

Chesser Resources Ltd

(CHZ \$0.11) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	15 th March 2022	\$0.30/sh

Big margin Diamba Sud ounces highlighted in SS

Event

Chesser Resources has released a comprehensive Scoping Study (SS) for its Diamba Sud gold project in Senegal.

Impact

The SS highlighted an average **94kozpa over 7.5 years at an AISC of US\$820/oz for capex of US\$159m.**

- CE US\$159m capex (incl. US\$23m cont.) for a 2.0Mtpa plant capable of producing 704koz over a 7.5year (94kozpa av) mine life at an AISC of US\$820/oz.
 - o The project gets off to an attractive start with 136koz produced in the 2nd year with an AISC of US\$545/oz for the first 2 years, thanks to an average grade of 2.0g/t and strip ratio of 1.9.
 - o The strong start to the project results in a payback period of 1.25 years on Company numbers.

Action

We maintain our Speculative Buy recommendation with a 30cps (A\$150m) Price Target. At today's market cap of A\$55m you get are buying a highly economic gold development project at the price of an explorer.

- CE The SS was in line with our previous assumptions (larger capex (US\$130 EH vs US\$159m SS) due to increased throughput (1.8Mtpa EH vs 2.0Mtpa SS) and recent inflation) and we have adjusted our numbers to be slightly more conservative than the Company's SS.

Key Catalysts

- CE The Board has approved work to commence Definitive Feasibility Study (expected to take 18-24months, due 2H CY23), we see this as a sign of confidence.
- CE Company is currently drilling a 15-20,000m drill program which will include infill/extensional at Area H (Karakara) and regional targets which could potentially extend mine life, updated Mineral Resource 2H CY22.
- CE Potential M&A activity with numerous undeveloped gold projects/ discoveries in close proximity including 2.6Moz Boto Gold project (IAMGOLD) and Barrick's Kabewest discovery ~5km to the NE.

Chesser Resources Ltd	Year End 30 June	
Share Price	\$0.11	A\$/sh
Issued Capital		
FP Ord	466.0	m
Opt. (var)	34.0	m
Perf Rights	1.0	m
Total Dil.	501.0	m
Mkt Capital'n	\$51	m
Enterprise Value	\$46	m
Debt	\$0	m
Cash	\$6	m

Directors

M.Connelly	NE - Chair
A.Grove	MD
S.Taylor	NE
S.O'Loughlin	NE
R.Greenlade	NE

Shareholders

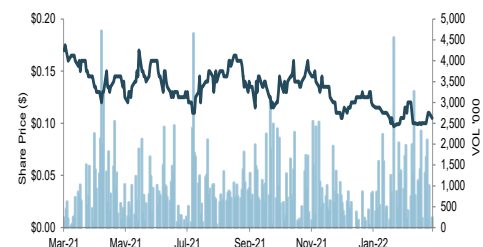
Silvercorp Metals	6.0%
GP Securities (R.Greenlade)	5.3%

Board & Management	7.7%
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Company Details

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Subiaco
Perth WA 6008
<https://www.chesserresources.com.au/>

Share Price Chart



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Analysis

The Company noted numerous optimisation work programs including:

- ☒ Potentially increasing the grind size above the assumed 75 microns, which could result in reducing capex and lowering opex.
- ☒ Potentially deferring the ball mill till later years given the start up on soft oxide ore, allowing the deferring of US\$5m in capex.
- ☒ Mine plan optimisation, prioritising higher grade material earlier in the mine plan.

We are particularly impressed by the level of detail included for a Scoping level study, which gives us further confidence that the Diamba Sud gold project is a relatively straightforward gold development project. Given the strong early years of production shown in the SS resulting in a quick capital payback of 1.25 years, we see large upside if the Company is able to either extend the mine life through exploration or M&A. This is highlighted in our bull case scenario.

- ☒ Our sum of parts valuation for Diamba Sud is conservative at ~A\$120m is NPV12 70% risked vs the Company's NPV5 A\$418m. We aim to take into account the requirement for equity funding and given the project is still at Scoping level

ASSET VALUATION	A\$m	A\$/sh
Diamba Sud NPV12 70% risked (90% owned)	119	0.24
Regional exploration (Karakara)	25	0.05
Cash	6	0.01
Unpaid Capital (opt. in money)	1	0.00
Debt	-	-
Total	150	0.30

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Euroz Hartleys updated assumptions vs Company's Scoping Study

		Chesser Resources Scoping study	Chesser Resources New EH Assumptions
ASX Code		CHZ	CHZ
Project		Diamba Sud	Diamba Sud
Date		15th Mar 22	15th Mar 22
Location		Senegal	Senegal
% Ownership		90% (10% Gov)	90% (10% Gov)
Total Resource		781koz @ 1.6g/t Au	781koz @ 1.6g/t Au
Mining inventory		750koz @ 1.6g/t Au	930koz @ 1.6g/t Au
Reserve			
Mining method		Open Pit	Open Pit
Capex	US\$m	159	-170*
Strip Ratio	W:O	2.8	-3*
Throughput	Mtpa	2.0	-2.0*
Grade	g/t	1.6	-1.6*
Recoveries	%	94	-94*
Av LOM Production pa	koz	94	92
Mine life	Yrs	7.5	9
Gold Price	US\$	1800	1700
Exchnage rate	AUD/USD	0.72	0.74
AISC	US\$	820	940
Financed		NA	NA
Permitted		NA	NA
Forecast Construction		2024	2024
1st Gold pour		2025	2025

* These are Euroz Hartleys estimates and remain subject to change pending Company updates.

Source: CHZ, Euroz Hartleys Research

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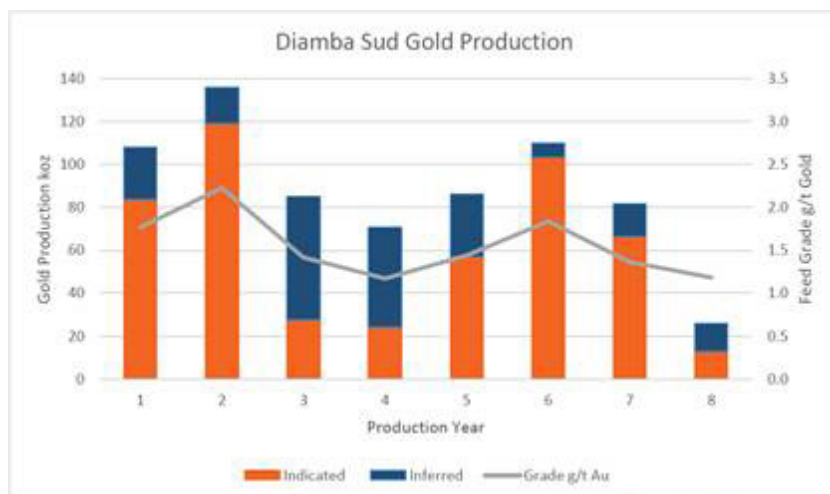
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Scoping Study Results and assumptions

DIAMBA SUD GOLD PROJECT SUMMARY SCOPING STUDY RESULTS		
Physicals and Costs		
Mining Physicals		
Ore Tonnage	Mt	14.7
Grade	g/t Au	1.6
Contained Ounces	koz Au	750
Plant Throughput	Mtpa	2.0
Mine Life	Years	7.5
Strip Ratio	waste:ore	2.8
Process Recovery	%	94
Gold Production	koz Au	704
Capital Costs		
Initial Capital	US\$M	142
Pre-production Mining	US\$M	17
Sustaining and Closure	US\$M	23
Total Capital Cost	US\$M	182
Operating Costs		
Mining	US\$/t total material	3.9
Mining	US\$/t Ore mined	14.7
Processing	US\$/t Ore processed	14.1
Maintenance	US\$/t Ore processed	1.5
General & Administration	US\$/t Ore processed	4.1
Transport, Insurance and Refining	US\$/t Ore processed	0.1
Royalties & Statutory Costs	US\$/t Ore processed	3.0
Total	US\$/t Ore processed	37.6
Financials and Key Assumptions		
Gold Price	US\$/oz	1,800
Exchange Rates	AUD:USD	0.72
	XOF:USD	581
Gold Sales Revenue	US\$M	1,267
AISC	US\$/oz Au	820
AISC - first two years	US\$/oz Au	545
Project Net Cash Flow - Pre-tax		
Project Net Cash Flow, pre tax	US\$M	531
PVNCFS%	US\$M	402
IRR	%	69
Payback Period, pre-tax	Months	15
Project Net Cash Flow - Post-tax, all equity basis		
Income Tax	US\$M	132
Project Net Cash Flow,	US\$M	399
PVNCFS%	US\$M	301
IRR, post-tax	%	59
Payback Period	Months	15

Source: CHZ

Production and grade profile



Source: CHZ

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Diamba Sud Capital cost

CAPITAL COSTS	US\$M
Pre-Production Mining	17.1
Process Plant	58.2
Construction Overheads	5.7
Bulk Earthworks	1.1
EPCM	10.4
Primary Crushing	3.9
Milling & Classification	20.7
Leaching & Adsorption	9.6
TSF & Decant Return	0.5
Metal Recovery & Refining	2.7
Reagents	1.2
Services	2.6
Infrastructure	36.6
Tailings Storage Facility	8.8
Process Plant Infrastructure	14.1
Camp	7.8
Power Supply	3.1
Plant Vehicles & Mobile Equipment	2.7
Other Costs	5.6
Owner's Costs	15.8
Contingency (~20%)	23.3
WHT, duties, levies	2.3
Total Pre-Production Capital Capital	159
Sustaining & Closure Capital	22.7
Total LOM Capital	182

Source: CHZ

Regional project location



Source: CHZ

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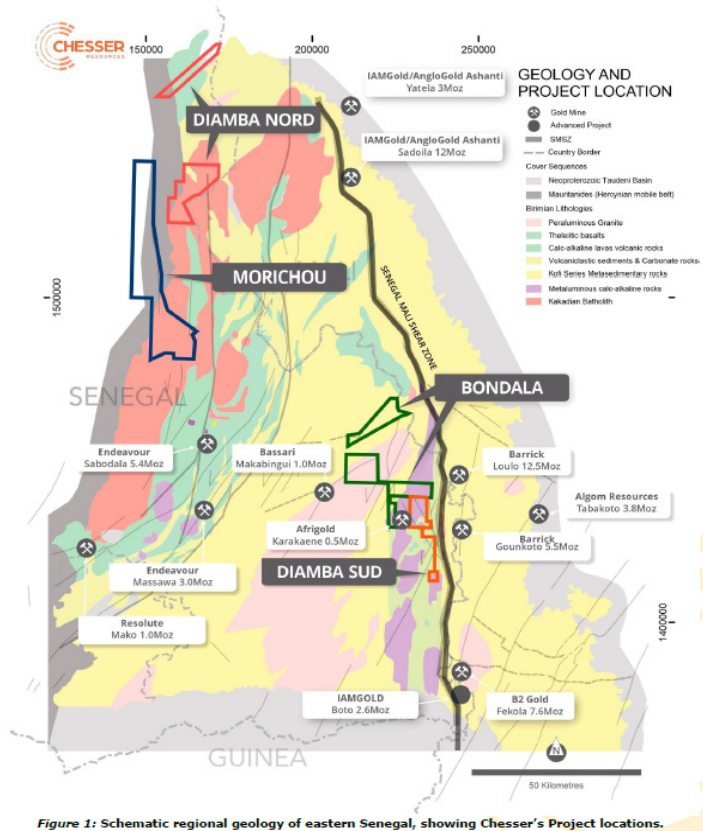
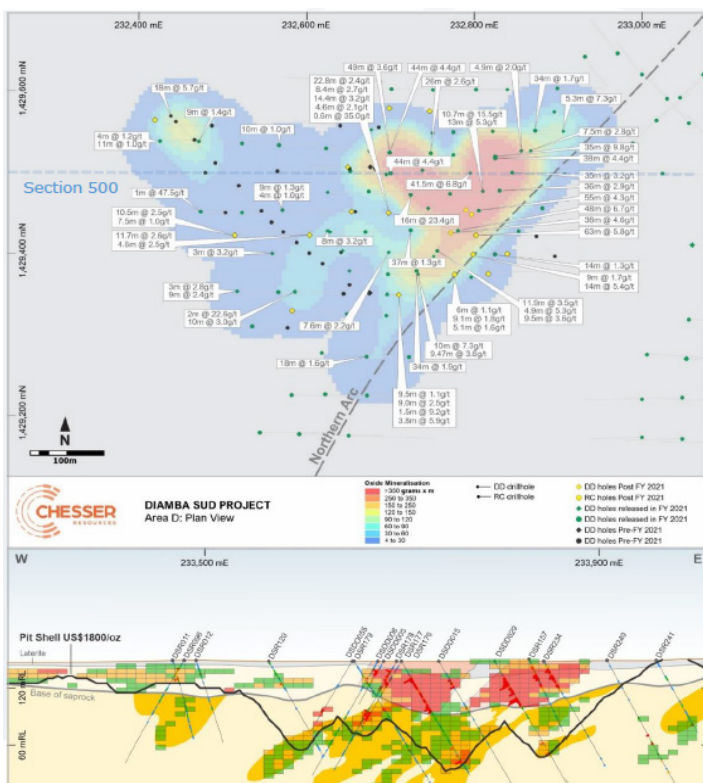
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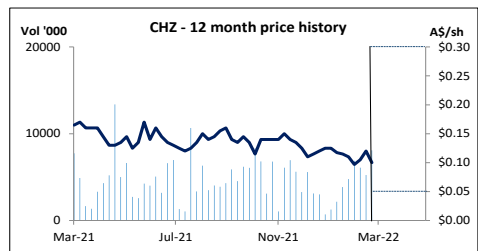
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Key Variables



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.30/sh

Price Target - \$0.30/sh

Bull Scenario - \$0.80/sh

Exploration success defines further extensive zones of high grade shallow oxide mineralisation and identifies the feeder zone, enabling production of +150kozpa at low AISC costs. Gold price is above our US\$1700 LT assumption.

Base Scenario - \$0.30/sh

The Company is able to extend it mine life out to 9 years through the addition of Karakara. The DFS numbers defines a project similar to the SS with only slight cost increases. Gold price stays around current levels.

Bear Scenario - \$0.05/sh

Gold price falls over 10% and/or sovereign risk arise. Infill drilling highlights mineralisation continuity issues. Step out drilling along strike and at depth fails to define further economic mineralisation. The regional exploration program fails to discover any significant mineralisation.

Company Summary

Chesser Resources Limited (CHZ) is a gold developer focussed on its Diamba Sud Project in eastern Senegal. The Company announced a highly economic Scoping Study based on a mining inventory of 750koz at 1.6g/t. Thanks to its low strip ratio of 2.8:1 and simple metallurgy, the project averages 94koz over its 7.5year mine life at AISC of US\$820/oz allowing payback within 1.25 years. The Company is currently drilling 15-20,000m program aiming to extend the mine life.

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