

Guyana Goldfields Inc.

PRECIOUS METALS

Rating: Buy

unchanged

12-Month Target: C\$2.80↓

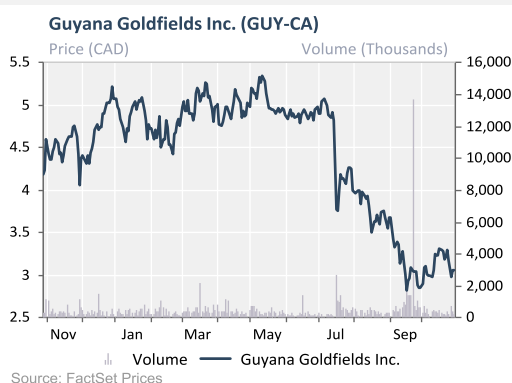
previously C\$6.85

Price (C\$)	\$1.62
Ticker	GUY-T
FYE	31-Dec
Potential ROR (incl. dividend)	73%
Avg 3-month daily vol. (000s)	912
Shares O/S	173.5
Basic (M)	173.5
FD (M)*	173.5
Market Cap	281
Basic (C\$M)	281
FD (C\$M)*	281
Annual Dividend (C\$/sh) / Yield	\$0.00 0%
Company's Reporting Currency	US\$
Cash (\$M)	63
Long-Term Debt (\$M)	25
Working Capital (\$M)	116
Enterprise Value (\$M)	163
Net Asset Value (\$M) **	843 ↓
Net Asset Value (C\$/sh) **	6.38 ↓

* FD - Fully diluted includes in-the-money options & warrants

** NAV calculated using spot gold, US\$1,224/oz, 5% DCF

PCI Est	FY18e	FY19e	FY20e
Revenue (\$M)	192.3	320.6	340.2
previously	230.8	320.6	340.2
CFPS (\$)	0.33	0.78	0.67
previously	0.44	0.78	0.67
EPS (\$)	0.12	0.48	0.36
previously	0.21	0.44	0.31
Consensus Est	FY18e	FY19e	FY20e
CFPS (\$)	0.38	0.76	0.95
EPS (\$)	0.13	0.39	0.52
Operational Data	FY18e	FY19e	FY20e
(All Operational Data items are Paradigm Capital Estimates)			
Gold Prod'n (Koz)	151.7	262.0	278.0
Cash Cost (US\$/oz)	800	587	730
AISC (US\$/oz)	1,243	857	1,060



Source: FactSet, Company filings, Paradigm Capital Inc.

Company description: Guyana Goldfields is a junior gold producer with its flagship Aurora mine in Guyana. The mine is forecast to produce ~235 Koz of gold annually at a low AISC (\$797/oz) for a defined mine life of 16 years (Feb. 2018 LoM Plan).

All figures in US\$, unless otherwise noted.

Grade Uncertainty Hammers Share Price

Investment Thesis. Guyana Goldfields is currently in the penalty box with investors for downgrading its FY2018 guidance twice throughout the year, and with a review underway to assess if the resource model is accurately predicting grade, initiated due to significant negative reconciliation experienced during 2018. We expect share price weakness to continue until after the uncertainty of the resource review is completed with report expected in Q1 2019, but believe investors with investment timeframe beyond this are likely to be rewarded.

Event

Guyana Goldfields reported Q3/18 financial results. Although the mining and milling operations showed improvements on most per-tonne metrics, unfortunately the grade has fallen short of expectations, leading to a further downgrade in 2018 guidance and a review of the resource estimate for the entire deposit.

Highlights

- **Q3 Great, Except for the Grade** | Guyana had pre-reported gold production of 41.0Koz earlier in October, and the AISC came in at \$1,094/oz, which was in line with our expectations. The mining rate (ore & waste) averaged 59.1Ktpd, a 49% improvement over the prior quarter and well on track to achieve the targeted level of 70.0Ktpd. The mill also performed well, processing 7,000 tpd with gold recoveries averaging 93.5%. The average grade processed of 2.12 g/t during Q3 was a modest improvement over those in H1/18, but the average grade YTD is just 1.98 g/t versus the 2.62 g/t predicted for 2018 (in the February life-of mine [LoM] plan).
- **Guidance Downgraded (Again)** | After the Q2 results, GUY revised its 2018 guidance downward (lower production, higher costs). That guidance was predicated on the assumption that the average head grade would return to 3.0 g/t or better in Q4/18. However, grades have been hovering in "the mid 2s" for October, so the company does not believe the guidance is achievable and has further reduced 2018 guidance to 150–155Koz (was 175–185Koz) and AISC raised to \$1,025–\$1,050/oz (was \$945–\$995/oz).
- **Resource Review Underway, Results Expected in Q1/19** | Management believes the recent underperformance can be attributed to grade variability not captured in the current resource model. The company has engaged consultants RPA Inc. (an independent firm of engineers and geologists) to assist in the investigation of the geological controls and grade variability of the deposit. GUY expects the results of this review to be incorporated into an updated resource and reserve estimate, which together with 2019 guidance is expected to be disclosed in Q1/19.
- **Resignation of Patrick Sheridan from Board** | At the end of the day yesterday, GUY announced that it had accepted the resignation of Mr. Patrick Sheridan Jr. as a director of the company, effective immediately. Mr. Sheridan was a founder of the company and served as Executive Chairman from June 2013 to July 2018. The Executive Chair position was eliminated when Mr. René Marion was appointed Non-Executive Chairman on July 30th, but Mr. Sheridan remained as a director. The timing of this resignation is unfortunate but was, in our opinion, simply Mr. Sheridan likely feeling less engaged in his reduced role. He remains a substantial investor in GUY.

Valuation & Conclusion

The markets don't like uncertainty, and the current markets really don't like uncertainty, as evidenced by the 47% decline in GUY's share price yesterday, erasing ~\$190M of market cap value from the stock.

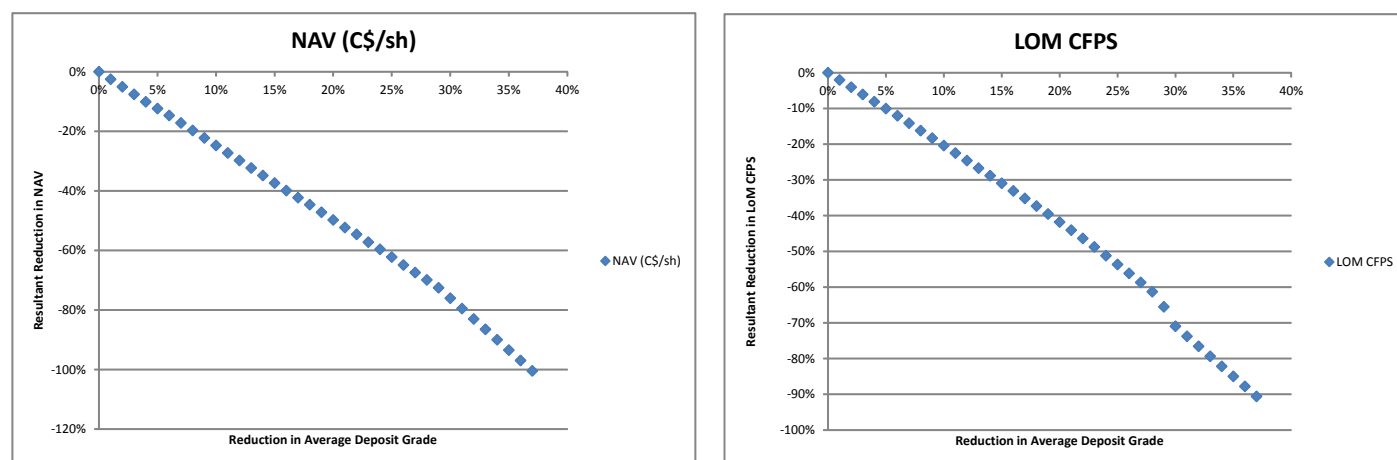
It should be noted that the reconciliation between the mined grade and the reserve/resource model has actually been quite good since the Aurora mine began commercial production in 2016. The current negative reconciliation is a recent event over the past few quarters. Management is cautiously optimistic that this could be a relatively isolated incident, and that the reconciliation may return to normal levels. But unfortunately, there is just no way to know for sure, which is why the decision was made to complete a review with the assistance of independent consultants.

We have created some sensitivity tables that illustrate the impact of declines in the average grade of the deposit and the resultant declines in valuation measured on NAV and LoM CFPS generation (Figure 1). Admittedly, these are relatively crude sensitivity estimates, as they assume the grade decline is consistently and evenly spread across the entire 15+ year mine life, and that all other factors remain unchanged. If one takes the share price decline upon this news and assumes the market is pricing in its estimate of valuation decline in a direct one-to-one relationship, the 47% decline in the share price suggests that the market has priced in an average grade decline of ~19% (based on NAV) or ~21% (based on LoM CFPS). The company has not revealed precise details of the negative grade reconciliation, but the grade mined in October was said to be in the "mid-2s" (e.g., ~2.5 g/t) versus the expectation of at least 3.0 g/t (say 3.0–3.1g/t). This would suggest a possible negative reconciliation of 17–19%. So the market price decline based on our sensitivity analysis appears to be pricing in a worst-case negative reconciliation from a month or so of results and applying this to the entire 15+ year mine life. We suspect this is a bit overblown, but again this is not a market that tolerates uncertainty.

If we assume the "best-case" scenario that the current negative reconciliation is a short-term isolated event with no longer-term impacts to the operation, our NAV declines only modestly (~3%) to C\$6.41/sh, based on the lowered 2018 guidance. If we assume a "highly negative" (with all the unknowns, we still can't even call it a worst case) scenario, that there is a permanent impairment of the grade by ~20%, the NAV declines 50% to C\$3.33/sh. These NAV estimates are at a 5% DCF, based on October 29 spot gold price of \$1,229/oz.

On the balance of probabilities, we believe the 47% share price decline is an overreaction by the market. However, we expect the story will be in limbo for the next 3–5 months until the results of the independent review of the resource estimate has been completed and disclosed. At this time, we have made only the 2018 adjustments to our model, making no changes to the long-term mine plan or reserve/resource estimate. Based on the best-case scenario, GUY is now trading at 0.25x NAV (priced at spot gold of \$1,224/oz on Oct. 30), a substantial discount to its peers (junior producers trading ~0.40–0.45x and intermediates at 0.75–0.80x). We maintain our Buy rating and lower our target price to C\$2.80 (was C\$6.85), on an interim basis based on a 0.35x multiple (regaining half-way back to an average junior multiple) of our NAV calculated at our one-year target \$1,350/oz gold price (C\$8.01/sh). We will review our forecasts and target after the publication of the resource estimate review expected to be released in Q1/19.

Figure 1: NAV & CFPS Sensitivity to Declines in Average Grade of Deposit
(NAV & CFPS calculated at spot gold price \$1,229/oz on Oct. 29, 2018)



Source: Paradigm Capital Inc.

DISCLAIMER SECTION

Company	Ticker	Disclosures
Guyana Goldfields Inc.	GUY-T	3

Note: Please refer to above table for applicable disclosure numbers.

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- Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
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Stock Coverage History

Date	Target	Rating	Estimates
7/20/2018	\$6.85↓	Buy↑	
12/7/2007	\$12.25	Spec Buy	Initiating Coverage

Research Rating System

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Recommendation	Number of Companies	Percentage Breakdown	
Buy	90	60%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	35	23%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	13	9%	Hold - Expected returns of less than +/- 20% over the next 12 months.
Sell*	7	5%	Sell - Expected returns of -20% or more over the next 12 months.
Total	145		

*Includes companies with a "Tender" recommendation

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