

Stonewall Resources (SWJ)

Cheap But Need To Hit Targets To Restore Confidence

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KEY POINTS

- The potential continues to grow for SWJ at their TGME gold Project, South Africa. With 5.15Moz gold (34.7Mt @ 4.62g/t Au) and work continuing on adding more shallow high grade (~15g/t) ounces. At a market cap of only \$34m SWJ is trading at a steep discount to peers.
- The question remains when will SWJ see reward for delivering their planned exploration and development programs. It is likely to be when the pathway to production becomes simpler and clearer.
- Confidence in the ability of SWJ to restart production and source project financing needs to be shown following a pullback in the share price.

Large Resource – Corporate Challenges being resolved

Stonewall Resources (SWJ) has recently upgraded their gold resource to a total of 5.1Moz at a grade of 4.62g/t. Which is a significant size and at a good grade. The project also contains a plant and approvals to commence mining. SWJ is currently working on defining shallow high grade gold resources to allow mining to recommence, with a target production rate of 100,000oz pa.

With a large resource and low market capitalisation SWJ is trading at a significant discount to a number of peers, with a EV/Resource ounce of \$6.50/oz versus an average of \$58/oz. Even with a jurisdiction discount applied SWJ is still trading well under their peer group.

The steep discount to peers can be attributed to a lack of confidence in the stock following a sell off in the stock post completion of the SPP shortfall placement in February 2018 and director selling. The recent raising of \$5m by private placement has now provided the company with some breathing space to complete resource drilling and feasibility studies.

Given the erosion in confidence in SWJ that has happened we feel that it is still sometime before a simplified production story can be absorbed by the market. The path to restoring market confidence revolves around meeting stated milestones, namely:

- Defining the high grade shallow gold resources at the Theta Prospect – expected July 2018
- Completing Feasibility Studies – expected end CY18.
- Plant Refurbishment and engineering studies early 2019
- Project financing 2019

Previous Research: [SWJ PAC Partners January 2018](#)

RECOMMENDATION

Speculative Buy

Previous Recommendation	Speculative Buy
Risk Rating	Very High
Current Share Price	\$0.013
12 Month Price Target	NA
Shares on Issue (m)	2,561m
Options Listed (m)	275.9m
Options Unlisted (m)	23.3m
Diluted Market Capital	\$33.6m
Cash (A\$m) (PAC estimate)	\$4m
Debt (A\$m) (PAC estimate)	\$7m

Investment Summary

SWJ continues to make advancements at the project level and the recent capital injection has allowed the drill rigs to keep turning.

Current management has delivered on stated objectives over the past 12 months, which is starting to restore confidence.

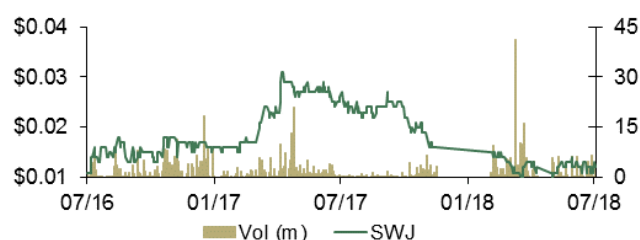
The resource upgrade expected later this month will be a key milestone. For while SWJ has a large resource base the addition of high grade shallow ounces will be positive.

What has held back and continues to impact SWJ is the lack of cash to adequately put a cohesive story together. A recent capital raising of A\$5m has now provided the company with some breathing space to get on with development. We estimate that ~\$550k of the funds have been used to repay existing debt.

Resource drilling at the Theta Prospect has been completed and the resource modelling is well underway, due for completion later this month. SWJ has stated a target of ~300,000oz at 15g/t from the Theta Hill prospect which is located only 1km from the existing plant. If this target is met then it would add to the emerging SWJ story.

We retain a Speculative Buy recommendation and looking for resource upgrades and completion of DFS to act as possible catalysts.

SWJ Share price performance



Source: Iress

Overview

SWJ's main focus is the TGME Project, which is situated within the historical Sabie-Pilgrim's Rest Goldfield. The Sabie-Pilgrim's Rest Goldfield is one of South Africa's oldest gold mining districts with historical production estimated at 180-200 tonnes of gold (6Moz). The Field is located approximately 340km NE of Johannesburg.

The TGME Project is split into two project areas, with the Pilgrims Rest Mines in the north and Sabie Mines located in the south of the project area, approximately 40km apart on the State highway. The tenement package includes over 40 historic mine sites.

Prior to SWJ acquiring the land package it was held by Rand Mining for a number of years during the 1980's to late 1990's, during this time Rand's focus was on other gold projects and also uranium projects.

From 2011 to 2015 SWJ undertook small scale production from remnant ore and reprocessing of tails. In 2013 the sale of the South African assets for US\$141m was announced. The sale was not completed, resulting in protracted legal arguments. The case was successfully concluded this year (compensation payment still pending) allowing the focus to revert back on the aim of becoming a low cost gold producer.

Following a series of board & management changes from mid-2015, the direction taken has been to undertake extensive exploration which has resulted in upgrading the resource from 2.99Moz to 3.72Moz and most recently 5.1Moz gold.

In addition to the resource expansion a review of historical data identified a number high grade shallow reef structures that had not been fully explored. This has opened up an opportunity to look at potential open cut operations.

Resources

Across the TGME Project Area a resource of 5.15Moz gold has been reported.

	Tonnes (Mt)	Gold Grade (g/t)	Gold (Moz)
Underground (Measured)	0.09	5.37	0.02
Underground (Indicated)	4.77	6.21	0.95
Open Pit (Indicated)	1.95	2.02	0.13
Tailings (Indicated)	5.24	0.83	0.14
Underground (Inferred)	21.45	5.22	3.60
Open Pit (Inferred)	1.01	9.44	0.31
Tailings (Inferred)	0.02	0.57	0.00
Rock Dump (Inferred)	0.12	1.64	0.01
Total	34.7	4.62	5.15

Source: Company Report

Risks

Metallurgy: whilst the properties of the oxide ore are relatively well known from historic operations the probability of refractory ore existing needs to be understood.

Country Risk: the projects are situated in South Africa, which has an active mining industry and a long mining history but the risk of potential policy change does need to be acknowledged.

Geology variability: The nature of gold mineralisation is subject to geological variations that could fall outside of the scope of testing methods used.

Regularity Approvals: Additional permitting will be required to bring the operations back online.

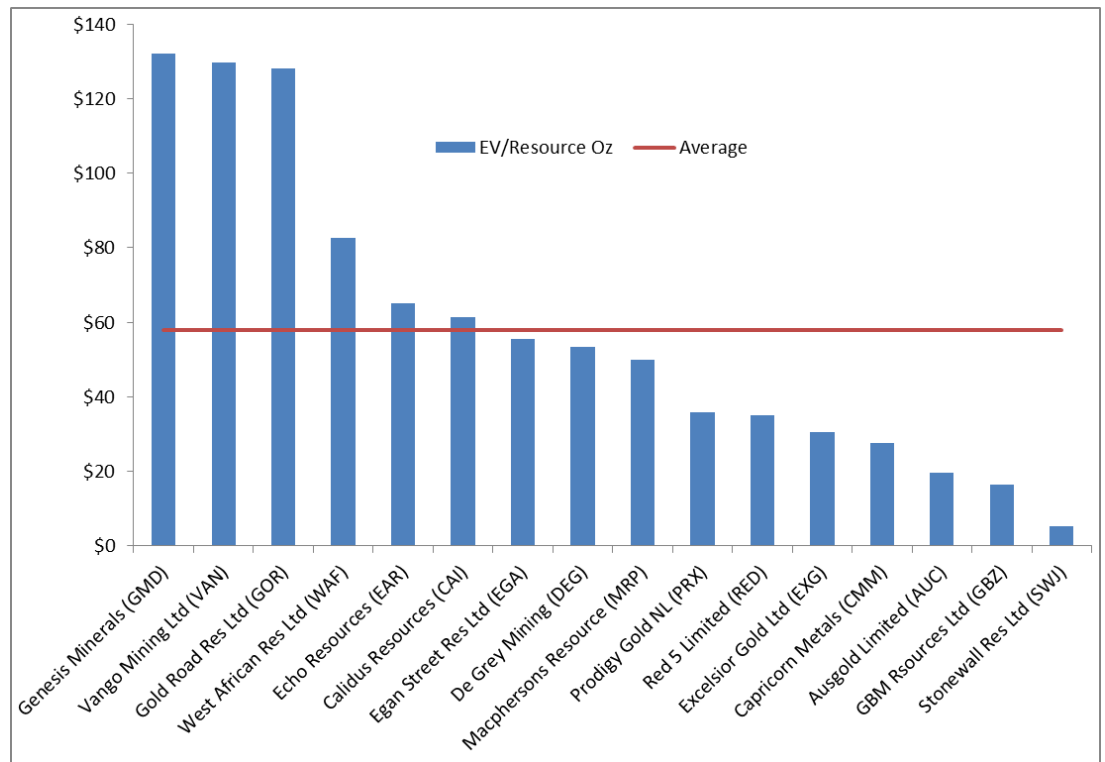
Project Financing: With limited cash additional capital raisings will be required to fund exploration and development of the project. This financing is likely to be a mix of debt and equity funding.

Debt Servicing: The company currently has drawn down on debt facilities, with no operating cash flow the ability to service these loans is unclear.

Peer Comparison

In determining relevant peer group to SWJ we have selected companies that have resources and are progressing towards production.

Whilst peer comparisons can be subjective and open to debate the underlying fact remains that SWJ is trading at a significant discount to the peer average. On the group we have selected the peer average is \$58 on a EV/resource ounce basis, SWJ is currently trading at \$6.50.



Source: Company Reports and PAC Partners estimates

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RECOMMENDATION CRITERIA

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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