

Victoria Gold

VGCX-TSX

Rating
Outperform

Price: Apr-6
\$12.98

Target
\$21.00

Total Rtn
62%

Early Stacking Restart in Q1 Sets up Strong 2021

Bottom Line:

Yesterday, Victoria Gold announced Q1 production of 26,759oz, which is 18% stronger than our expectation of 22,768oz. This represents a strong result and leaves the company on track for stronger production in the balance of the year and reconfirming 2021 guidance of 180,000-200,000oz. We expect increased market attention for Victoria in H2 as stacking rates and production increase.

Key Points

Q1 production for Victoria was expected to be lower than the other three quarters of the year due to limited stacking to the heap leach. Even with stacking having resumed sooner than expected most of the 0.9mt stacked in the quarter were stacked towards the end of the quarter and will benefit Q2 production. As stacked ounces increase in Q2 the company is guiding for most of the annual production to be delivered in H2. The company also commented that the higher production in H2 will deliver lower costs and, conversely, higher costs in the earlier part of the year.

As in previous performance releases Victoria indicated that they continue to observe good reconciliation against mined grades and metallurgical recoveries. Updating our valuation model for Q1 production we are slightly increasing our 2021 production estimate to 194,600oz from 190,000oz – still within annual guidance.

The press release also reminds investors that winter maintenance and upgrades in Q1 should allow higher material handling rates and stacking rates. We are looking for stacking rates of 3.0-3.7mt per quarter, compared to 0.9mt in Q1.

Also of note is management discussion in the press release about “Project 250” where the company is targeting a 25% increase in production by 2023. The main contributors will be removing fines from the crushing circuit and increasing the annual stacking period. Early engineering for this project is expected to be completed in H2 2021.

Key Changes

Estimates	2021E
Revenue	\$438
Previous	\$429
CFPS	\$2.63
Previous	\$2.62

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Precious Metals & Minerals

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Company Data			in C\$
Dividend	\$0.00	Shares O/S (mm)	62.1
Yield	0.0%	Market Cap (mm)	\$806
NAV	\$16.52	P/NAV	0.8x

BMO Estimates				in C\$
(FY-Dec.)	2020E	2021E	2022E	
Revenue	\$179	\$438↑	\$519	
EPS	\$0.23	\$0.12	\$0.28	
CFPS	\$1.36	\$2.63↑	\$4.34	
Gold Prod (oz)	116,600	194,600↑	223,800	

Consensus Estimates			
	2020E	2021E	2022E
EPS	\$0.12	\$0.90	\$1.95

Valuation			
	2020E	2021E	2022E
P/E	NM	NM	45.8x
P/CFPS	9.6x	4.9x	3.0x

QTR. EPS	Q1	Q2	Q3	Q4
2020E	\$(0.10)a	\$(0.03)a	\$0.22a	\$0.13a
2021E	\$(0.05)	\$(0.01)	\$0.06	\$0.13
2022E	\$(0.02)	\$0.12	\$0.19	\$(0.01)

Our Thesis

Victoria's Eagle project declared commercial production on July 1, 2020, but has yet to complete a full ramp-up to meet the 2019 feasibility expectations. We see the company positioned to benefit from the strength in the precious metals sector as it aims to build an operational track record as a producer or potentially attract a takeover offer.

Victoria Gold - Block Summary Model

Income Statement	2020E	2021E	2022E
Revenue	\$179	\$438	\$519
Operating Costs	82	217	203
SG&A	9	12	12
EBITDA	\$31	\$193	\$302
Depreciation	41	153	251
Tax	4	21	24
Adjusted Net Earnings	14	8	18
EPS	\$0.23	\$0.12	\$0.28
Cash Flow Statement	2020E	2021E	2022E
Cash Flow From Operations	82	164	273
Cash Flow From Investments	(65)	(59)	(28)
Cash Flow From Financing	0	(53)	(55)
Free Cash Flow	14	105	246
FCF/Share	\$0.23	\$1.68	\$3.90
Balance Sheet	2020E	2021E	2022E
Cash & Equivalents	56	108	299
Long-Term Debt	209	151	0
Total Assets	760.2	718.9	685.7
Total Liabilities	444	392	338
Total Shareholders' Equity	316	327	347
Key Metrics	2020E	2021E	2022E
Silver Price (US\$/oz)	20.55	26.71	26.49
Gold Price (US\$/oz)	1,772	1,786	1,865
Lead Price (US\$/lb)	2.80	3.46	2.95
Zinc Price (US\$/lb)	0.75	0.79	0.81
USD:CAD	1.340	1.261	1.239
Eagle - Gold Production (koz)	116,600	194,600	223,800
Eagle - AISC (US\$/oz)	910.48	1,155.16	829.59

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

Our target is based on a 1.25x NAV5% multiple, which is toward the top of the range of developers approaching commercial production and appropriate for the quality of the Eagle mine and the jurisdiction.

Upside Scenario **\$24.00**

Our upside scenario is based on year-round stacking at Eagle to accelerate production.

Downside Scenario **\$12.00**

Our downside scenario is based on lower gold recovery (-15%) realized compared with the 2019 feasibility and a lower 1.0x target setting multiple.


Key Catalysts

2020: Quarterly production progress and exploration updates

Company Description

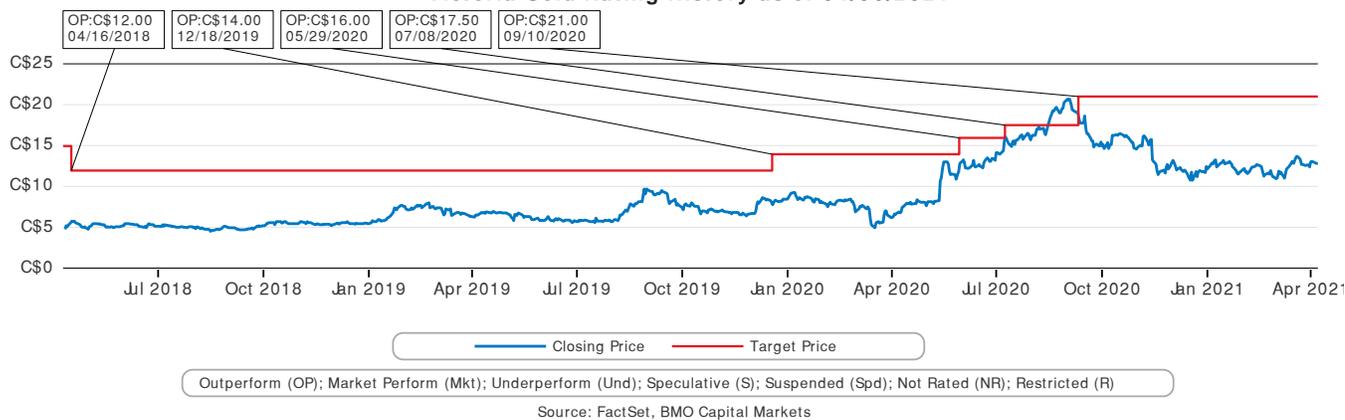
Victoria Gold is in ramp-up of the Eagle Gold mine in the Yukon toward H2/20 guidance of 72,000-77,000oz at an AISC between US\$1,175/oz and US\$1,275/oz. The December 2019 feasibility defined a +210,000oz/year production capacity at a low all-in sustaining cost of <US\$800/oz.


 VGCC-TSX
Research


Glossary


 Company
Models

Victoria Gold Rating History as of 04/06/2021



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Methodology and Risks to Target Price/Valuation for Victoria Gold (VGCX-TSX)

Methodology: Our target is based on a NAV valuation directly reflecting the updated feasibility results from December 2019 and reflecting construction activities completed in October. We model \$125mm of exploration upside to reflect a portion of the value from zones not included in the current mine plan below the pit or in satellites. We use a P/NAV target setting multiple in line with operating peers.

Risks: The largest risk exposure for Eagle project is in ramp-up and execution; Eagle has advantages of road and power infrastructure in place to minimize any unexpected issues. Financing risk has been reduced, with a financing package delivered. Jurisdictional, technical, and metallurgical risk are low due to the extensive technical work backing up the recent feasibility update and the mining-friendly jurisdiction of the Yukon.

Distribution of Ratings (April 06, 2021)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	51.2 %	28.0 %	52.4 %	53.0 %	57.1 %	57.7%
Hold	Market Perform	46.6 %	26.2 %	44.8 %	44.4 %	40.3 %	37.5%
Sell	Underperform	2.1 %	27.3 %	2.1 %	2.2 %	1.6 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(S) = Speculative investment;

Spd = Suspended - Coverage and rating suspended until coverage is reinstated;

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(April 2013 - October 2016)

http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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