

Genesis Minerals Ltd

(GMD \$1.865) Buy, upgrade from Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Kyle De Souza	13 th April 2022	\$2.60/sh

Genesis Minerals Ltd	Year End 30 June	
Share Price	1.865	A\$/sh
Price Target	2.60	A\$/sh
Valuation	2.48	A\$/sh

Shares on issue	294	m, diluted *
Market Capitalisation	548	A\$m
Enterprise Value	524	A\$m
Debt	0	A\$m
Cash	24	A\$m
Largest Shareholder		
MSH Group <Finlayson Family>	4.8%	

Directors

Tommy McKeith	NE Chair
Raleigh Finlayson	MD
Neville Power	NED
Michael Bowen	NED
Gerry Kaczmarek	NED

Shareholders

MSH Group <Finlayson Family>	4.8%
Botsis Holdings	4.2%
Nero Resource Fund	3.4%
Top 20	64.8%

Company Details

Unit 6, 1 Clive Street,
West Perth, 6005
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www.genesisminerals.com.au

Share Price Chart



Disclaimer

This analyst declares that he has a beneficial interest in GMD.

Is this Saracen 2.0? Breaking down the GMD Strategy.

Event

GMD release new company strategy. Is this Saracen 2.0?

- Key management appointments made. All Ex-Saracen and well respected leaders.
- Key management remuneration. Sector leading. Bonuses skewed toward production.
- Company sets 5 year vision to be a +300kozpa producer.
- Short term growth through drilling and discovery, medium to long term growth through strategic M&A

Impact

Without a strategic vision we could not see what the Companies goals were in the short to medium term. The strategy articulates in a simple way the ambitions for the company and how it will get there. Being a strategic document it is not a target statement and coming from well respected leaders in the industry who have consistently delivered at Saracen for 7 years, we can support that if any team can do it – it is this one.

Action

We had the why earlier, but now we have strategy on how. We maintain our price target of \$2.60/share but UPGRADE our recommendation from a Speculative Buy to a Buy, off the back of the Company’s articulated vision for +300kozpa within 5 years. Same team who grew Saracen to be a ~A\$6b gold producer delivering +640kozpa prior to merger with Northern Star.

Key Catalysts

- M&A Activity
- Gold Price
- Assay results

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Analysis

Key Points

How do you summarize a company strategy which has multiple outcomes? We'll try and do it here under what we see are 3 broad classifications.

- Points of difference
 - Key Management Remuneration – Sector leading. All on A\$100k per annum. Bonuses skewed toward execution and delivery. Structured for long term commitment to the company. Board and management will own 21% (diluted), fully aligned to shareholders.
 - Unique Culture – The Foundation of sustainable companies that is often overlooked – Culture is central to the new strategy. Important in a skills crunch. 0 turnover in company.
 - Capital Deployment – Proven capital stewards at Saracen and GMD. 88% of capital goes in the ground. \$15m per annum allocated to exploration. Executed options would inject \$69m cash into the company.
- Organic Growth
 - Assets can operate stand-alone if required – Strong foundations. Ulysses shovel ready. All free milling.
 - Average depth of drilling at Genesis is 180m compared to neighbors @750m depth – Demonstrates scale of the Leonora Gold Project which remains open.
 - Growth at \$27/oz the most accretive way to delivery value at the moment
 - We expect Resource upgrades yearly.
- Inorganic Growth (M&A)
 - Company is surrounded by assets in an area ready for consolidation.
 - Only Tier 1 assets will be considered – We note that in this market it is easier to acquire infrastructure than build it.

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Points of Difference

Key Management Appointments

Raleigh is creating Saracen 2.0. Central to Saracen's success was people. All the key management hires could easily walk into half a million-dollar plus salaries – but they choose to work with Raleigh – incentivized by performance bonuses that are aligned with each-other and shareholders.

Raleigh's recipe for success. A people first business.

Morgan Ball (Chief Commercial Officer)

- Chartered Accountant
- A distinguished career in executive roles including CFO of Saracen Minerals, Northern Star and Western Areas. Managing Director of BC Iron.
- Key in negotiating and acquiring the Barrick's stake in the Superpit for Saracen for A\$1.1b

Troy Irvin (Corporate Development Officer)

- Mining Engineer and First Class Mine Manager Certification
- Corporate Development Officer at Saracen and Northern Star.
- Experience in corporate advisory, stockbroking and institutional research.
- Experience at a Mine Manger level over 10 years with Barrick, MIM and Western Metals.

Lee Stephens (General Manager Projects and Operations)

- Surveyor with Grade 1 Certification and Quarry Manager Certification
- 12 years at Saracen as GM at Carosue Dam followed by Thunderbox and then the Superpit responsible for the deployment of \$250m for a new fleet and doubling open pit mining rates to 75Mtpa.

Key management remuneration

- All Company Executives on a base salary of \$100k pa.
 - Effectively getting paid less than graduate mining engineers.
- Performance milestones aligned with the Managing Director
 - 1/3rd will vest and convert into fully paid ordinary shares in the Company (Shares) upon the public announcement by the Company that the group of companies comprising the Company and its subsidiaries from time to time (GMD Group) has delineated a JORC Code 2012 Mineral Resource of a minimum of 2,500,000oz of gold;
 - 1/3rd will vest and convert into Shares upon the public announcement by the Company that the GMD Group has delineated a JORC Code 2012 Ore Reserve of a minimum of 1,000,000oz of gold; and
 - 1/3rd will vest and convert into Shares upon the first production of gold by the GMD Group.
- 3 year escrow period to be applied from the date of issue and Executives are required to remain employed with the Company for a 3-year period.

Sector leading remuneration structure.

Aligned with shareholders.

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Executive	Base Salary (per annum)	Performance Based Incentives	
		Number of Performance Rights	Number of Options
Morgan Ball - Chief Commercial Officer	\$100,000	1,800,000	540,000
Troy Irvin - Corporate Development Officer	\$100,000	1,800,000	540,000
Lee Stephens - General Manager Projects and Operations	\$100,000	1,200,000	240,000

Culture

Not a lot gets said about culture and company values in analyst reports – but at every successful mining company these are the foundations for success. The words which govern the ever-day actions of the people within a company.

The values have Safety as the broad vehicle for Delivery. Delivery being the result, Safety being the critical filter for every decision. These values coupled with Attitude, Respect, Integrity and Communication demonstrate a company determined to have alignment in the ranks through values. A system that was embedded in Saracens culture.

Delivery at the heart of the Companies core values.

Purpose, vision and core values

Purpose
The Australian gold company most respected for our people, partnerships and performance

Vision
The premium Australian gold producer - Sustainable, high quality, +300koz pa

Core values
Our Core Values drive our culture and leadership

GMD have created their values from the ground up. All 22 employees participating in the strategy session to develop them. What does this say about the company;

- The company is people centric. Everyone gets buy in. Everyone is aligned on a fundamental values basis; and
- This is in conjunction with planned performance bonuses to ensure every employee is a shareholder (and aligned with shareholders).

**Workforce buy in on strategic direction.
Ambitions for every employee to be a shareholder.**

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Capital deployment

The Company has a history of efficient capital deployment. This includes previous management team led by Michael Fowler. The company putting on average 86% of all funds into the ground (excluding staff costs).

	Exploration Component (\$m)	Cash used in Operating Activities (\$m)	% in ground
Dec-21	4,624	5,008	92%
Sep-21	1,530	1,893	81%
Jun-21	1,042	1,248	83%
Mar-21	883	1101	80%
Dec-20	2,210	2,559	86%
Sep-20	1,101	1,435	77%
Jun-20	1,531	1,758	87%
Mar-20	723	987	73%
Dec-19	1,124	1,404	80%
Sep-19	2,793	3,093	90%
Jun-19	1,706	1,922	89%
Total	19,267	22,408	86%

Good capital stewards

Outside of the capital deployment in the ground the new management team has shown through its time at Saracen that they are good capital stewards through organic and inorganic growth (strategic M&A).

Technically led

Half of the companies key management personnel have a technical back ground. Important in unlocking the value of the region.

The other half - across legal and financial sectors.

- Tommy McKeith – NEC – Geologist
- Raleigh Finlayson – MD - Survey and Mining Engineer
- Gerry Kaczmarek – NED – Accountant
- Nev Power – NED – Accountant
- Michael Bowen – NED – Corporate Lawyer
- Troy Irvin – CDO - Mining Engineer
- Morgan Ball – CCO - Accountant
- Lee Stephens – GM - Surveyor

In our opinion this technical approach reduces the execution and delivery risk of any mining project.

Technically led team which has owned or operated 7 of the 14 assets in the region.

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Organic Growth

The keystone asset of Genesis, Ulysses is just as good as a standalone project as it is within any portfolio of assets in the region as part of a JV.

At a discovery cost of \$27/oz we see this as a the most value accretive option at the moment. The company focusing its cross-hairs on the 10km stretch between Puzzle and Puzzle North with 3 additional target zones to the South of Puzzle.

Discovery cost of \$27/oz

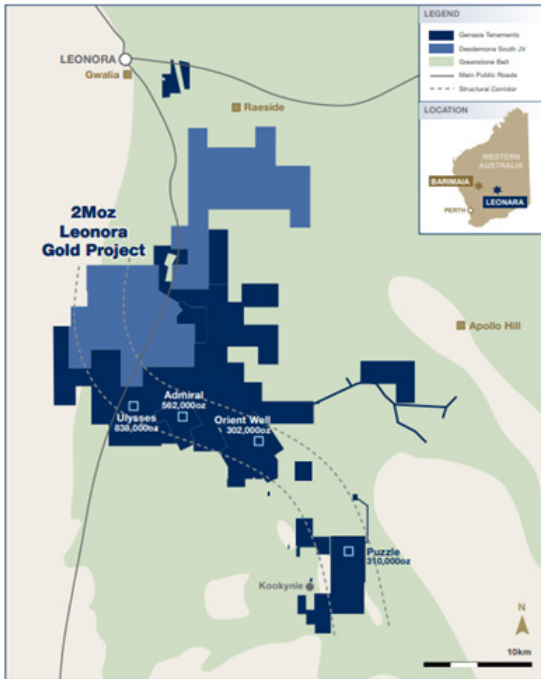


Figure 1: Shows key mining areas within GMDs Leonora Gold Project

The company currently has 2.5 rigs onsite. 1 RC and 1 Diamond. An AC rig will come in and out as required but will not be a permanent fixture.

The Ulysses underground Feasibility was delayed whilst new Management worked on the new company strategy. We believe that this Feasibility study will evolve internally. The company confident in the asset stating it is 'shovel ready'.

As such - is an easy lever for the company to pull should it want to move into production quickly. Further under utilised mills in the area (mainly SBM's Gwalia are attractive places to toll treat).

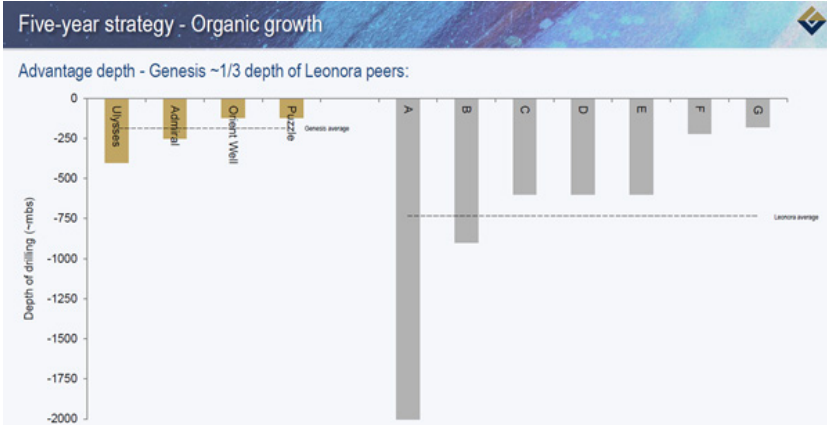
Grades for this asset in conjunction with open pit dirt from surrounding resources could in our opinion underscore a long-life asset on its own with optionality to build a self-standing ore processing facility.

Further, we note the average depth of drilling at is 180m versus the surrounding assets which average 750m below surface. Bodes well for organic growth at all targets which remain open.

Average depth of drilling 180m vs 750m deep for region.

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Inorganic Growth (M&A)

A quick look at the regional map and we see the potential for M&A.



The Leonora district has grown in its processing capacity in the last 8 years from 10mtpa to 25mtpa. But resource growth is not keeping up. Something has to give in time.

Mill capacity in Leonora has grown from 10mtpa to 25mtpa in 8 years.

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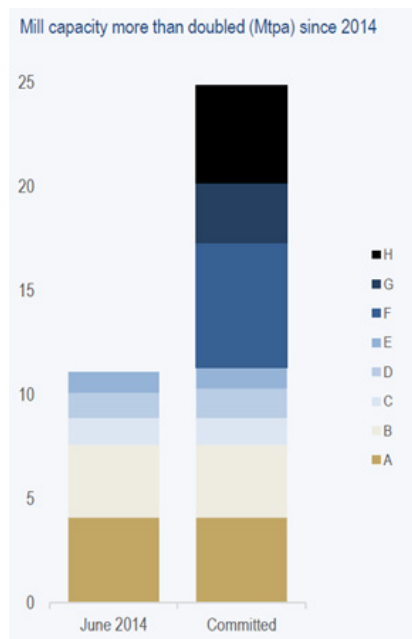


Figure 2: Image taken from GMD Open for Business Presentation, 4 April 2022.

Key to accretive M&A is expensive script on the part of the buyer and a discount for the target.

We note in the presentation from 4 April 2022, ‘GMD Open for Business’ the company has stated the following;

- Half of the 300kozpa target will come from inorganic growth
 - This is in line with our current modelling which has the Leonora Gold Project producing 150kozpa from currently held assets.
 - The company intends on filling the difference with companies that have ‘Aussie Leader Characteristics’
- GMD want assets which have a 7 year + mine life
- GMD want assets with low operating costs

The checklist for achieving 300kozpa

We won’t speculate on what this could look like, but with delivery at the heart of the companies new DNA we don’t see the company taking unnecessary risks. We leave you with this table to consider the opportunity.

Asset	Company	Resource	Reserve	koz/annum	LOM
Gwalia	SBM	7.3Moz	2.1Moz	150+	14 years
KOTH	RED	4.1Moz	2.4Moz	180+	14 years
Mt Morgan’s	DCN	2.4Moz	0.43Moz	100+	4 years
Thunderbox	NST	Not Public	Not Public	*6Mtpa	Unknown
Carosue Dam	NST	4.2	1.8	200	9 years
Granny Smith	Goldfields	8.1	2.2	300+	7 years
Agnew	Goldfields	3.4	1.0	200+	5 years
Sunrise Dam	Anglo Gold	2.6	1.1	240+	4.5 years

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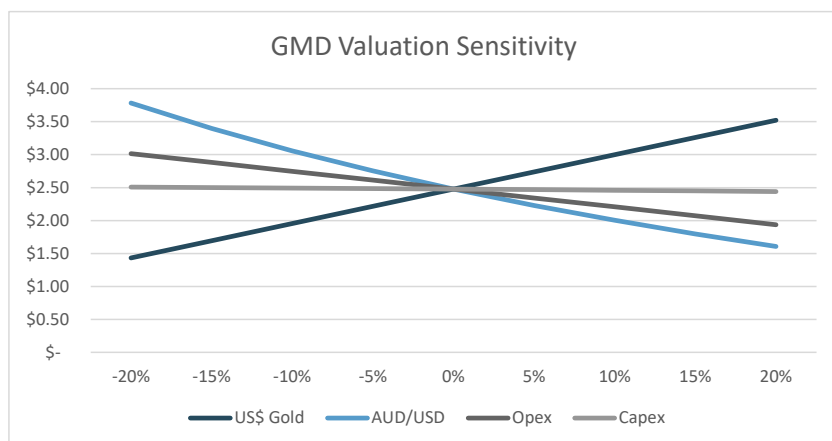
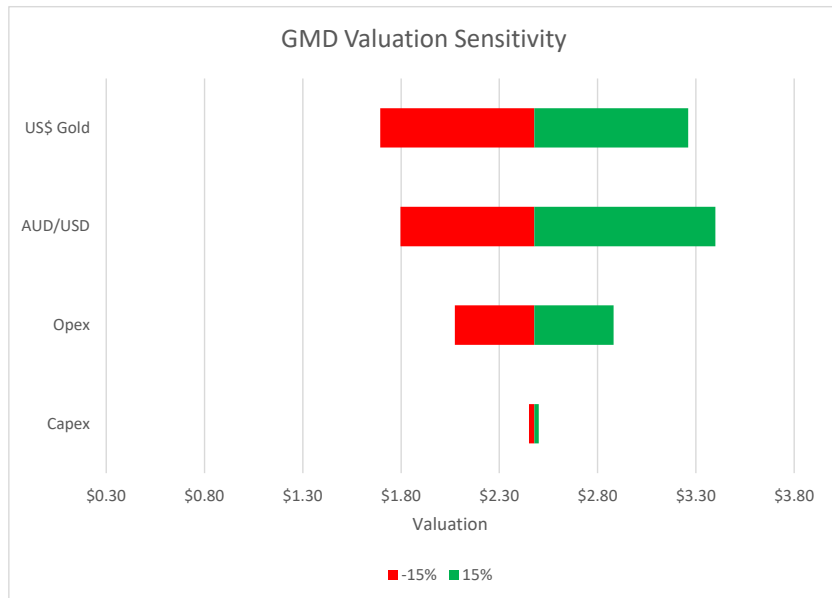
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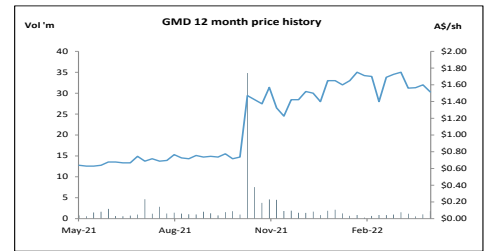
Key Variables

Val/ Sh		Gold \$								
\$2.48		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.89	\$1.12	\$1.34	\$1.57	\$1.80	\$2.02	\$2.25	\$2.48	\$2.70
	10%	\$1.05	\$1.29	\$1.53	\$1.77	\$2.00	\$2.24	\$2.48	\$2.71	\$2.95
	5%	\$1.23	\$1.48	\$1.73	\$1.98	\$2.23	\$2.48	\$2.73	\$2.97	\$3.22
	0%	\$1.43	\$1.69	\$1.96	\$2.22	\$2.48	\$2.74	\$3.00	\$3.26	\$3.52
	-5%	\$1.65	\$1.93	\$2.20	\$2.48	\$2.75	\$3.03	\$3.30	\$3.58	\$3.85
	-10%	\$1.90	\$2.19	\$2.48	\$2.77	\$3.06	\$3.35	\$3.64	\$3.93	\$4.22
	-15%	\$2.17	\$2.48	\$2.78	\$3.09	\$3.40	\$3.71	\$4.01	\$4.32	\$4.63

EH Forecast	FY'2022	FY'2023	FY'2024	FY'2025
Gold (US\$/lb)	\$1,821.61	\$1,800.00	\$1,750.00	\$1,700.00
AUDUSD	\$0.73	\$0.73	\$0.74	\$0.74



Our Share Price Sensitivity



Our Market Sensitivity

Price Target \$2.60/sh

Valuation \$2.48/sh

Bull Scenario \$3.47/sh

We assume that gold price rises to A\$2700/oz. Risking reduces noting access to capital. All other factors remain the same.

Base Scenario \$2.48/sh

Market conditions remain. Gold price averages A\$2400/oz. 3mtpa processing facility.

Bear Scenario \$0.23/sh

Gold price falls to AU\$1700/oz along with market sentiment. Company cannot finance mill. Reverts to toll treating at nearby mills.

Company Summary

Genesis Minerals is an advanced gold explorer with all its tenements in the mining friendly jurisdiction of Western Australia. The Leonora Gold Project located between Leonora and Kookynie is the flagship. The company has grown from a 138koz resource in 2015 to 2Moz resource today. The company has unveiled its 5 year growth strategy and a vision to become a +300kozpa producer under the leadership of Ex-Saracen and Northern Star MD, Raleigh Finlayson.

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