

Karora Resources Inc. (TSX:KRR)

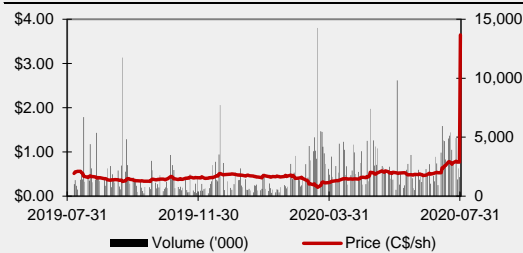
Corporate Update
August 4, 2020

Catalysts Should Push this Stock Higher Post Consolidation

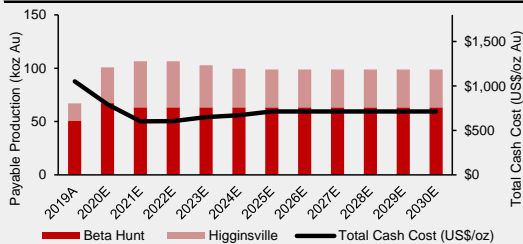
(Currency is C\$ unless noted otherwise)

Closing Price (C\$/sh)	\$3.60		
Rating	BUY		
Target (C\$/sh)	\$5.85		
Return to Target	63%		
52 Week Low / High (C\$/sh)	\$0.88 / \$3.80		
CAPITALIZATION	Basic	Diluted	
Shares Outstanding (M)	143.3	154.8	
Market Capitalization (C\$M)	\$515.8		
Enterprise Value (C\$M)	\$508.5		
Cash (C\$M)	\$38.4		
Debt (C\$M)	\$31.0		
FYE: DEC 31	2019A	2020E	2021E
Au Produced (000's oz)	67	101	106
Cash Costs (US\$/oz)	\$1,051	\$791	\$603
CAPEX (C\$M)	\$47	\$58	\$32
Gross Revenue (C\$M)	\$128	\$236	\$253
EBITDA (C\$M)	\$16	\$103	\$146
CFPS (C\$/sh)	\$0.08	\$0.68	\$0.74
EPS (C\$/sh)	-\$0.06	\$0.50	\$0.60

STOCK CHART



PRODUCTION FORECAST



VALUATION	EBITDA (C\$M)	(C\$/sh)
2019 EV/EBITDA	\$ 15.9	6.0x \$ 0.88
2020 EV/EBITDA	\$ 103.2	6.0x \$ 4.25
1yr FWD NTM EV/EBITDA	\$ 145.6	6.0x \$ 5.90
2021 EV/EBITDA	\$ 145.9	6.0x \$ 5.91
2022 EV/EBITDA	\$ 145.3	6.0x \$ 5.71

MAJOR SHAREHOLDERS

Management (8.9%), Westgold Resources Limited. (8.83%), Van Eck Associates Corporation. (3.85%)

DISCLOSURE CODE: 1,2,3,4,8

(Please refer to the disclosures listed at the end of the report)

Source: RCS estimates, Company Information, Capital IQ

Company Description

Karora Resources Inc. engages in the exploration and production of gold resources in Australia. The company holds interest in the Beta Hunt Gold Mine and the Higginsville Gold Operations located in Western Australia. It also has a 28% interest in a nickel joint venture that owns the Dumont Nickel-Cobalt Project located in the Abitibi region of Quebec, Canada. The company was formerly known as Royal Nickel Corporation and changed its name to Karora Resources Inc. in June 2020. Karora Resources Inc. was incorporated in 2006 and is headquartered in Toronto, Canada.

Impact: Neutral

Following Karora Resources completing the previously announced four and a half to one consolidation we have adjusted our estimates to reflect the new share count (see page 2) and have updated our target price (now C\$5.85/sh). We believe this consolidation marks the end of a transformational year for Karora, which under new management successfully integrated the Higginsville operation, reduced the royalties on both its mines, changed its name, sold its nickel assets and most importantly became a profitable gold producer. **In our view, with all these corporate improvements complete, investors can focus on operating results and exploration success, which we believe should continue to drive Karora's share price higher and close the valuation gap with peers.**

Highlights:

- **Expecting strong Q2 financials next week.** Karora recently announced total Q2 production of 24.1k oz Au (read [here](#)). With +48k oz produced in H1/20 the company is on track to beat guidance (90-95k oz) and we expect a stronger H2/20. The company recorded quarterly gold sales of 23.2k oz that contributed to a closing cash balance of \$50.2M at the end of Q2, up 31% QoQ. We have updated our per share estimates for the share consolidation and expect Q2 revenue of \$55.4M and EBITDA of \$25.5M (Figure 1). Q2/20 financials are expected to be announced August 10th before the market open.
- **Exploration success could grow production.** We expect to see increased exploration news from Higginsville and Beta Hunt. At Higginsville, we anticipate steady positive news flow to support an updated resource and LOM plan (H2/20). At Beta Hunt, once the royalty reduction is completed (Q3/20), we expect increased exploration news, particularly from the "High-Grade Contact Zone" that could increase the overall grade of the mine. Based on the exploration success to-date we believe production could grow in 2021, both from the potential of higher-grades and increased throughput.
- **Expect this "Top Pick" to outperform in H2/20.** Despite a strong performance in July (up ~65%), Karora has returned 67% YTD vs its peer group at 171%. We believe the combination of exploration success and steady operations should result in outperformance.

Valuation:

We are maintaining our BUY rating and updating our target to C\$5.85/sh (was C\$1.30/sh) to reflect the share consolidation. Our target is based on 6.0x our one-year forward NTM EBITDA estimate of C\$145.6M (unchanged). Karora trades at a discount to peers at 3.5x 2021E EBITDA and 0.6x NAV (peers at 5.8x and 1.0x, respectively). **Upcoming catalysts include:** 1) Q2/20 Financial results (Q3/20), 2) Exploration updates (ongoing) and 3) Updated Higginsville resource (H2/20).

Financial and Operating Summary: Karora Resources

FINANCIAL DATA

Ticker	TSX:KRR
Current Price (C\$/sh)	C\$3.60
52 Week Low / High (C\$/sh)	\$0.88 / \$3.80
Target (C\$/sh)	\$5.85
Shares Outstanding (M)	143.3
Market Capitalization (C\$M)	\$515.8
Cash & Cash Equivalents (C\$M)	\$38.4
Total Debt (C\$M)	\$31.0
Enterprise Value (C\$M)	\$508.5

FINANCIAL DATA

Capital Structure	Shares
	Millions
Shares Outstanding	143.3
Options	5.9
Warrants	5.6
Fully Diluted Shares	154.8

Ownership (May 2019)	Shares O/S (M)	% O/S
Management	12.8	8.9%
Westgold Resources Limited	12.6	8.8%
Hand, Scott McKee	0.9	0.6%
Selby, Mark Thomas Henry	0.5	0.4%
Mack & Weise GmbH Vermögensverwaltung	0.4	0.3%

Financial Summary (C\$)

Year-end December 31	2019A	2020E	2021E	2022E	2023E	2024E
Shares O/S (M)	135.1	144.2	144.5	144.8	144.8	144.8
EBITDA (C\$M)	\$16	\$103	\$146	\$145	\$134	\$126
FCF (CFO+CFI) (C\$M)	-\$32.0	\$35.0	\$75.1	\$86.3	\$81.9	\$76.8
EPS (C\$/sh)	-\$0.06	\$0.50	\$0.60	\$0.60	\$0.54	\$0.50
CFPS (C\$/sh)	\$0.08	\$0.68	\$0.74	\$0.75	\$0.69	\$0.66
EV/EBITDA	32.0x	4.9x	3.5x	3.5x	3.8x	4.0x
P/CFPS	47.0x	5.3x	4.8x	4.8x	5.2x	5.5x

Income Statement (C\$M)

Revenue	\$128.0	\$236.0	\$253.4	\$253.4	\$244.8	\$236.8
Operating Expenses	\$88.6	\$114.6	\$97.5	\$98.1	\$101.4	\$101.2
Depreciation	\$9.3	\$16.3	\$20.3	\$21.7	\$22.0	\$22.1
General & Admin	\$14.8	\$10.7	\$10.0	\$10.0	\$9.7	\$9.3
Net Income	-\$7.7	\$70.0	\$87.0	\$86.3	\$78.1	\$72.9

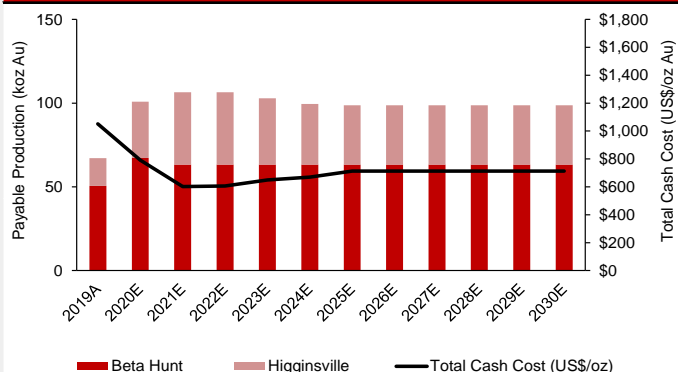
Balance Sheet (C\$M)

Cash & Equivalents	\$34.7	\$88.2	\$131.2	\$217.5	\$299.4	\$376.2
Debt	\$25.3	\$21.5	\$21.5	\$21.5	\$21.5	\$21.5

Cash Flow (C\$M)

Operating CF	\$15.2	\$93.2	\$107.3	\$108.0	\$100.1	\$95.0
Financing CF	\$65.3	\$18.4	-\$32.0	\$0.0	\$0.0	\$0.0
Investing CF	-\$47.2	-\$58.1	-\$32.2	-\$21.7	-\$18.2	-\$18.2
Change in Cash	\$33.3	\$53.5	\$43.1	\$86.3	\$81.9	\$76.8

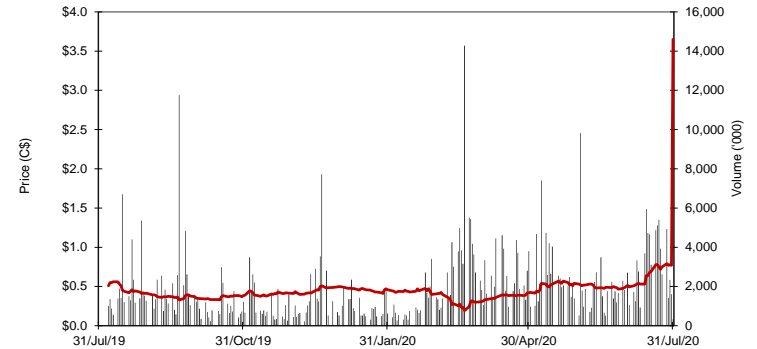
PRODUCTION PROFILE



Priced as of market close on July 31, 2020.

Source: RCS Estimates, Company Reports, Capital IQ, S&P Global Market Intelligence

STOCK CHART



TECHNICAL ASSUMPTIONS

	2019A	2020E	2021E	2022E	2023E	2024E
Gold Price (US\$/oz)	\$1,396	\$1,678	\$1,700	\$1,700	\$1,700	\$1,700
Silver Price (US\$/oz)	\$16.21	\$16.86	\$17.00	\$17.00	\$17.00	\$17.00
Canadian : US\$ exchange rate	\$0.75	\$0.72	\$0.71	\$0.71	\$0.71	\$0.71

RESOURCE EST. (M&I+)	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Beta Hunt	14.2	3.0	1,350
Higginsville	29.4	2.0	1,906
Global Resource	43.6	2.3	3,256

RESERVE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Beta Hunt	3.4	2.8	306
Higginsville	5.9	1.9	367
Global Reserves	9.3	2.2	673

Beta Hunt (RCS Model)	10.3	2.8	910
Higginsville (RCS Model)	20.3	1.8	1,155

VALUATION

Year	EBITDA (C\$M)	Multiple	Valuation (C\$/sh)
2019 EV/EBITDA	\$15.9	6.0x	\$0.88
2020 EV/EBITDA	\$103.2	6.0x	\$4.25
1yr FWD NTM EV/EBITDA	\$145.6	6.0x	\$5.90
2021 EV/EBITDA	\$145.9	6.0x	\$5.91
2022 EV/EBITDA	\$145.3	6.0x	\$5.71

NET ASSET VALUE

		Discount Rate	(C\$M)	(C\$/Sh)
Beta Hunt - Au (100%), Australia		5%	\$ 778	\$ 5.01
Higginsville (100%), Australia		5%	\$ 604	\$ 3.90
Taxes		5%	\$ (380)	\$ (2.45)
Other Assets		in-situ	\$ 1	\$ 0.01
Corporate Adjustments		5%	\$ (64)	\$ (0.41)
Total NAV			\$ 939	\$ 6.06

COMPARABLES

Company	Ticker	Price C\$	EV/EBITDA FY2020E	EV/EBITDA FY2021E	P/NAV
Superior Gold Inc.	TSXV:SGI	\$0.98	4.4x	2.2x	0.56x
Dacian Gold Limited	ASX:DCN	\$0.33	4.7x	3.2x	0.95x
Resolute Mining Limited	ASX:RSG	\$1.29	5.6x	4.7x	0.85x
Wesdome Gold Mines Ltd.	TSX:WDO	\$13.71	15.7x	9.0x	1.25x
Silver Lake Resources Limited	ASX:SLR	\$2.37	8.2x	7.5x	1.25x
Ramelius Resources Limited	ASX:RMS	\$2.01	7.6x	5.2x	1.18x
Mandalay Resources Corporat	TSX:MND	\$1.97	NA	NA	NA
Gold Road Resources Limited	ASX:GOR	\$1.76	9.9x	8.6x	1.19x
Average			8.0x	5.8x	1.03x
Karora Resources Inc.	TSX:KRR	\$3.60	4.9x	3.5x	0.59x

EBITDA (2020E) SENSITIVITIES

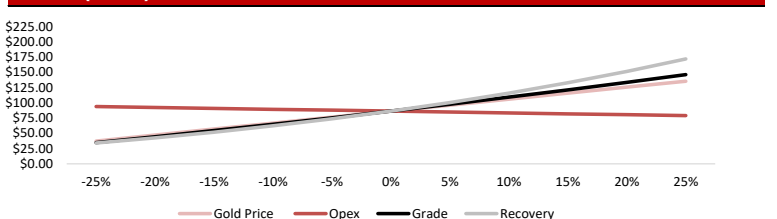


Figure 1: Updated Karora Resources Q2 2020 estimates reflecting share consolidation

	Updated Q2 2020E
Beta Hunt Production (koz Au)	15.1
Higginsville Production (koz Au)	9.0
Ounces Sold (koz)	24.1
Total Cash Cost (US\$/oz)	\$783
Gold Price (US/oz)	\$1,725
Revenue (C\$M)	\$55.4
EPS (C\$/sh)	\$0.592
EBITDA (C\$M)	\$25.5
FCF (CFO+CFI) (C\$M)	\$11.8
CFPS (C\$/sh)	\$0.697
Cash (C\$M)	\$50.2
Debt (C\$M)	\$32.0
CAPEX (US\$M)	\$8.5

Source: Company Reports, RCS Estimates



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Company Specific Disclosure Details

Company Name	Ticker Symbol	Disclosures
Karora Resources Inc.	TSX: KRR	1,2,3,4,5,8

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