

Action Note

Equity Research

December 2, 2020

Gold and Precious Minerals - Mid-and Small-Cap Golds

Sabina Gold & Silver Corp.

(SBB-T) C\$2.77

Updated FS Expected Soon (Early Q1/21)

Arun Lamba, CFA

Event

This morning, Sabina provided more details on the planned updated Feasibility Study (FS) for its Back River Gold Project (100%) in Nunavut.

Impact: SLIGHTLY POSITIVE

- As a reminder, the company completed a FS in September 2015, which contemplated a 3 ktpd mine with average annual gold production of ~200 koz at total cash costs of US\$534/oz over a 12-year life (from a series of three open pits and one underground at Goose).
- Since the 2015 FS, new discoveries and resource extensions have been made, including the two separate high-grade underground zones at Umwelt.
- The company is now well advanced on the updated FS (early Q1/21E). The goal is to increase gold production on an annual and total life of mine basis. Sabina also plans to have detailed engineering ~90% complete by the end of Q1/21.
- Since the last Back River resource statement (7.2 Moz M&I+Inf, October 2014) was completed, Sabina has drilled over 50 km at the Goose site.
- The new resource estimates will include updates to: Umwelt; Goose Main; Echo; and new Inferred resources from the Nuvuyak and Llama Extension deposits. The George open pit resources will also be updated to reflect current metal prices.
- Sabina is maintaining an initial nameplate throughput of 3 ktpd in the updated FS but the study will include an expansion to 4 ktpd from sustaining capital in years four to five.
- The inclusion of early underground mining activity along with price escalation and inflation, is expected to increase the overall capex and opex when compared to the 2015 FS. We model pre-production capex of ~\$560mm (\$415mm according to the 2015 FS).
- According to the company, the impact of an increased gold price and higher recovered ounces on an annual and life of mine basis are expected to improve the project economics when compared to the 2015 FS. At US\$1,150/oz Au (US\$/C\$ FX of 0.80), the NAV5% of the 3 ktpd project was estimated at \$480mm.

Recommendation:	SPEC BUY
Risk:	SPECULATIVE
12-Month Target Price:	C\$4.25
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	53.4%

Market Data (C\$)

Current Price	C\$2.77
52-Week Range	\$0.71 - \$3.06
Mkt Cap (f.d.) (\$mm)	\$926.6
Mkt Cap (basic) (\$mm)	\$903.3
Float Cap (\$mm)	\$725.5
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,319,068

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	334.5
Shares O/S (basic) (mm)	326.1
Float Shares (mm)	261.9
Net Debt/Total Cap	0.0%
Cash (\$mm)	\$65.0
NAVPS	\$3.62

Supplemental Data

Year	2019A	2020E	2021E	2022E
Gold US\$/oz	1,393	1,789	2,100	2,000

Cash as at September 30

All figures in C\$, unless otherwise specified

TD Investment Conclusion

We continue to view Sabina as possessing one of the very few near-construction-ready gold projects of a significant scale with robust economics globally.



Company Profile

Sabina Gold & Silver Corp. is a Vancouver-based small-cap gold company. Its primary asset is the Back River gold project (100%) in southwestern Nunavut. The company also holds a substantial silver royalty on Glencore's Hackett River silver-zinc development project.

Details

Balance Sheet

- Sabina last reported \$65mm of cash and equivalents and no debt.

Resources & New Mine Plan

- Back River hosts total Resources of over 7 Moz in all categories. The 2015 FS outlined Reserves of 1.7 Moz at 5.9 gpt (open pit) and 0.8 Moz at 7.4 gpt (underground).
- Based on the company's exploration success and the higher gold price, Sabina will provide an updated FS in early 2021. The company is planning to access high grade V2 Zone earlier in the mine plan, which would add high-grade underground feed to the process plant early in the mine life and recover more higher-grade reserves earlier than envisioned in the 2015 FS.
- The mine plan will incorporate cut and fill mining methods plus cemented rock in select areas of the interface between the open pit and underground deposits, enabling production from areas previously excluded. The mining sequence in the updated FS mine plan compared to the 2015 FS is detailed in Exhibit 1.
- With potential opportunities to add further underground at Umwelt, Llama, Nuvuyak, and Goose Main later in the mine plan, the company is targeting 300 koz/year of production. For reference, to drill off new discoveries to the Inferred category would require 32 km or \$20mm of drilling (81 km or \$48mm to Indicated).

Project Financing

- Once the company releases the updated FS, it will look to obtain project financing. We model pre-production capex of ~\$560mm and first gold in 2025. For reference, our model is currently largely based on the 2015 FS.
- As previously reported, the company has had advanced negotiations for a debt package and believes it could be completed on favourable terms.
- We believe that a likely financing path for Sabina would be to pursue alternative funding, consisting of the sale of a stream, debt, and equity components, similar to the deals completed by Victoria Gold, Continental Gold, Lundin Gold, and Pretivm Resources.
- However, for the sake of simplicity in our model, we have the company raising \$500mm in debt at an interest rate of 9% and \$100mm in equity at \$2.50/share.

Timeline to Production (Exhibit 3)

- Depending on timing of received project financing, a production decision would be made no later than December of the year 36 months prior to first gold (ideally up to 6 months sooner to allow greater time to plan the first sealift and begin the procurement process).

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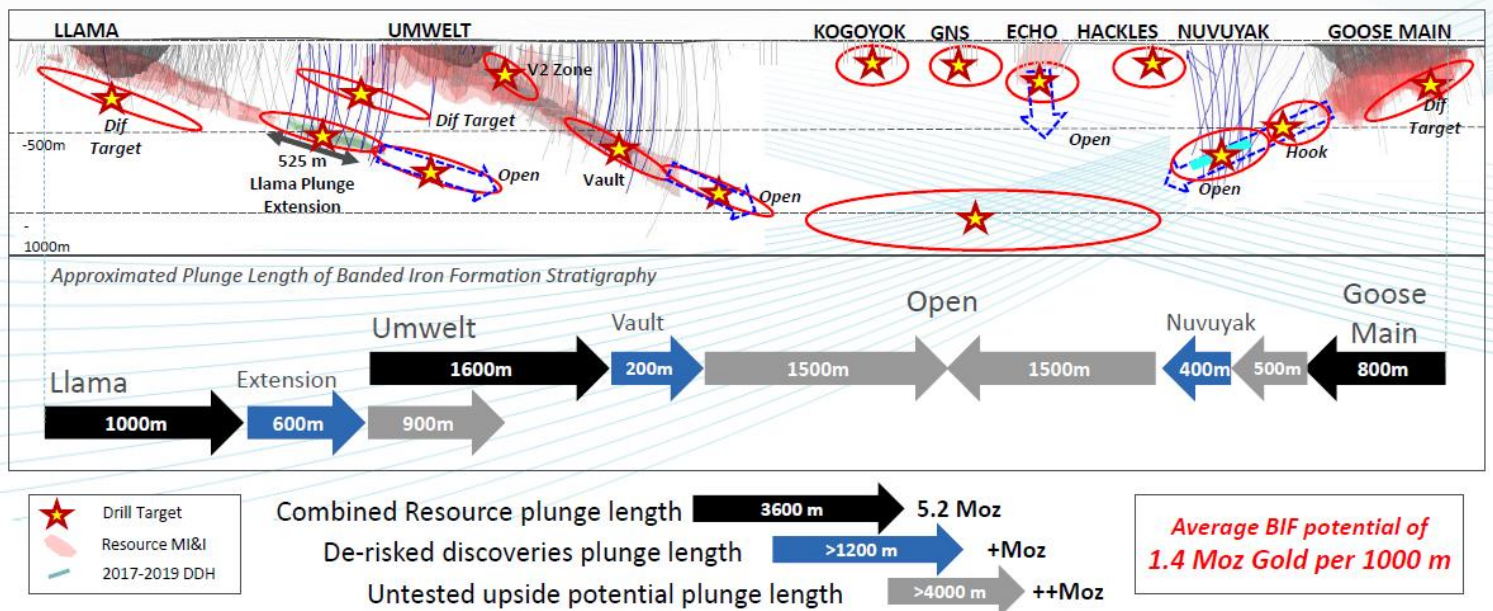
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Exhibit 1. Re-envisioned mine plan

Mine Production Plan Sequencing	
2015 Feasibility Study	2021 UFS
Umwelt Open Pit	Echo Pit
Llama Open Pit	Umwelt Underground
Goose Open Pit	Umwelt Open Pit
Umwelt Underground	Llama Open Pit
	Llama Underground
	Goose Main Open Pit
	Goose Main Underground

Source: Company

Exhibit 2. Evolving the Goose Project Gold System



Source: Company

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Justification of Target Price

We arrive at our target price by applying a 1.2x target multiple to our corporate NAV. Our key assumptions: a long-term gold price of US\$1,500/oz; a 5% discount rate; and equity dilution of \$100mm as part of a larger project financing package. This methodology is in line with what we use for the other gold developers in our coverage universe.

We believe that our 1.2x target multiple is reasonable for a company that we would characterize as having one of the very few advanced-stage development projects globally that combines significant scale and robust economics.

Exhibit 5. Target Price Summary

Assumptions:			
Discount Rate	5%	Existing Shares (dil., mm)	334.5
LT Gold Price (US\$/oz)	\$1,500	+ Assumed Equity Financing (\$100mm)	40.0
LT US\$/C\$ Exchange Rate	0.80	= Modelled Shares (dil., mm)	374.5
NAV Estimates		\$mm	\$/share, dil.
Corporate Adjustments			
Total Corporate Adjustments		\$130	\$0.35
Projects			
Back River Gold Project NAV (After-Tax)		\$901	\$2.41
Upside Credit		\$225	\$0.60
Hackett River Royalty		\$100	\$0.27
Total Project NAV		\$1,226	\$3.27
Total Valuation			
Total Corporate NAV (After-Tax)		\$1,356	\$3.62
Valuation		Multiple	
NAV-based Valuation	1.2x	\$1,627	\$4.34
Rounded 12-Month Target Price			\$4.25

Source: TDSI

Key Risks to Target Price

The key risks to our target price include: gold, silver, fuel, and power price risks; financial risks, including risks to the cost and availability of financing; foreign exchange rate risks; forecast risks, including capital and operating cost risks, risks related to deposit size, grade, and mineability, and risks relating to production levels, metallurgical recoveries and smelter terms; market risks; technical risks, including risks to the process flowsheet that we envision; infrastructure risks, including the availability of power and its reliability; transportation risk; political risks, including permitting risk; community social relations risks; labour relations risk; risk related to indigenous people; risks related to the cost and availability of equipment and consumables; environmental risk; title risk; climate risks; surface rights risk; access risk; and key personnel retention risk. Sabina could face development and operational impacts due to COVID-19 restrictions.



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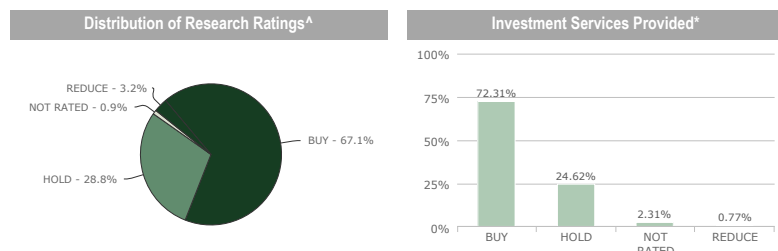
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Sabina Gold & Silver Corp.	SBB-T	1, 2, 4

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