



Tietto Minerals Ltd (TIE.ASX)

Not attractive as anticipated, but project still robust

Event:

- PFS/Expanded Scoping Study review; PT change.

Investment Highlights:

- **Tietto Minerals (TIE) earlier this month released its Abujar PFS together with Expanded Project Scoping Study.** The PFS solely examined the AG open pit – mostly underpinned by Reserves – while the Expanded project added later mining of the lower-grade APG open pit and higher-grade AG underground ore.
- **Results not as stellar as expected.** The studies' key metrics – notably NPV and the initial years' head grade and gold production – fell short of our expectations and, judging from subsequent share price reaction, that of the market's as well.
- **Negative impact from lower gold price, grade, and production.** Expanded Project NPV was US\$311M (vs FSBe US\$789M), head grade average years 1-8 was 1.5g/t (FSBe 1.8g/t) and production years 1-7 was 168koz (FSBe 221kozpa). Lower price assumed (US\$1,491/oz vs US\$1,812/oz) was the major factor impacting NPV, along with grade. Inability to selectively mine the high-grade core (2.2g/t) in the initial years disappointed the market and our expectations.
- **Positives are lower operating and capital costs.** On the plus side, pre-production capex was US\$230M vs our estimate US\$278M, highlighting the low capital intensity of the project, while AISC of the Expanded Project was US\$903/oz well below our prior estimate of US\$1,252/oz.
- **DFS opportunity to enhance metrics.** A Resource upgrade is due in late May which we believe will be focused on improving resource quality, while a DFS is expected in the June quarter with potential uplift from modelling of transition/oxide processing. A heap leach study is also underway.
- **TIE targeting construction start late CY21.** Project momentum continues, with Resource update, DFS, and Mining Convention in 1HCY21, likely paving way for financing and FID in 2HCY22. SAG mill has been secured recently.

Earnings and Valuation:

- **We reduce our risked TIE share valuation to \$0.56 from \$0.85,** mostly from our gold price downgrade (LT US\$1,609/oz vs US\$1,812/oz prior) and accounting for lower grade and production profile for Abujar. Despite reducing Abujar valuation, project metrics are still positive (IRR 40%, NPV/pre-prod capex 1.6x)
- **We publish maiden earnings forecast for TIE.** We forecast average annual EBITDA and NPAT of A\$156M and A\$71M over the first seven years mine life. We expect construction beginning CY22, with first production beginning CY23.
- **Valuation supported by peer comparisons.** TIE trades at A\$30/oz vs peer explorer/developer median of A\$74/oz, possessing the lowest multiple of ASX developers with a PFS. Applying the median multiple implies a share price of \$0.55 – in-line with our risked valuation.

Recommendation:

- **We maintain our Buy and reduce our 12-month PT to \$0.56/share (previous \$0.85) based on our risked valuation.** Key catalysts include: Resource upgrade; DFS; Mining Convention finalisation; Heap leach study results; Financing; and FID.

Disclosures

The analyst owns 61,600 TIE shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,099,167 TIE shares.

Cranport Pty Ltd owns 1,700,322 TIE shares.

Foster Stockbroking has provided corporate advice to TIE for which it has received fees.

Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.56
Previous	\$0.85
Share price (A\$)	\$ 0.295
ASX code	TIE
52 week low-high	0.24-0.765
Valuation risked (A\$/share)	\$ 0.56
Methodology	risked DCF

Capital structure

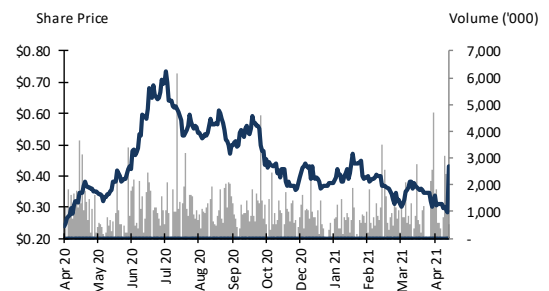
Shares on Issue (M)	451
Options (M)	74
Performance rights (M)	20
Market cap (A\$M)	133
Net cash (debt) (A\$M)	52
Fully diluted EV (A\$M)	109
Ave daily volume ('000)	1,064

Earnings \$M Y/e Jun	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	121
EBITDA	-12	-17	-18	59
NPAT rep.	-13	-18	-17	26
NPAT adj. attr.	-12	-18	-17	22
EPS \$	-0.04	-0.04	-0.02	0.03
P/E	nm	nm	nm	8.7
EV/EBITDA	nm	nm	nm	3.7

Substantial shareholders

Hong Kong Ausino Investment	9.9%
5013423 Ontario Corp	8.6%
HSBC Custody Nominees (Australia) Ltd	5.5%
Inner Mongolia Geological & Minerals Exploration P	5.2%
1832 Asset Management LP	5.1%

Share price graph



Analyst: Mark Fichera

+612 9993 8162

mark.fichera@fostock.com.au