

Matador Mining (MZZ)

Rating: Buy | Risk: High | Price Target: \$0.80

Window Glass Hill drilling success continues, Marathon's finish line is within sight

Key Information

Current Price (\$ps)	0.28
12m Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.27 - 0.57
Target Price Upside (%)	189.1%
TSR (%)	189.1%
Reporting Currency	AUD
Market Cap (\$m)	59
Sector	Materials
Avg Daily Volume (m)	0.7
ASX 200 Weight (%)	0%

Fundamentals

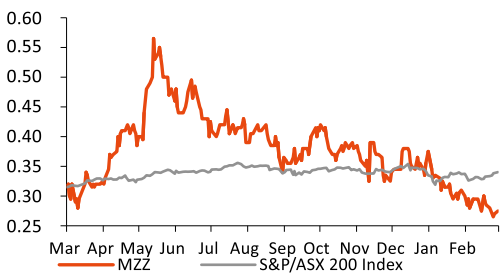
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	238
NPAT (\$m)	(4)	(2)	(4)	83
EPS (cps)	(2.2)	(0.9)	(1.5)	25.6
EPS Growth (%)	16.1%	59.0%	(72.1%)	nm
DPS (cps) (AUD)	0.0	0.0	1.0	5.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(20.8)	(31.0)	(18.0)	1.1
EV/EBITDA (x)	(18.6)	(18.0)	(17.4)	0.4
Div Yield (%)	0.0%	0.0%	3.6%	18.2%
Payout Ratio (%)	0.0%	0.0%	(65.4%)	19.5%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(9.1%)	(28.4%)	(18.3%)	(20.0%)
Absolute (%)	(8.3%)	(26.7%)	(19.1%)	(11.3%)
Benchmark (%)	0.8%	1.7%	(0.8%)	8.7%



Major Shareholders

Maple Mining	13.5%
Nero Funds	6.0%
Terra Capital	5.0%

Andrew Hines | Head of Research

+61 3 9268 1178
andrew.hines@shawandpartners.com.au

Michael Clark | Analyst

+61 3 9268 1148
michael.clark@shawandpartners.com.au

Kristian Stella | Analyst

+61 3 9268 1097
Kristian.Stella@shawandpartners.com.au

Event

Matador has released the final assay results from its diamond drilling completed in late 2021 at its Cape Ray Shear Project in Newfoundland, Canada. The results are encouraging and include an intercept at Window Glass Hill (WGH) of 14m at 4.5g/t gold from 88m, including 1m @ 27.4 g/t. The company is continuing its winter drill programme of ~4,000m and will pursue infill and extension drilling in the summer season.

In other positive news for Matador, neighbouring developer Marathon Mining's Valentine Gold Project (50km NE) has been released from the Provincial Environmental Approval (EA) process. Both provincial and federal EA releases are preconditions for mine permitting and construction. In our view a successful EA process from Marathon may pave the way for MZZ's environmental permitting down the track, as it progresses towards mining.

Highlights

- MZZ is exploring for gold in the Cape Ray Shear in Newfoundland, Canada. Ian Murray (ex Goldroad) is Executive Chairman and recent exploration results are encouraging. Drilling results highlight the potential for the Cape Ray Shear to host multiple, high grade, shallow deposits. There is an active drilling program planned in 2022, and the company appears to be well capitalised with a cash position of ~A\$11m (Dec21q).
- Shaw and Partners hosted an investor seminar in 2021 focussed on the province and featuring Matador, Maritime Resources and New Found Gold. The region is highly prospective but lightly explored and is currently experiencing an exploration boom.
- The 14m @ 4.5g/t intercept is one of the best intercepts to date at WGH. This follows other results at WGH which indicate that the Window Glass Hill Granite (WGHG) is more extensively mineralised than previously identified. The 2020 Angus discovery may be part of much larger mineralised system on the WGHG.
- Despite its obvious prospectivity the Cape Ray Shear is very lightly explored. A key reason is that large sections of the Cape Ray Shear lie beneath a shallow glacial till cover, and only the outcropping mineralized zones have been drilled. Matador has been using a geochemical 'pathfinder' approach to identify likely drill targets and is now quickly and relatively inexpensively testing these targets using its purpose built ATV-mounted auger drills.
- The ATV-mounted auger drilling can penetrate to a depth of 10m and obtain samples of the basement rocks beneath the glacial till cover. The advantage of this approach is that it can quickly identify which targets warrant follow-up diamond drilling, and which targets can be ruled out. This will accelerate the exploration effort as well make it very cost effective.
- Marathon Gold last week announced that its Valentine Gold Project (50km to the NE of MZZ) has received Provincial Approval. The project has been released from the Provincial Environmental Approval (EA) process by the Newfoundland Government. The announcement allows Marathon to commence site-specific permitting processes, including the acquisition of the Project's Mining lease. The Project remains subject to the final release of the parallel Federal EA Process, for which a press release was made signifying the start of an up to 30-day review period for public comment.
- Marathon's provincial approval is an important step for MZZ, given they are effectively paving the way for the environmental permitting process. Both a provincial and federal Environmental Approval releases are pre-conditions for mine permitting and construction.

Recommendation

In our view Matador is a cheap exposure to an exciting new gold exploration province. We retain our Buy recommendation and A\$0.80ps price target. We have set our price target at a fully diluted DCF valuation.

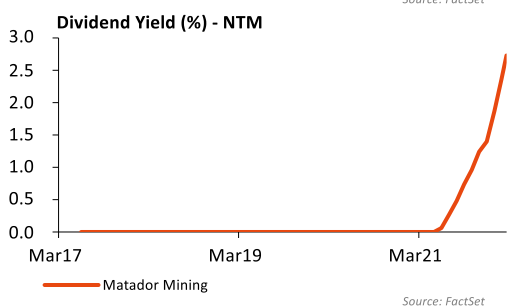
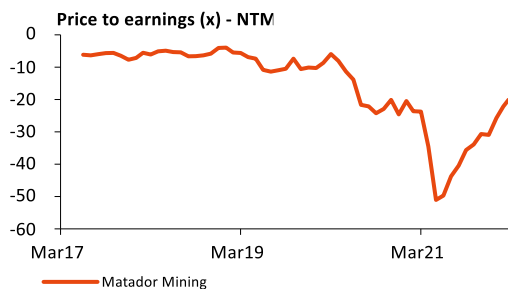
**Matador Mining
Materials**

FactSet: MZZ-AU / Bloomberg: MZZ AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.28
Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.27 - 0.57
Shares on Issue (m)	215
Market Cap (\$m)	59
Enterprise Value (\$m)	57
TSR (%)	189.1%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	9.3%
Cost of Debt (net) (%)	4.0%
Risk Free Rate (%)	4.0%
Terminal Growth (%)	0.0%
WACC (%)	8.0%

Matador is a gold exploration company with exploration tenements in the lightly explored but highly prospective Cape Ray Shear Zone in Newfoundland, Canada. The Cape Ray Shear Zone is a geological structure that extends approximately 400 km through Newfoundland. Matador is the largest holder of ground with approximately 120km of continuous strike along the shear, of which only 15km has been drilled.



Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(2.6)	(2.2)	(0.9)	(1.5)	25.6
EPS (Underlying) (cps)	(2.6)	(2.2)	(0.9)	(1.5)	25.6
EPS (Underlying) Growth (%)	55.6%	16.1%	59.0%	(72.1%)	nm
PE (Underlying) (x)	(11.6)	(20.8)	(31.0)	(18.0)	1.1
EV / EBIT (x)	(22.9)	(18.4)	(18.0)	(17.4)	0.5
EV / EBITDA (x)	(23.1)	(18.6)	(18.0)	(17.4)	0.4
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	5.0
Dividend Yield (%)	0.0%	0.0%	0.0%	3.6%	18.2%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	(65.4%)	19.5%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	238
Other Operating Income	0	2	2	2	2
EBITDA	(2)	(3)	(3)	(3)	138
EBITDA Margin (%)	nm	nm	nm	nm	58.2%
Depreciation & Amortisation	0	0	0	0	(23)
EBIT	(2.5)	(3.1)	(3.1)	(3.3)	115.8
EBIT Margin (%)	nm	nm	nm	nm	48.7%
Net Interest	0	0	1	(2)	(4)
Pretax Profit	(2)	(3)	(2)	(5)	111
Tax	0	(1)	1	1	(28)
Tax Rate (%)	0.0%	17.5%	(25.0%)	(25.0%)	(25.0%)
NPAT Underlying	(2)	(4)	(2)	(4)	83
Significant Items	0	0	0	0	0
NPAT Reported	(2)	(4)	(2)	(4)	83
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(2)	(3)	(3)	(3)	116
Payments to Suppliers	(2)	(2)	(3)	(3)	(99)
Receipts from Customers	0	0	0	0	238
Tax Paid	0	0	(1)	1	1
Change in Working Capital	0	0	0	0	(28)
Depreciation & Amortisation	0	0	0	0	23
Other	0	0	1	(2)	(27)
Operating Cashflow	(2)	(2)	(3)	(5)	107
Capex	0	(0)	0	(148)	(1)
Acquisitions and Investments	(5)	(9)	(9)	(9)	(9)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	(5)	(10)	(9)	(157)	(11)
Equity Raised / Bought Back	7	31	0	70	0
Dividends Paid	0	0	0	0	(7)
Change in Debt	(0)	0	0	100	0
Other	0	0	0	0	0
Financing Cashflow	6	31	0	170	(7)
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	(1)	20	(12)	8	90
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	2	22	10	17	107
Accounts Receivable	0	1	1	1	20
Inventory	0	0	0	0	16
Other Current Assets	0	0	0	0	0
PPE	15	26	35	193	181
Total Assets	18	49	46	211	324
Accounts Payable	0	6	6	6	13
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	100	100
Total Liabilities	0	7	6	105	141
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(17.1%)	(12.1%)	(4.5%)	(5.6%)	57.7%
Gearing (%)	(15.4%)	(108.6%)	(31.2%)	43.7%	(4.2%)
Net Debt / EBITDA (x)	1.0	7.2	3.1	(25.4)	(0.1)

Key risks

- The gold price is volatile and driven as much by geopolitical events as fundamental supply and demand. As such, the price of gold is relatively difficult to forecast, and the actual price may differ substantially from our forecasts.
- Matador Mining is predominantly an exploration company and therefore carries significant exploration risk. There is no guarantee that future exploration results will be positive.
- The Cape Ray Gold Project is not yet producing and there is a risk that Matador is unable to bring the operation in to production. The project may cost more than expected to build and may not operate as expected.
- Matador is facing a significant financing challenge to develop the Cape Ray project. There is a risk that capital markets are not willing to fund the project.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company, then it could delay projects or exacerbate operational risks.

Core drivers and catalyst

- Matador has exploration tenements in the lightly explored but highly prospective Cape Ray Shear Zone in Newfoundland, Canada. The Cape Ray Shear Zone is a geological structure that extends approximately 400 km through Newfoundland.
- Matador is the largest holder of ground along the Cape Ray Shear, with approximately 120km of continuous strike along the shear. The Company's total holding in Newfoundland stands at 425km².
- Matador released a Scoping Study in 2020 proposing a 1.2 Mtpa standalone mining and processing operation. The preliminary economics indicate the Project has positive financial metrics over an initial mine life of 7 years with capital payback during the first 1.75 years of the Project's life
- Cape Ray's current resource stands at 840koz at 2g/t, with 96% of the resource less than 200m from surface.
- Matador's corporate strategy is to increase its resource base to a size that will support a 10-year operation. This will come from a combination of expanding the resource at existing discoveries and drilling at greenfield targets.
- Matador has completed a 323km ground magnetic survey, and in combination with soil and rock chip sampling, and person portable drilling has identified a further 33 drill targets. The drilling is expected to aggressively ramp up in 2021/22 to test the new greenfield targets that have been identified.
- The Matador board was restructured in 2020 including the appointment of Executive Chairman Ian Murray who helped build Gold Road from an explorer into a +\$1bn company. Justin Osborne (Gold Road) and Mick Wilkes (Oceania Gold) have also joined as Non-Executive Directors.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

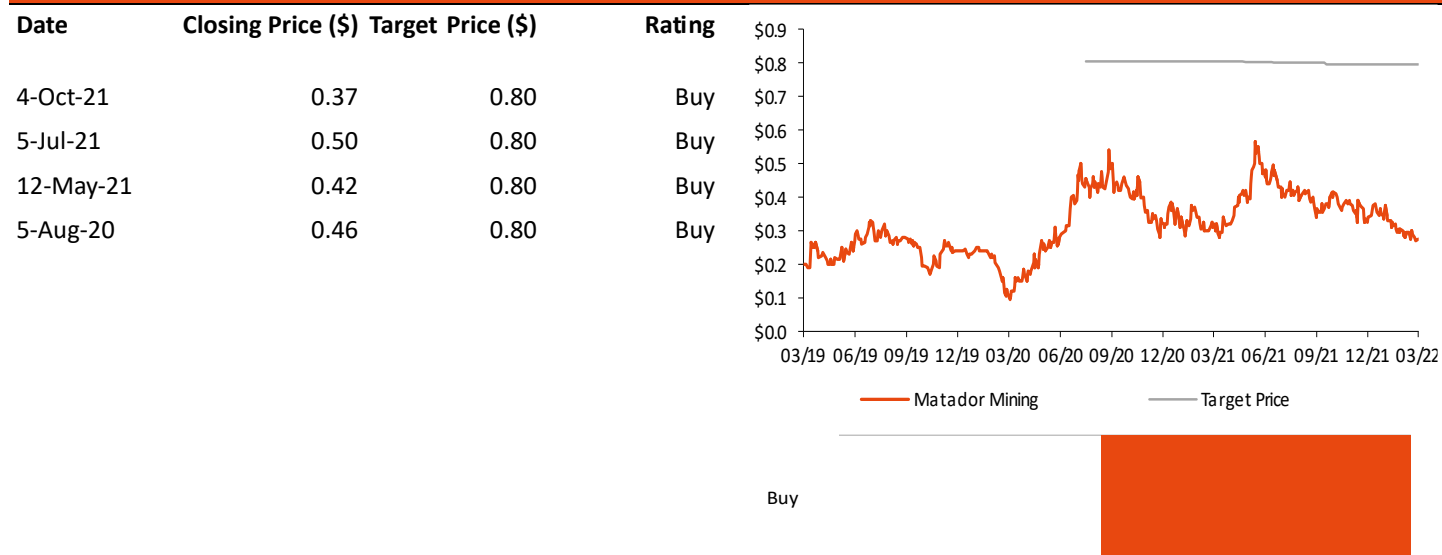
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	99	85%
Hold	16	14%
Sell	2	2%

History of Investment Rating and Target Price - Matador Mining



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Shaw acted for the company in a corporate capacity within the past 12 months for which it received a fee.

Sydney Head Office	Melbourne	Brisbane	Adelaide	Canberra	Perth	Noosa
Level 7, Chifley Tower 2 Chifley Square Sydney NSW 2000 Telephone: +61 2 9238 1238 Toll Free: 1800 636 625	Level 36 120 Collins Street Melbourne VIC 3000 Telephone: +61 3 9268 1000 Toll Free: 1800 150 009	Level 28 111 Eagle Street Brisbane QLD 4000 Telephone: +61 7 3036 2500 Toll Free: 1800 463 972	Level 23 91 King William Street Adelaide SA 5000 Telephone: +61 8 7109 6000 Toll Free: 1800 636 625	Level 7 54 Marcus Clarke Street Canberra ACT 2600 Telephone: +61 2 6113 5300 Toll Free: 1800 636 625	Level 20 108 St Georges Terrace Perth WA 6000 Telephone: +61 8 9263 5200 Toll Free: 1800 198 003	Suite 11a Q Place 2 Quamby Place Noosa Heads QLD 4567 Telephone: +61 7 3036 2570 Toll Free: 1800 271 201