

Steppe Gold

Boroo merger and Tres Cruces disposal terms announced

Steppe Gold (“Steppe”) has announced the terms for both the proposed merger with Boroo gold and for the disposal of the Tres Cruces project in Peru. Boroo, which will add ~60koz/year to the group’s production profile, is to be acquired for 138.15m Steppe shares – implying a value of C\$95m/US\$71m - with Boroo shareholders holding 55.9% of the expanded group. On a per ounce of 2023 production basis, this equates to US\$1,061/oz for Boroo compared to US\$1,990/oz for Steppe and the average for the <500koz/year global peer group at US\$2,500/oz. In our view, there is potential for the expanded group to trade in line with the peer group once the acquisition and the development of ATO Phase II is completed with annualised production of 160koz/year by mid-2026. The proposed merger is expected to complete in late Q2, transforming Steppe into a mid-tier producer with ATO Phase II cementing this position. We update our valuation to C\$2.78/share, from C\$2.76/share, with the change due to the increased valuation for Tres Cruces on a risked basis.

Boroo transaction would be a transformational acquisition for Steppe

Boroo PL operates the Boroo mine, a 50kt/day open pit operation with a 5.5kt/day Carbon in Leach circuit and a 3Mt/year heap leach operation. The mine is located in the Selenge province of northern Mongolia. The mine produced 67.3koz in 2023 at an All in Sustaining Cost (“AISC”) of US\$847/oz and is guided to produce at a similar level in 2024 with higher costs. This level of production should be maintained through to 2026 with operations continuing until at least 2030 with AISC <US\$1,000/oz and aggregate production of 400koz over the period. We expect the ATO mine to produce 22koz at an AISC of US\$1,186/oz in 2024 with post transaction group production of ~90koz. Bataa Tumor-Ochir will be CEO and Chair of the expanded company, Tserenbadam Duger will be COO, Jeremy South will be SVP and CFO, and Byambatseren Tsogbadrakh will be President and VP Finance.

Anacortes divestment refocuses portfolio

Steppe is to sell its interest in the Tres Cruces project in Peru for C\$12m in cash to Boroo Singapore payable over an 18-month period; we had previously valued the asset at C\$10m on a risked basis. If developed, the project should produce 68koz/year with total production of 418koz over a seven-year mine life with AISC of US\$734/oz and a company calculated post tax NAV of US\$158m based on a US\$1,700/oz gold price. While this is a potentially attractive asset, we believe the decision to dispose of it as a positive as it strengthens Steppe’s balance sheet during a period of elevated capex and allows it to focus on Mongolia where the expanded group will have improved economies of scale in terms of supply chain management, and should be able to realise synergies and savings in G&A.

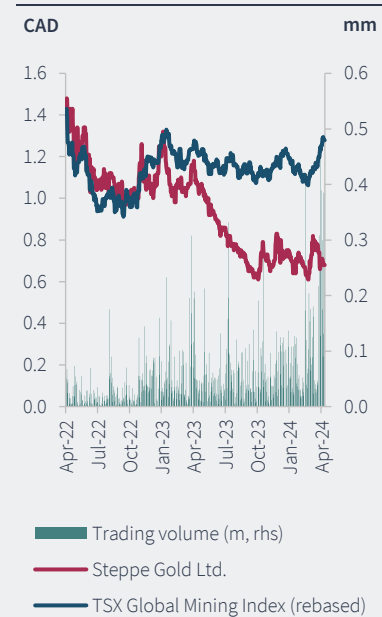
Valuation: C\$2.78/share valuation

We value Steppe based on a DCF(10%) for ATO of C\$612m, plus a combined C\$26m for the Company’s other projects (ex-Boroo). We apply a P/NPV multiple of 0.75x to ATO, 0.5x to the UK project, and 1.0x to the C\$12m for Tres Cruces, to derive a risked target price of C\$2.78/share which implies 409% upside to the current share price. We expect to update our valuation to include Boroo post completion of the transaction and as further information on the asset becomes available.

GICS Sector	Materials
Ticker	TSX: STGO
Market cap 12-April-24 (C\$m)	72
Share price 12-April-24 (C\$)	0.68
Target valuation Dec-24 (C\$)	2.78

+409%

Upside from current share price to our C\$2.78/sh target valuation



Source: S&P Capital I

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