



## Canyon Resources Ltd (CAY.ASX)

### Focus on BFS and Mining Convention

#### Event:

- June quarterly; Share placement.

#### Investment Highlights:

- \$6.2M placement bolsters cash balance to \$8.9M.** On August 2<sup>nd</sup> CAY announced a \$6.2M equity placement with 77.3M shares to be issued at \$0.08. This will increase company's cash balance to \$8.9M. 70.5M of the shares will be issued as part of company's existing placement capacity (on or around August 9<sup>th</sup> August) and 6.8M subject to shareholder approval at a Meeting anticipated mid-September.
- Funds provide leeway as major milestones navigated.** The enhanced cash position should provide CAY with more comfort as it seeks to deliver major initiatives for its Minim Martap bauxite project – chiefly the DFS and Mining Convention, the latter essentially paving a precursor to Mining Permit. The funds will also assist the company engaging in offtake and funding discussions.
- We expect BFS in 3QCY21 and Mining Permit in 4QCY21.** We expect CAY to agree to a Mining Convention with the Cameroon Government in the 4QCY21, which should lead to the Mining Permit soon after. We believe finalising most, if not all, of the rail agreement is critical in securing the Mining Convention and Mining Permit. Offtake and or funding agreements may also be concluded in the 2HCY21. An ESIA for Minim Martap has already been submitted.
- Project highlights reminder.** Minim Martap PFS revealed 20-year LOM at 4.9Mtpa of DSO bauxite, with post-tax NPV<sub>10</sub> real of US\$291M and pre-production capex US\$119M. IRR is 37% and NPV/capex ratio of 2.4x. C1 cash costs are \$35.2/t, with high transport cost (800km rail to port) offset by no beneficiation required and low mine strip of 0.4x. CAY estimates the project to sit in the middle of landed quality adjusted Wood Mackenzie cost curve.
- Tier 1 asset comparable to Cape York and Guinea bauxites in quality and size.** Minim Martap is a gibbsite low-temperature bauxite, possessing one of the highest Available Alumina and lowest Reactive Silica of global bauxite projects and mines. Both are key parameters for low cost production of alumina.
- A low cost and green bauxite for refiners.** Minim Martap's high Available Alumina and low Reactive Silica means greater alumina recovery, lower caustic soda consumption, less red mud waste, and lower energy consumption for alumina refiners. Other pluses are long life and alternative to Guinea supply.

#### Earnings and Valuation:

- No changes to earnings.**
- Our CAY share valuation (0.5x NPV<sub>10</sub>) reduces to \$0.30 (prior \$0.32),** based on the placement being more dilutive than we had forecast. Our unrisks 1.0x NPV<sub>10</sub> of CAY is \$0.60/share.

#### Recommendation:

- We maintain our Speculative Buy Recommendation and lower our 12-month share PT to \$0.30, based on risked valuation of 0.5x NPV<sub>10</sub>.**
- Catalysts for the share price include:** 1) DFS; 2) Mining Convention 3) Finalisation of rail and port access agreements; 4) Binding offtake; 5) Mining permit; 6) Financing; and 7) FID.

#### Disclosures

The analyst owns 243,320 CAY shares. Foster Stockbroking and associated entities (excluding Cranport) own 243,320 shares. Cranport Pty Ltd owns 1,443,750 CAY shares. Refer details end of report.

**Foster Stocking acted as Joint Lead Manager to the \$6.2M placement of 77.3M CAY shares at \$0.08 in August 2021, for which it received fees. Foster Stockbroking may also receive fees from corporate advisory services it provides to CAY.**

| Recommendation                 | Speculative Buy |
|--------------------------------|-----------------|
| Previous                       | Speculative Buy |
| Risk                           | High            |
| Price Target                   | \$0.30          |
| Previous                       | \$0.32          |
| Share price (A\$)              | \$0.086         |
| ASX code                       | CAY             |
| 52 week low-high               | \$0.083-\$0.18  |
| Valuation - risked (A\$/share) | \$ 0.30         |
| Methodology                    | risked NPV      |

#### Capital structure

|                                  |       |
|----------------------------------|-------|
| Shares on Issue (M) pro-forma    | 701   |
| Market cap (A\$M) pro-foram      | 60    |
| Net cash (debt) (A\$M) pro-forma | 9     |
| Performance rights (M)           | 3     |
| Options (M)                      | 9     |
| Diluted EV (A\$M)                | 52    |
| Ave daily volume ('000)          | 1,413 |

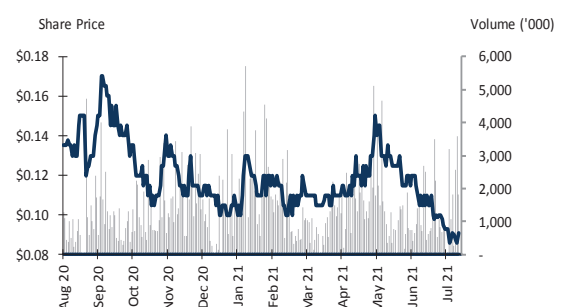
| Earnings      | FY20a | FY21e | FY22e | FY23e |
|---------------|-------|-------|-------|-------|
| Sales         | 0     | 0     | 0     | 0     |
| EBITDA adj    | -8    | -8    | -9    | -10   |
| NPAT reported | -9    | -8    | -9    | -14   |
| NPAT adj      | -8    | -8    | -9    | -14   |
| EPS adj. \$*  | -0.02 | -0.01 | -0.01 | -0.01 |
| PE x          | nm    | nm    | nm    | nm    |
| EV/EBITDA x   | nm    | nm    | nm    | nm    |

\* Adj =underlying

#### Board

|                   |                        |
|-------------------|------------------------|
| Cliff Lawrenson   | Non-Executive Chairman |
| Phillip Gallagher | Managing Director      |
| David Netherway   | Non-Executive Director |
| Steve Zaninovich  | Non-Executive Director |
| Peter Su          | Non-Executive Director |

#### Share price graph



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