

# 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.


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Precious Metals &amp; 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.

### Key Changes

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

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**

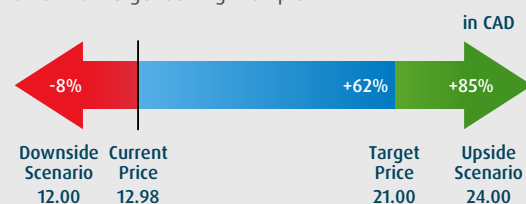
Our target is based on a 1.25x NAV5% multiple, which is toward the top of the range of developers approaching commercial production and appropriate for the quality of the Eagle mine and the jurisdiction.

**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

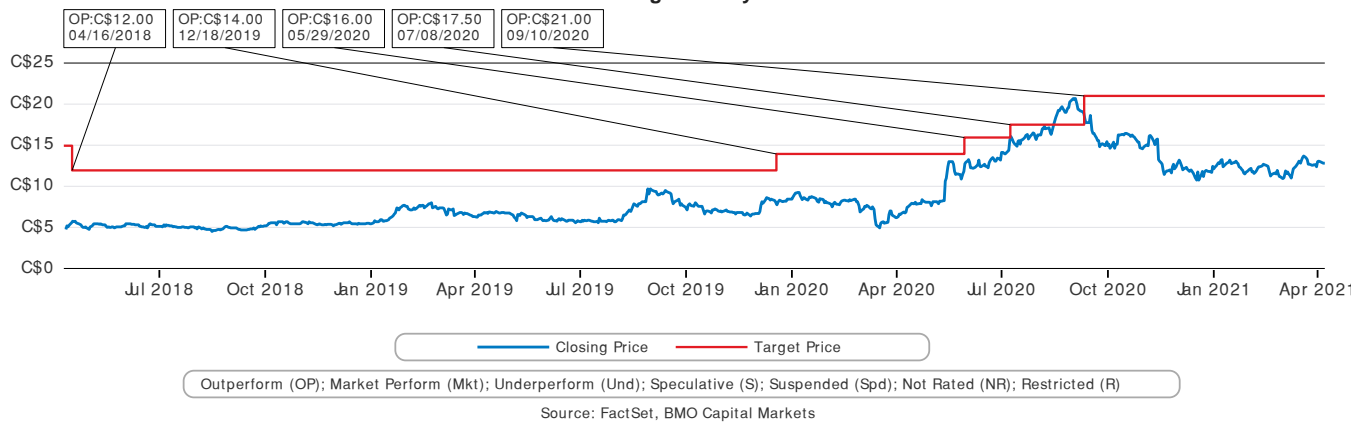


Glossary



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.

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|-----------------|----------------|--------------------|-----------------------|------------------------|--------------------|-----------------------|--------------------|
| 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%               |

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~ As of April 1, 2019.

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