

Matador Mining (MZZ)

Rating: Buy | Risk: High | Price Target: \$0.55

Additional gold targets at Malachite – drilling expected next quarter

Key Information

| | |
|-------------------------|-------------|
| Current Price (\$ps) | 0.15 |
| 12m Target Price (\$ps) | 0.55 |
| 52 Week Range (\$ps) | 0.15 - 0.50 |
| Target Price Upside (%) | 269.9% |
| TSR (%) | 269.9% |
| Reporting Currency | AUD |
| Market Cap (\$m) | 33 |
| Sector | Materials |
| Avg Daily Volume (m) | 0.3 |
| ASX 200 Weight (%) | 0% |

Fundamentals

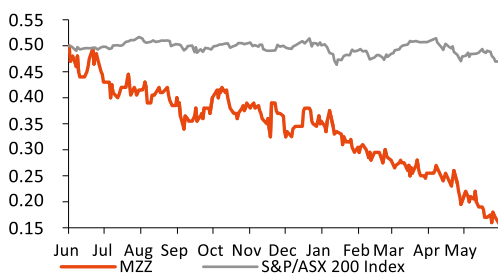
| YE 30 Jun (AUD) | FY21A | FY22E | FY23E | FY24E |
|-----------------|-------|-------|--------|---------|
| Sales (\$m) | 0 | 0 | 0 | 0 |
| NPAT (\$m) | (4) | (2) | (2) | (4) |
| EPS (cps) | (2.2) | (0.9) | (0.9) | (1.2) |
| EPS Growth (%) | 16.1% | 59.0% | (4.4%) | (26.0%) |
| DPS (cps) (AUD) | 0.0 | 0.0 | 1.0 | 5.0 |
| Franking (%) | 0% | 0% | 0% | 0% |

Ratios

| YE 30 Jun | FY21A | FY22E | FY23E | FY24E |
|------------------|--------|--------|--------|--------|
| P/E (x) | (20.8) | (16.9) | (16.2) | (12.8) |
| EV/EBITDA (x) | (10.0) | (9.6) | (9.3) | (9.0) |
| Div Yield (%) | 0.0% | 0.0% | 6.7% | 33.3% |
| Payout Ratio (%) | 0.0% | 0.0% | nm | nm |

Price Performance

| YE 30 Jun | 1 Mth | 2 Mth | 3 Mth | 1 Yr |
|---------------|---------|---------|---------|---------|
| Relative (%) | (18.5%) | (31.3%) | (41.6%) | (63.8%) |
| Absolute (%) | (20.5%) | (39.2%) | (44.6%) | (69.0%) |
| Benchmark (%) | (2.0%) | (7.9%) | (3.0%) | (5.2%) |



Price performance indexed to 100

Source: FactSet

Major Shareholders

| | |
|--------------------|------|
| CI Financial | 5.8% |
| Franklin Resources | 4.9% |

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Event

Matador Mining has announced further results from its till sampling program at the Cape Ray Gold Project in Newfoundland. The results have identified a further eight gold anomalies at the Malachite target area, bringing the total number of targets to seventeen. We expect drilling to commence in the September quarter. A shift to drilling at Malachite marks a new exploration phase for Matador of high-impact greenfield target drilling.

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.
- 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.
- 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.
- To date, the exploration focus has been around the previous discoveries in the 'Central Zone' of Cape Ray Shear. Drilling has successfully expanded the known mineralisation, particularly at Window Glass Hill (WGH), but has failed to excite the market with its incremental resource delineation approach.
- New CEO Sam Pazuki has changed the focus in 2022 and the company is now targeting high-impact greenfield targets along the full length of the 120km Cape Ray Shear. The initial focus is the Malachite zone, around 40km NE of the Central Zone. Till sampling has identified 17 high-tenor gold anomalies. These will be further tested using Matadors' geo-chem pathfinder and auger drilling approach, before the most prospective being diamond drilled.
- Matador is excited about the potential of the Malachite zone due to its size (15km by 4km, which is bigger than the area that contains Marathon's nearby 4.8Moz Valentine Project); the geology (it is the largest structural bend on the Cape Ray Shear and is geologically complex with second and third order structures throughout); and the sheer number of pristine gold grains in the till samples (which indicate the source of gold is nearby).
- We also note that Marathon Gold is making strong progress with its Valentine Gold Project (50km to the NE of MZZ). Valentine has been released from the Provincial Environmental Approval (EA) process by the Newfoundland Government. This allows Marathon to commence site-specific permitting processes, including the acquisition of the Project's Mining lease. 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. We have lowered our price target from A\$0.80ps to A\$0.55ps which is based on a fully diluted DCF valuation. We have pushed back first production by 12 months to 2025. The recent weakness in the shareprice results in additional dilution for funding of a development.

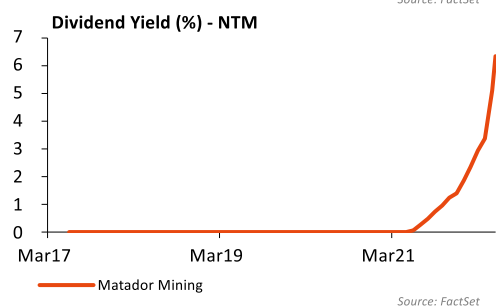
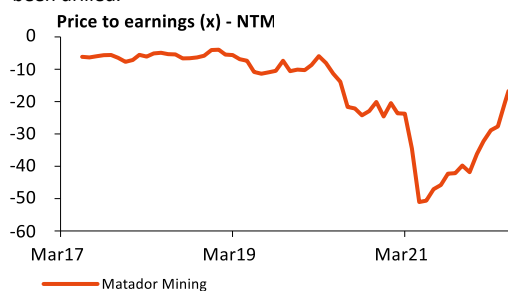
**Matador Mining
Materials**

FactSet: MZZ-AU / Bloomberg: MZZ AU

| Key Items | Data |
|------------------------|-------------|
| Recommendation | BUY |
| Risk | HIGH |
| Price (\$ps) | 0.15 |
| Target Price (\$ps) | 0.55 |
| 52 Week Range (\$ps) | 0.15 - 0.50 |
| Shares on Issue (m) | 218 |
| Market Cap (\$m) | 33 |
| Enterprise Value (\$m) | 30 |
| TSR (%) | 269.9% |

| 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% |
| Valuation per share (cps) (AUD) | 0.55 |
| Valuation (\$m) | 271.61 |

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

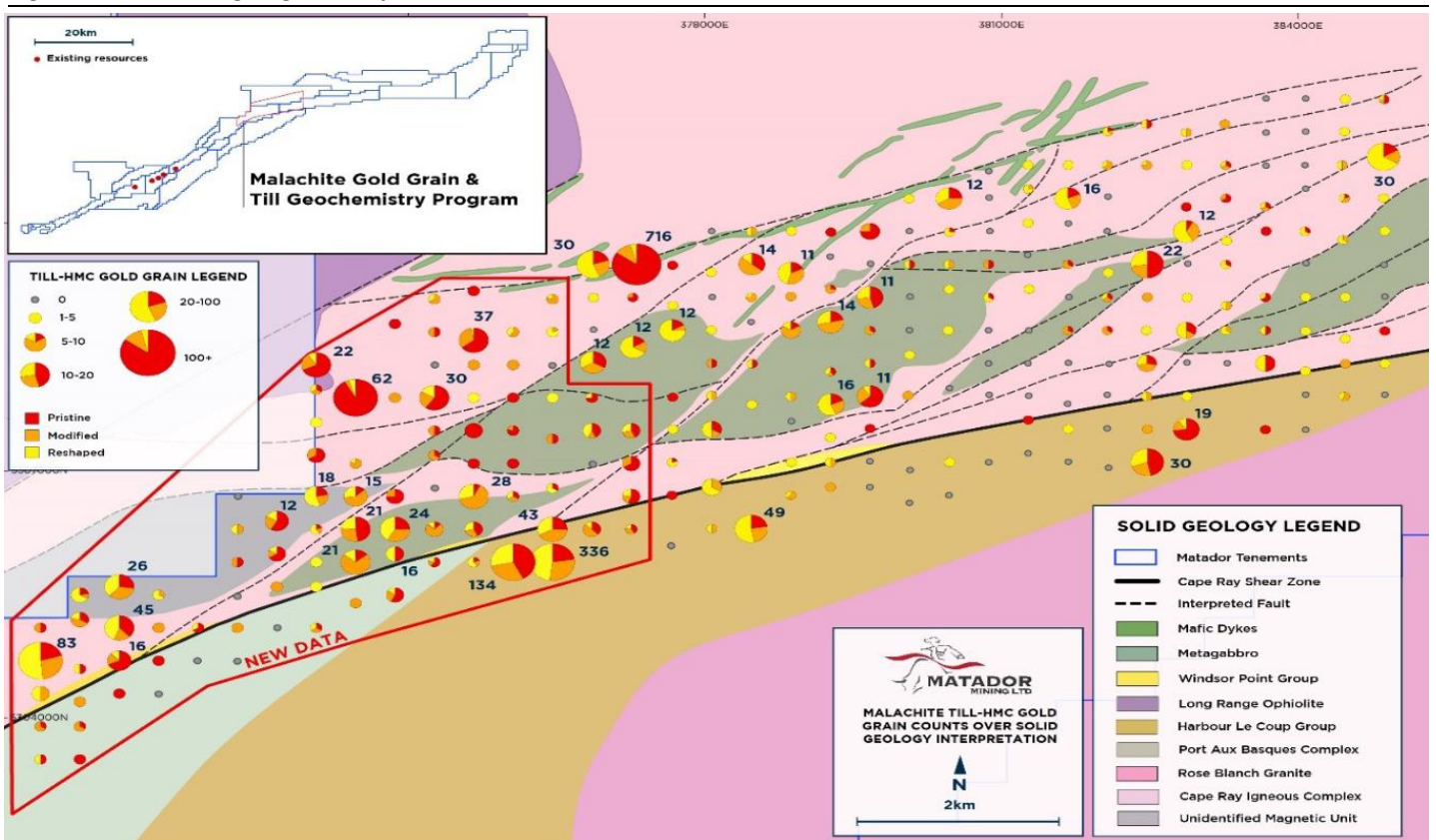
| Investment Summary (AUD) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------------------|---------|----------|---------|---------|---------|
| EPS (Reported) (cps) | (2.6) | (2.2) | (0.9) | (0.9) | (1.2) |
| EPS (Underlying) (cps) | (2.6) | (2.2) | (0.9) | (0.9) | (1.2) |
| EPS (Underlying) Growth (%) | 55.6% | 16.1% | 59.0% | (4.4%) | (26.0%) |
| PE (Underlying) (x) | (11.6) | (20.8) | (16.9) | (16.2) | (12.8) |
| EV / EBIT (x) | (12.2) | (9.8) | (9.6) | (9.3) | (9.0) |
| EV / EBITDA (x) | (12.3) | (10.0) | (9.6) | (9.3) | (9.0) |
| DPS (cps) (AUD) | 0.0 | 0.0 | 0.0 | 1.0 | 5.0 |
| Dividend Yield (%) | 0.0% | 0.0% | 0.0% | 6.7% | 33.3% |
| Franking (%) | 0% | 0% | 0% | 0% | 0% |
| Payout Ratio (%) | 0.0% | 0.0% | 0.0% | nm | nm |
| Profit and Loss (AUD) (m) | FY20A | FY21A | FY22E | FY23E | FY24E |
| Sales | 0 | 0 | 0 | 0 | 0 |
| Other Operating Income | 0 | 2 | 2 | 2 | 2 |
| EBITDA | (2) | (3) | (3) | (3) | (3) |
| EBITDA Margin (%) | nm | nm | nm | nm | nm |
| Depreciation & Amortisation | 0 | 0 | 0 | 0 | 0 |
| EBIT | (2.5) | (3.1) | (3.1) | (3.3) | (3.4) |
| EBIT Margin (%) | nm | nm | nm | nm | nm |
| Net Interest | 0 | 0 | 1 | 0 | (2) |
| Pretax Profit | (2) | (3) | (2) | (3) | (6) |
| Tax | 0 | (1) | 1 | 1 | 1 |
| Tax Rate (%) | 0.0% | 17.5% | (25.0%) | (25.0%) | (25.0%) |
| NPAT Underlying | (2) | (4) | (2) | (2) | (4) |
| Significant Items | 0 | 0 | 0 | 0 | 0 |
| NPAT Reported | (2) | (4) | (2) | (2) | (4) |
| Cashflow (AUD) (m) | FY20A | FY21A | FY22E | FY23E | FY24E |
| EBIT | (2) | (3) | (3) | (3) | (3) |
| Payments to Suppliers | (2) | (2) | (3) | (3) | (3) |
| Receipts from Customers | 0 | 0 | 0 | 0 | 0 |
| Tax Paid | 0 | 0 | (1) | 1 | 1 |
| Change in Working Capital | 0 | 0 | 0 | 0 | (5) |
| Depreciation & Amortisation | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 1 | 0 | (2) |
| Operating Cashflow | (2) | (2) | (3) | (2) | (10) |
| Capex | 0 | (0) | 0 | 0 | (148) |
| 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) | (9) | (157) |
| Equity Raised / Bought Back | 7 | 31 | 0 | 12 | 70 |
| Dividends Paid | 0 | 0 | 0 | 0 | (7) |
| Change in Debt | (0) | 0 | 0 | 0 | 100 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Financing Cashflow | 6 | 31 | 0 | 12 | 163 |
| Exchange Rate Effect | 0 | 0 | 0 | 0 | 0 |
| Net Change in Cash | (1) | 20 | (12) | 0 | (5) |
| Balance Sheet (AUD) (m) | FY20A | FY21A | FY22E | FY23E | FY24E |
| Cash | 2 | 22 | 10 | 10 | 5 |
| Accounts Receivable | 0 | 1 | 1 | 1 | 0 |
| Inventory | 0 | 0 | 0 | 0 | 0 |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| PPE | 15 | 26 | 35 | 45 | 202 |
| Total Assets | 18 | 49 | 46 | 56 | 208 |
| Accounts Payable | 0 | 6 | 6 | 6 | 0 |
| Short Term Debt | 0 | 0 | 0 | 0 | 0 |
| Long Term Debt | 0 | 0 | 0 | 0 | 100 |
| Total Liabilities | 0 | 7 | 6 | 5 | 99 |
| Ratios | FY20A | FY21A | FY22E | FY23E | FY24E |
| ROE (%) | (17.1%) | (12.1%) | (4.5%) | (4.9%) | (5.2%) |
| Gearing (%) | (15.4%) | (108.6%) | (31.2%) | (24.5%) | 46.5% |
| Net Debt / EBITDA (x) | 1.0 | 7.2 | 3.1 | 3.0 | (28.2) |

Figure 1 Cape Ray Shear



Source: Matador ASX release June 2022

Figure 2 Malachite till gold grain analysis



Source: Matador ASX release June 2022

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 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) 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

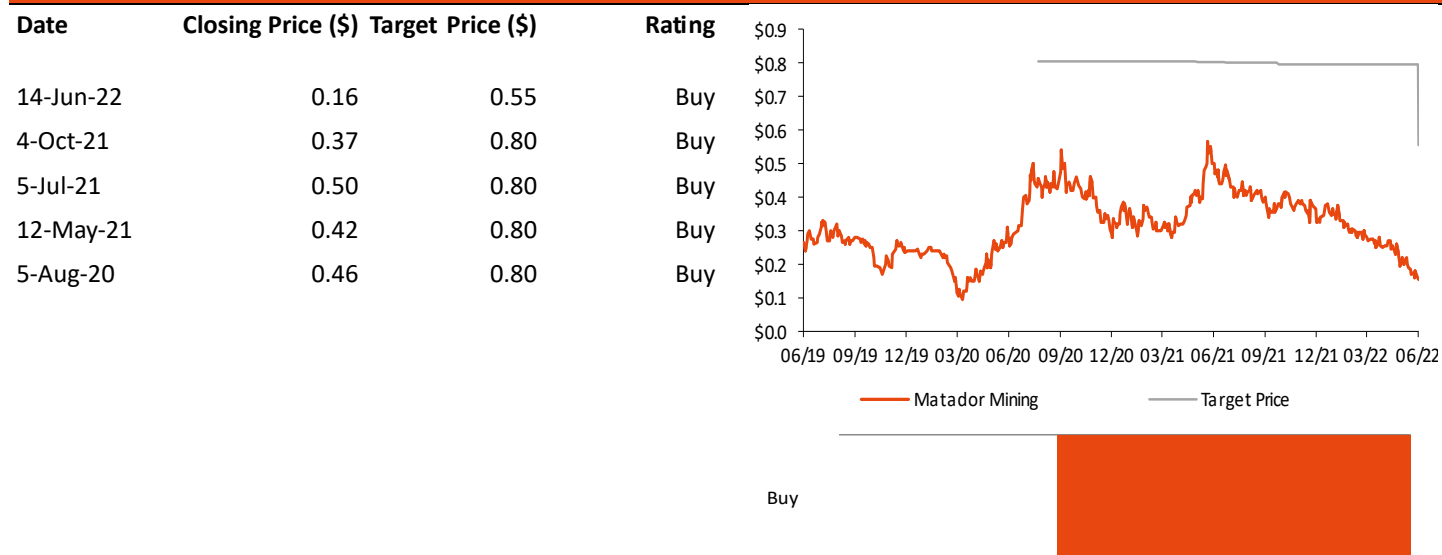
| | |
|---------------|---|
| High | Higher risk than the overall market – investors should be aware this stock may be speculative |
| Medium | Risk broadly in line with the overall market |
| Low | Lower risk than the overall market |

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

| Rating | Count | Recommendation Universe |
|--------|-------|-------------------------|
| Buy | 100 | 86% |
| Hold | 14 | 12% |
| Sell | 2 | 2% |

History of Investment Rating and Target Price - Matador Mining



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