

Victoria Gold

VGCX-TSX

Rating
OutperformPrice: Aug-30
\$8.06Target ↓
\$20.00Total Rtn
148%

Updating Our Eagle Mine Model; Production Growth Remains Intact

Bottom Line:

We are updating our production assumptions for the Eagle mine after Q2's earnings and conference call — our new production profile assumes a more gradual increase towards the 250,000oz/year range now that previously planned ore scalping screen is being redesigned due to supplier delays. During our recent site visit to Eagle, the mine appeared to be operating well and discussions focused on various optimizations to improve performance. Our updated target price is \$20.00 (previously \$23.00) and we reiterate our Outperform rating.

Key Points

We are revising our production assumptions for the Eagle gold mine to reflect our expectation of a more gradual rise toward the 250,000oz/year level.

Our adjustments stem largely from indications in Q2's earnings release and conference call that the implementation of ore scalping screens (part of Project 250) has been delayed. The company is evaluating alternative screening solutions to ensure the initiative delivers optimal results.

In particular we are tempering our ore stacking assumptions, especially our long-term run-of-mine (non-crushed) ore stacking expectations. We have also moderately increased our cost assumptions at the mine above 2019 feasibility study levels due to inflation.

After adjusting our mine model, our target price is slightly reduced to \$20.00 (from \$23.00). We maintain our Outperform rating.

We recently visited the Eagle mine that highlighted various infrastructure additions and discussed optimizations being made at the mine now that travel restrictions related to Covid-19 have abated.

Ongoing and planned optimizations include adjustments to the crushing and conveying system to reduce downtime; implementation of a fleet management system; and optimizations to fine-tune blasting performance.

Infrastructure initiatives include expansion of the heap leach pad, a new truck shop, and new water treatment facility.

Discussions on the visit emphasized the impact of the pandemic particularly in terms of travel restrictions and supply issues of labour and mechanical parts. It appears these issues continue to improve, and **we would suggest that Eagle is in a position to build momentum as VGCX continues to ramp up production.**

Key Changes

Target	Estimates	2023E
\$20.00↓	Revenue	\$409
\$23.00	Previous	\$532
	EPS	\$0.87
	Previous	\$2.07
	CFPS	\$2.73
	Previous	\$3.66

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2YR Price Volume Chart



Company Data in C\$

Dividend	\$0.00	Shares O/S (mm)	64.0
Yield	0.0%	Market Cap (mm)	\$516
NAV	\$13.27	P/NAV	0.6x

BMO Estimates in C\$

(FY-Dec.)	2021A	2022E	2023E
Revenue	\$356	\$370	\$409↓
EPS	\$1.73	\$1.49	\$0.87↓
CFPS	\$2.12	\$1.72	\$2.73↓
Gold Prod (oz)	164,200	159,800	188,700↓

Consensus Estimates

	2021A	2022E	2023E
EPS		\$1.41	\$1.77

Valuation

	2021A	2022E	2023E
P/E	4.7x	5.4x	9.3x
P/CFPS	3.8x	4.7x	3.0x

QTR. EPS	Q1	Q2	Q3	Q4
2021A	\$0.48	\$(0.05)	\$0.62	\$0.68
2022E	\$0.14a	\$0.41a	\$0.41	\$0.53
2023E	\$0.23	\$0.30	\$0.39	\$(0.05)

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	2021A	2022E	2023E
Revenue	\$356	\$370	\$409
Operating Costs	146	175	194
SG&A	8	9	12
EBITDA	\$217	\$194	\$196
Depreciation	60	64	117
Tax	33	24	14
Adjusted Net Earnings	108	95	56
EPS	\$1.73	\$1.49	\$0.87
Cash Flow Statement	2021A	2022E	2023E
Cash Flow From Operations	132	110	177
Cash Flow From Investments	(96)	(137)	(26)
Cash Flow From Financing	(61)	7	(176)
Free Cash Flow	33	(27)	151
FCF/Share	\$0.53	\$(0.42)	\$2.32
Balance Sheet	2021A	2022E	2023E
Cash & Equivalents	31	12	(13)
Long-Term Debt	149	11	4
Total Assets	891	1,037	921
Total Liabilities	398	421	249
Total Shareholders' Equity	493	616	672
Key Metrics	2021A	2022E	2023E
Silver Price (US\$/oz)	25.14	22.28	22.25
Gold Price (US\$/oz)	1,799	1,873	1,745
Lead Price (US\$/lb)	4.22	4.05	3.51
Zinc Price (US\$/lb)	0.80	0.80	0.80
USD:CAD	1.253	1.248	1.243
Eagle - Gold Production (koz)	164,200	159,800	188,700
Eagle - AISC (US\$/oz)	1,194	1,381	941

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

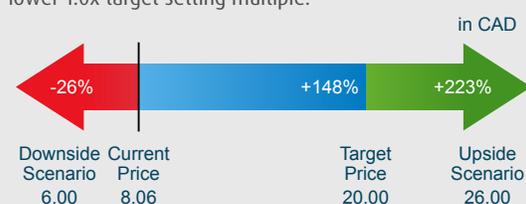
Our target is based on a 1.50x NAV5% multiple, which is appropriate for an operating mine in ramp-up as well as for the quality of the Eagle mine and the jurisdiction.

Upside Scenario \$26.00

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 VGX is undertaking, and using a higher 1.7x multiple.

Downside Scenario \$6.00

Our downside scenario is based on lower gold recovery (-25%) 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 ramping up the Eagle Gold mine in the Yukon toward 2022 guidance of 165,000-190,000oz at an AISC between US\$1,225/oz and US\$1,425/oz. The December 2019 feasibility defined a +210,000oz/year production capacity at a low all-in sustaining cost of <US\$800/oz.



VGX-TSX Research



Glossary



Company Models

Updated Eagle Assumptions

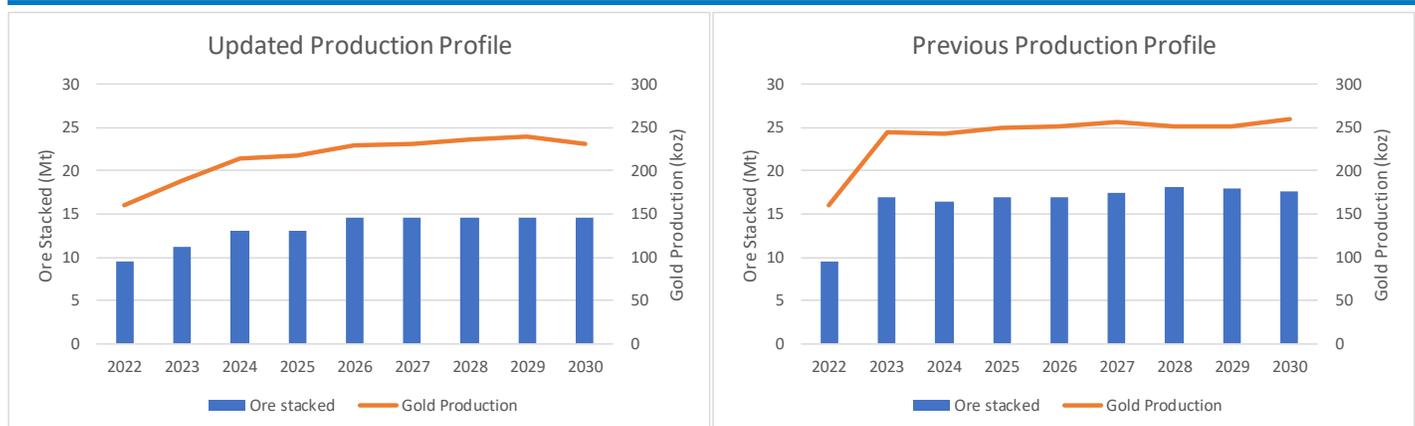
After Q2 results, commentary from the conference call, and following our recent site visit to the Eagle gold mine, we have revisited our modeled assumptions for Eagle to adjust the production profile particularly in terms of ore stacking rates.

Victoria Gold has delayed the optimizations to the crusher that were part of the Project 250 initiative. Management cited increasing costs and delivery times for the screening plant, which has caused the company to look at alternatives to the original plan. One alternative would be to add screening capacity after the secondary crusher, an approach which may be less expensive and offer comparable results.

Another key enabler to unlocking additional production capacity would be to increase mechanical availability particularly at the crusher; VG CX is working to secure the consistent supplies of parts and labour to facilitate this.

Year-round stacking continues to be a focus for VG CX, and the company plans to reduce the six-week winter maintenance shutdown to four weeks in 2023. Below we show our updated annual ore stacking and gold production assumptions at Eagle compared to our previous estimates.

Exhibit 1: Comparing Our Updated Production Assumptions at Eagle Mine



Source: Victoria Gold, BMO Capital Markets.

We have made the following adjustments to our Eagle mine model. We will continue to monitor our estimates against actual results from Eagle as well as any additional disclosures from Victoria Gold as they become available.

- Ore stacking.** We have reduced our ore stacking estimates to reflect a more gradual expansion at Eagle after commentary on the conference call that Project 250 has been partially delayed. We now estimate total ore stacked ramping up from an estimated 11.25Mt in 2023 to a run rate of 14.5Mtpa by 2026.
- Reduced ROM ore.** The adjustment to our ore stacking assumptions largely stems from reducing the run-of-mine (non-crushed) ore stacking rate. VG CX has not stacked any ROM ore to date, and as such we have tempered our ROM assumptions from the 3Mtpa range down to a rate of 0.5Mtpa from 2024 onwards. As the ROM ore is lower grade than crushed ore, our grade assumption for Eagle’s overall stacked ore has risen slightly.
- Smoothing out our production profile.** Our updated assumptions result in a production profile that more gradually rises toward the 250,000oz/year level, surpassing the 200,000oz mark in

2024 and peaking at 239,000oz in 2029. Again, we will continue to monitor our production profile against any results and additional disclosures from VGCX.

- **Updating unit costs.** We have increased our modeled unit costs by 15% from 2023 onward to reflect a general rise in costs since the most recent feasibility study estimates in 2019.

Site Visit Takeaways

Our recent visit to the Eagle gold mine showed the mine operating well with various improvements and optimizations underway or completed.

Discussions on the visit emphasized that the main challenge in Eagle’s ramp-up has been the Covid-19 pandemic. In particular, Yukon’s mandatory two-week quarantine, which was in effect until late 2021, prevented Victoria Gold from having any suppliers at site to fine-tune equipment and processes. **With Covid restrictions now lifted, the company is now able to pursue various adjustments** including:

- Optimizations to the crushing and conveying system (e.g., increasing motor sizing to reduce downtime) as well as input from suppliers on the screening/fines scalping for Project 250 (as mentioned above, new plans are being evaluated using updated supplier recommendations)
- A fleet management system tracking items such as haul truck performance and a shovel GPS system enabling tracking of ore vs. waste in terms of haulage and dumping
- Working with explosives suppliers to optimize blasting performance

Infrastructure initiatives at site also include the recently completed construction of a new truck shop, expansion of the heap leach pad, and construction of a water treatment facility.

Exploration continues to provide upside for Victoria Gold, including from potential expansion areas of the Eagle pit as well as exploration drilling at the nearby Raven site. Raven currently has four drills operating.

Exhibit 2: Expanded Heap Leach Pad at Eagle



Source: BMO Capital Markets.



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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 \$150mm 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.

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Hold	Market Perform	44.6 %	19.1 %	45.3 %	42.1 %	39.7 %	37.5%
Sell	Underperform	1.6 %	50.0 %	4.2 %	1.2 %	3.0 %	4.8%

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