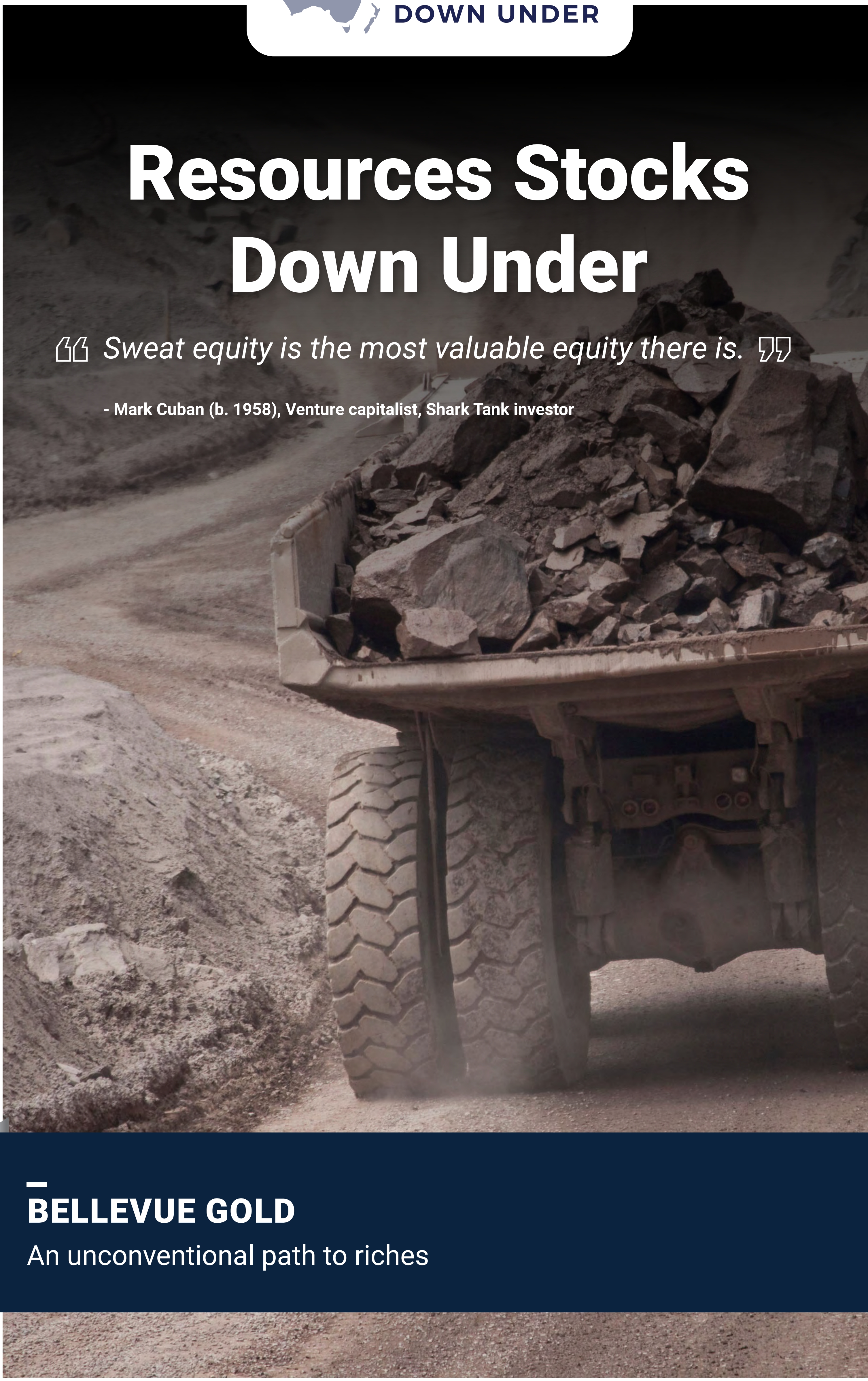
STOCKS DOWN UNDER

28 JULY 2022

Resources Stocks Down Under

“Sweat equity is the most valuable equity there is.”

- Mark Cuban (b. 1958), Venture capitalist, Shark Tank investor



BELLEVUE GOLD

An unconventional path to riches

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Stocks Down Under rating: ★★★★

ASX: BGL
Market cap: A$773.4M

52-week range: A$0.62 / A$1.13
Share price: A$0.77

The majority of resources companies that go from nothing to something find a new deposit and either sell it or bring it into production. Bellevue Gold (ASX: BGL) took a different route in picking up an old gold project, its namesake Bellevue project, and giving it a new life. And from next year, it will be back into production.

Share price chart

Source: Tradingview

Brownfields become gold once more

Between 1897 and 1997, the Bellevue Mine in WA produced nearly 1 million ounces of gold at 15g/t. For 20 years thereafter, little work was done as the deposit appeared 'mined out' and the work that was done showed little success. In 2016, Bellevue (then a shell company called Draig Resources) picked up the project. It thought a brownfields project (one where exploration or mining had been completed before) would be a better shot than a greenfields project (one with no activity at all). The company picked the Bellevue Project, inspired by geological work that an earlier owner had done suggesting there was more gold left to be discovered. It also bought on board Steve Parsons, the geologist responsible for the exploration success (and subsequent takeover) of gold company Gryphon Minerals. In late 2017, Bellevue began a drilling program and had success straight away – hitting 7m at 27g/t on one of the first two holes. It has not missed a beat ever since, continuing to find more and more at the project.

As at early June 2022, Bellevue has reserves of 1.34Moz at 6.1g/t gold. From when it starts in the second half of next year, it has a 10-year mine life with 200,000oz a year forecasted to be produced with an AISC of A$1,000-$1,100/oz. The project has 90% of its capital expenses now committed or fixed in tenders and will generate an average Life of Mine (LOM) free cash flow of $231m per annum for the first 10 years, representing an IRR of 68% before tax (assuming a gold price of A$2,500/oz). And there could be further upside in the project because the deposit remains open – in other words, the company doesn't know where it ends just yet.

Shareholders can be tough to please

Bellevue could arguably not be in a better situation right now. Even though it is off from its all-time highs, it is more than a 25-bagger since it picked up the project. We can understand that investors may have some concerns about possible of delays or cost escalations. We don't think the latter should be a significant concern to investors given it had committed over 90% of pre-production capital and has also appointed contractors for the project. Still, if it had cost-blow outs, it might need to seek more liquidity. It has more than enough for now, with $351m in liquidity (including an undrawn $200m debt facility).

Additionally, as we have noted, gold stocks just aren't as sexy with investors as they used to be. Bellevue timed its run well with the bull run in the gold price from 2016 to 2020. The gold price is still well ahead of its early 2016 low, but off all-time highs. A further decline in the gold price would eat into the company's margins, but given the project's low ASIC, it would have to fall significantly before the project became unviable. We also think gold has fallen out of favour because it is less ESG-friendly. But this is where Bellevue has a competitive advantage over its peers.

ESG-friendly gold

Investors may be willing to forgive battery metals' operations so long as the end use of the mined materials helps the planet – in powering less emissions-intensive vehicles. For gold to be ESG-friendly, it has to come from its operations given the few uses of gold that contribute to environmentally friendly projects (relative to other metals). Once mines are in production, it is difficult to pivot practices to become more environmentally-friendly. Bellevue has the advantage of being green from the start.

It has designed its operations to be the lowest carbon emitter per ounce of ASX gold producers – 0.15-0.2t CO_2 per ounce – and to be carbon neutral by 1 January 2026. And the company reckons that some customers will pay a premium for raw gold and jewelry made with net zero emissions. How will Bellevue do this? It will have more than half of its power come from renewable energy. And the company is looking towards alternatives to diesel for the fleet vehicles and more efficient equipment for processing activities. The company has even set performance pay targets related to the company reaching net zero. This may not cause ESG investors who would never invest in mining anyway to suddenly change their mind. But we think this can differentiate the company from its peers in the eyes of investors as well as the products derived from the gold produced.

Some investors might think the mid-2023 date of production commencement is too long to wait, but it is less than 12 months away. The months before a project enters production is typically a time when new miners re-rate and we can see an element of this in Bellevue's share price – up 5% in 6 months which is among the better performances among ASX gold stocks. We think the economics alone are enough to make Bellevue a four-star stock. And when you add the ESG element into the mix, considering it is a rarity among gold miners, that is a bonus.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!