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Breaker Resources NL (BRB)

Resource update in April 2021 the catalyst

Recommendation

Buy (unchanged)

Price

\$0.195

Valuation

\$0.49 (previously \$0.65)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	151%
Dividend yield	0.0%
Total expected return	151%

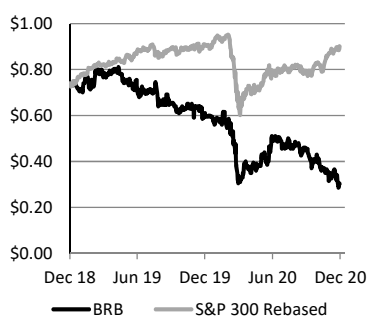
Company Data & Ratios

Enterprise value	\$41.6m
Market cap	\$63.5m
Issued capital	325.8m
Free float	86%
Avg. daily val. (52wk)	\$135,000
12 month price range	\$0.092-\$0.325

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.36	0.46	0.60
Absolute (%)	-16.7	-34.8	-49.6
Rel market (%)	-22.2	-50.2	-50.2

Absolute Price



SOURCE: IRESS

April Resource update targeted

BRB has announced it is planning to release a Resource update in April 2021. In our view this is the key catalyst the market is looking to. BRB last updated the Bombora Resource in September 2019 and it currently stands at 23.2Mt @ 1.3g/t Au for 981koz contained. While that update included an increase to the Indicated category, to 802koz @ 1.4g/t Au, thus making 82% of the total ounces available for conversion to Reserves, the update also resulted in a 10% reduction in contained ounces which was disappointing for the market. Since that time BRB has released a steady flow of exploration results and deposit interpretations that have indicated good grades, good lode continuity and good extensions along strike and at depth. We note that the latest update includes the deepest intersections to date from Bombora (including 2.6m @ 11.7g/t Au from 933m down hole / ~800m below surface). BRB also states these results will form part of a global Resource update planned for April 2021.

The implication of this is that we should see a material increase in contained ounces and, likely, a material increase in the portion of the Resource in the lower confidence Inferred category. We would view this as a positive on the basis that BRB does not need Indicated Resources at depth, the market is looking for a clear indication on potential scale of the Resource and will likely attribute a similar value to the Inferred ounces defined.

With the Resource update planned for April we would anticipate drilling results will likely be closed off around the end of February, partly dependent upon assay turnaround times, which we have observed becoming extended in recent months. Drilling is ongoing, with 3 rigs currently on site and we expect that nearly 300,000m of drilling will have been completed for the April 2021 Resource.

Investment thesis – Speculative Buy, valuation \$0.49/sh

We have updated our valuation to reflect only modest growth to the current Resource – making what we view to be a very conservative assumption of just an additional 300koz contained ounces for an estimated global Resource of 1.3Moz. Taking our most recently measured Enterprise Value / Resource ounce metric (EV/oz) of A\$120/oz implies a valuation of ~A\$157m for the Lake Roe project which is virtually unchanged from our prior valuation for the project. The main change to our BRB valuation results from the dilution of equity raisings since our last update and we also make our standard assumption for exploration companies of a further raise within the next 12 months (\$10m to be raised at \$0.20/sh). This results in a 25% cut to our valuation for BRB, to \$0.49/sh. With 151% upside to what we view as a very conservative target, we retain our Speculative Buy rating.

Resource update in April 2021 the catalyst

April Resource update targeted

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Lake Roe Mineral Resource as at September 2019

Table 1 - Lake Roe Mineral Resource estimate

Lake Roe Mineral Resources	Mt	g/t Au	(koz)
Measured	0.000	-	0.0
Indicated	18.356	1.4	803.0
Inferred	4.853	1.1	178.0
Total	23.209	1.3	981.0

SOURCE: COMPANY DATA

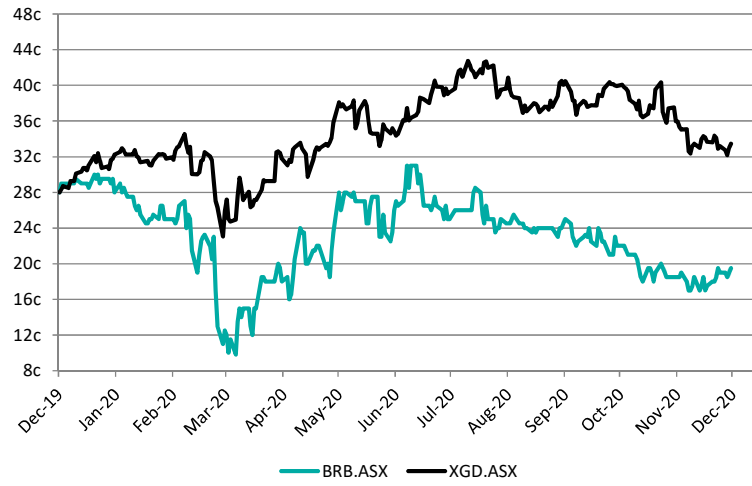
Upcoming catalysts

Key upcoming catalysts for BRB include:

- The Resource update planned for April 2021, which we expect to incorporate new drill results and hopefully deliver a material increase in the Bombora Resource; and
- Ongoing drilling updates from the Resource drill out program at the Bombora deposit within the Lake Roe gold project.

Share price performance vs ASX Gold Index (XGD)

Figure 1 – BRB relative price performance vs XGD



SOURCE: IRESS AND BELL POTTER SECURITIES CALCULATIONS

Breaker Resources NL (BRB)

Company description

Breaker Resources NL (BRB) is an Australian domiciled, Perth based gold exploration company, with the objective of applying modern, systematic exploration techniques to the largely under-explored Eastern Goldfields Superterrane (EGST) of Western Australia.

BRB's flagship asset and prime focus is its 100% owned Lake Roe Gold Project located 100km east of Kalgoorlie, 60km south-southeast of the operating 3.5Moz Carosue Dam gold mine, and 35km north of the historic 0.9Moz Karonie gold deposit. The project comprises five granted tenements and one application with an overall area of 556km².

Wide spaced reconnaissance drilling has delineated a large scale gold anomaly over 8km of strike. This includes the Bombora discovery which now extends over a continuous strike length of 3.2km, and remains open in all directions. Resource drilling commenced in late 2016 and a maiden Resource of 11.9Mt @ 1.6g/t Au for 624,000oz contained gold was announced in April 2018.

In September 2019 an upgraded Resource of 23.2Mt @ 1.3g/t Au for 981koz contained gold was announced. BRB has also released an Exploration Target of 1.2-1.4Moz at a grade of 4.5g/t Au to 5.5g/t Au, over and above the estimated Resource. This, together with the delineation of the Crescent prospect, 2km to the north of the Bombora deposit indicates significant potential for further Resource growth.

Investment thesis – Speculative Buy, valuation \$0.49/sh

We have updated our valuation to reflect only modest growth to the current Resource – making what we view to be a very conservative assumption of just an additional 300koz contained ounces for an estimated global Resource of 1.3Moz. Taking our most recently measured Enterprise Value / Resource ounce metric (EV/oz) of A\$120/oz implies a valuation of ~A\$157m for the Lake Roe project which is virtually unchanged from our prior valuation for the project. The main change to our BRB valuation results from the dilution of equity raisings since our last update and we also make our standard assumption for exploration companies of a further raise within the next 12 months (\$10m to be raised at \$0.20/sh). This results in a 25% cut to our valuation for BRB, to \$0.49/sh. With 151% upside to what we view as a very conservative target, we retain our Speculative Buy rating.

Valuation – peer comparison

BRB is a gold exploration company whose main asset is its 100% owned Lake Roe Gold Project. This project includes the Bombora deposit which has a Resource of 23.2Mt @ 1.3g/t Au for 981koz contained gold. Our valuation methodology applies a market-based Enterprise Value per Resource ounce (EV/oz) metric which we have applied to BRB at ~A\$120/oz. In addition to this, we make an estimation of our expected Resource growth over the next 12 months (~300koz) and implying a total Resource of ~1.3Moz. This is incorporated into our equity valuation, summarised below:

- \$157m valuation for BRB's main exploration asset, Lake Roe, based on our assessment of the value of the current Resource and our expectations for Resource growth over the coming 12 months;
- A DCF valuation of corporate overheads, assumed at current expenditure rates for the next three years; and
- BRB's last reported net cash position and capital structure.

Table 2 - BRB valuation summary

Ordinary shares (m)		325.8
Options outstanding (m)		9.2
Assumed equity raise (m)		50.0
Diluted m		385.0
Sum-of-the-parts		
Project (unrisked NPV10)		-
Other exploration	157.0	0.48
Corporate overheads	(3.4)	(0.01)
Subtotal (EV)	153.6	0.47
Net cash (debt)	21.9	0.07
Total (undiluted)	175.5	0.54
Cash from options	3.3	@ 0.35
Assumed equity raise	10.0	@ 0.20
Total (fully diluted)	188.8	0.49

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 151% from the last closing share price to our valuation, we retain our Speculative Buy recommendation in conformity with our ratings structure.

The latest capital structure is summarised below:

Table 3 - BRB capital structure summary

Shares on issue	m		325.8
Performance shares / other	m		0.0
Total shares on issue	m		325.8
Share price	\$/sh		0.195
Market capitalisation	\$m		63.5
Net cash	\$m		21.9
Enterprise value (undiluted)	\$m		41.6
Options outstanding (m)	m	(wtd avg ex. price \$0.35 per share)	9.2
Options (in the money)	m		1.3
Issued shares (diluted for itm options)	m		327.2
Market capitalisation (diluted)	m		63.8
Net cash + options	\$m		22.1
Enterprise value (diluted)	\$m		41.7

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

BRB's largest shareholder remains Executive Chairman, Tom Sanders, who has recently lifted his direct and indirect interests to 23.1m shares (10.0% of issued capital). Electrum is the key institutional presence on the register, with 23.0m shares (9.9%).

Table 4 - BRB top shareholders

Shareholder	%	m
TS&H Sanders	7.3%	23.9
Electrum Strategic Opportunities	7.1%	23.0
Franklin Resources	6.4%	20.8

SOURCE: IRESS, COMPANY REPORTS

Resource sector risks

Risks to BRB include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As an exploration company with no sales revenues, BRB is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines, weather events, access to skilled labour and availability of key material inputs causing delays to commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices, mining performance and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. BRB's key assets are located in Australia, in the State of Western Australia, a politically and socially stable jurisdiction. However changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of BRB's operations.
- **COVID-19 risks.** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Sovereign risks.** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating. BRB's assets are in Indonesia, a G20 country with one of the largest economies in SE Asia. Its sovereign debt is rated investment grade by the major ratings agencies.
- **Corporate/M&A risks.** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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