



# COMPANY ANALYSIS TERANGA GOLD CORP-- TGZ-TSX

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**APRIL 8**

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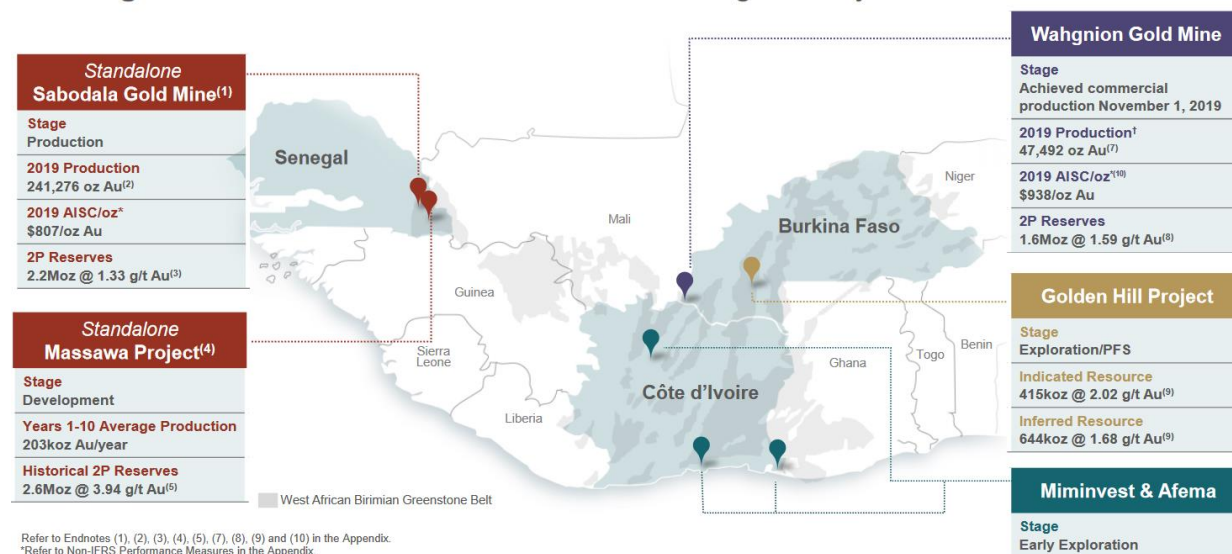
Investing Whisperer  
Authored by: Keith Schaefer

**INVESTING**  
*whisperer*

Teranga Gold (TGZ – TSX) has made a solid move off the bottom – much like the rest of the gold producer complex.

Nevertheless, there is still plenty of room to run as long as gold holds at these levels or (even better) moves higher.

Teranga has a great looking growth profile. By 2021 they will have 3 producing mines and another mid-stage growth project.



Source: Teranga Investor Presentation

In Q4 19, Teranga’s second mine in West Africa—called Wahgnion—went into production. It is a carbon copy of its first mine, Sabodala, so there should be – and has not been—any hiccups in the start up.

Wahgnion achieved commercial production in November. Fourth quarter gold production was 36,872 ounces.

The mine will contribute between 130,000 and 140,000 ounces for 2020, which will help Teranga increase production from 288,000 ounces in 2019 to 345,000-355,000 ounces this year.

Additional growth will come next year from the recent acquisition of the much higher grade Massawa mine. Massawa was acquired from **Barrick Gold (GOLD – NYSE)** earlier this year.

While 2020 guidance doesn’t include production from Massawa, the mine is expected to contribute ounces in the second half of this year. By 2021, Massawa will be adding another 100,000 ounces of production.

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While Teranga does have some debt, the company's free cash flow over the next few years will whittle that down.

I'm buying the stock because a full year production from Wahgnion and the ramp of Massawa should re-rate the stock higher.

However, because nothing is easy, it's important to note that Wahgnion is in Burkina Faso, where another Canadian mining company, Semafo, was the victim of a terrorist attack that killed over 30 people, and where violence continues to be an issue.

Wahgnion is 500 km to the west of Semafo, but it is in the same country. I give you an account of that at the bottom of this report.

## **QUICK FACTS**

Trading Symbols:	TGZ
Share Price Today:	\$7.70
Shares Outstanding:	167 million
Market Capitalization:	\$1,286 million
Net Debt:	\$570 million
Enterprise Value:	\$1,856 million
2020 Cash flow per share Estimate:	\$1.17
2020 P/CF	6.6x
2021 Cash flow per share Estimate:	\$1.61
2021 P/CF	4.8x

## **POSITIVES**

- Trading at a significant discount to peers
- Operating mine in Senegal has been consistent performer
- Second mine ramping in Burkina Faso will increase production by 50%
- Recently acquired Massawa mine will add another 100Koz next year
- With three operating mines company is on cusp of BIG free-cash-flow generation

## **NEGATIVES**

- Risk of operating in Burkina Faso – especially after Semafo attacks
- New mining operation in pre-production, needs to successfully ramp

- Credit facilities are nearly fully drawn, purchase of Massawa levered up balance sheet

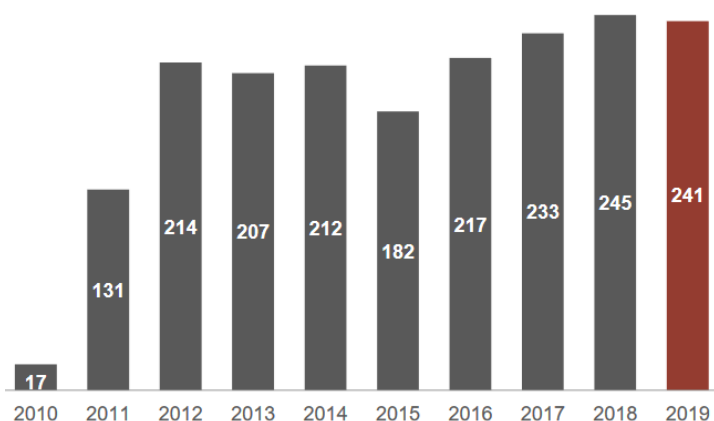
## ASSETS—SABODALA MINE, SENEGAL

Let's take a look at the properties.

First the Sabodala mine, which is far away from Burkina Faso, in the western coast country of Senegal.

Sabodala has been a solid producer for 10 years running.

Exceeded the Higher End of 2019 Production Guidance for Fourth Consecutive Year  
(Koz Au)

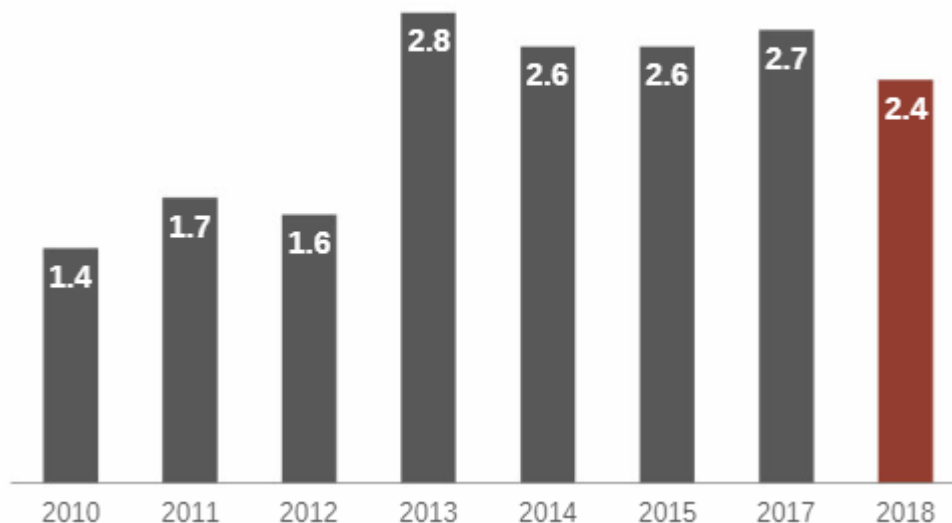


Source: Teranga Investor Presentation

During that time Teranga has been able to maintain proven and probable reserves.

## Sabodala Proven and Probable Reserves<sup>(2)</sup>

(Moz)



Source: Teranga Investor Presentation

Sabodala is an open-put mine with a 1.35 g/t reserve grade. The mine has 2.4 million ounces of reserves and 4.1 million ounces of total resource.

Teranga has actually increased reserves (from 1.7 million ounces to 2.4 million ounces) in the 9 years since the mine began operation.

It's a low-ish cost mine – cast costs of under \$700 per ounce and all-in-costs of under \$1,000 per ounce.

Sabodala has been delivering funds flow (cash flow before working capital changes) of \$20 million per quarter. Teranga has forecasted that Sabodala can generate \$46 million of free cash annually at \$1,250 per ounce gold price.

Teranga financed Sabodala with a royalty stream that Teranga must pay to **Franco Nevada (FNV-TSX)**. That stream begins to drop this year - from 22,500 oz in 2019 to 6% of production in 2020, or just over half. Franco only has to pay 20% of the spot gold price for their gold, so that will help increase cash flow as well.

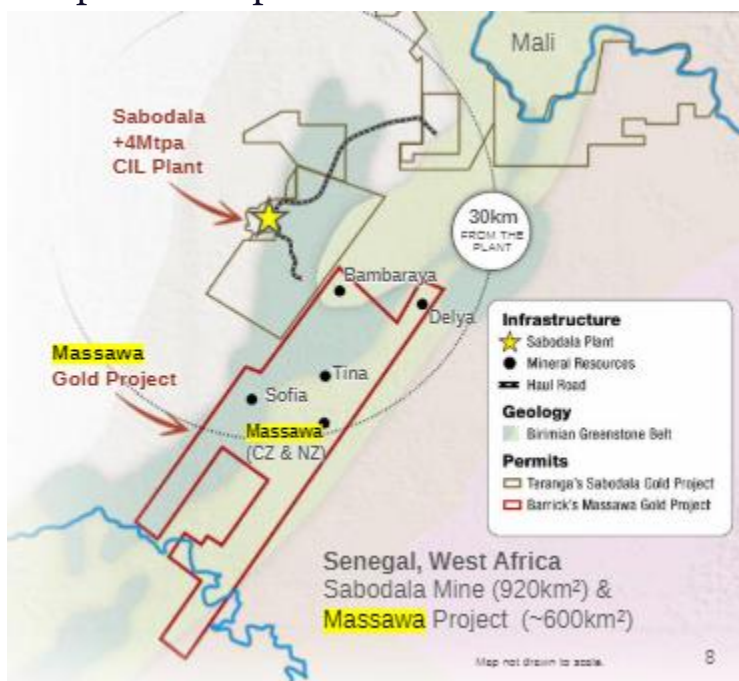
The Sabodala mine was made much more valuable this year when Teranga purchases the nearby Massawa mine from Barrick Gold.

## FIRST NEW MINE—MASSAWA

Massawa is just 30 km down the road from Sabodala—it is a good sized 2.6 Moz deposit at a very good grade of 3.9 g/t—to Barrick it was a non-core asset but it

is a very important growth opportunity for Teranga. The feasibility study estimated an NPV (5%) of \$579 M and IRR of 37% at just US\$1,400/oz gold.

Because the mines are so close, Teranga can use the Sabodala mill to process Massawa ore – meaning Teranga can bring the high grade mine online with only \$40-\$50 million of capital. Cheap!!



Source: Fourth Quarter Investor Presentation

Teranga expects Massawa to begin contributing production in H2 2020. Over the next decade Massawa will add BIG production to Teranga—an estimated average 200,000 ounces per year for 10 years.

Teranga will likely mix ore from Sabodala and Massawa in the near-term. That means that we won't see the full impact of both mines in full production immediately.

Nevertheless, Teranga should still see an extra 100,000 ounces of production from Massawa in 2021 – or 25% production growth for the company – produced at a lower cost profile as well.

## **SECOND NEW MINE—WAHGNION IN BURKINA FASO**

Their late stage Burkina Faso operation is Wahgnion. Wahgnion ramped up production in the fourth quarter and is full steam ahead.

Teranga updated the market in March 2020 with news that corporate first quarter production ranged from 85,000-90,000 ounces.

While the update did not break down production between the two mines, you can still infer from the numbers that Wahgnion made it through its first full quarter of production without a hiccup.

The addition of these two mines - Wahgnion and Massawa – have the potential to be a BIG catalyst for TGZ.

With just Wahgnion and Sabodala figuring into the company’s guidance this year Teranga should still generate at least \$1.20 per share of operating cash flow at \$1,600 gold--and positive free cash flow (I say at least because I think I am being conservative with the AISC and currency projections).

Price (CAD)		7.50
Market Cap		1252.5
Net Debt (USD)		425
EV (CAD)	\$	1,819

(\$mm)		2020E
Gold Production		350,000
Gold Price (\$/oz)	\$	1,600
Revenue (\$mm)	\$	560
AISC (\$/oz)	\$	1,000
OPEX (\$mm)	\$	60
Cash flow (\$mm)	\$	150
CAD/USD	\$	0.75
CF per share (CAD)	\$	1.20
P/CF		6.3

Source: Company estimates, our own assumptions

In 2021, cash flow is going to increase even further as Massawa adds another 28% increase in production.

Below are average analysts estimates for 2021, once all three mines are operating.

(\$mm)	2021E	
Revenue (\$mm)	\$	941
EBITDA	\$	409
EV/EBITDA		4.4
EPS	\$	0.86
P/E		8.7

Source: Analyst Estimates, Sentio

You won't find a lot of gold stocks trading that cheap.

But...

### Stock Chart



### RECENT EVENTS BACKGROUND

Burkina Faso is where the devastating attack on **Semafo (SMF-TSX)** employees commuting to their mine site happened in mid-October 2019. Many people died.



Both Semafo and some other gold producers in Burkina Faso, like Roxgold, have never really have recovered.

But other stocks have faired better. Another mid-tier miner with operations in Burkina Faso, Endeavour Mining has done fine since the attack. Teranga is far higher.

I suspect the market recognizes that Terango is not entirely dependent on Burkina Faso (Sabodala and Massawa are far to the west in Senegal) and, more importantly, their Burkina Faso mine is *far to the southwest* of the attack.

In the map below, Wahgnion is the little red dot far in the southwest corner of the Burkina Faso map.

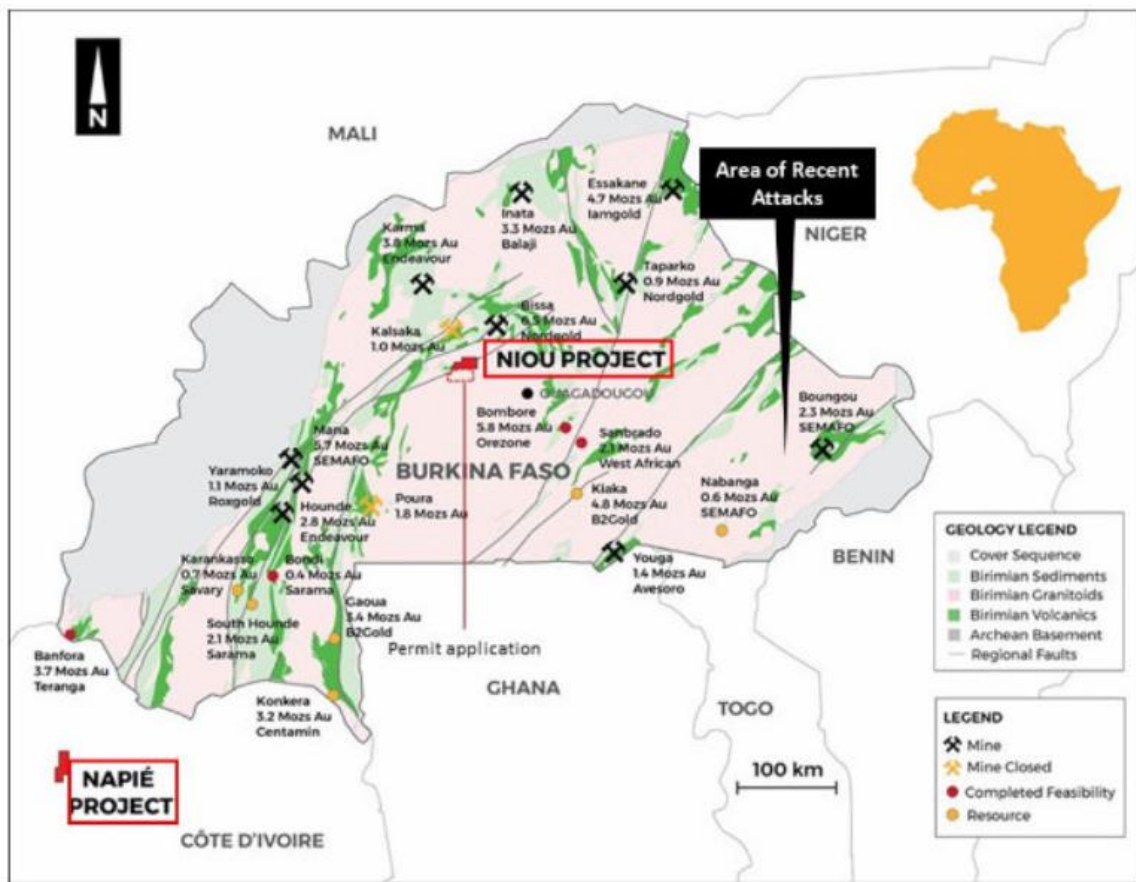


Figure 1: Mako Gold Projects in relation to recent terrorist attack

Source: Mako Gold Presentation

Wahgnion is 510 kilometres southwest of the capital city of Ouagadougou. Semafo's Boungou mine is 355 kilometres to the east of Ougadougou.

## Closer Look at the Attack

The attack in Burkina Faso took place in the far east province. The ISIS related insurgency that has been ongoing for 5 years now is centered in Mali and Niger. It has leaked over into Burkina Faso to the Niger border to the east and the Mali border to the north.



Source: Thomson Reuters

While I do not want to underplay the risk (there is a significant risk here!) the Wahgnion mine is a long way from the attack.

The coronavirus adds a whole other element to the unrest in Burkina Faso. There have already been cases announced at other Burkina Faso mines. If the virus sweeps the country, it could cause even more unrest.

But so far at least, the unrest has not reached west of Ouagadougou.

The reality is that northern Mali, north-eastern Burkina Faso and much of Niger are in chaos right now. Burkina Faso declared a state of emergency for the eastern edge of the country last January. Attacks have continued this year.

I do not want to minimize the risk. In particular, ISIS appears to be strengthening. The defeat of ISIS in the middle east seems to have led to a concentration of the group in West Africa. The virus may make things worse.

But Teranga is now a 3-mine company and only one of them is in Burkina Faso. That mine is as far away from the heart of the conflict as you can get.

Still it is a risk that everyone has to evaluate for themselves.

## CONCLUSION

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The stock price is telling the story as well as I can. The Market clearly likes the growth story here.

I bought the stock just as it broke out to \$6/share in November 2018. Apart from a short blip in March when the levered ETFs went wild, the stock has been very strong.

It is always one of the first to recover and often holds it own even on days when other gold producers falter.

If there is a worry with Teranga, it is that the company does have some leverage (debt).

Even before they bought Massawa, the credit facilities were nearly fully drawn.

**Equipment Facility**

Total drawdown: \$8.3M  
(includes \$0.8M prepayment)  
Remaining balance: \$4.2M

**Wahgnion Debt Facility**

Total drawdown: \$155.3M  
Remaining balance: \$9.7M

**Golden Hill Debt Facility**

Total drawdown: \$26.5M  
Remaining balance: \$8.5M

Source: Investor Presentation

The company has two credit facilities with capacity of \$180 million as well as a small equipment facility. The debt facilities bear interest of 8.75%.

To fund Massawa Teranga added another USD\$225 million acquisition facility with their existing lender – Taurus Funds Management.

This leverage makes Teranga a little more dependent on the gold price.

I'm comfortable with that. The company's cash flow profile should easily pay down the debt if the gold price doesn't collapse.

Given that Teranga is already able to generate ~CAD\$200 million of operating cash flow at \$1,600 gold – before considering the impact from Massawa that begin in the second half of the year – the current valuation does not seem expensive.

In fact, it values Teranga at under 10x free cash flow. This is for a company that will see gold production grow significantly beginning next year at the same time costs fall.

So there is near term leverage, but rising free cash flow should quickly reduce that risk.

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At time of writing I hold a position in Teranga.

Keith

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