

# Action Note

Equity Research

November 10, 2020

Gold and Precious Minerals - Mid-and Small-Cap Golds

## Equinox Gold Corp.

(EQX-T, EQX-N) C\$13.87 | US\$10.66

### Solid Q3 Results Overshadowed by Los Filos Blockade

Arun Lamba, CFA

Steven Green, CFA

#### Event

Yesterday morning, Equinox released its Q3/20 results and an updated study for the Santa Luz project. Overall, earnings missed (see initial thoughts [here](#)) due to lower production at Los Filos. However, the company generated strong FCF (\$42mm) and delivered a solid updated Santa Luz technical report, in our view.

#### Impact: NEUTRAL

- The company had a solid quarter (excluding Los Filos, the company's beat on costs and production was in line), in our view, but we believe that the stock may continue to have a slight overhang until the company resolves the blockade at Los Filos (announced on September 4).
- However, in our view, the stock's recent underperformance (~11% vs. GDX) provides an attractive entry point for clients (EQX is trading at 0.75x vs. peers at 1.13x) as the blockade could get resolved soon based on prior precedents. For context, the last stoppage at Los Filos caused by the Carrizalillo community lasted ~33 days in 2014.
- On the conference call, management mentioned that over the last week, it has been meeting with the community leaders almost daily (although a timeline for a potential resolution was not given).
- Q3/20 gold production of 125 koz was below our estimate of 133 koz due to lower production from Los Filos. Total cash costs of \$866/oz (AISC: \$1,035/oz) were below our forecast of \$908/oz (AISC: \$1,232/oz) due to lower costs at Aurizona and Pilar and sustaining capital generally.
- The company withdrew the 2020 guidance at Los Filos (guidance for the other mines remains unchanged). Guidance is now expected to be 425-465 koz. The previous 2020 production guidance was 470-530 koz at AISC of \$975-\$1,025/oz.
- Santa Luz: At \$1,500/oz Au, the NAV5% of the project is estimated at \$305mm. The mine plan estimates total gold production of 903 koz (95 koz/year over 9.5 years) at AISC \$877/oz. Initial capex is estimated at \$103mm. First gold is anticipated in Q1/22.

#### TD Investment Conclusion

We continue to believe that EQX, with a disciplined management team, solid FCF generation, strong organic growth, and high leverage to gold price, should be a core gold-holding for clients. We are maintaining our BUY recommendation and C\$27.00 target price.



#### Company Profile

Equinox Gold is an intermediate gold company with seven producing mines and three growth projects in the Americas.

<b>Recommendation:</b>	<b>BUY</b>
<b>Risk:</b>	<b>HIGH</b>
<b>12-Month Target Price:</b>	<b>C\$27.00</b>
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>94.7%</b>

#### Market Data (C\$)

Current Price	C\$13.87
52-Week Range	\$6.57 - \$18.14
Mkt Cap (f.d.) (\$mm)	\$3,445.3
Mkt Cap (basic) (\$mm)	\$3,356.5
Float Cap (\$mm)	\$1,751.2
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,613,192

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	248.4
Float Shares (mm)	213.5
Net Debt/Total Cap	11.8%
Cash (\$mm)	\$311.0
NAVPS	\$18.58

#### Estimates (US\$)

Year	2018A	2019A	2020E	2021E
EBITDA (\$mm)	-	94.0	327.0	737.0
EBITDA (\$mm) (old)	-	-	332.0	749.0
EPS (f.d.)	-	(0.16)	0.59	1.46
EPS (f.d.) (old)	-	-	0.66	1.49
CFPS (f.d)	-	0.67	1.14	2.23
CFPS (f.d) (old)	-	-	1.16	2.29

#### EPS (f.d.) Quarterly Estimates (US\$)

Year	2018A	2019A	2020E	2021E
Q1	-	(0.05)	0.08	-
Q2	-	(0.10)	0.12	-
Q3	-	0.07	0.16	-
Q4	-	(0.08)	0.23	-

#### Valuations

Year	2018A	2019A	2020E	2021E
P/E (f.d.)	-	nmf	18.1x	7.3x
P/CFPS (f.d)	-	15.9x	9.4x	4.8x

#### Supplemental Data

Year	2018A	2019A	2020E	2021E
Gold Prd'n koz	26	201	458	699
Gold US\$/oz	-	1,393	1,789	2,100

Cash in US\$. FCF is defined as CFO pre-working-capital minus total capex. Fully diluted shares outstanding do not include the company's convertible notes.

All figures in US\$, unless otherwise specified

## Details

### Earnings Miss on Lower Production

- Adjusted EPS of \$0.16 was below our estimate of \$0.24 (consensus: \$0.22) due to lower production and higher depreciation. CFPS of \$0.37 was below our estimate of \$0.39 (consensus: \$0.37).

### Los Filos Guidance Withdrawn

- The company withdrew the 2020 guidance at Los Filos (guidance for the other mines remains unchanged).
- Guidance is now expected to be 425-465 koz at AISC of \$975-\$1,025/oz. As a reminder, the previous 2020 guidance called for 470-530 koz at AISC of \$975-\$1,025/oz.
- We estimate that it will take 1-2 months to ramp up production at Los Filos once the blockade is resolved.

### Strong Balance Sheet

- The company reported \$311mm of cash (as of September 30) against \$579mm of debt (\$300mm drawn debt and \$279mm of ITM converts).
- Excluding the deep ITM converts (~\$6.50/share strike), the company would have a net cash position of \$11mm.
- In Q3/20, the company generated FCF of \$42mm after spending \$48mm in capex. The beat relative to our estimate of \$21mm was due to lower sustaining capital spent.

### Q3 Production Miss at Los Filos; Costs Beat

- Q3/20 gold production of 125 koz was below our estimate of 133 koz (all other mines in line) due to lower production at Los Filos.
- Total cash costs of \$866/oz (AISC: \$1,035/oz) were below our forecast of \$908/oz (AISC: \$1,232/oz) due to lower costs at Aurizona and Pilar.
- YTD, the company has produced 341 koz at AISC of \$993/oz.

### Updated Santa Luz (Brazil) Study Better than Anticipated

- According to the updated technical report, the NAV5% of the project is estimated at \$305mm (TD: \$194mm NAV5%) at \$1,500/oz Au (based on 1.1 Moz of open-pit reserves).
- The mine plan estimates total gold production of 903 koz (95 koz/year over a 9.5-year life) at AISC of \$877/oz.
- Initial capex is estimated at \$103mm (\$82mm sustaining). First gold is anticipated in Q1/22.
- In an effort to be conservative, we model first gold in H2/22 at slightly higher costs.
- An additional 511 koz of LOM production could come from the underground resource. However, more work needs to be completed to verify the economics/viability.

# Action Note

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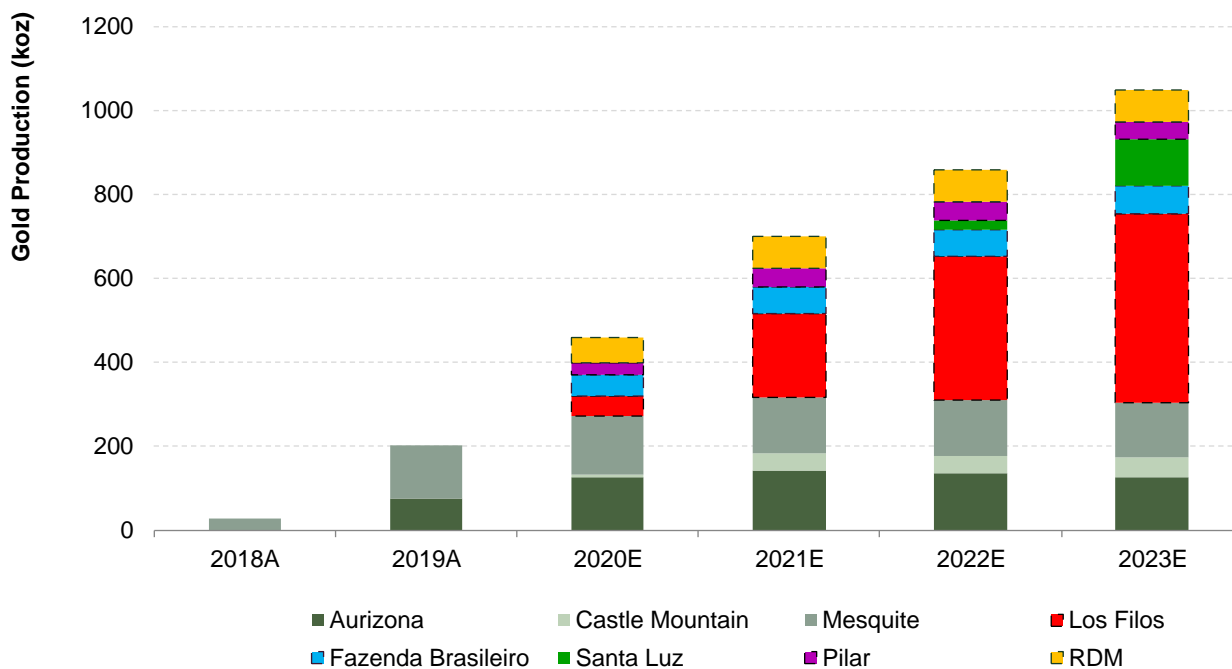
November 10, 2020

## Exhibit 1. Balance Sheet

Liquidity	Debt		Comment
Cash on Hand (September 30, 2020)	\$311	Term Loan	\$100 Term Loan matures on March 10, 2025
Proceeds from ITM Converts	\$279	Revolving Credit Facility	\$200 Revolving Facility matures on March 8, 2024
		Mubadala Convertible Debenture US\$5.25/sh strike	\$130 Notes mature on April 12, 2024 and bear interest at a fixed rate of 5%
		Mubadala Convertible Debenture US\$7.80/sh strike	\$130 Notes mature on March 10, 2025 and bear interest at a fixed rate of 4.75%
		Pacific Roads Convertible Debenture US\$5.25/sh strike	\$10 Notes mature on April 12, 2024 and bear interest at a fixed rate of 5%
		Pacific Roads Convertible Debenture US\$7.80/sh strike	\$9 Notes mature on March 10, 2025 and bear interest at a fixed rate of 4.75%
<b>Total Cash and Other Potential Proceeds</b>	<b>\$590</b>	<b>Total Debt</b>	<b>\$579</b>
		<b>Estimated Net Cash</b>	<b>\$11</b> Net debt of ~\$268mm if debentures are not converted

Source: Company, TD Securities Inc.

## Exhibit 2. TD Production Profile



Source: TD Securities Inc.

# Action Note

Equity Research

November 10, 2020

## Exhibit 3. Operating and Financial Forecasts

	Q1 20	Q2 20	Q3 20	Q4 20	2020	2021
	Actual	Actual	Actual	TD Est.	TD Est.	TD Est.
<b>Consolidated Operations</b>						
Total Gold Production (koz)	89	127	125	117	458	699
Total Cash Costs (US\$/oz)	849	822	866	927	872	886
AISC (US\$/oz)	968	900	1,035	1,264	1,045	1,085
<b>Financial (\$mm)</b>						
Gold Price (US\$/oz)	1,582	1,710	1,912	1,950	1,789	2,100
Revenue	130	215	244	215	805	1,395
Operating Costs	(70)	(113)	(122)	(109)	(414)	(619)
Operating Cash Flow (before W.C)	23	61	90	88	262	553
Total Capex	(34)	(40)	(48)	(77)	(198)	(360)
Free Cash Flow	(11)	21	42	12	64	193
Ending Cash Balance	303	494	311	320	320	371

Source: TD Securities Inc.

## Exhibit 4. Updated Guidance

	Production (oz)	AISC <sup>2,3</sup> (\$/oz)
Los Filos <sup>1</sup>	44,837 oz	\$1,047
Mesquite	130,000 - 140,000	\$975 - \$1,025
Aurizona	120,000 - 130,000	\$1,000 - \$1,050
Fazenda <sup>1</sup>	50,000 - 55,000	\$925 - \$975
RDM <sup>1</sup>	50,000 - 55,000	\$1,000 - \$1,050
Pilar <sup>1</sup>	25,000 - 30,000	\$1,200 - \$1,300
Castle Mountain	5,000 - 10,000	\$750 - \$800
Santa Luz <sup>1</sup>	-	-
<b>Total</b>	<b>425,000 - 465,000</b>	<b>\$975 - \$1,025</b>

Source: Company

# Action Note

## Equity Research

November 10, 2020

### Outlook

We have updated our estimates for the company's Q3/20 operating and financial results, revised 2020 guidance (we also slightly lowered the grades at Los Filos in 2021 due to details provided on the company's conference call), and Santa Luz Study. Net of these and other minor changes, our corporate NAV increases to C\$18.58/share (from C\$18.37/share).

### Anticipated Timeline

- Q4/20: Potential Resolution of Blockade at Los Filos
- Q1/21: Los Filos Expansion/Resource Update
- Q1/21: Castle Mountain Phase II FS

### Exhibit 5. Estimate Changes

	EPS (\$)		CFPS (\$)		
	2020E	2021E	2020E	2021E	
<b>New</b>	\$0.59	\$1.46	\$1.14	\$2.23	
<b>Old</b>	\$0.66	\$1.49	\$1.16	\$2.29	

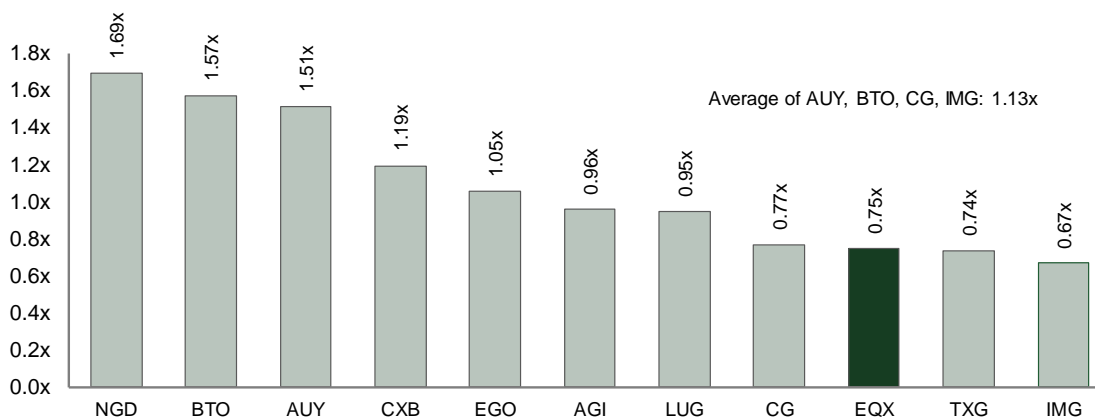
	Production (koz Au)		Cash Costs (\$/oz)		NAV5% (C\$/sh)
	2020E	2021E	2020E	2021E	
<b>New</b>	458	699	872	886	\$18.58
<b>Old</b>	476	715	899	897	\$18.37

Source: TD Securities Inc.

### Valuation

We continue to believe that there could be a significant re-rate to a premium producer multiple that reflects our view of the strong management and growth profile. EQX is trading at 0.75x NAV (peer group at 1.13x) and the junior- to mid-tier producers in our coverage universe are generally trading at 0.7x–1.7x NAV, with multi-mine producers at the higher end of the range.

### Exhibit 6. P/NAV



Source: TD Securities Inc.

# Action Note

Equity Research

November 10, 2020

## Justification of Target Price

Our target price is based on a 1.5x multiple to our 5% NAV (weighted 60%) and a 6.5x multiple to our 2021E EBITDA estimate (weighted 40%). We value Equinox near the middle of the range of its mid-cap producing peer group (target multiples are 0.9x–2.0x NAV and 4.0x–10.0x 2021E EBITDA).

## Exhibit 7. Target Price Summary

<b>Assumptions:</b>			
Discount Rate	5%	Existing Shares (ITM f.d., mm)	248
LT Gold Price (US\$/oz)	1,500	+ Assumed Equity Issuance (mm)	0.0
Target Price US\$/C\$ Exchange	\$0.76	= Modelled Shares (ITM f.d., mm)	248

	(US\$mm)	(US\$/share, dil.)
<b>Corporate Adjustments</b>		
Total Corporate Adjustments	(\$82)	(\$0.33)
<b>Projects</b>		
Castle Mountain	\$768	\$3.09
Aurizona	\$668	\$2.69
Mesquite	\$300	\$1.21
Los Filos	\$1,173	\$4.72
Fazenda Brasileiro	\$155	\$0.62
Santa Luz	\$238	\$0.96
Pilar	\$76	\$0.30
Riacho Dos Machados (RDM)	\$211	\$0.85
Exploration Credit	\$0	\$0.00
Total Projects	\$3,589	\$14.45
<b>Total Valuation</b>		
Total Corporate NAV (After-Tax)	\$3,507	\$14.12
Total Corporate NAV (After-Tax)	C\$4,615	C\$18.58

Source: TD Securities Inc.

**Exhibit 8. Target Price Calculator**

<b>Target Price Calculation</b>		
<b>EV/2021 EBITDA</b>		
2021 EBITDA Estimate	US\$mm	737
Target EV/EBITDA Multiple: 6.5x	US\$mm	4,792
Estimated Net Debt as of YE2020	US\$mm	216
<b>Total</b>	<b>US\$mm</b>	<b>4,576</b>
Per share - US\$		18.43
<i>Weighting</i>		40%
<b>P/NAV</b>		
Mining NAV	US\$mm	3,589
Target P/NAV Multiple: 1.5x	US\$mm	5,384
Corporate Adjustments: 1.0x	US\$mm	(82)
<b>Total</b>	<b>US\$mm</b>	<b>5,302</b>
Per share - US\$		21.35
<i>Weighting</i>		60%
Target Price (40% EV/2021 EBITDA, 60% P/NAV)	US\$/sh	20.18
<b>Target Price (40% EV/2021 EBITDA, 60% P/NAV)</b>	<b>C\$/sh</b>	<b>26.55</b>
<b>Rounded Target Price</b>	<b>C\$/sh</b>	<b>27.00</b>

Source: TD Securities Inc.

**Key Risks to Target Price**

The key risks to our target price include gold, fuel, power, and water price risks; financial risks, including risks to the cost and availability of financing; foreign exchange rate risks; forecast risks, including capital and operating cost risks; risks related to deposit size, grade and mineability, and risks relating to production levels, metallurgical recoveries and smelter terms; market risks; technical risks; permitting risk; labour relations risk; risks related to the cost and availability of equipment and consumables; environmental risk; title risk; litigation risk; surface rights risk; access risk; and company-specific risks, including water/weather risks, due to the recent droughts in California and the elevated concern that has arisen with respect to water consumption; potential operational impacts due to COVID-19 restrictions; and the blockade at Los Filos extending into next year.



# Action Note

## Equity Research

November 10, 2020

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Company	Ticker	Disclosures
Equinox Gold Corp.	EQX-T   EQX-N	n/a

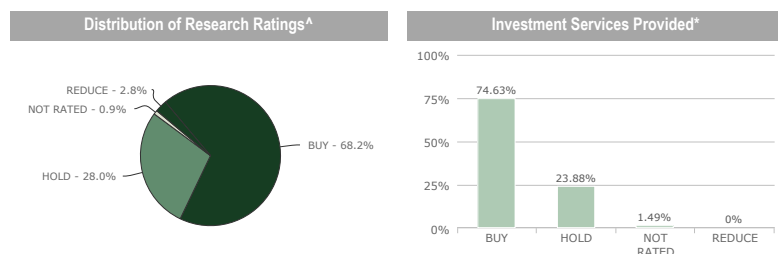
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We visited Equinox Gold's Mesquite and Castle Mountain mines in California on December 5-6, 2019. The Mesquite mine accounts for 20% of our mining NAV estimate, and the Castle Mountain accounts for 48%. The company provided local transportation and some meals during the site visit.

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# Action Note

## Equity Research

November 10, 2020

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# Action Note

## Equity Research

November 10, 2020

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