Gold Road Q1 2020 earnings conference call transcript

Gold Road Resources (ASX: GOR)

Held an online conference to run through their Q1 2020 earnings.

The transcript of that call is now available.

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Gold Road Resources Ltd (ASX: GOR) Q1 2020 Earnings Conference Call April 20, 2020

Company Participants

- Duncan Hughes – Manager, Corporate Development & IR

- Duncan Gibbs – MD, CEO & Director
- Justin Osborne – Discovery & Growth and Director
- Conference Call Participants
- Operator

Duncan Hughes

Thanks, Daniel, and welcome all to Gold Road’s First Quarterly Analyst Call. This quarter was a rollercoaster ride for our share price. We hit an all-time high in late February, followed by a 12-month low in early March. Fortunately, we’ve had recent rebound, all of this volatility was driven primarily by coronavirus-related market volatility.

We still live in uncertain times, the coronavirus pandemic. And like our peers, we have been proactive in taking measures to protect our people, our community and our business. In the presentation today, we will be referring to the quarterly analyst call slides, which can be found on our website or can be viewed on the live webcast online. Our quarterly activities report and a more comprehensive investor presentation have been released to the ASX platform and can be viewed at this time.

On the call today, we have Duncan Gibbs, Managing Director and CEO; Justin Osborne, Executive Director, Discovery and Growth; and Tony Muir, General Manager, Finance. Now I hand over to Duncan Gibbs to talk to you through our production and corporate results.

Duncan Gibbs

Okay. Thank you, Duncan, and thanks for joining us today. If I can move into the presentation and start with Slide 3. Makes a bit of navigation to get there. Okay. Thank you. So we produced 59,595 ounces for the quarter from Gruyere on a 100% basis, with Gold Road's all-in sustaining costs of $1,135 per ounce. And so I can talk to processing, to start with, but as we projected in our guidance, the first quarter was a little bit softer, really driven by lower plant availability of around 83%, and that arose from both planned down time and reliability improvements for the quarter. It was a key factor in really leading to the gold production for the quarter.

Early in the quarter, we created – completed the first major SAG mill reline, which went quite successfully. Unfortunately, it corresponded with a rain event, which, I guess, in the ordinary course of business, really wouldn't have been that consequential. But coinciding with the shutdown, it meant delays to the mobilization of contractors for the site, and then we're running at lightning showed a slowdown in the maintenance works and then created some minor electrical issues during the restart. So all up there, we lost quite a bit more time than we were planning.

And through the quarter, I guess, we had a few relatively minor outages to address kind of where our reliability issues, and we're still getting down the initial start-up phase of the project. And then at the end of March, we have completed a further scheduled shutdown that truly went very well, and that shut down really enabled us to kind of clean up the remaining wear and reliability top issues. We've also done quite a bit of process automation and what have you through the quarter, and we have done enhancements to the elution circuit carbon generation. We really think we're in quite a good position now for stable, reliable, consistent operations over the remaining quarters of this year.

Now pleasingly, I guess, on the plant, we have seen ongoing throughput rates really above or at nameplate design, and that’s continuing as we are moving into progressively harder ore and mining further fresh rock into the pit. The real test, I guess, on the circuit capability start to come in the second half of the year, as we really get into fresh rock mining pretty much from May onwards.

So landing up for the quarter, we produced – or sorry, we processed about 1.9 million tonnes of head grade of 1.05 and a recovery of 94.1%. The process grow very much in line with the mine grade, really reflects the starting of – commence of retipping of ore from the mine. The recovery, I guess, remains 1% or 2% above the PFS, and I guess we really need to see whether that’s maintained in the second half of the year as we get in to fresh rock.

The process costs, I guess, up slightly, really driven by the, largely, one-off additional maintenance activities and the reliability improvement. However, I guess, offsetting that is what we’re starting to see is the sustained pattern of lower reagent consumption, and I guess the development at this stage is probably likely to continue.

But mining, we are starting to really make the transition from oxide mining into fresh rock. We’re pretty much into full fresh rock ore from the end of this month. As a consequence of that, of course, we are moving into more robust requirements and slower productivity on the labor side of things. So a slight reduction in the movement over the quarter relative to the last quarter.

Mine grade really sits at 1.06, so that’s pretty much in line with the reserve expectations and, obviously, and what we’re seeing in reconciliations is pretty good. Our stockpiles really unchanged through the quarter. And as I said, really, that relines up with the fact that we are now doing direct from the mine through to the mill. And of course, those stockpiles are quite of a buffer for us given the times of uncertainty such as we’re in with the COVID-19 situation.

In terms of gold sold, and we sold 31,700 ounces at a cost of just over $2,000 an ounce. We predelivered quite a lot of gold, so about 65% of our gold was delivered into hedges, either full in due or due in the next quarter. So we pre-delivered about 5,800 ounces. And the issue we are seeking to manage there is related to COVID-19 with potential for disruptions to the operation, and we are trying to avoid the potential risk of activities that could present a suspension of operations, and we don’t want to be in the position of having to cash level forward sales deliveries. So of course, that reduces the hedge book by a corresponding amount. So our hedge book is now down to 91,500 ounces at contract price of $1,853.

But we’ll move on now to Slide 4. So having some technology issues, but I’ll just keep talking to it. So our 2020 guidance remains unchanged at 250,000 to 285,000 ounces. As implied in that is the next 3 quarters. We’ll pick up a little from where we have in the first quarter. Certainly, we recognize that COVID-19 is hardly a business as usual for anybody. But at the moment, we are not inclined to change guidance based on issues that may or may not happen. So we are sticking with our guidance plan which focus on production and cost.

Unfortunately, I guess, as a company, we are getting – got into COVID-19 quite early, and our discussions with Gold Fields really commenced back in very early February. And we have reviewed things like supply chain risks. We have worked through our Disease Management Plan pretty much before government response started in early March. And obviously, we are now working very much in compliance with the COVID-19 framework, it was being developed between the industry at the WA Chamber of Minerals and Energy and the Government of Western Australia. I’m sure you are all familiar with the social distancing and hygiene measures, things like changes of rosters and the like, but – and now been widely implemented across WA mine sites, and that's certainly the way that we are operating right at Gruyere and in our exploration activities. So I'm not planning to go through all the details that's there. There's quite a bit of detail within the quarterly report. And if you have got any specific questions on COVID-19 and what potential consequences, happy to take that at the end of the meeting.

So we obviously make lots of changes with all of that, but our workforce has been very good and quite responsive. And really, from the beginning of the month, we're now into pretty much a new normal kind of operating environment in terms of how we are operating, and we're very much that way now since the beginning of this month.

As we move forward, mining, it's up from midyear in terms of quantities with the mobilization of the second mining fleet, and we are very much into fresh rock mining, ore-wise from middle of the year, with ongoing upside mining in the cut-back from Stage 2. So I guess associated with that, we've been preemptive, so we're down in recruiting. And partly, that's to have a bit of buffer with personnel with COVID-19-related risks, but also really to bring on the workforce that's required for the second fleet. But really, we're quite encouraged by what we're generally observing in the labor market, and certainly, I guess, mining is viewed as a secure work environment. And obviously, Australia is quite a low-risk jurisdiction. And I think we're attracting talent from both overseas operations and more broadly, into the mining sector. I guess the other key point to flag is the – our TSF lift has commenced, and obviously, this is the major sustaining CapEx item for this year. So the contractor for that mobilized during the quarter and really to think of that construction work is done over the next couple of quarters and will be finished by the end of the year.

If I can move on now to the next slide. So financially, the business remains in very good shape, with a strong balance sheet, done some work to enhance our liquidity and manage our hedge book exposure, as I spoke to earlier. And certainly, we're in robust shape from that point of view. We paid down our $50 million working capital facility, which was put in place for the construction phase of Gruyere. It was an important milestone for Gold Road, and really means there are now no constraints on the use of cash proceeds from Gruyere.

Offsetting that, we drew down on our revolver, and it's really to provide an additional liquidity buffer given the forms of uncertainty that we are in. That RCF is going to be repaid at any time. So the position we are now in, our strong cash position of $115 million against the debt of $80 million, with a net cash position of $35 million, and our net cash position increased by $13.2 million during the quarter.

At Gold Road's, quarterly corporate all-in cost sits at $1,420 per ounce, which really remains as one of the lowest cost in the sector. Obviously, as we go through the COVID-19 situation and the uncertainty that provides, we will be taking a prudent and proactive view to manage our already strong liquidity position.

Okay. If I can now hand over to Justin to talk through the exploration part of our presentation. And thank you, Justin.

Justin Osborne

Thanks, Duncan. On the discovery front highlight of the quarter, if we go to Slide 6. Part of the quarter was the substantial growth in the measured and indicated resources, which we declared on the Gruyere joint venture. We saw a 29% increase in the resource base of measured and indicated at Gruyere itself, which increased by 1.2 million ounces to 6.1 million ounces in total. That was the result of drilling that we completed through 2019. This is an excellent conversion of the inferred resource indicated, and we’ve only got 200,000 ounces remaining of inferred resource in the current $1,850 pit shell, which is the orange material on the long section that we can see in the slide.

Total resources for the joint venture now stand at 6.6 million ounces, of which, obviously, we own 50%. As you can see from the long section, there remains significant potential to expand the current ore reserve pit below where we currently are. That’s the red line in the long section. There’s now significant indicated resources below that. What we focus is for the next 12 months is to optimize the reserve beyond the current operation, be able to harness this potential for reserve growth. What we need to understand here is that we are looking at potential open pits, final pits approaching 500-meter pit depths. This requires significant technical studies.

2020, we’ll see the commencement of new geotechnical and metallurgical studies, as well as efficiency studies that commenced right now. This new work will position us for the potential reserve growth, which we have been targeted with our drilling that we completed last year. The expectation is these studies will take until early 2022 before we have the appropriate fresh rock mining and processing operational evidence to calibrate the open pit geotechnical performance. The mining productivity is in cost performance, and the plant throughput cost and recoveries, on which we can pass our new reserves. So all that work will be going on in the next 12 months to 18 months. On the back of that, we then expect to have reserve updates based on the new indicator resource that we just declared.

If we click over to Slide 7, we’ll talk about our exploration on Yamarna project. Let’s wait the slide to change. During the quarter, we outlined our exploration strategy for the year. Our main focus is still on the Yamarna project, which we own 100%. And we maintain our efforts on discovery of world-class gold deposits. Key to our strategy is discovering meaningful deposits at Yamarna, which will support stand-alone operations. We are focusing most of our attention on the thickest, more structurally and geologic complex area in the central part of South Yamarna, which is in the blue – in the middle of the blue circle on the slide on Page 7. This area remains relatively underexplored, an area that we've done very little exploration in over the last couple of years. This includes on the map, some targets such as Hirono and Savoie and Beefwood. I hope we'll be talking more about these through 2020.

We've also increased the technical capability of our team with the addition of some highly accomplished technical specialists. And we anticipate this addition will help to shorten the time line of meaningful discovery. To support this effort, we have also increased our 2020 company exploration budget slightly to a total of $26 million.

Let's slide over to Slide 8. We can see the focus on the Southern Project area. For the revision of our strategy, our exploration activities this quarter have been largely on early-stage aircore programs into our highest ranking targets in the Southern Project area. The main focus is coming off the main new Yamarna and Dorothy Hills Shear Zones, where we have focused most of our drilling over the last 2 years have had made discoveries. And moving into the central zone in the central area that you can see in this map, where we completed a large aircore program over the Hirono project. And we're now just waiting on our phase for that program to come through. Other targets that you can see in there include Savoie, which includes the 15-kilometer soil anomaly, which has not been tested since the year 2000. And the Beefwood target, a little further to the east. We anticipate testing those over the next 3 months or so. These new targets are all under relatively shallow cover, and they are all very under explored. First step is early stage aircore drilling, supported by targeted diamond drilling. And that aircore drilling will complement the already existing and extensive data sets, including detailed gravity surveys, which we completed late last year. Also, as drilling is ongoing, we'll continue to review and update the existing target portfolio with our ever-expanding geological knowledge, which we significantly increased last year.

Over to Slide 9. We'll have a look at Gilmour. We declared we made a resource on Gilmour last year of 258,000 ounces. We completed a small drilling program late last year and into early this year, including 3 diamond holes and 1 diamond tail. The 3 diamond holes tested higher. We're testing interpreted high-grade shoots in the hangingwall to the main vein and returned some very impressive high-grade results on the managed structure itself and into the hangingwall as well. Whilst this is not an ongoing strategic project for the company, these holes continue to add significant value to both the resource at Gilmour, but more importantly, improve our structural learning of the controls at Gilmour, which we can apply to the greater Yamarna project area. It's very important that we understand the detailed structure and these type of deposits at Gilmour and at Gruyere itself, which we can then take out to the larger Yamarna project area. And with the addition of a structural specialist, who just come on board with us, we're now putting together a full structural kinematic and geological understanding of the Yamarna build itself, which is significantly helping our targeting going forward.

Move on to the last slide. Yes, Cygnus, I don't have a slide for Cygnus, sorry. But at Cygnus joint venture, we have just completed our earn-in requirements for a 75% in the Lake Grace joint venture. We are finalizing paperwork for that. During the quarter, on that joint venture, we completed 16,000 meters of aircore drilling, a Hammerhead Prospect which has a 15-kilometer long acre anomaly from previous drilling. The program was designed to systematically test processed gold and pathfinder anomalism, associated with geological prospectivity on the Yandina Shear Zone as our results are awaited for that program.

In response to the COVID-19 outbreak and support government actions and to minimize the spread of the virus in regional areas at the Cygnus joint venture, ore drilling that was planned to continue into June was postponed, and we moved out. So – but we essentially finished all active projects on that project and are just working up in sales. That brings a close to presentation, and we are happy to answer questions.