

Monarch Mining Corporation

Q321 results

Exploration on track with good cash levels

Metals & mining

Monarch Mining Corporation was spun out of Monarch Gold in January 2021, retaining a suite of potentially high-return gold projects in the well-established Abitibi Gold belt in Canada. Its Beaufor asset may start production in FY22, with Croinor in FY24/25. Meanwhile, given the highly prospective locations, ongoing exploration is likely to add to available resources and potentially lead to life extensions. In the future, its McKenzie Break and Swanson assets could add further significant value.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/21e	0.0	(4.0)	(5.9)	0.0	N/A	N/A
06/22e	21.0	(3.2)	(4.6)	0.0	N/A	N/A
06/23e	56.2	15.9	17.9	0.0	5.1	N/A
06/24e	74.6	21.6	19.4	16.3	4.7	19.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Listed in January 2021, no historical data.

Q321 results

There are no surprises in the results; the company has a healthy cash position of C\$19m at end March 2021. The company reported a net loss of C\$0.05 per basic and diluted share, mainly because it is in the restart study phase. Consequently, it is incurring significant exploration, consulting and specialised labour costs, as well as care and maintenance costs at its Beaufor and Beacon properties. Exploration and evaluation expenses totalled C\$1.44m, with C\$1.24m having been spent on exploration drilling at its Beaufor mine. Most of the balance was spent on McKenzie Break with Croinor Gold accounting for other evaluation costs.

Strategy unchanged

Monarch is on track to realise significant value through bringing new resource ounces to account and extending the life of its mines as drilling is in full progress. At the time of writing, there have been no additions to its measured, indicated and inferred (MI&I) resources, but we expect accelerated drilling results as the Canadian winter eases and drilling can proceed more rapidly.

Valuation: C\$0.99/share including C\$0.30 for next tier assets

Our valuation of C\$0.99/share comprises C\$0.69/share for the value of Monarch's Beaufor/Croinor mines being brought into operation starting in FY22 and C\$0.30/share for its next tier assets. This value will rise rapidly, not only if the lives of the assets are increased through positive drilling results, but also if Monarch can accelerate Croinor production by finding funding partners. Further upside could also be unlocked through corporate action related to the tier two assets, although in our view, the resources are not yet big enough to attract larger gold producers.

19 May 2021

Price **C\$0.83**
Market cap **C\$58m**

US\$/C\$1.21

Net cash (C\$m) at 31 March 2021 19.0

Shares in issue 69.7m

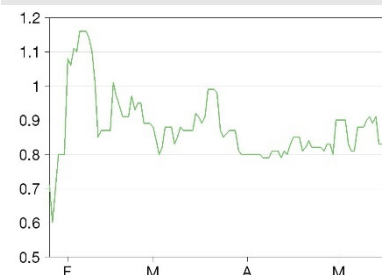
Free float 84%

Code GBAR

Primary exchange TSX

Secondary exchange OTC

Share price performance



% 1m 3m 12m

Abs (3.5) (15.5) N/A

Rel (local) (4.1) (20.2) N/A

52-week high/low

Business description

Monarch Mining Corporation is a Canadian gold explorer with two near-term projects and two second tier projects in the Abitibi, Quebec, gold belt.

Next events

Q421 results August 2021

Analyst

René Hochreiter +44 (0)20 3077 5700

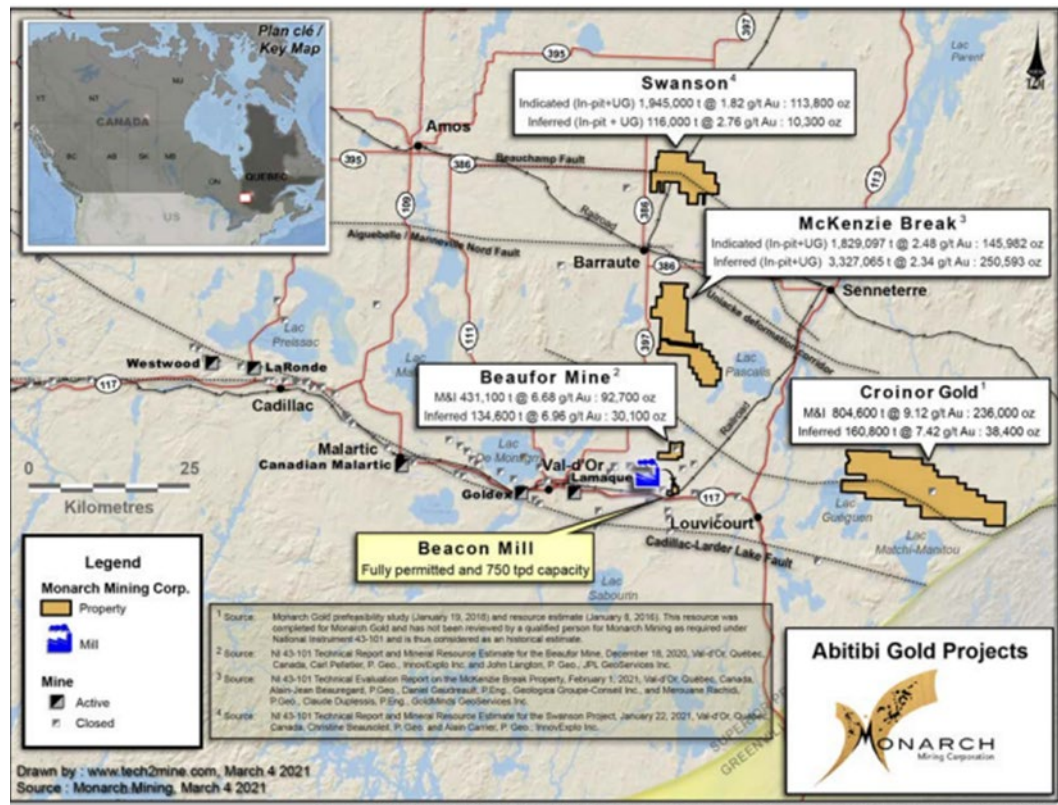
mining@edisongroup.com
[Edison profile page](#)

Monarch Mining Corporation
 is a research client of Edison
 Investment Research Limited

Company description: Explorer and producer in early 2022

Monarch mining has the potential to become a 25–65Koz pa gold producer in one of the most prospective areas for gold exploration in the World (Exhibit 1. With its track record of adding 11oz of gold for every metre of exploration drilled in the Abitibi gold belt, there is every reason to believe that the current 63,200m drilling programme could add significant resources to its 917 MI&I resources.

Exhibit 1: Location of Monarch's projects, Abitibi, Quebec



Source: Monarch Mining, 2021

Furthermore, the board members have a proven track record of creating value for shareholders through M&A, for the acquisition of distressed/forgotten assets and the ability to monetise them. CEO Jean-Marc Lacoste, CFO Alain Lévesque and VP corporate development Mathieu Séguin have been active in investment banking and held positions as company directors with experience in M&A activity for most of their careers. The culture of the board is one of M&A and serial deal-making, targeting uplifts in value to the company's shareholders. Based on planned exploration, we feel confident that the company can extend resources and achieve mine life extensions to generate significant valuation uplift as management will push hard for accretive, cash-generative corporate activity.

Main risk: Highly geared to mine life

We see the principal risk and sensitivity to Monarch Mining as extending the life of the mines, or failure to do so and bringing the Croinor mine into production before FY24, which is our base case (see Exhibit 2). This is in addition to the normal risks of execution and the gold price.

We note that Monarch's first project, Beaufor, is at a pre-production stage and our valuation is conditional on management executing the project according to the assumptions we set out in our recent [initiation note](#) and within the cost and timing parameters given.

Our various sensitivity analyses show a base case value of around C\$0.99/share, with conservative upside to C\$1.81/share through mine life extensions and capital raises on some of the properties. As a maximum downside, we calculate that the gold price would need to fall to US\$800/oz for the share value to reflect a break-even situation based on the economics of Beaufor and Croinor.

The overriding key sensitivity lies in achieving the life extension of Croinor and bringing in funding to do this. For the purposes of our model (at a notional price of C\$0.90), assuming funding of C\$22m in FY22, we estimate that this could add C\$0.21/share to our valuation (see Exhibit 2) before life extension and a further C\$0.38/share with a two-year life extension.

Exhibit 2: Base case valuation and sensitivities to bringing Croinor into production in 2022 and earlier funding

C\$/share	Funding options	No extension for Beaufor or Croinor		Two-year extension for Croinor		Three-year extension for Croinor	
		Core	Full	Core	Full	Core	Full
Beaufor start-up October 2021 and Croinor in 2025	No capital raise	0.69	0.99	1.16	1.46	1.37	1.67
Beaufor start-up in October 2021 and Croinor in 2022	Capital raise of C\$22m in 2022 with a 60:40 debt:equity split	0.90	1.20	1.28	1.58	1.51	1.81

Source: Edison Investment Research

Conclusion: High risk, high reward

Monarch has a well-established, highly experienced management team. We see no reason why the exploration programme will not add significant new resources to the company's MI&I resources statement and management is aware that this is the way to add the most value to the fledgling company. Although the gold price has receded from its highs of August 2020, the positive correlation of the share price to the gold price shows how highly geared the share is to this driver.

Financials

We have increased our FY21 forecast loss from 4.1c/share to 5.9c/share on the back of a slightly higher than expected cost run rate for the quarter. Our FY22 forecasts remain unchanged.

Exhibit 3: Financial summary

	C\$'000s	Sep 2020	2021e	2022e	2023e	2024e
June		Pro forma	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	20,998	56,214	74,626
Cost of Sales		0	0	(11,256)	(31,339)	(43,739)
Gross Profit		0	0	9,742	24,875	30,887
EBITDA		(1,883)	(3,790)	(2,758)	16,250	22,078
Operating Profit (before amort. and except.)		(1,883)	(3,790)	(2,758)	16,250	22,078
Amortisation		0	(2,500)	(1,328)	(1,477)	(1,509)
Exceptionals		188	250	1,500	500	0
Other		0	0	0	0	0
Operating Profit		(1,695)	(6,040)	(2,586)	15,273	20,569
Net Interest		(69)	(206)	(430)	(390)	(531)
Profit Before Tax (norm)		(1,952)	(3,996)	(3,188)	15,860	21,547
Profit Before Tax (FRS 3)		(1,764)	(6,246)	(3,017)	14,883	20,038
Tax		467	0	0	(3,397)	(8,053)
Profit After Tax (norm)		(1,485)	(3,996)	(3,188)	12,464	13,496
Profit After Tax (FRS 3)		(1,297)	(6,246)	(3,017)	11,486	11,985
Average Number of Shares Outstanding (m)		66.3	68.0	69.7	69.7	69.7
EPS - normalised (c)		(2.2)	(5.9)	(4.6)	17.9	19.4
EPS - normalised and fully diluted (c)		(2.2)	(5.7)	(4.5)	17.4	18.9
EPS - (IFRS) (c)		(2.0)	(9.2)	(4.3)	16.5	17.2
Dividend per share (p)		0.0	0.0	0.0	0.0	16.3
Gross Margin (%)		N/A	N/A	46.4	44.2	41.4
EBITDA Margin (%)		N/A	N/A	(13.1)	28.9	29.6
Operating Margin (before GW and except.) (%)		N/A	N/A	(13.1)	28.9	29.6
BALANCE SHEET						
Fixed Assets		36,504	36,504	37,989	38,313	65,944
Intangible Assets		14,319	14,319	14,319	14,319	14,319
Tangible Assets		13,282	13,282	14,767	15,090	42,721
Investments		8,903	8,903	8,903	8,903	8,903
Current Assets		20,920	19,439	13,627	29,628	17,093
Stocks		1,192	1,192	1,167	3,123	4,146
Debtors		2,122	2,122	2,129	5,698	7,565
Cash		14,000	14,520	8,727	19,201	3,777
Other		3,605	1,605	1,605	1,605	1,605
Current Liabilities		(2,698)	(2,695)	(2,558)	(7,070)	(9,856)
Creditors		(2,666)	(2,666)	(2,529)	(7,041)	(9,826)
Short term borrowings		(32)	(29)	(29)	(29)	(29)
Long Term Liabilities		(10,671)	(8,797)	(9,123)	(9,949)	(10,275)
Long term borrowings		(26)	(29)	(29)	(29)	(29)
Other long-term liabilities		(10,644)	(8,768)	(9,093)	(9,919)	(10,245)
Net Assets		44,056	44,452	39,935	50,922	62,906
CASH FLOW						
Operating Cash Flow		0	(3,464)	(2,550)	15,561	22,300
Net Interest		0	(206)	(430)	(390)	(531)
Tax		0	0	0	(2,897)	(8,053)
Capex		0	(500)	(2,813)	(1,800)	(29,140)
Acquisitions/disposals		0	0	0	0	0
Financing		0	4,690	0	0	0
Dividends		0	0	0	0	0
Net Cash Flow		0	520	(5,793)	10,474	(15,424)
Opening net debt/(cash)		0	(13,941)	(14,461)	(8,668)	(19,142)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	(0)	0
Closing net debt/(cash)		(13,941)	(14,461)	(8,668)	(19,142)	(3,718)

Source: Monarch Mining accounts, Edison Investment Research. Note: We do not show historical figures and instead show pro forma FY20 figures published in September 2020, reflecting that on 10 November 2020 Yamana bought the Wasamac mine and Camflo mill from Monarch Gold and, as such, there are no historical numbers that are relevant to Monarch Mining.

General disclaimer and copyright

This report has been commissioned by Monarch Mining Corporation and issued by Edison, in consideration of a fee payable by Monarch Mining Corporation. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia