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June 12, 2013

# B2Gold Corp.[7] (BTO-T) BUY

## Last: C$2.25 Target: C$3.80

**WHAT'S CHANGED**

| | New | Old |
|---|---|---|
| Rating | NC | BUY |
| Target | NC | C$3.80 |
| Gold production 2013E (k oz) | NC | 384 |
| Gold production 2014E (k oz) | NC | 406 |
| Gold production 2015E (k oz) | NC | 528 |

**SHARE DATA**

| | |
|---|---|
| Share o/s (mm, basic/f.d.) | 645.4/668. |
| 52-week high/low | C$4.3/C$2.13 |
| Market capitalization (m) | C$1,452.1 |
| Enterprise value (m) | $1,312.5 |
| Net debt (m) | ($89.2) |
| Projected return | 69% |
| NAV0%/share | $6.47 |
| NAV8%/share | $3.27 |
| P/NAV0% | 0.3 |
| P/NAV8% | 0.7 |

**FINANCIAL DATA**

| | 2013E | 2014E | 2015E |
|---|---|---|---|
| Gold production (k oz) | 384 | 406 | 528 |
| Cash costs ($/oz) | $668 | $667 | $649 |
| Capex (m) | $195 | $285 | $427 |
| Free cashflow (m) | $47 | -$67 | -$105 |
| EPS | $0.25 | $0.27 | $0.37 |
| CFPS | $0.36 | $0.33 | $0.48 |
| P/E | 8.7x | 8.3x | 6.0x |
| P/CF | 6.1x | 6.8x | 4.6x |
| EV/EBITDA | 6.3x | 4.6x | 4.5x |

*Fiscal year ending December 31st*
*All figures in US$ unless otherwise noted*


## *Masbate site visit—key takeaways*

Last week we attended a site visit to BTO's Masbate mine in the Philippines—our first visit to the mine following BTO's acquisition of CGA Mining in mid-January. Key takeaways from our visit include:

***Optimization of the mine plan***: A number of opportunities are being assessed to optimize the current mine plan and improve costs. Since BTO took over the mine operations it has been working on a new mine plan (expected to be delivered in mid-2013), which we see as an interim step to look at the potential optimizations opportunities. The company is reviewing/revising the mine geological model, ore type delineation (boundaries of the oxide, transitional, sulphide material), and mill recoveries. In the short term, we see that optimization of the mine could see better grade control and improved mine fleet efficiencies, resulting in a potential decrease in cash cost. In the mid-term, we see that the mine justifies a longer mine life and warrants a switch to owner-operated mining from contract mining.

***Recovery optimization/improvement***: With the mill running at higher throughput than design (currently running at an average of 6.8mtpa), recoveries can simply be improved by optimizing mill throughput. The metallurgical reclassification (oxide, transitional and sulphide) is also key to improving recoveries. Ongoing work aims to better delineate ore boundaries—currently may be underestimating the softer/higher recovery oxide ore.

***Exploration potential:*** Significant exploration potential remains both near mine workings and on the remainder of the property. Near mine targets could provide low-grade soft oxide ore (Pajo area) as well as materially higher grade but more restricted (Montana North area). Regionally, large geophysical anomalies present blue sky for further discoveries.

BTO plans to provide better guidance on production and cash cost once the new mine plan is released, but at this time it continues to estimate production out of Masbate of 175-185k oz in 2013.

### Recommendation and valuation

Following our visit to Masbate, we remain positive on the various opportunities to improve the mine and expand production that could see Masbate at ~250k oz/year by 2017. At this time, we are maintaining our estimates, but note that there's incremental upside potential on the basis of operational improvement.

We reiterate our BUY rating and C$3.80 target—this represents a 1.2x multiple to our NAV8% and an approximate 7.6x P/CF multiple (of average 2013 to 2017 CFPS).

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## MASBATE SITE VISIT

Last week, B2Gold hosted a site visit to its newly acquired Masbate Mine in the Philippines. The well-attended site visit (including both buy side and sell side attendees) provided us all with a first-time look at the operations under BTO's control. Highlights from the visit included optimization of the current mine plan, opportunities to improve production and cost, and the significant near mine and regional exploration potential.

The Masbate deposits are typical low-sulfidation stockwork systems hosted by andesitic volcanic rocks. Regional propylitic alteration gives way in/near the structures to silicification ±sericitization. The vein systems are generally oriented NW-SE but broader mineralized zones may accompany intersections of that main trend with local ±E-W veins. The actual pit production has historically outperformed the resource model, but a recently updated model seems to be doing a better job of predicting tonnes and grade.

The mine is currently producing ore from two open-pit systems, Main Vein and Colorado. Mining is by conventional truck and shovel methods, with hydraulic shovels used in backhoe mode to minimize dilution. At this point, ore with grades >0.7 g/t gold goes to the mill, with material between 0.4 g/t and 0.7 g/t going to low-grade stockpiles. The reported costs are based on the ±3.5:1 strip ratio, which counts low-grade as waste. If the low-grade were treated as ore, the strip ratio would be in the 1.5:1 range.

At this point, we are not altering our model for Masbate, but do see opportunities for a larger resource/reserve and lower costs that could ultimately prove additive to our valuation. We highlight, however, that B2 is going about its evaluation of the opportunities at Masbate in a careful, considered way, currently focused on gathering the information it needs to optimize exploitation of this large deposit.

**Optimization of the mine plan**

Since the company took over the mine operations, it has been focusing on reviewing/revising the current mine plan. An ongoing definition drilling program is aimed at updating the reserve/resource estimate, which will be the basis of the upcoming new optimized mine plan. Note that the current P&P reserves of ~3.0mm oz grading 0.82 g/t Au are based on CGA's 2011 block model (within the existing 2011 pits design). BTO expects to deliver a new updated reserve and mine plan in mid-2013, which we see as an interim step to look at the various potential optimization opportunities.

The current (i.e., CGA's) mine plan was focused on delivering a certain number of ounces, rather than being based on economics. One of the implications was what seems to us to be an inefficient mine plan that does not focus on bread-and-butter issues like haul distances—there is clearly opportunity to see a reconfiguration of the pit plan to reduce hauls and lower unit costs.

In the near term, we believe that the mine optimization can see better grade control—ore type delineation (boundaries of the oxide, transitional, sulphide material) and improved mine fleet efficiencies resulting in a potential decrease in cash cost. In the mid-term, we see that the mine life (even without reserve adds) justifies a switch to owner-operated mining from contract mining. Given an assumed profit margin for the contractor of ±20% we see this as likely reducing costs by over $50/oz (potentially by closer to $75/oz) once implemented.

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The mine expansion is still part of BTO's "to do" list. We currently model an expansion to 10Mtpa increasing production to ~250k oz/year by 2017, which we see as a reasonable assumption given the possible optimizations of the current mine plan and the exploration success near mine workings. With respect to timeline, we can see that an expansion could conceivably happen earlier than 2017.

BTO plans to provide better guidance on production and cash cost once the new mine plan is released, but at this time it continues to estimate production out of Masbate of 175-185k oz in 2013.

**Mill optimization**

Recovery improvements could be seen as a simple function of optimizing throughput. Currently, the mill is running at a higher throughput than design (currently running at an average of 6.8mtpa), which results in lower retention times in both the grinding and leach circuits to move the higher throughput through the plant—negatively affecting recoveries. Ultimately, we expect the mill to be reconfigured in a fashion that better matches grinding and tankage with throughput, which should have a positive impact on LOM recoveries.

Another identified opportunity is the metallurgical reclassification (oxide, transitional and sulphide). The CGA classification was probably based too much on the redox state of the wallrock (which contains little gold) as opposed to the veins themselves. The reality is likely that the oxide constitutes a greater percentage of the orebody than currently modeled, with positive implications for recoveries. Ongoing work aims to better delineate ore boundaries—this is an important data point for the new LOM model.

The next step in the mill improvement program is the replacement of the SAG mill. The first generation mill (we believe the shell is over 40 years old) will be replaced in 3Q. The planned mill shutdown is already accounted for in this year's production estimate of 175-185k oz. This should help de-risk future production.

We expect that the company will ultimately move to a higher mill throughput (consistent with the 10mm tpy rate we modeled in our initiation)—as part of this, we expect the mine to move to a direct mine to mill model, without buildup of a low-grade stockpile as is currently the case. We believe this simplifies the mining process, and brings ounces forward at a lower milling unit cost (and eliminates re-handling expenses). We also note that to date the company has expensed the costs associated with the low-grade stockpiles, which should allow some low-cost ounces to come through once an expansion provides the capacity.

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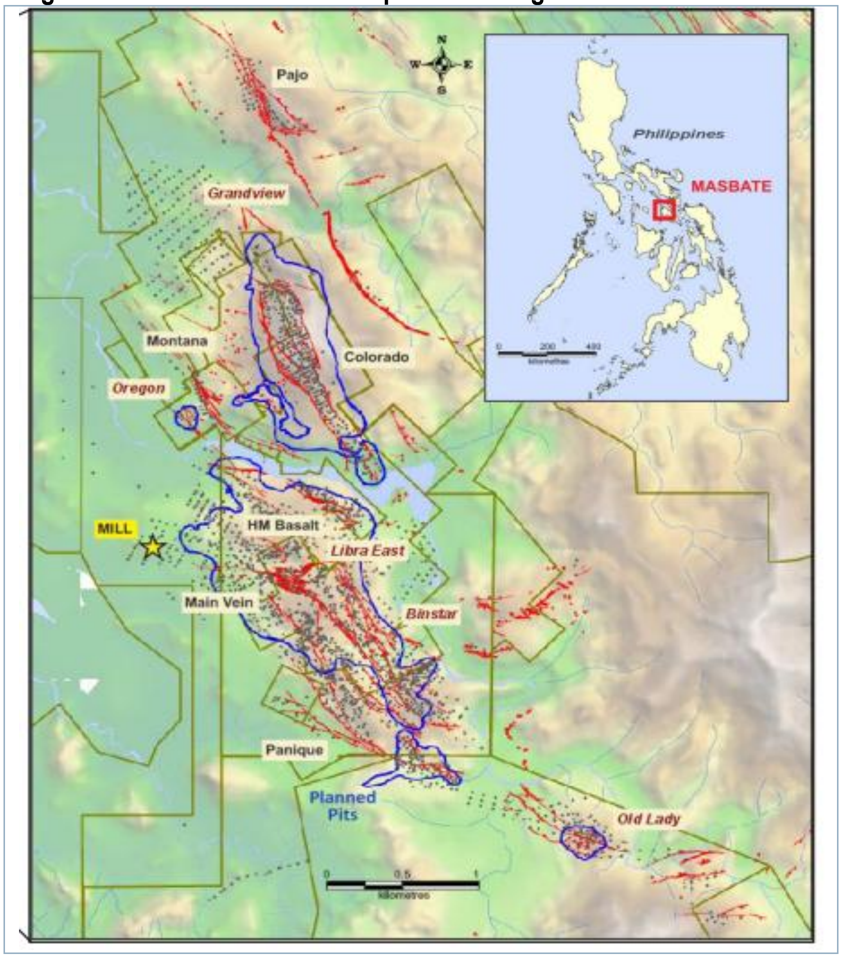
**Exploration**

Significant exploration potential remains both near mine workings and on the remainder of the property. The 2013 exploration program is testing mine veins including the Main Vein, Colorado, Panique and Montana, as well as near mine targets outside of the current resource area. The near mine targets include the Pajo area that could provide near-surface low-grade soft oxide ore and the Montana North area that could see materially higher grade but more restricted—its location would favour a near-term inclusion to the mine plan. The Montana North could be compared to the Jabali zone in the La Libertad Mine.

Regionally, large geophysical anomalies continue to present blue sky for further discoveries. The Luy-A and Tailings East areas are two key targets for testing.

**Figure 1 – Masbate Mine and Exploration Targets**




*Source: Company Reports*

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## SUMMARY

Following our visit to Masbate, we remain positive on the various opportunities to improve the mine and expand production that could see Masbate at ~250k oz/year by 2017. In the short term, we see that optimization to the mine plan and improvements in recoveries could see a decrease in cost. The significant exploration potential that remains both near mine and regionally justifies the view of a longer mine life and switch to owner-operated versus the current contract mining.

At this time, we are maintaining our estimates for Masbate, but as mentioned above, note that there's incremental upside potential on the basis of operational improvement and a larger resource/reserve.

We reiterate our BUY rating and C$3.80 target price for BTO—this represents a 1.2x multiple to our NAV8% and an approximate 7.6x P/CF multiple (of average 2013 to 2017 CFPS).

We believe B2Gold has one of the best organic growth profiles in the industry, with attributable gold production expected to almost double to over ~750k oz by 2017—this includes expansion at Masbate to 250k oz/year (by 2017) and production from its 92%-owned Otjikoto and 49%-owned Gramalote projects.

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**B2Gold Corp.** BTO CN C$2.25 **Rating: BUY** **Target: C$3.80/sh**

| Metal Prices | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| Gold Price | $/oz | $1,669 | $1,533 | $1,500 | $1,500 |
| Silver Price | $/oz | $31.24 | $25.90 | $24.50 | $24.50 |

| Operating Statistics | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| Annual Production (Au) | K oz | 158 | 384 | 406 | 528 |
| Total Cash Cost (Au) | $/oz | 682 | 668 | 667 | 649 |
| Production Growth | Δ | 11% | 143% | 6% | 30% |

| Profit & Loss | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| Revenue | m | $261 | $589 | $609 | $792 |
| Operating Margin | m | $153 | $333 | $338 | $449 |
| EBITDA | m | $125 | $268 | $289 | $400 |
| G&A/Exploration/R&D | m | $29 | $65 | $49 | $49 |
| Net Interest Expense | m | $0.0 | $0.0 | $8.8 | $17.5 |
| Pre-Tax Earnings | m | $97 | $236 | $245 | $313 |
| Tax Expense | m | $26 | $67 | $68 | $66 |
| Reported Earnings | m | $71 | $169 | $177 | $247 |
| Adjusted Earnings | m | $71 | $169 | $177 | $247 |
| Shares Outstanding | m | 392.7 | 645.4 | 645.4 | 645.4 |
| Fully-Diluted Shares | m | 415.9 | 668.0 | 668.0 | 668.0 |

| Cashflow Analysis | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| Cashflow from Operations | m | $113 | $243 | $218 | $322 |
| Cashflow from Investments | m | ($178) | ($195) | ($285) | ($427) |
| Cashflow from Financings | m | $20 | ($28) | $223 | $0 |
| Net Chg in Cash/Debt | m | ($44) | $19 | $156 | ($105) |

| Balance Sheet | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| Working Capital | m | $47 | $100 | $283 | $128 |
| Long-Term Debt | m | ($28) | $0 | $250 | $200 |
| Net Debt | m | ($58) | ($120) | ($53) | $52 |
| Total S/H Equity | m | $571 | $1,597 | $1,779 | $2,031 |

| Financials | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| EPS (adj) | $/sh | $0.17 | $0.25 | $0.27 | $0.37 |
| CFPS (adj) | $/sh | $0.27 | $0.36 | $0.33 | $0.48 |
| NAV 0% | m | $4,325 | | | |
| | $/sh | $6.47 | | | |
| NAV 8% | m | $2,185 | | | |
| | $/sh | $3.27 | | | |

| Valuation | | 2012 | 2013e | 2014e | 2015e |
|---|---|---|---|---|---|
| P/E | x | 13.0 | 8.7 | 8.3 | 6.0 |
| P/CF | x | 8.1 | 6.1 | 6.8 | 4.6 |
| EV/EBITDA | x | 5.8 | 6.3 | 4.6 | 4.5 |
| P/NAV 0% | x | 0.3 | | | |
| P/NAV 8% | x | 0.7 | | | |

| Company Statistics | | |
|---|---|---|
| Potential Return: | % | 68.9% |
| 52 Week High | $/sh | 4.22 |
| 52 Weel Low | $/sh | 2.09 |
| Current Book Value: | $m | $869.5 |
| Market Cap: | C$m | $1,452.1 |

Last Updated: as of 11-Jun-13 Source: GMP Research 2013

**NAV Sensitivity**

| | | 0% Discount | | 8% Discount | |
|---|---|---|---|---|---|
| | | M$ | $/sh | M$ | $/sh |
| **$1,000** | $/oz | $913 | $1.37 | $414 | $0.62 |
| **$1,250** | $/oz | $2,616 | $3.92 | $1,305 | $1.95 |
| **$1,500** | $/oz | $4,316 | $6.46 | $2,176 | $3.26 |
| **$1,750** | $/oz | $6,016 | $9.01 | $3,041 | $4.55 |
| **$2,000** | $/oz | $7,715 | $11.55 | $3,904 | $5.84 |
| **$2,250** | $/oz | $9,415 | $14.10 | $4,764 | $7.13 |

**Financial Sensitivity**

| | | EPS | | CFPS | |
|---|---|---|---|---|---|
| | | 2013e | 2014e | 2013e | 2014e |
| **$1,000** | $/oz | $0.04 | $0.05 | $0.15 | $0.12 |
| **$1,250** | $/oz | $0.14 | $0.16 | $0.25 | $0.22 |
| **$1,500** | $/oz | $0.24 | $0.27 | $0.35 | $0.33 |
| **$1,750** | $/oz | $0.34 | $0.37 | $0.45 | $0.43 |
| **$2,000** | $/oz | $0.44 | $0.48 | $0.55 | $0.54 |
| **$2,250** | $/oz | $0.54 | $0.59 | $0.65 | $0.65 |

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