

Resources: Metals & Mining

Company Update

TRX Gold Corporation | TRX - \$0.42 - NYSE | Buy

Stock Data

52-Week Low - High	\$0.26 - \$0.55
Shares Out. (mil)	276.14
Mkt. Cap.(mil)	\$117.25
3-Mo. Avg. Vol.	553,020
12-Mo.Price Target	\$1.00
Cash (mil)	\$10.5
Tot. Debt (mil)	\$0.0

EPS \$

Yr Aug	—2021—	—2022E—		—2023E—
		Curr	Prev	Curr
1Q	(0.01)A	(0.01)A	(0.01)A	0.00E
2Q	0.00A	0.00A	0.00A	0.01E
3Q	0.00A	0.01A	0.01A	0.01E
4Q	(0.01)A	0.00E	0.01E	0.01E
YEAR	(0.02)A	0.01E	0.01	0.03E

Revenue (\$ millions)

Yr Aug	—2021—	—2022E—		—2023E—
		Curr	Prev	Curr
1Q	0.0A	0.0A	0.0A	5.9E
2Q	0.0A	3.3A	3.3A	6.9E
3Q	0.0A	5.7A	5.7A	8.8E
4Q	0.0A	6.0E	8.4E	10.0E
YEAR	0.0A	15.0E	17.4E	31.6E

TRX One-Year Price and Volume History


TRX: Stepping up Gold Production

TRX completed commissioning its 1,000 tpd oxide gold circuit. It expects to reach capacity by the end of October and to produce 15,000 to 20,000 oz of gold annually. We believe that TRX's low-cost structure in Tanzania provides leverage to an increasing gold price. This should provide a non-dilutive source of financing to continue exploration and development. It is currently expanding its Buckreef Main deposit along trend, with plans to test the nearby Anfield zone to the east.

Increase in production on schedule. TRX completed the increase to 1,000 tpd in less than 12 months at a cost of \$4.0 million. Over the last 18 months, following results from a pilot plant, it expanded production to 360 tpd. TRX reported production of 3,619 oz of gold in 4Q22, exceeding guidance of 750 to 800 oz per month. For fiscal 2022, it reported gold production of 8,874 oz of gold. TRX has exceeded our expectations, increasing production on schedule while processing higher volumes at higher grades.

Potential to expand gold resources in oxide material. Approximately 10% of the Buckreef Gold Project's mineral resource is in oxide material currently being processed through the expanded plant. In our opinion, this likely underestimates the potential oxides over its concession. This is apparent due to drilling extending the Main Zone, the Buckreef West and the large amount of artisanal mining in the nearby Anfield zone to the east. These areas may add a significant amount of near-surface gold oxidized material not included in the current resource. This presents the potential for an increase in mine life from oxides or the potential for additional modular scaling production capacity.

Exploration to expand and develop deeper sulfide material. Approximately 90% of TRX's 2.0 million oz gold deposit is contained within sulfide gold mineralized material. It is currently determining the most cost effective manner to process this material. In addition to adding oxide material, TRX continues to drill the underlying sulfide material. It has completed over 22 drill holes of over 7,595m of its 10,000m drill program. Recent drilling has extended the Main Zone by a total of 300m from the northeast to the northern boundary, with the following highlights.

BMDD246 - 1.90 g/t Au over 12.27m from 191.7m.

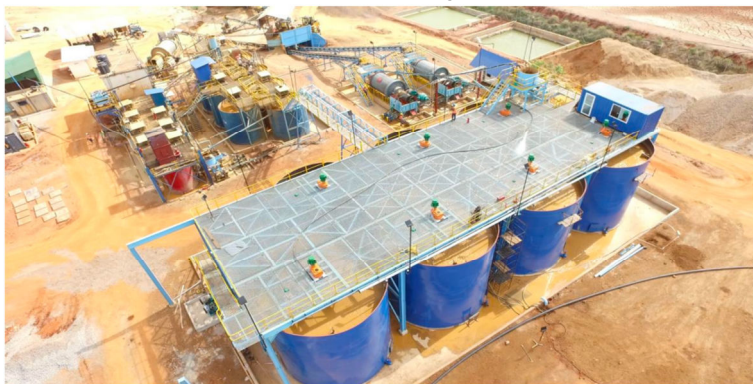
BMDD244 - 1.96 g/t Au over 4.50m from 129.5m.

BMDD243 - 1.76 g/t Au over 7.46m from 101.5m.

Increasing cash flow in fiscal 2023. In our opinion, the increase in capacity makes possible the tripling of production. TRX reported production of 3,363 oz of gold in 4Q22, exceeding guidance of 750 to 800 ounce of gold per month, from the 360 tpd oxide circuit. With the increase to 1,000 tpd, and annual guidance of 15,000 to 20,000 oz of gold, we recognize the potential to meet or exceed these levels. TRX plans on investing cash flow in operations to expand the resource and develop the larger underlying sulfide.

Exhibit 1 shows TRX's 1,000 tpd oxide circuit. The leach tanks in the center, plus conveyors and ball mills in the upper-center, comprise the recent expansion to 1,000 tpd. The smaller blue tanks in the background include the 360 tpd oxide circuit. The pilot plant is to the left of the 360 tpd oxide circuit.

Exhibit 1: Buckreef Gold Project Oxide Circuit

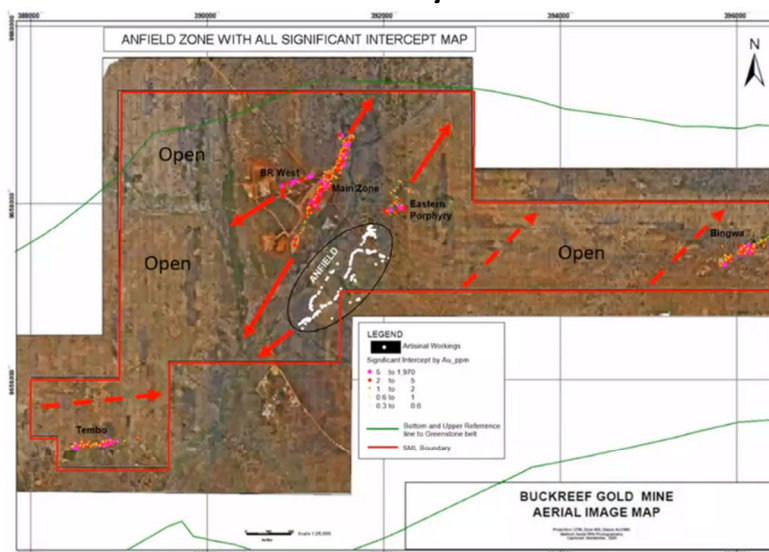


Source: TRX Gold Corporation ([link](#))

It is useful to note the modular expansion of the circuits. As TRX has a flexible operation, it may have the opportunity to process transitional gold mineralized material between the oxide and sulfide zones to determine recovery rates. This would be useful to determine processing methods for the sulfide material. If acceptable recoveries may be attained utilizing current methods, it may reduce capital costs associated with a larger operation to process the sulfide material.

Exhibit 2 shows the concession area for TRX's Buckreef Gold Project. The strike length for the Main Zone resource now extends southwest to northeast. In addition, since completion of the resource estimate, it has identified the Buckreef West splay off the Buckreef trend. TRX is also returning to the Eastern Porphyry, along strike with the Anfield Zone, an area of intense artisanal mining. As time and resources permit, it plans to revisit the Tembo and Bingwa resources and test intervening vein targets. As TRX has an operating oxide gold circuit, all of these areas represent opportunities to immediately add material to process, while it considers increasing the scale of operations including mining transitional and oxide materials.

Exhibit 2: Buckreef Gold Project Concession Area



Source: TRX Gold Corporation, Conference Call, July 28, 1022

VALUATION

We base our valuation of TRX on a sum of the parts. For reference purposes only, the PFS completed in May 2020 concluded an after-tax NPV_{5%} of \$131.0 million and an after-tax IRR of 74% at a gold price of \$1,300 per oz. The PFS's after-tax NPV_{5%} at a gold price of \$1,560 per oz increased to ~\$220.0 million. We assign a value of \$460.3 million to the processing of the current resource in eleven years (as opposed to mineable reserves over 16 years as assumed in the PFS) at a 10% discount rate. To this we add \$39.6 million, which includes the conceptual target from years 12 to 18. To calculate this number we applied a discount rate of 15%.

We applied a 0.5 P/NAV multiple to the sum of these numbers to arrive at a target value of \$250.0 million. Adding estimated cash balances of \$12.9 million, this totals \$262.9 million, or \$1.00 per share. We reiterate our \$1.00 price target and Buy rating.

Factors that could impede TRX from achieving our price target include but are not limited to: underperformance of the 1,080 tpd CIL plant, capital overruns, disruptions and underperformance of the planned expansion to 1,080 tpd, underestimating the cost of a flotation plant, inability to upgrade remaining resources to mineable reserves, declining gold prices and inability to access additional capital, and exploration risk.

RISKS

Political risk. Natural resource companies are subject to significant political risk. Although most mining jurisdictions have known laws, potential exists for these laws to change.

Commodity price risk. All natural resource companies have some form of commodity price risk. This risk is not only related to final products, but can also be in regards to input costs and substitute goods.

Operational and technical risk. Natural resources companies have significant operational and technical risks. Despite completing NI 43-101 compliant (or similar) resource estimates, deposits can still vary significantly compared to expectations. Additionally, numerous unforeseeable issues can occur with operations and exploration activities.

Pre-revenue risk. Pre-revenue natural resource companies are dependent on available cash, marketable assets and the ability to borrow or sell equity into capital markets to fund development including exploration and construction. There is not guarantee that the company will become cash flow positive.

Exploration risk. Resource exploration is speculative and there is no guarantee that mineralized material may be located with sufficient grade, quantity or continuity to become economic.

Market risk. Although most natural resource companies are more closely tied to individual commodity price performance, large business cycle forces or economic crises can impact a company's valuation significantly.

Cautionary Note to U.S. Investors: Estimates of Measured, Indicated and Inferred Resources

"Measured Mineral Resources" and "Indicated Mineral Resources." U.S. investors are advised that although these terms are required by Canadian regulations, the U.S. Securities and Exchange Commission (SEC) does not recognize them, and describes the equivalent as "Mineralized Material." U.S. investors are cautioned not to assume that these terms are any form of guarantee.

"Inferred Mineral Resources." U.S. Investors are advised that while this term is required by Canadian regulations, the SEC does not recognize it. "Inferred Mineral Resources" are not delineated with a great deal of certainty and should not be considered likely to be brought into production in whole or in part.

COMPANY DESCRIPTION

TRX Gold Corporation is a Canada-based company, in a 65/45 joint venture with the State Mining Corporation of Tanzania (STAMICO), developing the Buckreef in Tanzania. The company's Buckreef Project is located in the Geita District of the Geita Region south of Lake Victoria, approximately 110 kilometers southwest of the city of Mwanza, Tanzania. The Buckreef Project comprises over four prospects, namely Buckreef, Bingwa, Tembo and Eastern Porphyry.

TRX Income Statement

Amounts in US\$ million	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q32E	2023E
Revenue	0.0	0.0	0.0	0.0	0.0	0.0	3.3	5.7	6.0	15.0	5.9	6.9	8.8	10.0	31.6
Operating Expenses	1.5	2.4	2.3	2.8	9.0	2.3	3.6	4.1	4.1	14.1	4.1	4.4	4.8	5.2	18.4
Operating Income	0.0	0.0	0.0	0.0	0.0	(2.3)	(0.3)	1.7	1.9	0.9	1.8	2.6	3.9	4.8	13.1
Other Expenses	0.5	(2.9)	(2.0)	0.6	(3.7)	0.2	0.6	(1.6)	0.3	(0.6)	0.2	0.3	0.3	0.3	1.1
Pretax Income	(2.0)	0.4	(0.3)	(3.4)	(5.3)	(2.2)	(0.9)	3.3	1.6	3.7	1.6	2.3	3.7	4.6	12.2
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.3	0.5	0.5	0.7	1.1	1.4	3.2
Net Income	(2.0)	0.4	(0.3)	(3.4)	(5.3)	(2.2)	(1.0)	3.2	1.3	3.1	1.1	1.6	2.6	3.2	9.0
Basic EPS	(\$0.01)	\$0.00	(\$0.00)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.00)	\$0.01	\$0.00	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.03
FD EPS	(\$0.01)	\$0.00	(\$0.00)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.00)	\$0.01	\$0.00	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.03
Shares Basic (millions)	200.6	225.3	254.9	248.1	232.2	255.0	262.7	274.4	274.4	274.4	274.4	274.4	274.4	274.4	274.4

Source: TRX company reports on SEDAR and ROTH Capital Partners estimates

Quarterly EPS may not sum to annual EPS due to rounding

Notes: Company reports under IFRS, prior to year-end 2021 amounts are in US Dollars

Fiscal year-end August 31

Mike Niehuser

mniehuser@roth.com

(949) 402-5336

Regulation Analyst Certification ("Reg AC"): The research analyst primarily responsible for the content of this report certifies the following under Reg AC: I hereby certify that all views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Disclosures:

ROTH makes a market in shares of TRX Gold Corporation and as such, buys and sells from customers on a principal basis.

Shares of TRX Gold Corporation may be subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 10/04/22	
			Count	Percent
Buy [B]	332	81.37	219	65.96
Neutral [N]	56	13.73	31	55.36
Sell [S]	2	0.49	1	50.00
Under Review [UR]	18	4.41	10	55.56

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

ROTH Capital Partners, LLC expects to receive or intends to seek compensation for investment banking or other business relationships with the covered companies mentioned in this report in the next three months. The material, information and facts discussed in this report other than the information regarding ROTH Capital Partners, LLC and its affiliates, are from sources believed to be reliable, but are in no way guaranteed to be complete or accurate. This report should not be used as a complete analysis of the company, industry or security discussed in the report. Additional information is available upon request. This is not, however, an offer or solicitation of the securities discussed. Any opinions or estimates in this report are subject to change without notice. An investment in the stock may involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Additionally, an investment in the stock may involve a high degree of risk and may not be suitable for all investors. No part of this report may be reproduced in any form without the express written permission of ROTH. Copyright 2022. Member: FINRA/SIPC.