

Kingsgate Consolidated Limited

Precious Metals - Producer

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Rating
SPECULATIVE BUY

Price Target
A\$2.50

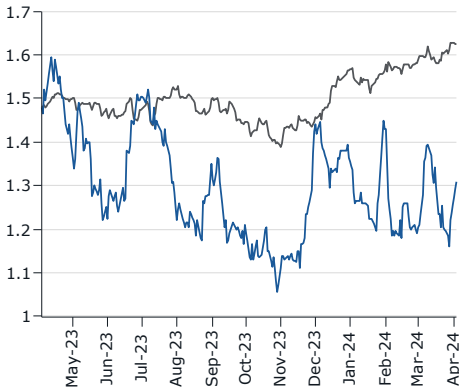
KCN-ASX

Price
A\$1.34

Market Data

52-Week Range (A\$) :	1.05 - 2.07
Avg Daily Vol (000s) :	466
Market Cap (A\$M) :	345.4
Shares Out. (M) :	257.8
Enterprise Value (A\$M) :	380.3

FYE Jun	2023A	2024E	2025E	2026E
EBITDA (A\$M)	(34.7)	(7.2)	50.7	112.9
Net Income (A\$M)	6.2	(13.7)	20.2	66.7
Free Cash Flow (A\$M)	(51.2)	(21.1)	20.7	84.7



Source: FactSet

Priced as of close of business 3 April 2024

Kingsgate Consolidated an emerging mid-tier gold producer which owns 100% of the Chatree Gold Mine in Thailand and the Nueva Esperanza Gold-Silver Project in Chile.

Money does grow on (Chat)trees

Initiating coverage with a SPECULATIVE BUY rating and price target of \$2.50

Kingsgate Consolidated (KCN-ASX) is an emerging mid-tier gold producer which owns 100% of the Chatree Gold Mine in Thailand (~280km north of Bangkok) and the Nueva Esperanza Gold-Silver Project in Chile (non-core, seeking divestment).

Clear line of sight to ~100kozpa production in FY25E

Chatree produced ~130kozpa gold over 15 years from 2001 before the mine was closed by the previous Thai government on “environmental grounds”. With most recent permitting issues now resolved (arbitration case ongoing), the mine has been processing low-grade tailings since March 2023. The company expects mining operations (OP, grade ~0.7g/t) to restart in JunQ’24 and we expect it to ramp up its two plants (>5Mtpa) to produce 91koz at US\$1,739/oz in FY25E and LOM average 102kozpa at AISC US\$1,354/oz over nine-year LOM.

Significant exploration upside in an under-explored region

We see significant exploration and Resource growth potential at Chatree. Recent assays from various prospects within 1-30kms of the mills have returned thick (near surface, ranging from 10-50m) >1g/t gold intercepts (suggests Reserve tonnage and grade could increase), pointing to LOM extension potential (update likely in 2H24). Our NAV is highly sensitive to changes in grade, with a +10% increase leading to a +24% increase in NAV.

FCF metrics improve significantly post ramp-up

While some balance sheet uncertainty exists near-term (drawn facilities of \$39m which fall due in 2024 and cash of \$10m ex bullion), additional funding may be required to help navigate the ramp-up period (we assume \$45m new debt funding in JunQ’24), noting positive gold price tailwinds. Beyond this, our FCF metrics look appealing at +6% in FY25E, increasing to +25% in FY26E, with any residual cash available likely to be distributed as dividends (or similar).

Improved government relations significantly lowers risk of another major disruption to operations

Environmental safeguards, regular inspections by government officials, a high royalty rate, a desire to attract foreign direct investment, high local employment and potential for the Thai government to be liable to pay a large payment relating to the previous mine closure via the arbitration tribunal (timing and value uncertain, but media reports suggest this could ~US\$700m) makes closure of the mine again unlikely, in our view.

Valuation and recommendation

We initiate coverage with a \$2.50 price target (risked, 1.0x forward curve NPV5%) and a SPECULATIVE BUY rating.

While we note its near-term balance sheet risks, we see significant valuation upside in KCN shares (P/NAV ~0.5x; vs mid-tier producer avg. ~0.8x) noting its recent permitting issues are now resolved, near-term organic production growth, major sunk capex infrastructure, generous tax breaks and exploration upside.

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Overview

Kingsgate Consolidated (KCN-ASX) is an emerging mid-tier gold producer which owns 100% of the Chatree Gold Mine in Thailand (~280km north of Bangkok) and the Nueva Esperanza Gold-Silver Project in Chile (actively looking to divest).

Chatree has a long-standing history of operations in Thailand producing on average ~130kozpa of gold over 15 years from 2001 to 2016 before the mine was forcibly closed by the *previous* Thai government on “environmental and health grounds”.

While an arbitration case is ongoing (aiming for a resolution by 30 June 2024), the *new* Thai government recently re-instated KCN’s major processing licence and the mine has been processing low grade tailings since March 2023.

It is now looking to restart mining operations (OP, grade ~0.7g/t) over the short-term and ramp up its two plants (>5Mtpa) to be producing on average 102kozpa at AISC US\$1,354/oz (CGe) over 9-Yr LOM (based on 1.3Moz Reserves only, noting 3.4Moz Resources).

KCN also has significant near mine and regional exploration potential at Chatree. Recent regional and near mine exploration suggests tonnage and grade could increase, pointing to LOM extension potential beyond 9-Yr LOM (update likely in 2H24). Assays from various regional prospects within 1-30kms of the plants have returned thick (near surface, ranging from 10-50m) >1g/t gold intercepts.

KCN reported a cash balance of ~\$10m as at 31 December 2023 (ex-bullion receivable of ~\$7m and dore of ~\$7m). KCN has drawn debt of ~\$39m.

Figure 1: Chatree location map



Source: Company reports

Forecasts and valuation

Our valuation of KCN is based on a risked NPV5% for Chatree. Our assumed production scenario is largely based on the company’s existing LOMP and discussions with management, overlaid with our pricing and discount rates.

Our base case assumes average milling throughput of 5.3Mtpa (vs nameplate capacity 5Mtpa and KCN 5.4Mtpa, noting Mill 1 operated at ~37% above nameplate in DecQ’23), milled grade of 0.77g/t (at 79% LOM recoveries) for average gold production of 102kozpa over nine-year mine life and AISC of US\$1,354/oz (noting almost all major growth capex for our base case is sunk). Our key operating assumptions versus KCN’s are set out in Figure 2 below.

Our LOM throughput/recovery/production/AISC assumptions are conservative relative to the company’s existing LOMP, particularly in the context of recent regional and near mine exploration success at Chatree which points to LOM extension potential beyond a nine-year LOM (a R&R and LOMP update likely in 2H24).

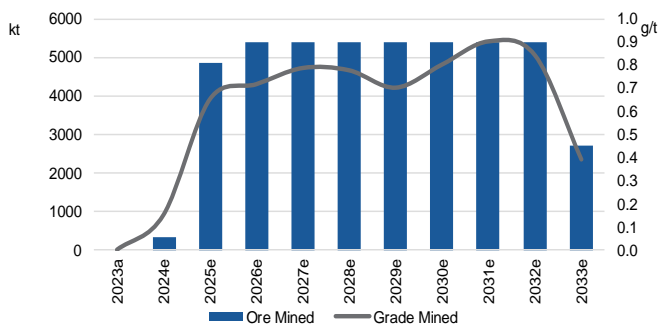
Figure 2: CGe production scenario – key model assumptions

	KCN	CGe
Reserves (Mt)	51	51
Inventory (Mt)	45	46
Mine life (yrs)	9	9
Strip (W:O)	4.7	4.6
Throughput (Mtpa, avg LOM)	5.4	5.3
Milled Grade (g/t)	0.77	0.77
Recoveries (%)	80%	79%
Gold production (kozpa, avg LOM)	110	102
AISC (US\$/oz, avg LOM)	1,255	1,354

Source: Company reports, Canaccord Genuity estimates

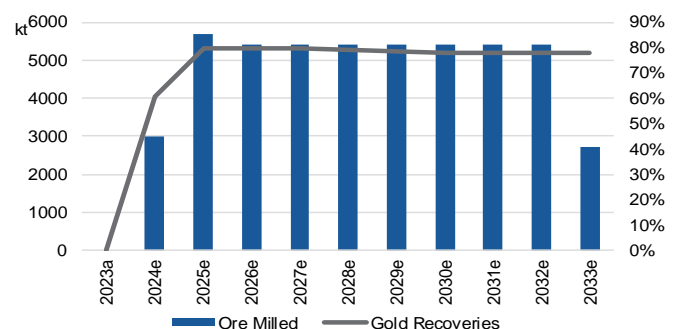
Our key production, earnings and balance sheet forecasts are illustrated in Figures 3-8 below.

Figure 3: Ore mined (kt) & gold grade (g/t)



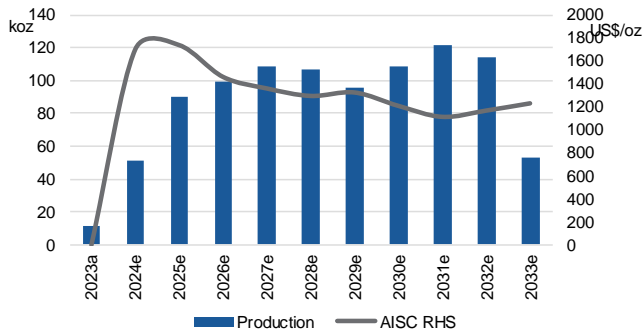
Source: Company reports, Canaccord Genuity estimates

Figure 4: Mill feed & recoveries



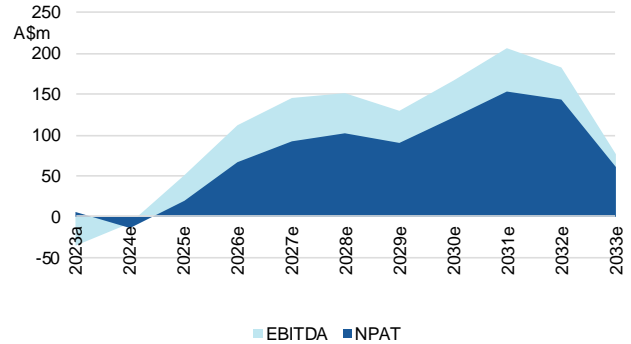
Source: Company reports, Canaccord Genuity estimates

Figure 5: Gold production (koz) & AISC (US\$/oz)



Source: Company reports, Canaccord Genuity estimates

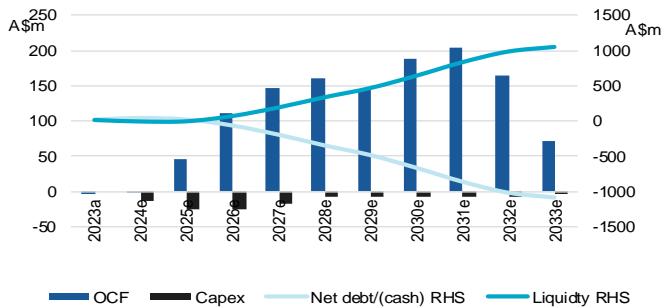
Figure 6: EBITDA and NPAT forecasts



Source: Company reports, Canaccord Genuity estimates

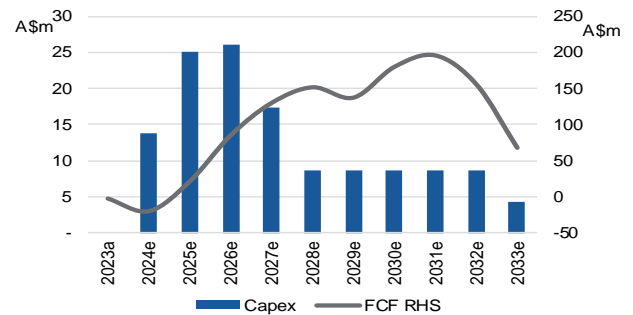
We forecast average EBITDA of ~A\$140m and FCF ~A\$125m over nine-year LOM using a LT gold price of US\$2,340/oz noting the small ongoing sustaining capex.

Figure 7: OCF, capex, liquidity, net debt



Source: Company reports, Canaccord Genuity estimates

Figure 8: Capex and FCF



Source: Company reports, Canaccord Genuity estimates

Net asset valuation

We estimate a risk-weighted NPV5% valuation for KCN of A\$2.50 per share which includes a nominal value for Nueva Esperanza in Chile and unmined inventory of A\$30m and is net of corporate costs/net debt, noting KCN has no hedging in place.

Our conservative modelling suggests additional funding of A\$45m is required in JunQ'24 to cover refinancing of the existing drawn Nebari facility and ramp-up phase in 2024, and we assume this is funded by additional debt (however some equity may be required subject to market conditions). We add a small risk adjustment (risked at 80%) for near-term funding risk (and country/permitting/ramp-up risk).

Figure 9: CGe NAVPS valuation

	A\$m	RISK ADJ.	EQUITY	A\$m	PER SHARE	Target Operating NAV/share
OPERATING NAV						
Chatree	913	80%	100%	730	\$2.83	\$2.83
SUB TOTAL	913			730	\$2.83	\$2.83
NON OPERATING NAV						
Exploration, Projects & Other	30			30	\$0.12	\$0.12
Investments	-			-	\$0.00	\$0.00
Corporate	(80)			(80)	-\$0.31	-\$0.31
(Net debt)/cash	(35)			(35)	-\$0.14	-\$0.14
TOTAL	828			645	2.50	\$2.50

Source: Canaccord Genuity estimates

Sensitivity analysis

We show our NAV estimates under various gold price, FX, discount rate and grade mined scenarios below (Figure 10 and Figure 11).

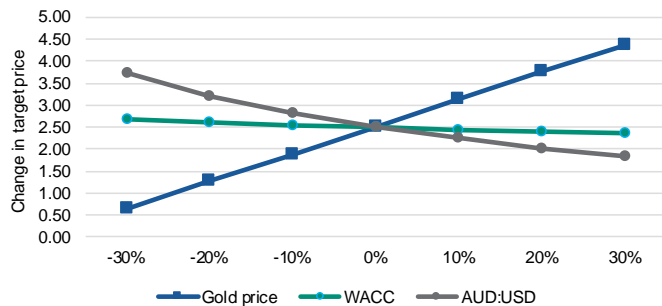
For every 10% change in gold price (in USD terms), our NAV would change by ~20% all else being equal, which highlights the strong valuation leverage.

Also given its large mill processing capacity (>5Mtpa) and existing Reserve grade of ~0.7g/t our FCF forecasts and valuation is highly sensitive to changes in grade.

For example, if we increase our LOM grade by 10% to 0.85g/t (from 0.77), our NAV would increase by 24% to \$3.10, and a 10% decrease in LOM grade would result in a 24% decrease in our NAV to \$1.90, all else being equal.

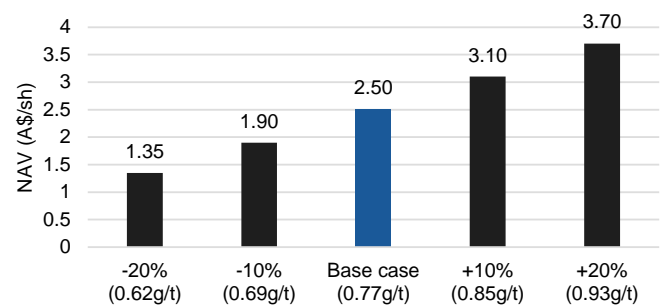
If we increase our LOM grade assumption by 20% to 0.93g/t, our NAV would increase by 48% to \$3.70, and a 20% decrease in LOM grade would result in our NAV decreasing by 48% to \$1.35, all else being equal. While there is no certainty grade and tonnage will increase at Chatree, we think recent results at >1g/t over significant widths within close proximity to the mills suggest there is a reasonable likelihood of a grade upgrade of mineable material pending further exploration success.

Figure 10: NAV sensitivity – gold price, FX and WACC



Source: Canaccord Genuity estimates

Figure 11: NAV sensitivity – grade mined changes

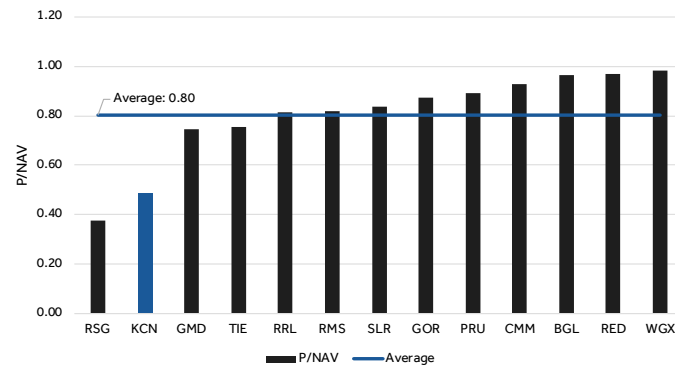


Source: Canaccord Genuity estimates

Peer analysis – key charts

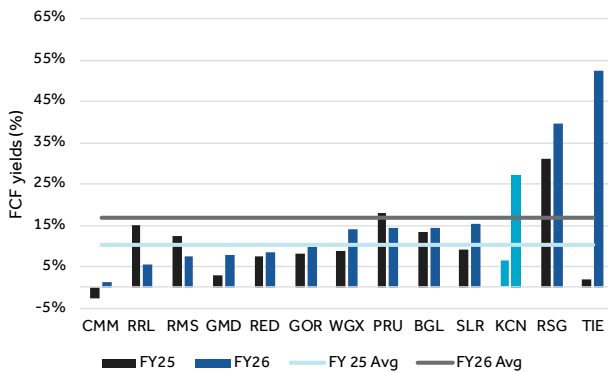
On our estimates KCN screens well on a P/NAV (Figure 12), FCF yield (Figure 13) and EV/EBITDA (Figure 14) basis versus its peers. Near-term production/AISC forecasts (Figure 15, Figure 16) are on the lower/higher side, but we note most of our coverage is based on guidance, whereas our KCN's forecasts are intentionally conservative.

Figure 12: CGe P/NAV – intermediate producers



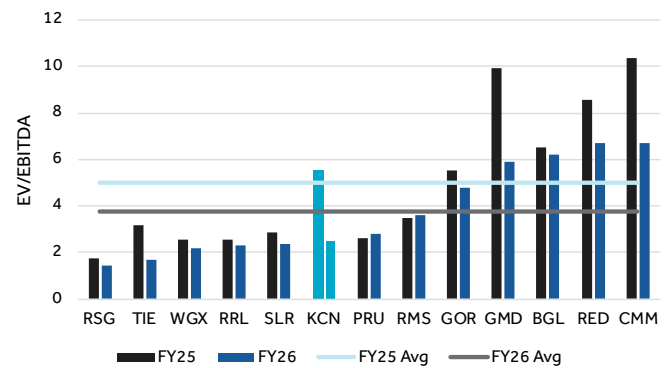
Source: Canaccord Genuity estimates

Figure 13: CGe FCF yields - intermediate producers



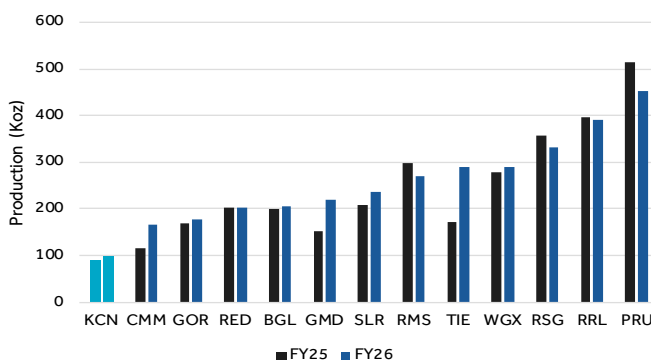
Source: Canaccord Genuity estimates

Figure 14: CGe EV/EBITDA – intermediate producers



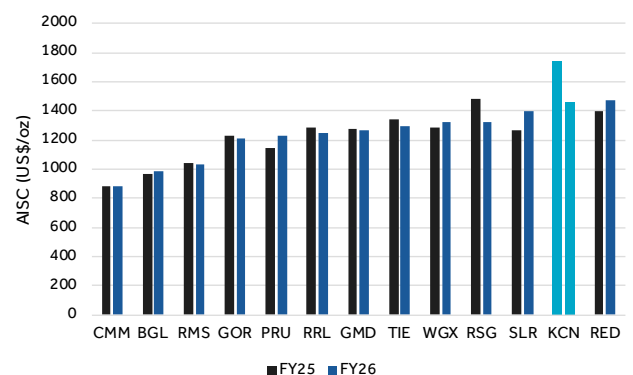
Source: Canaccord Genuity estimates

Figure 15: CGe production - intermediate producers



Source: Canaccord Genuity estimates

Figure 16: CGe AISC (US\$/oz) – intermediate producers



Source: Canaccord Genuity estimates

Investment risks

Geopolitical risks

Chatree is located in Thailand which is considered an emerging market. As such, KCN, through the Chatree Gold Mine, carries a higher degree of economic, political, social, legal and legislative risk. We saw this risk play out in practice when the Thai government revoked KCN's licence to operate Chatree in 2016. There is a risk this happens again, albeit we think this is unlikely given the actions by the new Thai government and KCN to remedy the situation.

Financing risks

As KCN continues to ramp up operations at Chatree, there is a risk that additional external funding may be required (via equity or debt markets) to assist with its working capital requirements.

Exploration risks

Exploration is subject to several risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral Resources nor that the company will be able to convert the current mineral resource into minable Reserves, noting our base case mineable inventory is underpinned by Reserves only.

Operating risks

Companies in production will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from its operating asset considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

The company as a gold producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

Ramp-up risk

KCN expects to progressively ramp up mining operations in JunQ'24, with the mining contractor in place ready to recommence mining. While there is always risk of technical issues (and delays) during the ramp-up phase of any mining operations, we deliberately add conservatism to our production/AISC forecasts in 2024 to reflect this risk. We also add a small risk adjustment (risked at 80%) into our NAV for near-term funding risk (and country/permitting/ramp-up risk).

Corporate and finance

Balance sheet and liquidity

KCN reported a cash balance of A\$9.7m as at 31 December 2023. This excludes bullion receivable of A\$6.9m and unrefined gold/silver of A\$7.3m (2.1koz gold and 24.4koz silver held as dore, with its value of A\$7.3m derived from a gold price of A\$3,062/oz and silver of A\$34/oz).

In terms of debt, KCN had drawn facilities of A\$39m as at 31 December 2023. ~A\$15m related to a secured senior note from the Nebari Gold Fund with a maturity date of six months from draw-down in December 2023 (we assume this loan is repaid in JunQ'24). The remaining amount relates to two cash advances from its preference shareholder with an annual interest rate of 12%. Repayment of the cash advances is due 25 November 2024 (we assume the cash advances are repaid in DecQ'24).

Our conservative modelling suggests additional funding of A\$45m is required in JunQ'24 to cover refinancing of the existing drawn Nebari facility and ramp up phase in 2024, and we assume this is funded by additional debt (however some equity may be required subject to debt market conditions).

Capital structure

KCN has 258m ordinary shares on issue and 2.5m options issued to Taurus Mining Finance Fund as part of a US\$15m bridge facility provided to KCN in May 2022. These options have an exercise price of A\$2 share and expire in May 2027.

Figure 17: KCN capital structure

Capital structure		
Share price	A\$	\$1.34
Issued shares	m	258
Taurus options	m	2.50
Fully diluted	m	258
Market capitalisation	A\$m	345
Market capitalisation (fully diluted)	A\$m	345

Source: Company reports, FactSet

Substantial shareholders

KCN's major shareholders are Stabilitas Fonds ~5%, VanEck Global ~5%, Global X Management ~2% and KCN employees ~2%.

Directors and Key Management

See [Board and management](#) for detailed bios.

- Ross Smyth-Kirk OAM, Executive Chairman
- Peter Warren, Non-Executive Director
- Nucharee Sailasuta, Non-Executive Director
- Jamie Gibson, Managing Director and Chief Executive Officer
- Olivia Shang, Acting CFO
- Stephanie Wen, General Counsel & Company Secretary

Asset overview: Chatree Gold Mine in Thailand

Location, access and infrastructure

Figure 18: Location of the Chatree Gold Mine in Thailand



Source: Company reports

The Chatree Gold Mine (Chatree) straddles the provinces of Pichit and Phetchabun in central Thailand about ~280kms north of Bangkok. On our recent site visit we noted the easy access to Chatree. We accessed the mine via road with a major well-connected paved highway (Highway 1301) transporting us the entire 3-4 hour drive to the mine.

Competing land uses in the area are predominantly agricultural farmers (mostly rice paddies) with local farmers sharing in the benefits excess water at the mine site by accessing the water via reticulation pumps/pipelines.

Chatree has access to low-cost national grid power (~US2c per kW/h, vs Cambodia ~US10c, Australia ~US15-25c) accessed ~2km east of the project via transmission lines.

It has 13 Mining Licences (MLs), six Waste Dump Licences (WDLs) and one Metallurgical Processing Licence (MLP) covering a total of ~7km². The MLP was the permit of contention and will expire in January 2027 (was reissued January 2022 with tailings processing restarting in March 2023).

Production history

The initial discovery of Chatree was made in 1995 by the Akara exploration team, with the mine commissioned in late 2001. It has a long-standing, proven operating history producing ~2Moz of gold (~130kozpa) and ~10Moz of silver over 15 years from 2001 to 2016 before the mine was closed after its MLP was unexpectedly not renewed by the Thai government (more on this below).

On processing, the CIL plant was originally designed at ~1Mtpa but underwent various upgrades over the years and now has capacity of 5Mtpa over two plants, noting that throughout its history the plant has operated above nameplate (we think it could potentially operate between 5.5-6Mtpa consistently if running well).

Chatree mine closure in 2016 – why did it happen?

Chatree was closed in late 2016 (effective from 1 January 2017) after its MLP was unexpectedly not renewed by the Thai government, despite KCN having a valid mining licence to 2028. The Prime Minister at the time (and leader of the military junta after a coup in 2014) cited “environmental and health concerns” were the reason for the closure but KCN alleged that these claims were unfounded and continue to do so. Specifically, the Thai government said toxic substances (incl. arsenic and cyanide) were found in the area and presented a risk to local community health.

KCN rebutted the claims saying the substances could have come from pesticides from local farmers (and not the mine). KCN took the matter to Thailand-Australia Free Trade Agreement (TAFTA), and the case has been in international arbitration for ~6 years before all major permitting was approved (MLP reissued in January 2022) and operations could restart in March 2023.

By 2021/22, the new Thai government (which officially came into power in 2023) acknowledged the closure was unfair and unlawful and negatively impacted the reputation of Thailand as a place for foreign direct investment. As part of its commitment to supporting the restart of Chatree, the Thai government:

- renewed MLPs to allow restart of operations;
- granted new MLs and Special Prospecting Licences (SPLs) enhancing KCN’s regional exploration potential;
- permitted gold dore refining locally; and
- promised tax concessions (incl. an eight-year tax holiday) with a value of A\$150m.

From media reports, the Thai government is believed to have spent 600m baht (or US\$18m) during the arbitration tribunal process and could potentially be forced to pay up to 25b baht (or ~US\$700m) if it loses the case.

Related to this, KCN received US\$55m in insurance proceeds in April 2019 as it had a Political Risk Insurance Policy in place at the time when the previous Thai government expropriated its Chatree gold mine in 2016.

Our view – Chatree is unlikely to be forced to close again by the government

From our conversations with management and personnel on site, it seems relations with the Thai government have improved significantly since the mine closure in 2017. It has major approvals in place (MLP renewal in January 2027) to mine/process immediately (noting it is awaiting a minor permit for Mill 1 before it can restart (Mill 2 is operational) - this is expected to be received shortly).

The new Thai government from the 2023 election (democratic party; with the Prime Minister Srettha Thavisin a Thai businessman and the same party that first approved Chatree versus previous military-led government since 2014) is pursuing a free trade agreement (FTA) strategy to expand its trade and investment opportunities with various partners, with a key outcome to encourage more foreign direct investment. It has 13 FTAs, with more under negotiation (i.e., with Thai-EU). The next election is scheduled in 2027, so we expect political stability at least until then.

Moreover, the company has improved safeguards in place to prevent any further environmental and social issues (i.e., baseline monitoring of cyanide levels of the local community). It will also pay the government a high all-in royalty rate of ~15% NSR over LOM that fluctuates with the gold price (noting it does have an eight-year tax holiday as part of compensation for the mine closure and no GFCI).

The environmental safeguards, regular inspections by government officials (every three months), high royalty rate, high local employment and potential for the Thai government to be liable for a large payment relating to the 2017 mine closure (C&M for six years) via the arbitration process (uncertain but media reports suggest this could be around ~US\$700m) makes closure of the mine again unlikely in our view.

Geology and mineralisation

The Chatree epithermal gold-silver deposit in central Thailand is associated with a volcanic centre that spans approximately 7.5km by 2.5 km.

The regional geology is dominated by a volcano-sedimentary sequence that interfingers laterally with terrigenous sediments. Chatree lies within the highly prospective Loei – Phetchabun volcanic belt (Figure 19). The deposit consists of several defined prospect areas and multiple open cut pits.

Chatree is a typical low sulphidation epithermal gold-silver deposit formed by active volcanism around the margin of continents. Mineralisation is a result of hot fluids rising (via fractures in rocks) to the surface which then cool and/or mix with near-surface waters which oxidise the fluids and result in high grade gold concentrations.

The gold mineralisation is associated with different types of quartz carbonate (chlorite) veins (that vary in width), some of which contain minor sulphides (i.e., low sulphidation epithermal system). Visible gold is rare within the system and the gold-silver ratios vary between 5-20:1.

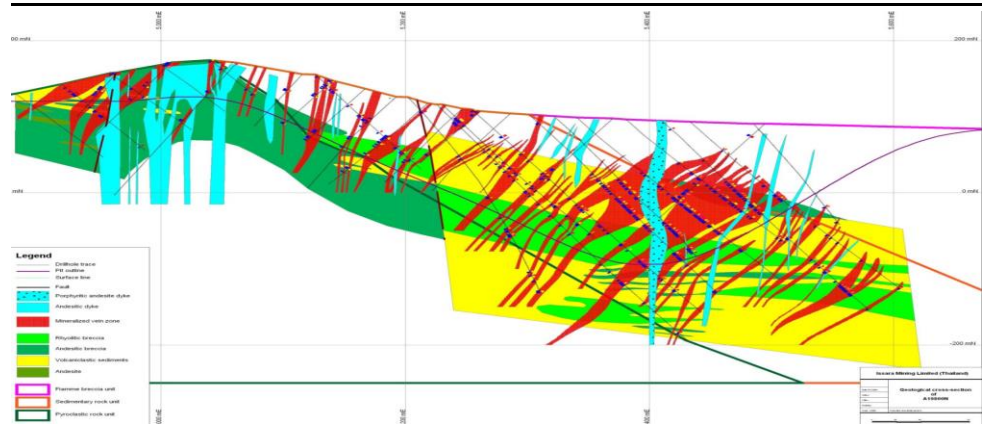
This type of mineralisation is common in SE Asia such as KSN’s Misima Project in PNG. Prospect A (Figure 20) will be a focus for re-start of mining operations and shows the steeply west dipping quartz veins which hold the gold mineralisation.

Figure 19: Chatree is located in the Thai Gold Belt



Source: Company reports

Figure 20: Cross-section – the A Prospect with mineralised veins (shown in red)



Source: Company reports

Exploration – opportunity for a “super pit” with further mine exploration success

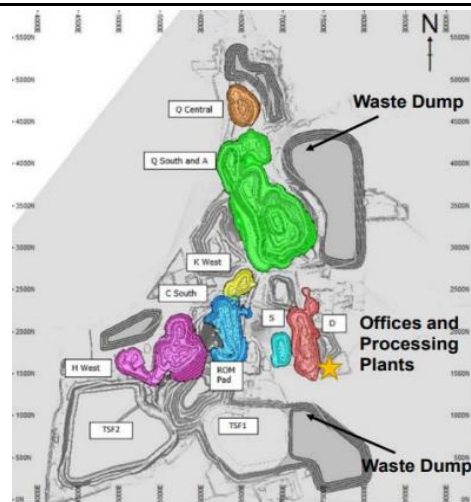
KCN is focused on near mine resource development surrounding its current pit shells (A, Q, S and J; Figure 21), with grade control drilling underway to assist with mine planning.

Recent grade control drilling results confirm that high-grade ore pockets exist just outside the A Pit (focus of initial mining operations). Results in the A West Pit show high-grade intercepts (*incl. 4.5m at 16.96g/t Au*) which indicates that the continuous high-grade orebody extends to the north (Figure 22).

Grade control has confirmed the potentially for higher plant feed grades in:

- Q North, Central and South
- A North
- A and K West
- S Pit and
- J Prospect (next to H West)

Figure 21: Chatree – layout of OPs



Source: Company reports

Figure 22: Chatree – near mine exploration at the A West Pit



Source: Company reports

Exploration – significant regional exploration potential exists

KCN has significant regional exploration optionality which is only just scratching the surface (>US\$2.5m exploration spend in 2024). It is currently undertaking aggressive regional exploration through geological mapping, rock chip sampling and drilling (incl. RAB/RC/DD) near Chatree via its Special Prospecting Licences (SPLs).

As at December 2023, it had 17 SPLs over 232km² in the Phetchabun Province expiring in October 2025 and 72 SPLs over 1,002km² under application in various provinces (incl. Phichit, Lop Buri, Phitsanulok) – see Figure 23).

Given the actions of the new Thai government suggest it is supportive of the project to date, we expect most of the SPLs under application to be approved.

Figure 23: Summary of licences held and applied by the company

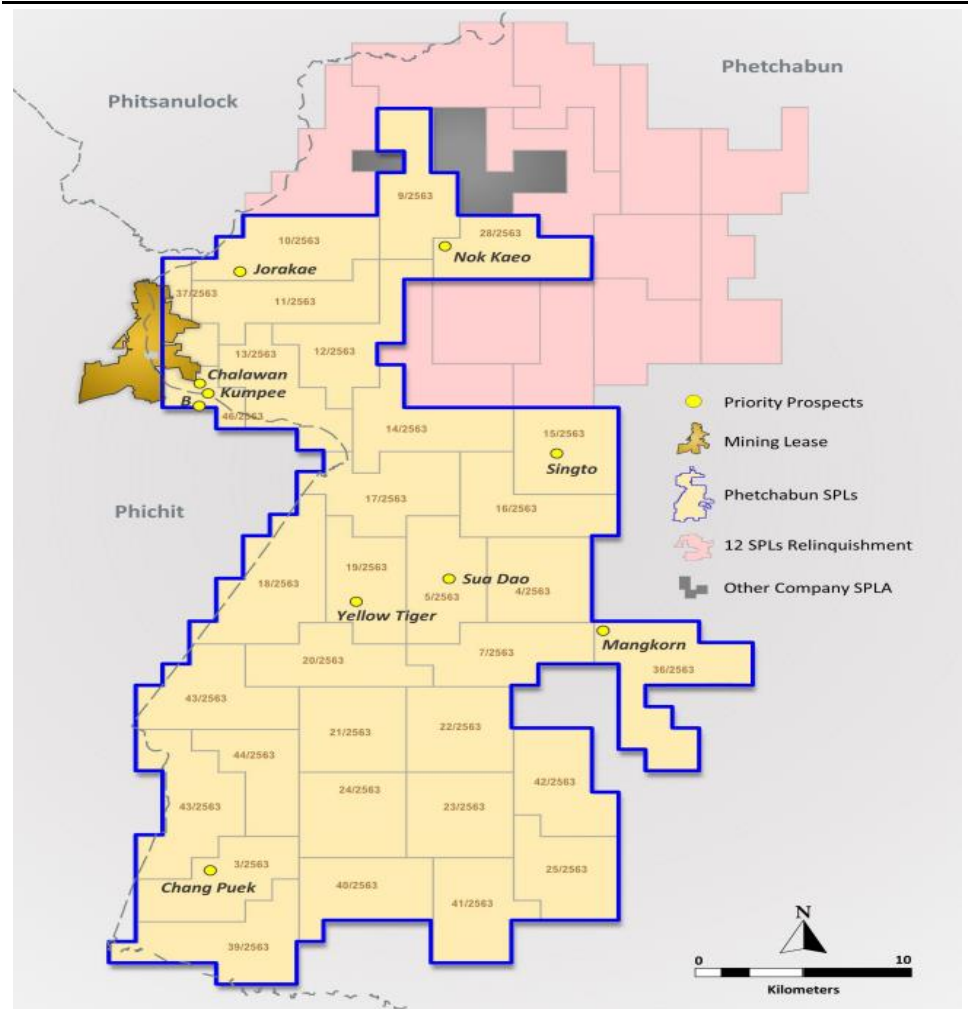
	Number	Expiry	Area
Mining	14	2028-2031	-
SPL	17	2025	232km ²
SPL (under application)	72	-	1,002km ²

Source: Company reports

KCN has nine key priority regional exploration targets are Chalawan, Kumpee, Jorakae, Nok Kaeo, Yellow Tiger, Sua Dao, Singto, Mankorn and Chang Puek (Figure 24) at various stages of exploration. From our recent site visit we sensed the most excitement was for the Kumpee and Chang Puek prospects.

Exploration drilling at its most advanced exploration targets (Chang Puek, Mangkorn and Singto) was completed in DecQ'23, with the focus now turning to Kumpee, Chalawan and Jorakae, seeking to confirm an extension of the Chatree system.

Figure 24: Map of priority regional exploration targets



Source: Company reports

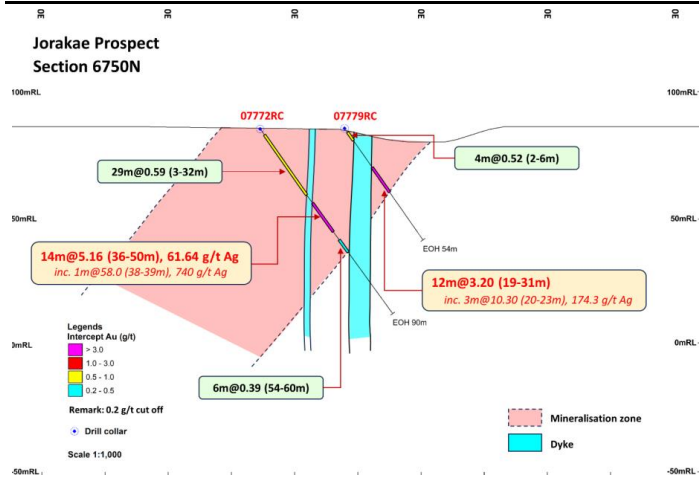
Highlights from recent RC/DD drilling in the region include:

- 29m at 1.53g/t Au from 3m (Jorakae)
- 53m at 0.83g/t Au from 1m (Chalawan)
- 10m at 1.97g/t Au from 9m (Kumpee)
- 33m at 1.08g/t Au from 3m (Chang Puek)

We note the average gold grades of these reasonably wide hits (up to 53m) are ~1.4g/t (within ~30km of the two mills) are double that of the existing Resource grade at Chatree (of ~0.7g/t), which points to significant high-grade LOM extension potential.

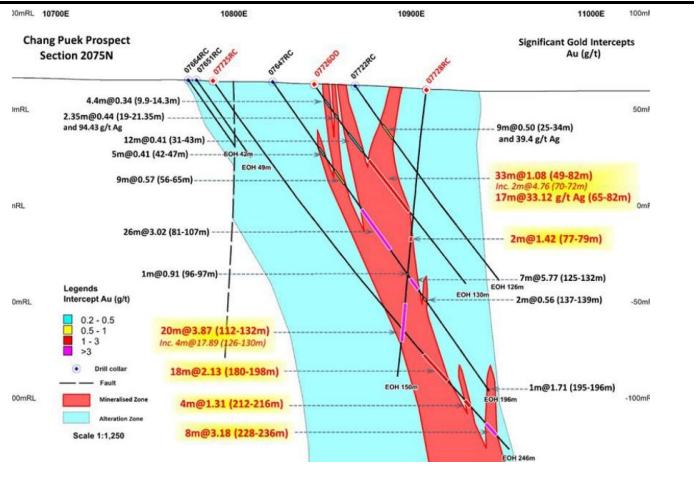
As a follow up, KCN released additional results from its exploration (RC) drilling at Jorakae with a key intercept **14m at 5.16g/t Au from 36m** (Figure 25) in March 2023, with the mineralisation seen to be analogous to that of Chatree.

Figure 25: Cross-section – Jorakae prospect



Source: Company reports

Figure 26: Cross-section – Chang Peuk prospect



Source: Company reports

Ore Reserves

KCN has reported Ore Reserves of 1.3Moz at 0.77g/t, noting Ore Reserves were determined using a gold price of US\$1,700/oz (spot US\$2,240/oz) at 30 June 2023. We expect a Reserve upgrade in 2H24.

Figure 27: Chatree Ore Reserves

	Mt	Au g/t	Ag g/t	Au Moz	Ag Moz
Proven	31	0.85	7.60	0.9	7.5
Probable	20	0.67	7.00	0.4	4.4
Total	50	0.77	7.30	1.3	11.9

Source: Company reports

Note: Using a cut-off grade of 0.35g/t and gold price of US\$1,700/oz.

Mineral Resources

KCN has reported Resources of 3.4Moz at 0.65g/t, noting 75% of ore is in the M&I category. As mentioned above, KCN is focussed on drilling out its near-mine and regional exploration prospects to grow its Resources and convert to Reserves, potentially extending its mine life beyond nine years (R&R updated expected in 2H24).

Figure 28: Chatree Mineral Resources

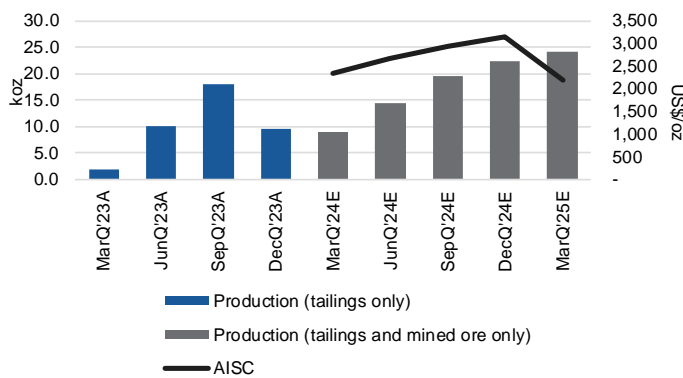
	Mt	Au g/t	Ag g/t	Au Moz	Ag Moz
Measured	73.2	0.69	6.20	1.6	14.6
Indicated	49.8	0.64	5.60	1.0	8.9
Inferred	40.6	0.59	4.50	0.8	5.9
Total	163.6	0.65	5.60	3.4	29.4

Source: Company reports Note: Using a cut-off grade of 0.30g/t and gold price of US\$1,700/oz.

Mining

Chatree is mined using conventional OP mining techniques (drill, blast, excavate and haul). Mining operations are conducted by a local contractor (LotusHall) in a series of satellite pits on contiguous mining leases. Mining operations recommenced in A Pit West in September 2023, noting the company restarted processing of stockpiles in March 2023. Mining in A Pit was temporarily ceased in MarQ'24 while GC drilling was undertaken, with the restart of mining to coincide with ramp-up of Mill 1 early in JunQ'24. While mine sequencing is still to be fully determined (likely updated LOMP in 2H24), it is likely mining will move to Quartz Lease and K West (400-500koz Au) after A Pit. Mining is low-cost given the jurisdiction (low-cost labour, noting >98% workforce are locals and cheap grid power in Thailand).

Figure 29: Short-term production/AISC at Chatree



Source: Company reports

Figure 30: Mining of A Pit to commence in JunQ'24



Source: Canaccord Genuity

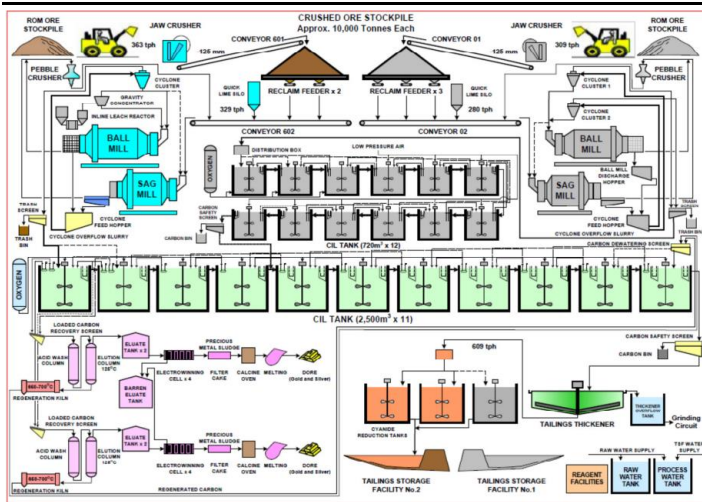
Processing

Chatree has a *combined* process nameplate capacity of 5Mtpa; 2.3Mtpa at Mill 1 and 2.7Mtpa at Mill 2. However, prior to the mine closure in 2016, the plants were consistently operating above 5Mtpa (and we expect this to continue going forward; CGe LOM average processing rate of 5.3Mtpa with upside risk to our forecast in our view), noting Mill 2 operated at 3.7Mtpa (+37% nameplate at 2.7Mtpa) in DecQ'23. Mill 1 is undergoing maintenance which is nearing completion with full commissioning expected in JunQ'24.

While the plants have not been recently independently valued, it's worth noting all major sunk capital (including refurb capex) is spent with high replacement value. Tailings lift 6 (of 12) of TSF2 is currently underway (average one lift per operating year) and represents the largest major capex spend after refurb of Mill 1 is complete.

Ore mined from Chatree is amenable to traditional Carbon-In-Leach (CIL) gold recovery processing methods with recoveries of ~80% (Figure 31). We forecast LOM OP processing costs of US\$10-12/t Ore Milled which represents 43% overall LOM cash costs.

Figure 31: Chatree - conventional CIL flowsheet



Source: Company reports

Figure 32: Chatree processing plant (>5Mtpa capacity over two plants) – currently processing low grade stockpiles



Source: Canaccord Genuity

ESG considerations

There is currently ~300 workers (increasing to ~450) on site including ~6 experienced expats in key managerial roles with the remaining workforce locals. With a key focus on regional employment, the high percentage of the workforce sourced locally helps maintain a strong relationship with federal and local provinces/governments as well as keeping opex low (KCN’s LOMP suggests LOM AISC is ~US\$1,250/oz with cost saving measures in place to reduce this).

Community programs supported by KCN include water treatment system (support and maintenance), health program, enterprise program (promoting organic local produce and hand made products), public schools and Buddhist temples. The company also intends to plant 9,000 trees to help foster local forestation.

Thailand: fiscal regime

The Minerals Act (2018) in Thailand provides that mining lease holders and metallurgical operators, must pay a mineral royalty, fees and a special contribution, which vary based on the mineral extracted and based on prevailing market prices.

We note the following rates for key minerals under the Minerals Act:

- gold ore - 2.5-20%;
- tin ore - 2.5-20%;
- mineral ore with tungsten oxide - 2.5-20%;
- lead ore - 2.0-15%;
- zinc ore - 2.0-15%;
- gemstone – 10%; and
- other mineral ores, at rates between 4-10%.

ML holders also pay a special contribution of no more than 10% of the mineral royalty of the minerals produced under that licence.

Based on conversations with the company, we model an all-in royalty rate (or contribution to government/community) of ~15% NSR over LOM which encompasses royalty of ~12%, plus other taxes/charges of ~3% for local provinces (i.e., village development fund, health monitoring fund, EIA fund and rehab fund).

Figure 33: Key government fiscal terms across selected countries

Key fiscal terms	Thailand	Tanzania	Burkina Faso	Mali	Senegal	Ghana
Government FCI	0%	16%	10%	10-20%	10-25%	10%
Royalty	~15% ¹	7% ²	5%	3%	5%	5%
Corporate tax	20%	30%	28%	25%	30%	35%

Source: Company reports, Canaccord Genuity

1. Mining companies in Thailand are also subject to VAT of 10%. 2. Tanzania royalty includes ~1% "clearing fee".

KCN also recently received a range of tax incentives over an eight-year period which started in March 2023, including an exemption from the 20% corporate income tax rate up to a cap of 3.25B Thai Baht (A\$150m). Based on this, we model KCN to start paying corporate tax in MarQ'31, which represents a material saving of A\$150m (undiscounted) in taxes (boosting FCF generation) over an eight-year period.

Asset overview: Nueva Esperanza in Chile

KCN continues to advance the divestment of the Nueva Esperanza Gold-Silver Project in Chile and is currently working with four parties who are interested in buying the asset.

For reference of potential value, KCN had previously signed a binding agreement with Canadian TSXV-listed TDG Gold Corp to acquire Nueva Esperanza for A\$69m in scrip and cash in June 2021. However, the deal was terminated after TDG was unable to raise the requisite funding to acquire the asset. We assume a small nominal value for Nueva Esperanza (plus small exploration value) of A\$30m.

Figure 34: Nueva Esperanza location map



Source: Company reports

Board and management

Ross Smyth-Kirk, Executive Chairman

Ross was a founding Director of former investment management company, Clayton Robard Management and has had extensive experience over a number of years in investment management including a close involvement with the minerals and mining sectors. He has been a director of a number of companies over the past 43 years in Australia and the UK. He is a former Chairman of the Australian Jockey Club and Chairman of Kingsgate's wholly-owned subsidiary, Akara Resources.

Peter Warren, Non-Executive Director

Peter was CFO and Company Secretary of Kingsgate for six years until his retirement in 2011. He is a CPA of over 48 years standing, with extensive involvement in the resources industry. He was Company Secretary and CFO for Equatorial Mining and the Australian subsidiaries of Swiss-based Alusuisse Group. He has held various financial and accounting positions for Peabody Resources and Hamersley Iron and is a Director of Kingsgate's wholly-owned subsidiary, Akara Resources.

Nucharee Sailasuta, Non-Executive Director

Nucharee is Chair of LotusHall Mining Heavy Engineering Construction and Lotus Green Energy, Thailand. She has strong mining credentials especially in effective mining management. Since 1983, she has worked in various mining operations, including the Sepon Gold & Copper Mine and Phubia Mining, located in Laos. In Thailand, Nucharee owns the FGD No.2 Project in partnership with EGAT and has been the mining contractor at the Chatree Gold Mine since operations commenced in 2001. She is also President of the Business Woman's Association of Lampang, Thailand and works as a conciliator of Alternative Dispute Resolution for Lampang Court, Thailand.

Jamie Gibson, Managing Director and Chief Executive Officer

Jamie has worked across corporate strategy and investor relations since joining in 2013. He is an experienced corporate professional and a former Chief Advisor in the mining portfolios (metals and coal) for the Australian Government. He has high level trade and investment experience within Asia-Pacific and was a Board Member and Vice President of the Australia Thailand Business Council until June 2022. Jamie holds business and management qualifications from Macquarie University and the Sydney Institute of Technology and is an Australian Institute of Company Directors graduate.

Olivia Shang, Acting Chief Financial Officer

Olivia has >16 years' financial experience in the mining industry and has held many senior financial roles since joining in 2011. She is a member of the Institute of Chartered Accountants Australia & New Zealand, a CPA, an affiliate member of FINSIA and an associate member of the Governance Institute of Australia.

Rob Kinnaird, General Manager – Operations

Rob has >36 years' experience and extensive knowledge in maintenance, operating and management that has allowed him to successfully develop teams to deliver key operational outcomes. Rob's has worked in copper, gold and nickel operations and safety management systems. He previously worked at Macmahon, Byrnescut and Oz Minerals, and is a University of Ballarat graduate. He also previously worked at Chatree Gold Mine and has extensive knowledge of the operation.

Stephanie Wen, Company Secretary

Stephanie's background is in corporate transactions and legal advisory services. Her expertise includes cross-border M&A, IPOs and capital raising in Asia-Pac markets. She has held senior legal and compliance positions in global financial institutions and also served as a NED for an ASX-listed healthcare company. She holds a dual degree in Law & Commerce from University of NSW and a Master of International Affairs from Columbia University. She is an Australian Institute of Company Directors graduate.

Financial summary

Kingsgate Consolidated (KCN:ASX)

Analyst: Tom Prendiville
Date: 3/04/2024
Year End: Jun

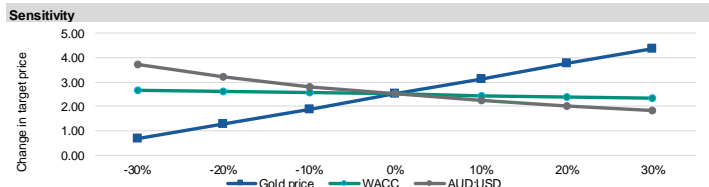
Rating:
Target Price:

SPEC BUY
A\$2.50

Market Information		
Share Price	A\$	1.34
Market Capitalisation	A\$m	345
12 Month Hi	A\$	2.07
12 Month Lo	A\$	1.05
Issued Capital	m	258
ITM Options	m	
Fully Diluted	m	258

Valuation		A\$m	A\$/share
Chatree	NPV @5%	730	2.83
Exploration, Projects & Other Investments		30	0.12
Gold Forwards		-	-
Corporate		(80)	(0.31)
(Net debt)/cash		(35)	(0.14)
Total		645	2.50
Price/NAV			0.54x
NAV @ Spot			
Target Price (1.00 x NAV)			2.50
Price/TP			0.54x

Assumptions	2023a	2024e	2025e	2026e
Gold Price (US\$/oz)	1,832	2,004	2,134	2,242
Silver Price (US\$/oz)	22	23	24	25
Copper Price (US\$/lb)	3.76	3.95	4.44	4.50
AUD:USD	0.68	0.66	0.67	0.68



Production (kt) - by asset	2023a	2024e	2025e	2026e
Chatree				
Gold Production (koz)	12	51	91	99
AISC (US\$/oz)	-	1,702	1,739	1,463
Neuva Esperanza				
Gold Production (koz)	-	-	-	-
AISC (US\$/oz)	-	-	-	-
Group				
Gold Production (koz)	12	51	91	99
AISC (A\$/oz)	-	1,702	1,739	1,463

Reserves & Resources	Mt	Grade	Moz
Reserves			
Gold	68	0.71	1.6
Copper	-	0.00%	0kt
Resources			
Gold	203	0.60	3.9
Copper	-	0.00%	0kt

Directors & Management	
Name	Position
Ross Smyth-Kirk	Exec Chairman
Jamie Gibson	Managing Director
Nucharee Sailasuta	NE Director
Peter Warren	NE Director

Company Description
Kingsgate Consolidated (KCN:ASX) owns and operates the Chatree Gold Mine in Thailand. The gold mine restarted processing tailings in 2023 after a period of closure.

Profit and Loss A\$m	2023a	2024e	2025e	2026e
Revenue	27.3	138.1	304.8	346.5
Operating Costs	-28.2	-121.0	-238.1	-217.6
SG&A	-33.9	-24.4	-16.0	-16.0
EBITDA	-34.7	-7.2	50.7	112.9
Impairment/other non cash adjustments	59.8	0.0	0.0	0.0
D&A	-11.5	-1.2	-14.0	-15.5
Net Interest	-7.4	-3.9	-4.9	-2.1
Tax	0.0	-1.5	-11.5	-28.6
NPAT (reported)	6.2	-13.7	20.2	66.7
NPAT	6.2	-13.7	20.2	66.7

EBITDA Margin	-127%	-5%	17%	33%
EV/EBITDA	-8.9x	-43.0x	6.1x	2.7x
EPS	0.01	(0.05)	0.08	0.26
EPS Growth		-1067%	-247%	230%
PER	242.9x	-25.1x	17.1x	5.2x
Dividend Per Share	-	-	-	-
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Cash Flow A\$m	2023a	2024e	2025e	2026e
Cash Receipts	20.3	139.1	304.8	346.5
Cash paid to suppliers & employees	-60.5	-136.5	-254.1	-233.6
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-5.0	-2.9	-4.9	-2.1
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	-45.3	-0.2	45.8	110.8
Proceeds/payments from sale/purchases	0.0	0.0	0.0	0.0
Capex	-0.0	-17.7	-25.0	-26.1
Other	-5.9	-3.3	0.0	0.0
Investing Cash Flow	-5.9	-20.9	-25.0	-26.1
Debt Drawdown (repayment)	0.9	44.1	-17.9	-9.3
Share capital	51.8	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.0	-0.4	0.0	0.0
Financing Cash Flow	52.8	43.7	-17.9	-9.3
Opening Cash	7.4	9.6	33.3	36.2
Increase / (Decrease) in cash	1.6	22.6	2.9	75.4
FX Impact	0.6	0.0	0.0	0.0
Closing Cash	9.6	32.1	36.2	111.6

Op. Cashflow/Share	-\$0.18	\$0.00	\$0.18	\$0.43
PCF	-7.6x	-1484.5x	7.5x	3.1x
FCF	-51.2	-21.1	20.7	84.7
FCF Yield	-14.8%	-6.1%	6.0%	24.5%

Balance Sheet A\$m	2023a	2024e	2025e	2026e
Cash + S/Term Deposits	9.6	33.3	36.2	111.6
Receivables	9.3	11.9	11.9	11.9
Other current assets	39.4	49.2	49.2	49.2
Current Assets	58.3	94.4	97.3	172.6
Property, Plant & Equip.	0.1	16.9	27.9	38.6
Investments	0.0	0.0	0.0	0.0
Other Non-current Assets	68.3	63.8	52.3	23.7
Payables	16.9	26.5	26.5	26.5
Short Term Debt	12.8	0.0	0.0	0.0
Long Term Debt	11.3	68.2	50.4	41.0
Other Liabilities	35.7	43.7	43.7	43.7
Net Assets	50.0	36.8	57.0	123.7
Shareholders Funds	727.3	727.3	727.3	727.3
Reserves	60.4	60.6	60.6	60.6
Retained Earnings	-737.7	-751.0	-730.7	-664.0
Total Equity	50.0	36.9	57.2	123.9

Debt/Equity	48%	185%	88%	33%
Net debt/(cash)	14.5	34.9	14.2	-70.5
Net gearing (book)	29%	95%	25%	-57%
Net gearing (market)	4%	10%	4%	-20%

Source: Company reports, Canaccord Genuity estimates

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Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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Investment Recommendation

Date and time of first dissemination: April 03, 2024, 15:30 ET

Date and time of production: April 03, 2024, 03:52 ET

Target Price / Valuation Methodology:

Kingsgate Consolidated Limited - KCN

Our price target for KCN is based on a risked NPV5% for Chatree. Our assumed production scenario is largely based on the company's existing LOMP and discussions with management, overlaid with our pricing and discount rates.

Risks to achieving Target Price / Valuation:

Kingsgate Consolidated Limited - KCN

Geopolitical risks

Chatree is located in Thailand which is considered an emerging market. As such, KCN, through the Chatree Gold Mine, carries a higher degree of economic, political, social, legal and legislative risk. We saw this risk play out in practice when the Thai government revoked KCN's licence to operate Chatree in 2016. There is a risk this happens again, albeit we think this is unlikely given the actions by the new Thai government and KCN to remedy the situation.

Financing risks

As KCN continues to ramp up operations at Chatree, there is a risk that additional external funding may be required (via equity or debt markets) to assist with its working capital requirements.

Exploration risks

Exploration is subject to several risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral Resources nor that the company will be able to convert the current mineral resource into minable Reserves, noting our base case mineable inventory is underpinned by Reserves only.

Operating risks

Companies in production will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from its operating asset considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

The company as a gold producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 04/03/24)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	606	66.01%	22.28%
Hold	135	14.71%	9.63%
Sell	13	1.42%	15.38%
Speculative Buy	155	16.88%	48.39%
	918*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate returns greater than 10% during the next 12 months.

HOLD: The stock is expected to generate returns from -10% to 10% during the next 12 months.

SELL: The stock is expected to generate returns less than -10% during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

Given the inherent volatility of some stocks under coverage, price targets for some stocks may imply target returns that vary temporarily from the ratings criteria above.

*As of January 1, 2024, the Ratings History Chart will reflect the new Canaccord Genuity Ratings System as defined above.

Risk Qualifier

SPECULATIVE: The stock bears significantly above-average risk and volatility. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the Global Stock Ratings table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

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An analyst has visited the material operations of Kingsgate Consolidated Limited. Partial payment was received for the related travel costs.

Kingsgate Consolidated Limited Rating History as of 04/02/2024



Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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