

# Torex Gold: Tracking Well Ahead Of FY2021 Guidance

May 16, 2021 9:00 AM ET | [Torex Gold Resources Inc. \(TORXF\)](#) | 1 Comment | 8 Likes

## Summary

- Torex Gold released its Q1 results last week and reported quarterly gold production of ~129,500 ounces at all-in sustaining costs of \$854/oz.
- This strong start to the year has Torex tracking well ahead of its production guidance and in a position to easily beat its annual guidance mid-point of 450,000 ounces.
- Based on an estimated FY2021 free cash flow of ~\$110 million, Torex trades at a ~9% free cash flow yield with a current market cap of ~\$1.12 billion.
- I continue to see Torex as one of the most undervalued intermediate gold producers, and I would view any pullbacks below US\$12.65 as low-risk buying opportunities.



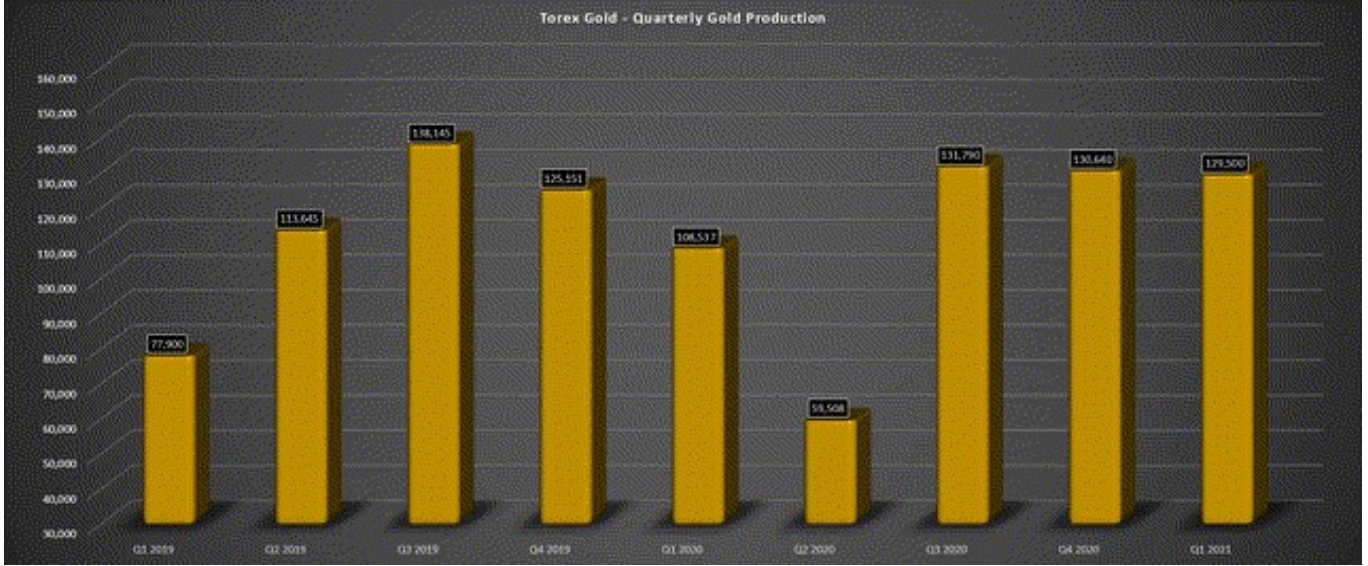
Photo by gece33/E+ via Getty Images

We're more than three-quarters of the way through the Q1 Earnings Season for the Gold Miners Index ([GDX](#)), and the most recent company to report its results is Torex Gold ([OTCPK:TORXF](#)). While quite a few companies are tracking behind guidance, Torex had a great start to the year, producing ~29% of its FY2021 production guidance midpoint in Q1. Assuming gold prices remain above \$1,825/oz, Torex should be able to generate at least ~\$100 million in free cash flow this year, giving the company a 9% free cash flow yield. I continue to see Torex as one of the most undervalued gold producers, and I would view any pullbacks below US\$12.65 as low-risk buying opportunities.



(Source: Company Presentation)

Torex Gold released its [Q1 results](#) last week and reported quarterly gold production of ~129,500 ounces at all-in sustaining costs [AISC] of \$854/oz. These solid results were driven by much higher grades of 3.97 grams per tonne gold processed in Q1, up from 3.35 grams per tonne gold in the year-ago period. With nearly ~29% of the guidance mid-point produced in Q1, Torex is in a position to trounce its FY2021 guidance midpoint of ~450,000 ounces and should see a sharp increase in free cash flow in H2 with weaker results in H1 due to profit sharing and Mexican mining royalty payments. Let's take a closer look at the results below:



(Source: Company Filings, Author's Chart)

As shown in the chart above, Torex had an exceptional quarter with production up more than 19% year-over-year and AISC down more than 12% on higher gold sales, despite increased sustaining capital expenditure in the period. As noted, the outstanding results were driven by higher head grades, offset by slightly lower throughput (1.11 million tonnes processed vs. ~1.13 tonnes processed). Notably, monthly throughput hit a record of ~13,800 tonnes per day, and costs came in at these levels despite higher than expected cyanide consumption due to increased values of soluble copper and iron in the ore feed. Gold recovery rates were stable in Q1 at 89%. While oxygen procurement was an issue in Q1, it has since been resolved.



(Source: Company Filings, Author's Chart)

The lower costs in the quarter combined with a more than 13% increase in the average realized gold price translated to a solid quarter for margins, with AISC margins up more than 50% to \$924/oz. This compared favorably to \$596/oz in the year-ago period, and AISC margins should come in near \$890/oz in FY2021 based on cost guidance of \$945/oz and an average realized gold price assumption of \$1,835/oz. It's worth noting that these industry-leading margins were achieved despite an increase in sustaining capital in the quarter to \$25.5 million. As it stands, Torex is tracking ahead of its FY2021 sustaining capital guidance, with \$25.5 million spent of a planned ~\$77.5 million this year.



(Source: Company Presentation)

From a development standpoint, the company noted that the Guajes Tunnel is now at 300 meters of 7 kilometers, which is slightly behind plans. The expectation is that development rates will increase to 10 meters per day by the fall, with the goal being to reach the bottom of the Media Luna deposits by Q1 2023. While costs are not set in stone, nor is the cost and production profile, we should get a better idea of what Torex might look like starting in FY2025 by Q2 of next year. This is when the Media Luna Feasibility Study is expected to be released.



(Source: Company Website)

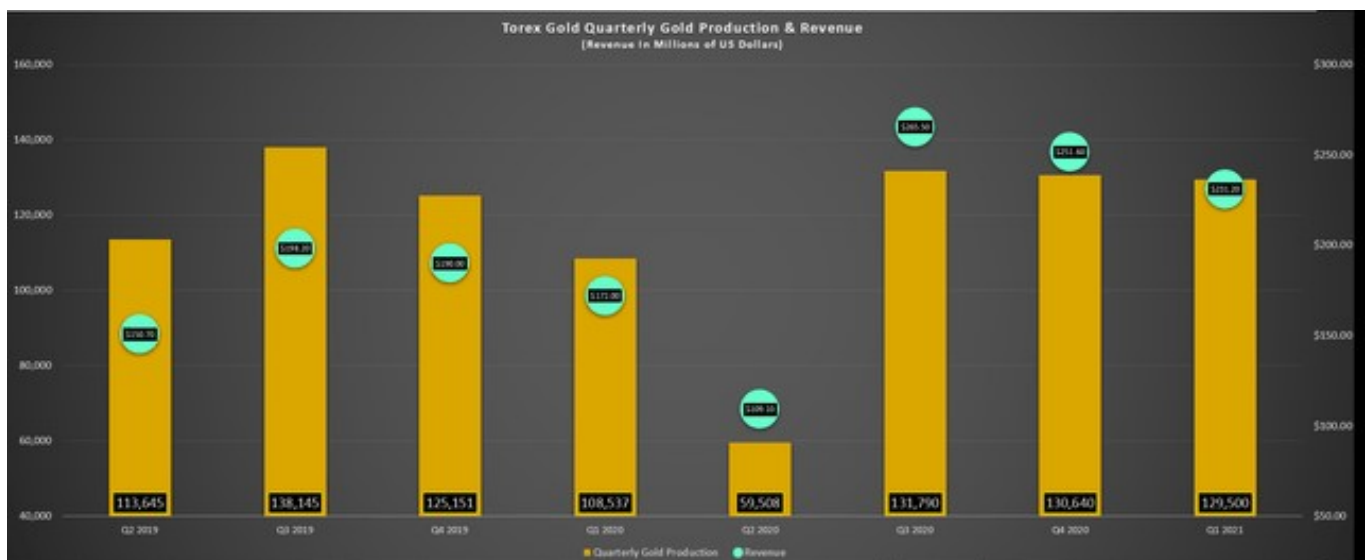
For those unfamiliar, Torex's plan is to transition from mining at El-Limon Guajes to Media Luna in early 2024, with a tunnel to access the Media Luna ore body and the potential to use a proprietary Muckahi Mining system, which would utilize two-lane monorail transport in an underground tunnel, allowing for significant savings with steeper ramps, and much less rock removal due to smaller and shorter tunnels. This is expected to allow for a 30% decrease in underground mining costs and up to a 95% decrease in underground greenhouse gas emissions. Combined with plans for constructing a solar plant, a Muckahi & Solar Plant combo could make Torex a clear industry leader in the 'E' of ESG.



Photograph courtesy Torex, 2013. Photograph looks west. The Balsas River is approximately 90 m wide in the foreground of the photograph and provides an approximate scale. The Guajes, El Limón Sur and El Limón deposits are situated to the upper right-hand side background of the photograph. The Media Luna deposit is located just off the image to the left-hand side.

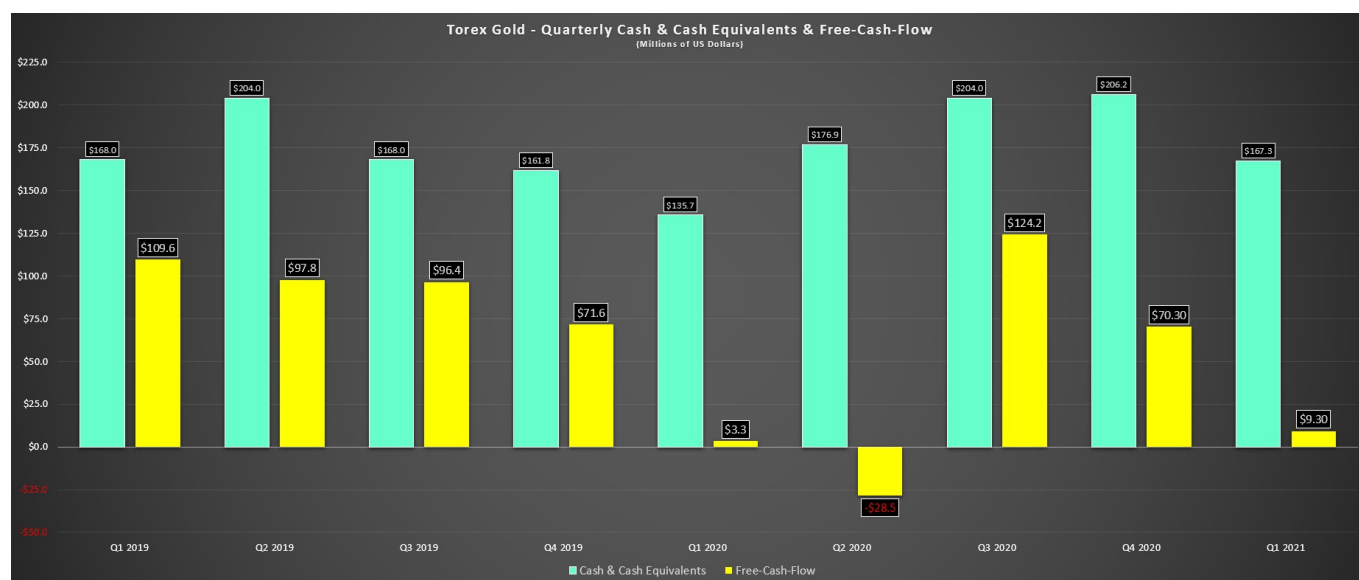
(Source: Company Technical Report)

To buy a little more time until the transition to mining at Media Luna, Torex is exploring a small pushback to the open pit at El-Limon Pit, with a goal to push El-Limon Guajes production out to H1 2024 vs. current plans of H2 2023. If successful, this would be great news, as it would give some extra insurance that there won't be a gap of a few months while the operation transitions to Media Luna in 2024. As it stands, it looks like it should be a relatively smooth transition, and the good news is that Torex received its [MIA Modification Phase II permit](#) for construction activities beyond the current permit on April 6th. This has allowed the company to begin the development of the South Portal.



(Source: Company Filings, Author's Chart)

Moving on to the financial results, Torex reported \$231.2 million in revenue in Q1, up 34% year-over-year due to a higher average realized gold price of \$1,778/oz and higher gold sales. Free cash flow was positive in Q1 and came in at \$9.3, a material improvement from \$3.3 million in the year-ago period. It's worth noting that H1 is a much softer period for cash flow for Torex due to the payment of profit sharing and the Mexican mining royalty, so one should not extrapolate the Q1 results and assume that Torex will only generate ~\$37 million in free cash flow this year. On a trailing-twelve-month basis, free cash flow is sitting at ~\$175 million, giving Torex a free cash flow yield of more than 15% based on its market cap of ~\$1.12 billion.



(Source: Company Filings, Author's Chart)

However, while the trailing-twelve-month free cash flow yield looks quite juicy, it's important to note that free cash flow should be down year-over-year due to higher capital spending and will likely decrease from ~\$168 million in FY2020 to closer to ~\$110 million. Even assuming a miss on this estimate and free cash flow of just ~\$100 million in FY2021, Torex still trades at a 9% free cash flow, which is a very reasonable valuation for a producer with industry-leading costs.

## So, is the stock a Buy?

While Torex should have no real issues transitioning to production at Media Luna, there are always risks. This suggests that Torex should trade at a discount to many other intermediate producer peers. Financing for the project should not be an issue with liquidity of ~\$320 million (\$167 million in cash and \$150 million RCF) and free cash flow generation of more than ~\$100 million per year. However, final permits will be required to complete construction at Media Luna.

Based on the risk of delays to receive permits, or slower than planned development, I continue to see the ideal buy-zone at US\$12.65 or lower, where the stock would trade at closer to a double-digit FY2021 free cash flow yield. The one major catalyst for a re-rating would be a small bolt-on acquisition, and especially in a Tier-1 jurisdiction, to offset the company's current Tier-2 jurisdiction profile. However, with a lot on Torex's plate, [redacted] surprised to see a deal this year unless the gold price strengthens and Torex is suddenly sitting on more than \$200 million in cash. While "A bull market is when you check your stocks every day to see how much they went up. A bear market is using shares is an option, I don't know if it's wise with Torex's share price sitting near multi-year lows.



**Taylor Dart**  
21.26K Followers



Comments (1)

(Source: Company Filings, Author's Chart)



**permanent**

Today, 11:55 AM

Torex had an incredible start to FY2022, and Q1 2022 will be an exciting milestone, with investors finally getting a closer look at what is in store when production transitions to Media Luna as projected. Given the silver and copper content at Media Luna and improved metal prices, on these two commodities, we should see AgSC come in below \$150/oz, with these by-product credits helping to drive down costs. Most funds that I apply to the mining sector are in Karora; Perseus; Silver Lake Re; Ramelius; smaller positions are in Ananconda, Northern Vertex, Sabina, GSV and Torex, Gran Columbia. *With the company tracking ahead of FY2021 guidance, a strong financial position, and several exciting catalysts on the horizon, I continue to see Torex as a solid buy-the-dip candidate. So, if we do see weakness and a dip below US\$12.65, I would view this as a low-risk buying opportunity.*

Reply

Like (1)