

New Gold Inc.

Inaugural 3-year guidance: mostly mixed versus expectations but directionally fine

Maintain Rating: UNDERPERFORM | PO: 1.80 CAD | Price: 1.72 CAD

A fairly significant de-risking event

Earlier, New Gold (NGD) released its inaugural 3-year guidance outlook. Overall, the release was largely mixed relative to BofAe and consensus across the various metrics (production, costs, capex). This doesn't surprise us, however, given this is the first time NGD is providing a detailed longer-term outlook. We still think that the release of this 3-year outlook is a fairly significant de-risking event for the company as it provides investors with clarity beyond the forward-year, much like other peers in the precious metals space. It also confirms that NGD is on the cusp of significant and progressive production growth and meaningful declines in costs and capex, particularly in 2026. Operationally, NGD delivered well in 2023, and we certainly see the company in turnaround mode. However, we still see elevated execution risks at both of its assets to deliver on the outlook provided. Maintain Underperform.

2024G: production lighter-than-expected, costs better

NGD guided to 2024 gold production of 310-350 thousand ounces (koz). At midpoint, this is 11% lower than BofAe, 6% below Visible Alpha (VA) and 5% below Bloomberg consensus. Versus our estimates, the softer production guide at Rainy River drove the delta. All-in sustaining costs (AISC) was guided to \$1,240-1,340/oz, better-than-expected versus BofAe at \$1,536/oz, and Bloomberg consensus at \$1,370/oz. 2024 capex is guided to \$290-330mn. BofAe is within the range at \$297mn, though the guide was above VA consensus at \$254mn, Bloomberg consensus at \$248mn.

2025G: New Afton is a slower-than-expected ramp-up

For 2025, NGD guided to gold production of 360-410koz. At midpoint, this is 10% below BofAe at 427koz, and is also 4% below VA consensus at 402koz, Bloomberg consensus at 401koz. On a consolidated basis, all-in sustaining costs (AISC) are higher-than-expected. Capex for 2025 is \$190-220mn, also well above BofAe and consensus. For 2025, what stands out to us is New Afton's production is only expected to (modestly) improve production versus 2024 (negative versus BofAe and consensus expectations for a more drastic improvement as the C-Zone ramps up).

2026G: the sweet spot for production/costs/capex

For 2026, NGD is guiding to production of 410-460koz. BofAe is at the top-end at 460koz, while consensus is largely in-line. BofAe expected a more aggressive ramp-up at New Afton. AISC guidance is fine vs. BofAe and consensus. Total capex is guided to \$85-105mn, within expectations of BofAe, while consensus is above the guidance range. Overall, we view 2026 as the silver lining in the release as it ultimately shows the expected production ramp-up at both key assets and the corresponding declines in costs/capex which will ultimately drive free cash flow generation.

08 February 2024

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Stock Data

| | |
|-----------------------------|-------------------------|
| Price (TOR / NYS) | 1.72 CAD / 1.26 USD |
| Price Objective | 1.80 CAD / 1.30 USD |
| Date Established | 8-Jan-2024 / 8-Jan-2024 |
| Investment Opinion | C-3-9 / C-3-9 |
| 52-Week Range | 1.13 CAD - 2.12 CAD |
| Market Value (mn) | 1,181 CAD |
| Free Float | 92.0% |
| Average Daily Value | 2.61 USD |
| Shares Outstanding (mn) | 686.6 / 686.6 |
| BofA Ticker / Exchange | YNGD / TOR |
| BofA Ticker / Exchange | NGD / NYS |
| Bloomberg / Reuters | NGD CN / NGD.TO |
| ROE (2023E) | -1.7% |
| Net Dbt to Eqty (Dec-2022A) | 20.2% |
| ESGMeter™ | Medium |

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Timestamp: 08 February 2024 10:31AM EST

Key highlights from the release

Exhibit 1: NGD 2024 Guidance Relative to BofAe and Consensus

Overall, 2024 guidance was mostly mixed: gold production lower-than-expected, costs better-than-expected, and capex modestly higher vs BofAe, though significantly higher than consensus expectations.

| | 2024 Guidance | BofAe 2024E | VA Cons. 2024E | BB Cons. 2024E | Δ% vs. | | |
|--|------------------|----------------|----------------------|----------------------|-------------|------------|------------|
| | | | | | BofAe | VA | BB |
| Production guidance - gold | | | | | | | |
| New Afton | 60 - 70 | 55 | 58 | 66 | 19% | 12% | -1% |
| Rainy River | 250 - 280 | 317 | 294 | 285 | -16% | -10% | -7% |
| Total | 310 - 350 | 372 | 352 | 346 | -11% | -6% | -5% |
| Production guidance - copper | | | | | | | |
| New Afton | 50 - 60 | 54 | 50 | 50 | 2% | 11% | 11% |
| All-in sustaining costs (\$/oz gold) | | | | | | | |
| New Afton (\$/oz GEO) | 895 - 995 | 1,062 | 1,117 | N/A | -11% | -15% | |
| Rainy River (\$/oz gold) | 1,425 - 1,525 | 1,542 | 1,347 | N/A | -4% | 9% | |
| | 1,24 | | | | | | |
| Consolidated all-in sustaining costs (AISC) | 0 - 1,340 | 1,536 | 1,119 | 1,370 | -16% | 15% | -6% |
| Capital expenditures | | | | | | | |
| Sustaining | 115 - 130 | 155 | 134 | N/A | -21% | -8% | |
| Growth | 175 - 200 | 142 | 120 | N/A | 32% | 56% | |
| Total capex | 290 - 330 | 297 | 254 | 248 | 5% | 22% | 25% |

Source: BofA Global Research, Company Reports, Bloomberg, Visible Alpha

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Exhibit 2: NGD 2025-2026 Guidance Relative to BofAe and Consensus

2025 is largely mixed versus BofAe and consensus, and highlights a slower-than-expected ramp-up at New Afton. Meanwhile, 2026 shows a more drastic improvement in production, costs and capex spend.

| | 2025 Guidance | 2026 Guidance | BofA Estimates | | VA Cons | | Bloomberg Cons | | Δ% vs. BofAe | | Δ% vs. VA | | Δ% vs. Bloomberg | |
|---|--------------------|------------------|-------------------|------------|------------|------------|-------------------|------------|--------------|------------|------------|-------------|------------------|-------------|
| | | | 2025E | 2026E | 2025E | 2026E | 2025E | 2026E | 2025E | 2026E | 2025E | 2026E | 2025E | 2026E |
| Production guidance - gold | | | | | | | | | | | | | | |
| New Afton | 65 - 75 | 95 - 105 | 98 | 129 | 81 | 108 | 91 | 120 | -29% | -22% | -14% | -8% | -23% | -16% |
| Rainy River | 295 - 335 | 315 - 355 | 329 | 332 | 321 | 326 | 310 | 318 | -4% | 1% | -2% | 3% | 2% | 5% |
| Total | 360 - 410 | 410 - 460 | 427 | 460 | 402 | 434 | 401 | 438 | -10% | -5% | -4% | 0% | -4% | -1% |
| Production guidance - copper | | | | | | | | | | | | | | |
| New Afton | 51 - 61 | 71 - 81 | 59 | 78 | 61 | 76 | 70 | 97 | -6% | -3% | -9% | 0% | -20% | -21% |
| All-in sustaining costs (\$/oz gold) | | | | | | | | | | | | | | |
| New Afton (\$/oz GEO) | 775 - 875 | 550 - 650 | 944 | 740 | 1,117 | 909 | N/A | N/A | -13% | -19% | -26% | -34% | | |
| Rainy River (\$/oz gold) | 1,425 - 1,525 | 1,150 - 1,250 | 1,502 | 1,389 | 1,252 | 1,055 | N/A | N/A | -2% | -14% | 18% | 14% | | |
| Consolidated all-in sustaining costs | 975 - 1,075 | 650 - 750 | 868 | 705 | 975 | 667 | 1,178 | 959 | 18% | -1% | 5% | 5% | -13% | -27% |
| Capital expenditures | | | | | | | | | | | | | | |
| Sustaining | 75 - 90 | 55 - 70 | 109 | 81 | 130 | 108 | N/A | N/A | -24% | -23% | -36% | -42% | | |
| Growth | 115 - 130 | 30 - 35 | 22 | 10 | 27 | 10 | N/A | N/A | 449% | 225% | 355% | 225% | | |
| Total capex | 190 - 220 | 85 - 105 | 131 | 91 | 157 | 118 | 153 | 110 | 56% | 4% | 31% | -19% | 34% | -14% |

Source: BofA Global Research, Company Reports, Bloomberg, Visible Alpha

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Price objective basis & risk

New Gold Inc. (YNGD / NGD)

Our price objective for New Gold of US\$1.30/C\$1.80 per share is based on the shares trading at 0.60x its estimated net asset value (NAV) appropriately reflecting our outlook for the company relative to its peers, in our view. Historically, North American precious metal stocks have traded between 0.75x and 3.0x NAV, with a median of 1.50 times in the past three years (and 2.00 times longer term), with unhedged, growth-oriented producers occupying the upper end of the range, and companies with operating and/or financial issues at the lower end. Upside risks to our price objective are better-than-expected co-product basis cost control, and higher than expected commodity prices. Downside risks are operations get worse than expected, NGD has issues refinancing its debt, gold and copper prices go down.

Analyst Certification

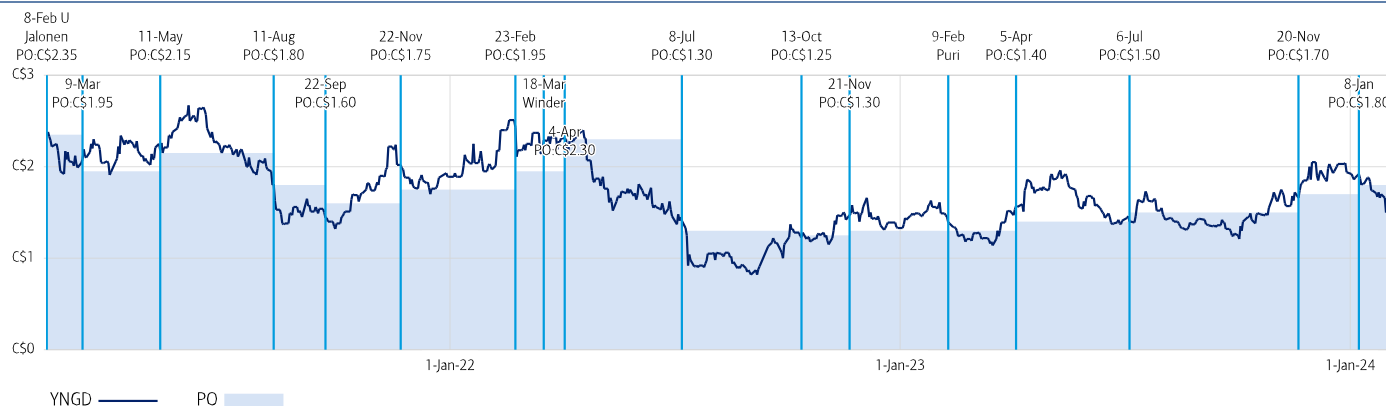
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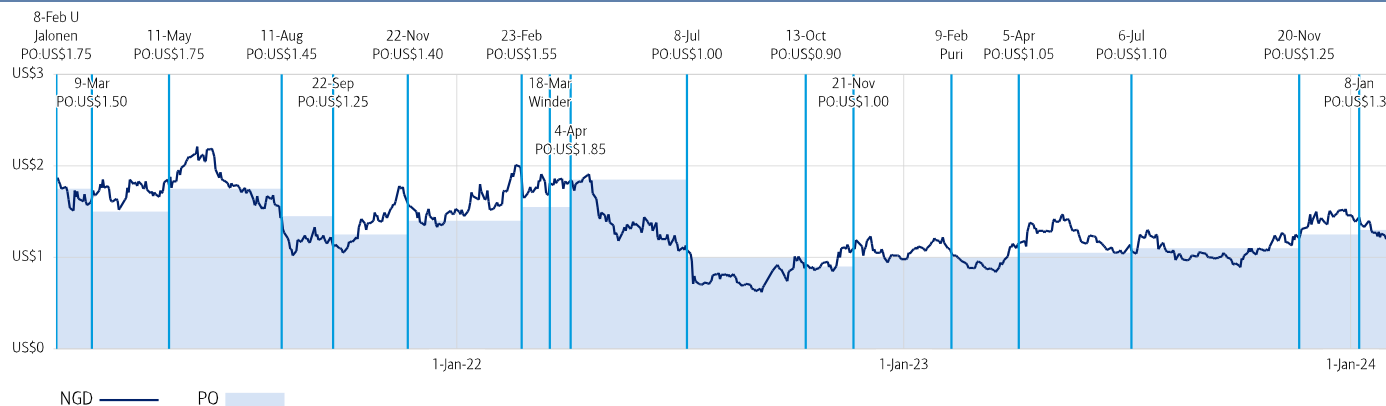
New Gold Inc. (YNGD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 58 | 53.70% | Buy | 26 | 44.83% |
| Hold | 24 | 22.22% | Hold | 10 | 41.67% |
| Sell | 26 | 24.07% | Sell | 13 | 50.00% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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