Zijin Mining	ZIJMF	2899 HK	Matty Zhao
	Zijin Mining	XZNMF	601899 CH	Matty Zhao
<b>NEUTRAL</b>				
	Angang Steel	ANGGF	347 HK	Matty Zhao
	Angang Steel -A	AGGSF	000898 CH	Matty Zhao
	Chengxin Lithium Group	XCNGF	002240 CH	Edward Leung, CFA
	Conch Venture	CCVTF	586 HK	Matty Zhao
	CR Cement	CJRCF	1313 HK	Matty Zhao
	De Grey Mining	DGMLF	DEG AU	Meredith Schwarz



## APR - Metals, Mining &amp; Steel Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	PT Merdeka Battery Materials	XDMBF	MBMA JI	Edward Leung, CFA
	Yankuang Energy	YZCHF	1171 HK	Matty Zhao
	Yankuang Energy	YZCIF	600188 CH	Matty Zhao

## UNDERPERFORM

	BBMG	BBMGF	2009 HK	Matty Zhao
	BBMG -A	XMRHF	601992 CH	Matty Zhao
	China Coal	CCOZF	1898 HK	Matty Zhao
	China Coal	XAWLF	601898 CH	Matty Zhao
	Lee & Man Paper	LMPMF	2314 HK	Matty Zhao
	Nine Dragons Paper	NDGPF	2689 HK	Matty Zhao
	Siam Cement	SCVQF	SCC TB	Jiraporn Linmaneechote
	Siam City	USIZF	SCCC TB	Jiraporn Linmaneechote
	Xinyi Glass	XYIGF	868 HK	Matty Zhao

## RVW

	Hindalco	HNDFF	HNDL IN	Anuj Singla
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IQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	61	59.80%	Buy	28	45.90%
Hold	17	16.67%	Hold	10	58.82%
Sell	24	23.53%	Sell	12	50.00%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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