

## Victoria Gold

VGCX-TSX

Rating  
**Outperform**Price: Jan-14  
**\$14.19**Target ↑  
**\$23.00**Total Rtn  
**62%**

## Project 250 to Drive Eagle Production Increase

## Bottom Line:

VGCX released results of a scoping study for Project 250, which aims to increase gold production at the Eagle mine by 25% to an average of 250,000oz/year. The study indicated that crushing circuit optimizations would bring a 15% increase at a cost of \$18mm, and the remainder of the increase would be achieved by stacking ore year-round. We are updating our price target to \$23 after modeling a conservative implementation of Project 250 from 2023 onward, and will revisit our assumptions once more detailed mine plan impacts are released.

## Key Points

**Project 250 expected to drive production increase.** We have updated our model for the Eagle mine to reflect today's disclosure. This is driven by an increase to crushing by 15% due to the optimization of the crushing circuit, with additional impact from two additional months of stacking each year. This is partially offset by our conservative assumption of reduced grade (by approximately 4%) at Eagle since detailed impacts on the mine plan have not been released.

**We are increasing our target price to \$23.** We previously did not model Project 250 due to lack of guidance; we have now conservatively estimated the impact of the project and will revisit our assumptions once the technical report is released. Our updated production estimates are 253,000oz in 2023 (previously 217,000oz) and 243,000oz in 2024 (previously 214,000oz), with similar increases through the rest of the mine life.

**Crushing and stacking improvements.** Project 250 involves optimizing the Eagle crushing circuit to reduce the amount of fines being processed. The updated circuit will add a scalping screen before the tertiary crusher that will send fines to the heap leach, improving the overall productivity of the circuit and yielding an estimated 15% increase to throughput. The expected cost of the upgrade is \$18mm and VGCX aims to have it in place by the end of 2022. The second component of the project will reduce the winter stacking shutdown, which was the limiting factor for production at Eagle, from the current three months to one month (designated as a crusher maintenance shutdown).

**Next catalysts** for the market will be Q1 production updates in April that should show production missed in Q4 largely picked up in Q1. Exploration results from 2021 drilling are also pending both from below the Eagle pit and from the Raven target.

## Key Changes

Target	Estimates	2022E
\$23.00↑	Revenue	\$493
\$21.00	Previous	\$493

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## Precious Metals &amp; Minerals

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2YR Price Volume Chart



Company Data			in C\$	
Dividend	\$0.00	Shares O/S (mm)	62.6	
Yield	0.0%	Market Cap (mm)	\$889	
NAV	\$18.43	P/NAV	0.8x	
BMO Estimates			in C\$	
(FY-Dec.)	2021E	2022E	2023E	
Revenue	\$358	\$493↓	\$509↑	
EPS	\$1.74	\$2.53	\$1.90↑	
CFPS	\$2.12	\$3.87	\$3.15↑	
Gold Prod (oz)	164,200	233,800	253,100↑	
Consensus Estimates				
	2021E	2022E	2023E	
EPS	\$0.90	\$1.95	\$1.64	
Valuation				
	2021E	2022E	2023E	
P/E	8.1x	5.6x	7.5x	
P/CFPS	6.7x	3.7x	4.5x	
QTR. EPS	Q1	Q2	Q3	Q4
2021E	\$0.48a	\$0.12a	\$0.62a	\$0.52
2022E	\$0.15	\$0.70	\$0.78	\$0.89
2023E	\$0.54	\$0.38	\$0.44	\$0.54

## Our Thesis

Victoria's Eagle project declared commercial production on July 1, 2020, and is working 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	2021E	2022E	2023E
Revenue	\$358	\$493	\$509
Operating Costs	145	201	242
SG&A	9	12	12
EBITDA	\$213	\$279	\$248
Depreciation	64	80	76
Tax	40	29	46
Adjusted Net Earnings	109	159	123
EPS	\$1.74	\$2.53	\$1.90
Cash Flow Statement	2021E	2022E	2023E
Cash Flow From Operations	132	244	203
Cash Flow From Investments	(91)	(61)	(26)
Cash Flow From Financing	(58)	(55)	(147)
Free Cash Flow	38.78	183.08	176.86
FCF/Share	\$0.62	\$2.91	\$2.74
Balance Sheet	2021E	2022E	2023E
Cash & Equivalents	40	167	197
Long-Term Debt	166	0	0
Total Assets	847	955	935
Total Liabilities	371	317	151
Total Shareholders' Equity	476	637	784
Key Metrics	2021E	2022E	2023E
Silver Price (US\$/oz)	25.14	21.69	22.00
Gold Price (US\$/oz)	1,799	1,706	1,600
Lead Price (US\$/lb)	4.22	3.62	3.07
Zinc Price (US\$/lb)	0.80	0.80	0.80
USD:CAD	1.253	1.254	1.245
Eagle - Gold Production (koz)	164,200	233,800	253,100
Eagle - AISC (US\$/oz)	1,166	781	851

Source: BMO Capital Markets, Company Reports

## New Scenarios

### Valuation

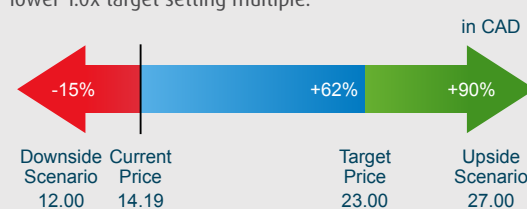
Our target is based on a 1.25x NAV5% multiple, which is appropriate for an operating mine in ramp-up as well as for the quality of the Eagle mine and the jurisdiction.

### Upside Scenario \$27.00

Our upside scenario is based on a two-year extension to mine life at the Eagle pit to reflect the possible impact of resource expansion drilling that VGCM is undertaking.

### 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

Quarterly production progress and exploration updates, visibility on Project 250 expansion plans.

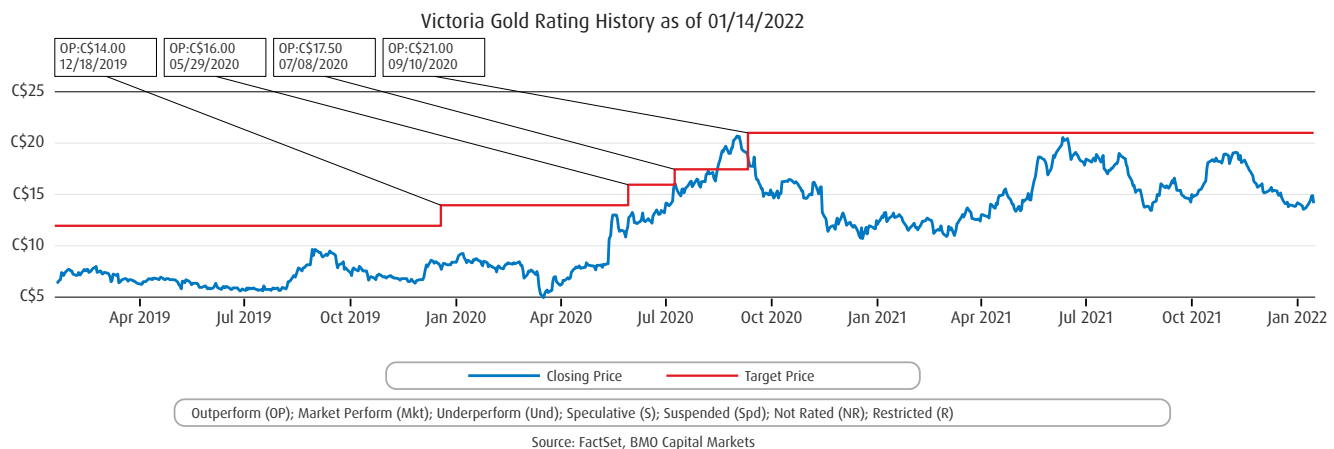
### Company Description

Victoria Gold is in ramp-up of the Eagle Gold mine in the Yukon toward 2021 guidance of 180,000-200,000oz at an AISC between US\$1,050/oz and US\$1,175/oz. The December 2019 feasibility defined a +210,000oz/year production capacity at a low all-in sustaining cost of <US\$800/oz.


 VGCM-TSX  
Research


Glossary


 Company  
Models



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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 \$225mm 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 but remains a risk until the mine starts delivering consistent cashflows. 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 (January 16, 2022)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	52.6 %	27.9 %	58.5 %	55.7 %	61.0 %	57.7%
Hold	Market Perform	46.2 %	21.8 %	40.0 %	43.1 %	38.0 %	37.5%
Sell	Underperform	1.2 %	33.3 %	1.5 %	1.2 %	1.0 %	4.8%

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~ As of April 1, 2019.

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