Ramelius Resources Limited (RMLRF) Q3 2024 Earnings Call Transcript

Seeking Alpha - Earnings Call Transcripts
April 22, 2024 Monday

Length: 4177 words

Byline: SA Transcripts

Body

Ramelius ***Resources*** Limited (RMLRF)

Q3 2024 Earnings Conference Call

April 21, 2024 09:00 PM ET

Company Participants

Mark Zeptner - Managing Director

Ben Ringrose - Acting CFO

Conference Call Participants

Andrew Bowler - Macquarie

Alex Barkley - RBC

Paul Kaner - Ord Minnett

Presentation

Operator

Thank you for standing by, and welcome to the ***Ramelius*** ***Resources*** March Quarterly Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to Mr. Mark Zeptner, Managing Director. Please go ahead.

Mark Zeptner

Thank you, Ashley. Good morning, everyone. Thank you for taking the time to dial in to ***Ramelius***' quarterly conference call. I am joined this morning by Acting CFO, Ben Ringrose, who will provide some further detail on the financials after I have run through the highlights.

As usual, there will be an opportunity for listeners to ask questions at the end.

As you will have seen this morning, we reported record quarterly gold production of 86,928 ounces at an all-in sustaining cost of $1,344 an ounce, with production well above the implied quarterly production guidance range of 70,000 to 77,500 ounces, with all-in sustaining costs also well below our H2 FY'24 guidance range of $1,700 to $1,800, whilst the all-in sustaining cost also slightly below the range of $1,375 to $1,475 which we provided in the pre-quarterly release at the start of the month.

Ramelius' free cash flow, after everything was $125.3 million, a super quarter in anyone's language. And obviously it's a much easier job to talk to a set of numbers like these but the plaudits have to go out to the operations team for all the hard work put in to deliver them safely.

As I said at the outset, Ben will delve into the financials further but I wanted to highlight upfront that we expect very strong cash flows to continue for the short to medium term, remembering that the quarterly result was derived from an average sale price just above $3,000 an ounce.

In terms of group gold production, this was 27% higher than the prior quarter, with that outcome primarily attributable to the increased production at Penny, Eridanus, Symes and the Edna May underground. Given that we anticipate strong performance from both our Mt Magnet and Edna May hubs will continue through the June quarter, we have upgraded full year guidance to 285,000 to 295,000 ounces from the previous 265,000 to 280,000. Anywhere in this range would represent a new full year production record for the company.

Along with the upgraded production guidance, we have also lowered our cost guidance. We are now expecting all-in sustaining costs for the second half of the financial year to be in the range of $1,325 to $1,425, which should see full year all-in sustaining costs fall into the $1,550 to $1,650 range. The previous full year guidance, which was provided following the CV01 conveyor repair at Mt Magnet in the December quarter, which was an event that incurred some one-off costs and required temporary crushing and a haulage solution had been set at $1,750 to $1,850 an ounce.

In terms of the split between Mt Magnet and Edna May, a fairly even split between our two hubs, nearly 46,000 ounces poured at Mt Magnet and a touch over 41,000 ounces poured at Edna May. At Mt Magnet itself, lower strip ratios and improving grades at both the Eridanus and Brown Hill open pits led to a 62% increase in gold mined compared to the prior quarter, where we mined a total of 588,000 tonnes of ore grading 1.6 for 31,000 ounces of contained gold. Open-pit ore mining rates and grades are expected to increase further at Mt Magnet in the June quarter.

Touching on Penny. We do have multiple stoping areas now available, which helped drive a significant increase in ore tonnes, up 42%, and grade mined, up 13% over the period. As a result, contained gold mined from Penny increased 60% quarter-on-quarter. In terms of haulage, movements proceeded pretty much to plan, with only minor inconvenience due to rain, with 52,420 ore tonnes at a grade of 13.74 being trucked to Mt Magnet for 22,700 recovered ounces. We do anticipate Penny production to continue at similar levels for the June quarter. And you may have noticed in the quarterly a photo of one of the stopes at Penny where the team is doing an excellent job of minimizing dilution on both the footwall and the hanging wall as well as retaining the brow and the veranda which is created by the stock itself. I was on site only a couple of weeks ago and saw a number of similar examples in other stoping areas. And I would go as far to say that what the team are doing on site at the moment is world class relative to the scale of that operation.

Over to haulage at Edna May. Ore hauled to Edna May from Marda, Tampia and Symes totaled just over 470,000 tonnes at a grade of 2.24 for almost 34,000 ounces of contained gold. There remained approximately 1 million tonnes of ore at an average grade of 1.62 on stockpiles of those operations as at the end of the quarter.

Over to project development. Eridanus and Galaxy continued to be the focus areas at Mt Magnet. ***Resource*** development drilling targeting shallow, high-grade veining below the current pit design at Eridanus produced excellent results only recently received, including 14 meters at 6.2 and 20 meters at 14.5. These and other numbers will feed into an updated mineral ***resource*** estimate to be released once the model has been completed, which we expect in the not-too-distant future.

At Galaxy, ongoing mine development has reached the sixth ore drive and the new Mars decline is developing further at depth. Underground diamond drilling targeting the Mars and Saturn ore bodies was completed during the quarter, with results including 4.4 meters at 16.6, 5.7 meters at 10.3 and 14.5 meters at 6.7.

Resource definition drilling of the Saturn BIF itself began in the March quarter, with assays expected to start feeding through this quarter. We've also completed dewatering of the Saturn pit, which sits above the Saturn ore body, obviously and will allow development of the decline across to the Saturn ore body itself.

Our Pit Cue, a program of diamond core, RC and aircore drilling was completed at the end of the reporting period. The program comprised ***resource*** definition, some infills and extension and also some geotech drilling of proposed mining areas, including Break of Day, Numbers, Leviticus, Waratah and the Amarillo open pits as well as some deeper holes into the Break of Day underground area.

Lastly, we remain on track to deliver a PFS level study on a combined development of the Rebecca and Roe gold projects and also an update on the Edna May Stage 3 project mid-year, which has commenced a review process. As always, further detail on the exploration programs themselves that are underway at our various mines can be found in the quarterly. That covers the highlights from me.

I'll now hand over to Ben.

Ben Ringrose

Thank you, Mark. And it's a pleasure to be here with you all today, especially considering a record quarter that we've just had. These results speak to the strength of our assets, operations and team, with the obvious highlight from a financial point of view being the $144 million in operating cash flows. After investments in exploration and mine development, the resulting closing cash and gold balance for the quarter was $407 million, a 44% increase on December. Putting this into perspective, this represents over $1,600 in operating cash flow per ounce produced.

During the quarter, we sold just under 84,500 ounces at an average realized price of $3,014 an ounce, which included a mix of spot and committed forward sales, resulting in revenue totaling $255 million for the quarter. Gold sales for the quarter were less than gold production with the quarter end falling on the Easter weekend. This resulted in a higher than normal bullion balance at the end of March. This bullion was sold in early April, which evidently worked in our favor with the increasing gold price. Our realized spot price for the quarter to date in June is $3,600 an ounce, 5% higher than the closing March price.

Whilst the gold price certainly impacted the quarter, this is only part of the story, with the all-in sustaining costs also reducing on the improved grades and ore mining rates. As Mark noted, the all-in sustaining cost for the March quarter was $1,344 an ounce, which is 27% lower than the prior quarter, with these lower costs being driven by both production centers. The resulting all-in sustaining cost margin, which is the realized gold price less the all-in sustaining cost, was 55%, a significant increase on the December quarter.

At Mt Magnet, the all-in sustaining cost was a touch over $1,000 an ounce, representing a 38% reduction on the prior quarter. This was achieved on the back of lower unit costs, with 33% more tonnes being mined for a comparable cost, as well as improved mill head grades, which were up 27% on the prior quarter. This result has been driven by the multiple stoping areas being available at Penny and mining at Eridanus now having passed through the lower-grade section of the ore body and accessing the high-grade ore rich zones of the pit.

Moving on to Edna May. The all-in sustaining cost there was just under $1,700 an ounce, representing a 16% reduction on the prior quarter. The lower all-in sustaining cost was driven by the higher mill grade, with all projects within the hub reporting a higher grade than the prior quarter. The standout here was Symes, which reported an impressive mill grade of 3.36 grams per ton. As we have noted in the past, the Edna May all-in sustaining cost includes a $319 per ounce non-cash charge for the drawdown of existing Tampia and Marda stockpiles. Ignoring this, the all-in sustaining costs for Edna May would have been under $1,400 an ounce.

A total of $21 million was reinvested in mine development and ***resource*** definition in the quarter, which focused on the Galaxy underground mine at Mt Magnet and ***resource*** definition works at the Rebecca, Roe and Cue Gold projects. Pleasingly, we have been able to reduce our growth capital guidance for FY'24 to $45 million to $50 million, which is down from our original guidance of $50 million to $60 million. This guidance includes an allowance for the development of Cue as we maintain our fast track to first ore there early in the new financial year.

In relation to exploration and ***resource*** definition, the more astute followers of ***Ramelius*** will note that our year-to-date investment in exploration is currently at $30 million, which is where our original guidance for FY'24 sat. We don't shy away from the fact we are investing more into the ground in this current environment, notably at Cue, which was acquired during the year and Eridanus, which is presenting very promising drill results, with open pit and underground options being considered. This has resulted in our guidance for exploration for FY'24 being increased to $40 million.

As Mark noted earlier, our closing cash and gold position was $407 million, which coupled with our $100 million debt facility leaves us with a very healthy war chest. We appreciate that cash isn't the only measure of liquidity. And it's worth highlighting to listeners that we have further reduced our credit days in the quarter, which now sits at 33 days.

As Mark mentioned earlier, this is not a one-off quarter, with more like this being expected in the short to medium-term, which is reflective of the investments we have made over the years which are now coming into fruition. Focusing on the immediate June quarter, we expect this to be comparable to March with respect to production, costs and cash generation, which will leave ***Ramelius*** with well in excess of $500 million in cash and gold come 30 June.

On a personal note, it's been a pleasure to have been able to discuss these financial results of ***Ramelius*** with you over the past few months. And I look forward to welcoming our incoming CFO, Darren Millman, in May.

And with that, I'll hand back to Mark.

Mark Zeptner

Thanks, Ben. If we can now open the line up to questions, please, Ashley.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from Andrew Bowler with Macquarie.

Andrew Bowler

A couple of questions from me. The first one, just on Edna May. You noted in the quarterly that you expect stockpiles to be hauled there and processed at the end of calendar year '24. Just confirming that the underground will likely cease at that time as well. And if so, how does the second half of this calendar look in terms of volumes for the underground? Will there be ramp-up in tonnes as we good buy cut perhaps? Or will it be relatively flat from here? Or even they'***re*** winding down a bit?

Mark Zeptner

It's Mark. You may have missed it, but Edna May underground will finish this quarter. We'd love to be able to mine a bit deeper but we -- as highlighted late last year, there is high-pressure water that was encountered with deeper drilling, which is really preventing us from going deeper than where we'***re*** currently developed to, so from pretty much June, onwards, we'll be relying on stockpiles only. And that should see us out to the end of the calendar year, as you mentioned.

Andrew Bowler

No worries. Definitely missed that one. And in terms of capital guidance reduction this year, I mean, obviously, a positive. There were some comments made earlier, but I didn't quite catch the reason behind that. Is that some spending pushing into next financial year? Or are things just looking cheaper than what you'd forecast at the start of the year?

Ben Ringrose

Andrew, it's Ben here. That reduction, capital cost, there has been driven by accessing the operating ore at Galaxy, so there's no deferral of that into FY'25. It's just we'***re*** hitting the operating ore sooner than we expected there.

Operator

Your next question comes from Alex Barkley with RBC.

Alexander Barkley

So in the quarter, it's a good step-up in grade. I'm just wondering if there was any areas of outperformance versus your plan. And should we sort of expect that to continue? And that's knowing, I guess that your cost guidance has come down after going up, so just wondering if there was any surprises on the upside there in that quarter?

Mark Zeptner

I think, in terms of grade, Penny is performing as expectations. I think we flagged better grades at the bottom of Eridanus, but I think we'***re*** getting some pleasant surprises there in the bottom of the pit, where these are horizontal high-grade veins which we'***re*** actually seeing not only in the bottom of the pit but in deeper drilling. And Edna May underground, whilst it's in its last phases, alluding to the point that Andrew was making, we had some better grades there. And I think we've had some pleasant surprises at Symes. And obviously, when you have some high-grade sections in an open pit, you can stockpile them separately and preferentially haul them to the mill first and have an average-grade stockpile remaining.

Alexander Barkley

Yes. I already got your comment on Edna May winding down FY'25. Just if you had any sort of preliminary idea about costs, putting it on to care and maintenance and if there's any sort of nasty surprises around non-cash accounting components with the stockpiles, if you had any idea to sort of guide us ahead of that.

Mark Zeptner

I'll let Ben answer the accounting one. Look, we think it's pretty minimal if we are faced with a care-and-maintenance scenario at Edna May. In terms of people, we'll obviously redeploy them and we'***re*** in a little bit of a process of that with Marda and Tampia prior to that redeploying people and obviously minimizing redundancies where possible. We don't see that there will be a big number involved in ongoing care and maintenance costs. I would imagine less than $1 million a year in terms of that care and maintenance. In terms of the stockpiles and the accounting treatment, Ben?

Ben Ringrose

Yes. There's no nasties expected there. Going forward, we will keep a pretty clean set of books there and the grade supports the value we've got on the balance sheet. And with the current gold price, there's quite a bit of headroom there, to be fair.

Operator

Your next question comes from Paul Kaner with Ord Minnett.

Paul Kaner

Just a couple for me. Just firstly on Penny and that grade, how much variability do you see sort of quarter-on-quarter? Or do you expect it to, I guess, remain fairly consistent now given the increased stoping fronts?

Mark Zeptner

Yes. Without looking at, Paul -- sorry. Without looking at sort of the quarter-by-quarter grades, I think they'll vary a little. Within obviously what's hauled to the plant, you'll get variability from as low as 7 grams and as high as 20 grams, depending where you'***re*** mining and if you'***re*** mining stoping ore or development ore, but I'd like to think you'll see average grades there or thereabouts in terms of the reserve. And what do we do. 13.7. I think we'***re*** in an area where ideally it sits between sort of that 13 grams and 15 grams, but there may be a little bit of variability depending on where you'***re*** mining.

Paul Kaner

Yes, understood. And then maybe just following on from Alex's question on Edna May and thoughts maybe around Stage 3 and maybe not going on care and maintenance. Obviously a completely different economic environment now, so I just wanted to get your thoughts on how you'***re*** thinking about that.

Mark Zeptner

Yes. We've commenced a review. We've gone back and we'***re*** going to look at our numbers, check our ***resource***. We've obviously mined some voids below the open pit. Now that we've got our Mt Magnet mine plan quarterly out of the way, the team has got some bandwidth to look at that and we've commenced that process. So probably a bit early to say much more at the moment, Paul.

Paul Kaner

And when do you have to sort of make a final decision on that to sort of avoid, I guess, a production gap?

Mark Zeptner

I think being upfront there's a production gap no matter what you do from this point forward given that the cut back is, let's say, 18 months, so even if you started tomorrow, you'***re*** looking at a production gap, but I suppose we'***re*** more concerned about making a sound decision with the right returns. And if there's a production gap, I'd like to think that the Mt Magnet production and the cash flows there can more than adequately get us through any production hiatus at Edna May, but we want to do Edna May for the right reasons.

Operator

Your next question comes from [Rob Wolf] with a private investor.

Unidentified Analyst

Mark and Ben, congratulations. Not enough said and well done on the quarter, fantastic performance. A couple of quick questions. Cue approvals, what's the progress? And when do you see access to the sort of top of the Break of Day ore zone in the open cut?

Mark Zeptner

It's Mark. I appreciate your comments at the outset there. In terms of Cue, we've done about three lots of back-and-forwards with the department. We think we'***re*** pretty close to getting approvals. We've got some of the approvals through, but obviously the main mining proposal approval is the key one. In terms of access to the sweet spot of Cue, which you'***re*** obviously very familiar with, assuming we get started in -- early in the financial year '25, we probably expect to see that early calendar '25, so sort of January '25. To that point, we'***re*** actually looking at what we need to upgrade. It's a nice problem to have in terms of the Mt Magnet gold room, gravity circuit, electrowinning circuits because, if we have the Break of Day White Heat high-grade zones coming in with Penny in full cry, we need more gravity and gold room capacity, if you like.

Unidentified Analyst

Yes, good position to be in, I think. So that was it. Well done.

Operator

[Operator Instructions] Your next question comes from [Ashley Chan] a private investor.

Unidentified Analyst

As a shareholder, we certainly appreciate the a well-run company. I've just got two questions. First one concerns about the leverage of the ***Ramelius*** ***Resources*** now that gold price is getting above AUD3,500. What is the leverage of the ***resource*** size to the gold price, specifically, from your last presentation on Mt Magnet and say, Eridanus, the two options and Hill 50? At a high gold price, does the $2,500 to $3,000 -- $3,500 shell, do they provide arithmetic increases in ***resource*** size, exponential increases in ***resource*** side, if you can provide some color on that.

Mark Zeptner

Thanks, [Ashley]. I did receive your e-mail on some of these questions earlier. In short, it's a bit early to make comments about pit optimizations and ***resource*** conversion at higher gold prices. What we did is really run a $2,500 an ounce shell, recognizing that we were still drilling the ***resource***. We had exploration target in there. We've only just completed the numbers, so we really just one -- ran one scenario. And so I wouldn't even say it's a scoping study level, so you need to let us convert the drilling to ***resources*** ideally indicated. And then you'll see the full suite of analysis in terms of the open pit and underground. We've got a potentially a pretty big decision to make there. It's, again, another nice problem to have.

What you'll also see in addition to the drilling below the pit, which is pretty exciting, we need to do more drilling around the periphery of the pit, which we can do now, but the drilling -- more drilling from the bottom of the pit, obviously we can't complete that until open-pit mining is finished, which is in another couple of months' time. We obviously want to be finished mining, so then we've got free access to the pit. So that drilling around the periphery of the pit will obviously inform what a -- what the cutback looks like. So there's not much point going off doing a lot of detailed analysis at various gold prices when you'***re*** still drilling out a ***resource*** and adding ounces and ideally upgrading the grade is -- which is what we'***re*** also hoping for.

Unidentified Analyst

My second question is on the standard question around hedging policy. Has the -- sort of at a $3,700 gold price now or you have about 180,000 hedged at $3,000, so it's about $120 million, $130 million out of the money. Does the company actively seek shareholder feedback on what the hedging policy should be, whether it's major institutions? And if so, what the -- what is the feedback of your major active fund managers, whether they'***re*** on the hedging policy? Are you looking at alternatives if it's a risk management strategy in the sense of that higher gold price, maybe out of the money puts that quite cheap to buy?

And is there any plan to have an independent review of the hedging policy? Because in your quarterly report you say that as part of the risk management program, you'***re*** fixing the diesel price but that sort of implies that the forward gold sales are not part of a risk management program.

Mark Zeptner

Firstly, they are. In terms of getting feedback from shareholders and institutions, we don't actively ask that but rest assured we get feedback and it's many and varied. We have flagged to the market that we will be running off our books more aggressively. Sort of at the current rate, we'll be at about 160,000 ounces in June. Fast forward another 12 months at the current trajectory, it would be about 100,000 ounces in June '25. In terms of options, we are looking at options. Ben, you might want to.

Ben Ringrose

Yes. Thanks, Mark. Yes, we definitely are looking at whether we use put options, zero cash flow collars, which both of those, as you mentioned are quite meaningful at these prices. So that's something we'***re*** currently looking at for sure.

Mark Zeptner

And just lastly, we do have regular conversations with an independent consultant on hedging and on options, so it's not something that we'***re*** head-in-the-sand on any -- to any degree actually.

Operator

[Operator Instructions]

Mark Zeptner

It doesn't look like there's any more, Ashley. So before we finish up, I'd just like to summarize with two points. Firstly, ***Ramelius*** has managed to produce record production whilst many others were impacted by weather interruption. And cash flows going forward are expected to be exceptionally strong, as Ben mentioned, with our cash and gold forecast at June 30 well in excess of $500 million. And secondly, watch out for updates with respect to our Edna May Stage 3 review and the Rebecca/Roe PFS in the middle of the year, not forgetting exploration drilling results and mineral ***resource*** updates at our growing Eridanus project at Mt Magnet.

Thank you for listening in. Enjoy the rest of your day.

Operator

That does conclude our conference for today. Thank you for participating. You may now disconnect.

Load-Date: April 22, 2024