

Scotgold Resources Limited

14:17 09 Sep 2019

Scotgold Resources just six months away from gold production at Cononish, as the sterling gold price continues to hover around record highs

It's a truism in the mining industry that exploration companies, large or small, enjoy a re-rating as they move their projects closer and closer to production.

If such a re-rating is on the cards for Scotgold Resources Ltd (LON:SGZ), now less than six months away from production at its Cononish mine, there isn't much sign of it yet.

Partly, that's because extra finance has been required to mitigate delays in the construction of certain key buildings. But it's also because the idea of gold production in Scotland- or indeed anywhere in mainland Britain, is so alien it takes a little bit of getting used to.

It's real, though, as chief executive Richard Gray explains.

"We will be producing our first gold at the end of February," he says.

"We are currently developing and enlarging the existing adit so we can get our mechanised equipment in. We are getting the machinery over. And we are working on the buildings for the machinery."

It's those buildings which are behind schedule, due to civil engineering and design issues, but Scotgold has been able to mitigate some of the effects of the delay by creating a construction schedule that involves the installation of machinery concurrent with the building work.

First ore will be mined at the end of this year, and a small stockpile will be built up before the first gold comes out in February.

All, told, it's been a long time coming.

But actually, now that production is so close, it seems in some ways as if the timing couldn't be better.

That's because of the three way dynamic that operates between sterling, the dollar and the gold price.

Almost all of the operating costs at Cononish will be incurred in sterling, which is currently very weak against both the dollar and gold. That means that while the likely selling price of the gold that gets produced from Cononish will be high, the only pressure on costs will be downward.

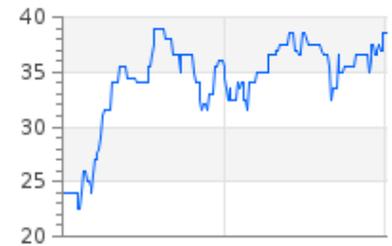
It's a nice problem to have, and Scotgold illustrated its effects clearly in its latest market release.

According to the Scotgold number-crunchers if the sterling gold price stands at £920 per ounce, then the Cononish mine is likely to generate just over £101m in earnings over its ten year life, with net cashflow of just over £68m and a net margin of 59%.

Price: £0.38

Market Cap: £18.8 m

1 Year Share Price Graph



September 2018 March 2019 September 2019

Share Information

Code: SGZ

Listing: AIM

52 week	High	Low
	43.5	20.5

Sector: Gold & silver

Website: www.scotgoldresources.com.au

Company Synopsis:

Scotgold Resources Limited is a company that offers investors the opportunity to invest in the increasingly attractive gold mining industry through the development of the Cononish Mine in Scotland and exploration in Scotland and other low risk jurisdictions.

action@proactiveinvestors.com

Nice enough if you can get it. But wait: boost the sterling gold price to £1,200 per ounce and the numbers improve dramatically. In this scenario earnings jump by more than 45% to £146m, with cash flow also significantly better at more than £97m, and net margin boosted to 66%.

Of course, it's hard to say what the long-term average gold price is likely to be over the next ten years or so, but with the current sterling price pushing beyond £1,250 per ounce even this second scenario starts to look conservative.

So, the case for a re-rating is certainly there to be made: the completion of construction is just a matter of months away, the currency stars are aligned for a handsome economic return, and funding risk is a thing of the past because the latest £2.5m fundraising from the company will take it all the way into production.

It will also go a long way towards financing a planned second phase too. The rest of that second phase will be paid for by the cashflow which ought to be well established by this time next year.

"We expect to be generating about £1m per month," says Gray.

All that's left is execution risk, and that's dropping away by the day. It's in these scenarios that investors begin to get twitchy, wondering when and whether to hit the bid before everybody else does.

In the case of Scotgold there is a catch, though. Liquidity isn't that great because the major shareholder Nat LeRoux, who has backed the company all the way, now holds just under 50% of the shares, while three other shareholders account for a further 20%.

That could go both ways if the market suddenly gets a taste for Scotgold. It could mean that punters get frustrated and give up trying. Or it could mean that because there's precious little of the equity around the price gets driven way up.

One thing for sure, in a strong gold price environment gold mining equities outperform the gold price, and there's no reason why Scotgold should be an exception. Especially since the gold that comes from Cononish will be branded Scottish and could command a premium of up to 25%.

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts, journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

No investment advice

The Company is a publisher. You understand and agree that no content published on the Site constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You understand that the Content on the Site is provided for information purposes only, and none of the information contained on the Site constitutes an offer, solicitation or recommendation to buy or sell a security. You understand that the Company receives either monetary or securities compensation for our services. We stand to benefit from any volume which any Content on the Site may generate.

You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value, suitability or profitability of any particular security, portfolio of securities, transaction, investment, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including Company-related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The Site does not, and is not intended to, provide investment, tax, accounting, legal or insurance advice, and is not and should not be construed as providing any of the foregoing. You should consult an attorney or other relevant professional regarding your specific legal, tax, investment or other needs as tailored to your specific situation.

In exchange for publishing services rendered by the Company on behalf of Scotgold Resources Limited named herein, including the promotion by the Company of Scotgold Resources Limited in any Content on the Site, the Company receives from said issuer annual aggregate cash compensation in the amount up to Twenty Five Thousand dollars (\$25,000).