

Gran Colombia Gold Corp. (TSX:GCM)

Slight Q1/21 Beat on Au Production; Lower Cash than Expected

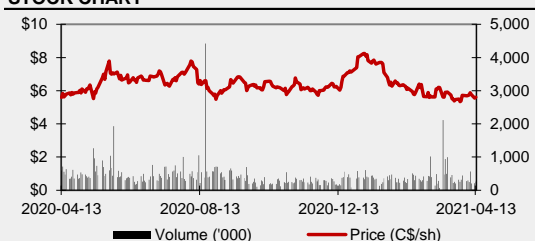
Production Results

April 14, 2021

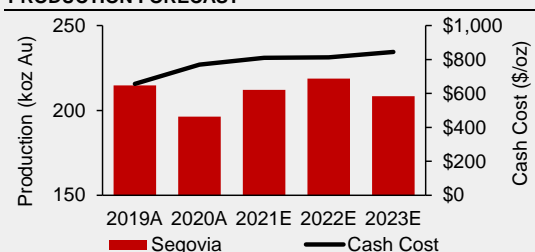
(Currency is US\$ unless noted otherwise)

Closing Price (C\$/sh)	\$5.61
Rating	BUY
Target (C\$/sh)	\$17.00
Return to Target	203%
52 Week Low / High (C\$/sh)	\$5.27 / \$8.40
CAPITALIZATION	
Shares Outstanding (M)	Basic 61.1 Diluted 87.9
Market Capitalization (C\$M)	\$342.5
Enterprise Value (C\$M)	\$249.3
Cash (C\$M)	\$163.3
Debt (C\$M)	\$70.0
FYE: DEC 31	
	2020A 2021E 2022E
Au Produced (000's oz)	220 212 219
Cash Costs (\$/oz)	\$770 \$810 \$813
CAPEX (\$M)	\$72 \$64 \$36
Gross Revenue (\$M)	\$390 \$420 \$443
EBITDA (\$M)	\$178 \$217 \$243
CFPS (\$/sh)	\$2.31 \$2.29 \$2.76
EPS (\$/sh)	-\$0.56 \$2.35 \$2.97

STOCK CHART



PRODUCTION FORECAST



VALUATION	(C\$M)	(C\$/sh)
1yr FWD NTM EV/EBITDA	\$ 299 4.0x	\$14.76
Equity Investments	\$ 186	\$2.31
Sum-of-Parts		\$16.88

RELATIVE VALUATION	2021 EV/EBITDA	P/NAV
Gran Colombia Gold Corp.	0.9x	0.34x
Peers*	4.7x	0.71x

*S&P Capital IQ

MAJOR SHAREHOLDERS

Management (4.61%), MM Asset Management Inc (12.56%), Sprott, Eric (5.4%), Van Eck Associates Corp. (5.43%), Ruffer LLP (2.62%), U.S. Global Investors, Inc. (1.64%), American Century Investme. (1.5%)

DISCLOSURE CODE: 3, 4

(Please refer to the disclosures listed on the back page)

Source: RCS estimates, Company Information, Capital IQ

Company Description

Gran Colombia Gold Corp. engages in the acquisition, exploration, development, and operation of gold and silver properties primarily in Colombia. It holds interests in the Segovia operations comprising the El Silencio, Providencia, Sandra K, and the Carla underground mines located in Colombia. The company also holds a ~44.4% interest in Aris Gold Corp. (TSX:ARIS). Gran Colombia Gold Corp. is headquartered in Toronto, Canada.

Impact: Neutral

Gran Colombia (GCM) released Q1/21 production results from its Segovia Operations in Colombia that slightly beat our estimates. Segovia saw a 20% improvement in Au production MoM and the second consecutive month of throughput above 1,500 tpd. **In our view, Gran Colombia posted a solid quarter for production at Segovia, and remains on-track to meet its 2021 guidance. Despite a lower than anticipated cash position, we believe GCM has taken important steps to strengthen its balance sheet as it embarks on its Latin American growth plans.**

- **Q1 marks a solid start to 2021.** Segovia had average throughput of 1,470 tpd at an average head grade of 12.83 g/t Au for total production of 49,058 oz Au (-2% QoQ, -2.5% YoY) – slightly exceeding Red Cloud estimates of 46.9k oz Au (Figure 1). The bulk of the throughput (~82%) came from GCM's four primary mines, with the remaining ~18% sourced from the 56 small mines operating under contract at Segovia. The company also produced 57,315 oz Ag in Q1 (+12% QoQ, +25% YoY).
- **Cash position a miss; but the result is a strengthening balance sheet.** GCM ended the quarter with a still healthy cash position of ~\$73.6M (-40% from our \$123.3M estimate). The miss is partially due to a \$7M upfront cost relating to construction of the polymetallic plant, a C\$10M investment to maintain its equity interest in Denarius Silver (TSXV:DSL, Not Rated), C\$4M to fund the repurchase of 702k shares under its NCIB, and C\$2.8M in dividends, along with likely higher costs (see next bullet). GCM also made a ~\$8M first instalment payment for its Colombian income tax (Q2 typically sees the heaviest burden for GCM's tax payments). However, we note that GCM continued to strengthen its balance sheet in Q1 with early redemptions of some of its convertible debentures and gold notes ([read more](#)).
- **Adjusting our estimates.** We now expect the higher cash costs outlined in the recent Q4/20 financial results ([read more](#)) to persist through 2021. As such, we have incorporated the lower Q1 cash position and higher cost profile into our model. We continue to project 212k oz Au for FY2021 (in-line with GCM's guidance of 200-220k oz Au), but at higher cash costs of \$810/oz (was \$742/oz).

Valuation:

We maintain our BUY rating and are reducing our price target to C\$17.00/sh (was C\$17.50/sh). We have updated our share count to account for those repurchased under the NCIB and have adjusted our model to reflect the items affecting cash in Q1. Although partially offset by the lower share count and lower debt levels, the large decrease in cash balance from our estimates has decreased the EBITDA component of our sum-of-parts valuation to C\$14.76/sh (was \$15.61/sh). Our target is based on a sum-of-parts valuation comprising 4.0x our NTM EBITDA estimate of C\$299M (unchanged) and GCM's equity investments of C\$186M (was C\$207M). **Upcoming Catalysts:** 1) Segovia drill results (ongoing), 2) Q1/21 financial results (Q2/21) and 3) Closing of Gold X transaction (Q2/21).

Looking Forward:

Steady growth plans ahead. GCM recently grew Segovia's reserves and resources and extended its mine life ([read more](#)), which we expect to further expand via an aggressive 60,000m drill campaign ([read more](#)). Operational improvements are underway, including construction of the new polymetallic recovery plant (planned to come online mid-2021). As well, the Gold X (TSXV:GLDX, Not Rated) acquisition is anticipated to close this quarter ([read more](#)).

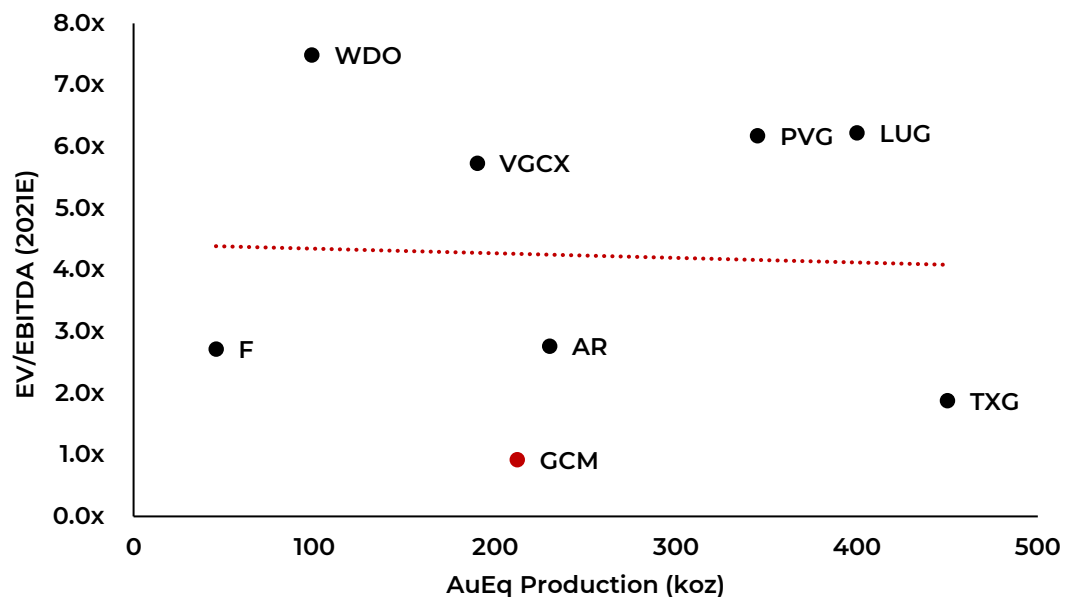
Figure 1: Gran Colombia Quarterly Estimates

	Updated Q1 2021A	Previous Q1 2021E	Change	Q4 2020A	Q3 2020A	Q2 2020A	Q1 2020A
Segovia Production (koz)	49.1	46.9	5%	50.1	51.6	44.4	50.3
Marmato Production (koz - 100% basis)	-	-	-	7.2	6.9	3.9	5.9
Total Production (koz - 100% basis)	49.1	46.9	5%	57.3	58.5	48.2	56.2
Total Cash Cost (US\$/oz)	\$800	\$744	7%	\$904	\$796	\$713	\$667
Gold Price (US/oz)	\$1,793	\$2,000	-10%	\$1,877	\$1,928	\$1,725	\$1,587
Revenue (US\$M)	\$89.5	\$94.9	-6%	\$99.7	\$113.1	\$77.1	\$101.0
EPS (US\$/sh)	\$0.29	\$0.46	-38%	-\$0.59	\$0.39	-\$0.27	\$0.42
EBITDA (US\$M)	\$38.7	\$53.9	-28%	\$38.4	\$55.8	\$31.4	\$52.7
FCF (CFO+CFI) (US\$M)	-\$5.5	\$39.8	-114%	\$1.6	\$41.9	-\$7.2	\$14.8
CFPS (US\$/sh)	\$0.45	\$0.81	-44%	\$0.59	\$0.90	\$0.03	\$0.79
Cash (US\$M)	\$73.6	\$123.3	-40%	\$122.4	\$140.4	\$90.0	\$100.4
CAPEX (US\$M)	\$22.0	\$10.5	109%	\$23.7	\$14.3	\$10.8	\$14.0

**estimates assume 100% consolidation of Aris Gold Corp. prior to 2021*

Source: RCS Estimates, Company Reports

Figure 2: EV/EBITDA (2021E) vs. 2021E AuEq Production (koz)



Source: RCS Estimates, S&P Capital IQ, S&P Market Intelligence, Company Reports

Financial and Operating Summary: Gran Colombia Gold Corp.

FINANCIAL DATA

Ticker	TSX:GCM
Current Price (C\$/sh)	\$5.61
Rating	BUY
Target Price (C\$/sh)	\$17.00
Return to Target	203%
52 Week Low / High (C\$/sh)	\$5.27 / \$8.40
Shares Outstanding (M)	61.1
Market Capitalization (C\$M)	\$342.5
Cash & Cash Equivalents (C\$M)	\$163.3
Total Debt (C\$M)	\$70.0
Enterprise Value (C\$M)	\$249.3

FINANCIAL DATA

Capital Structure	Shares Millions
Shares Outstanding	61.1
Options	1.7
Warrants	21.0
Convertible Debentures	4.21
Fully Diluted Shares	87.9

Ownership	Shares O/S (M)	% O/S
Management	2.8	4.6%
MM Asset Management Inc	7.7	12.6%
Van Eck Associates Corporation	3.3	5.4%
Iacono, Serafino	1.7	2.8%
Ruffer LLP	1.6	2.6%

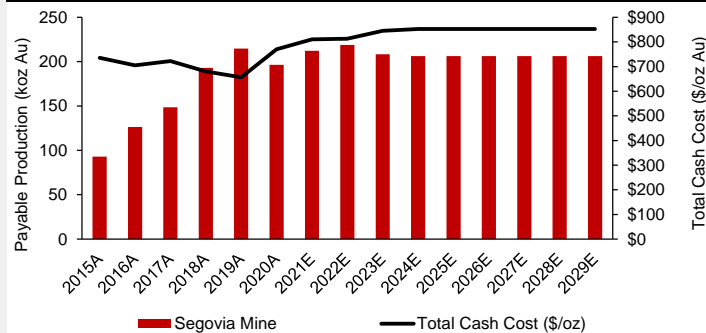
Financial Summary	2019A	2020A	2021E	2022E	2023E	2024E
Year-end Dec 31st						
Shares O/S (M)	53.6	61.8	61.1	61.1	61.1	61.1
EBITDA (\$M)	\$143	\$178	\$217	\$243	\$224	\$220
FCF (CFO+CFI) (\$M)	\$52	\$64	\$73	\$132	\$108	\$118
EPS (\$/sh)	\$0.69	-\$0.42	\$1.79	\$2.23	\$1.99	\$1.99
CFPS (\$/sh)	\$2.16	\$2.31	\$2.29	\$2.76	\$2.37	\$2.53
EV/EBITDA	1.3x	1.0x	0.9x	0.8x	0.8x	0.8x
P/CFPS	2.0x	1.8x	1.9x	1.5x	1.8x	1.7x

Income Statement (\$M)	2019A	2020A	2021E	2022E	2023E	2024E
Revenue	326.4	390.3	420.4	443.1	422.2	418.2
Operating Expenses	157.2	179.1	177.5	182.3	181.6	181.5
Depreciation	32.3	24.9	32.0	26.3	30.1	35.5
General & Admin	22.9	23.5	20.0	17.5	16.7	16.5
Net Income	34.8	(27.6)	109.3	136.2	121.5	121.5

Balance Sheet (\$M)	2019A	2020A	2021E	2022E	2023E	2024E
Cash & Equivalents	84.2	122.4	116.2	219.7	323.0	432.4
Debt	85.9	52.5	26.8	11.5	14.0	0.2

Cash Flow (\$M)	2019A	2020A	2021E	2022E	2023E	2024E
Operating CF	103.3	136.3	136.5	168.5	144.5	154.3
Financing CF	(3.0)	(23.6)	(45.9)	(28.5)	(4.9)	(8.5)
Investing CF	(51.6)	(72.3)	(63.8)	(36.5)	(36.3)	(36.3)
Change in Cash	48.6	38.2	26.7	103.5	103.3	109.4

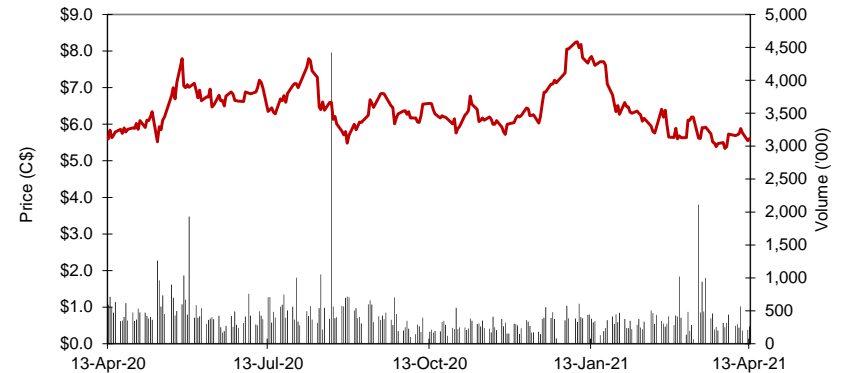
PRODUCTION PROFILE



Priced as of market close on April 13, 2021.

Source: RCS Estimates, Company Reports, S&P Capital IQ, S&P Global Market Intelligence

STOCK CHART



TECHNICAL ASSUMPTIONS

	2019A	2020A	2021E	2022E	2023E	2024E
Gold Price (\$/oz)	\$ 1,396	\$ 1,779	\$ 1,948	\$ 2,000	\$ 2,000	\$ 2,000
Silver Price (\$/oz)	\$ 16.21	\$ 19.60	\$ 25.32	\$ 25.00	\$ 25.00	\$ 25.00
Canadian : US\$ exchange rate	\$ 0.75	\$ 0.75	\$ 0.76	\$ 0.75	\$ 0.75	\$ 0.75

RESOURCE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
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Segovia	7.63	10.77	2,634
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RESERVE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
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Segovia	2.20	9.00	633
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Segovia (RCS Mine Model)	6.63	10.19	2,171
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VALUATION	Year	EBITDA (C\$M)	Multiple	Valuation (C\$/sh)
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2019 EV/EBITDA	\$190	4.0x	\$9.36
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2020 EV/EBITDA	\$238	4.0x	\$11.74
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1yr FWD NTM EV/EBITDA	\$299	4.0x	\$14.76
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2021 EV/EBITDA	\$286	4.0x	\$14.13
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2022 EV/EBITDA	\$324	4.0x	\$16.46
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SUM-OF-PARTS VALUATION	Valuation (C\$/sh)
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1yr FWD NTM EV/EBITDA	\$14.76
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Equity Investments	\$2.12
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Total	\$16.88
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NET ASSET VALUE	Discount Rate	(C\$M)	(C\$/Sh)
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Segovia (100%), Colombia	5%	\$ 2,002	\$ 24.83
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Taxes	5%	\$ (559)	\$ (6.94)
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Other Assets	in-situ	\$ 253	\$ 3.14
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Corporate Adjustments	5%	\$ (445)	\$ (5.51)
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Dividend Adjustment	5%	\$ 80	\$ 0.99
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Total NAV		\$ 1,331	\$ 16.50
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COMPARABLES	Company	Ticker	Price C\$	EV/EBITDA FY2021E	EV/EBITDA FY2022E	P/NAV
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Pretium Resources Inc.	TSX:PVG	\$14.09	6.2x	5.6x	0.93x
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Fiore Gold Ltd.	TSXV:F	\$1.21	2.7x	2.3x	0.42x
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Wesdome Gold Mines Ltd.	TSX:WDO	\$9.82	7.5x	3.9x	0.89x
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Lundin Gold Inc.	TSX:LUG	\$11.16	6.2x	5.3x	1.01x
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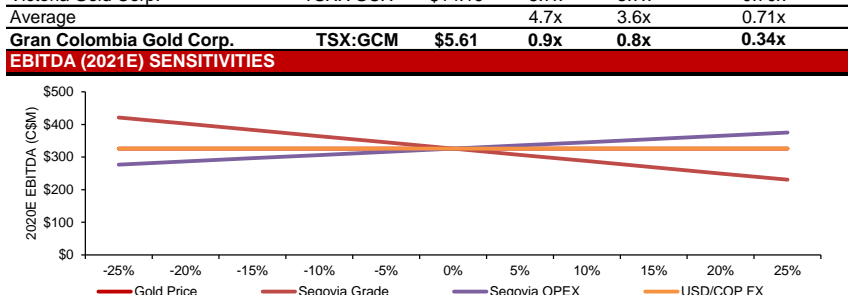
Argonaut Gold Inc.	TSX:AR	\$2.60	2.8x	2.3x	0.43x
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Victoria Gold Corp.	TSX:VGCX	\$14.19	5.7x	3.7x	0.70x
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Average			4.7x	3.6x	0.71x
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Gran Colombia Gold Corp.	TSX:GCM	\$5.61	0.9x	0.8x	0.34x
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EBITDA (2021E) SENSITIVITIES	
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Disclosure Statement

Updated April 13, 2021

Recommendation / Target Change			Red Cloud Securities has this percentage of its universe assigned as the following:	
Date	Rating	Target C\$/sh	Status	%
2020-01-15	NA	10.00	BUY	47%
2020-02-07	BUY	10.00	BUY (S)	11%
2020-02-21	BUY	10.00	HOLD	0%
2020-02-25	BUY	10.00	SELL / Tender	0%
2020-03-03	BUY	10.00	NA	9%
2020-03-16	BUY	10.00	Under Review	32%
2020-04-01	BUY	10.00		
2020-04-15	BUY	10.00		
2020-04-16	BUY	14.00		
2020-05-12	BUY	14.00		
2020-05-19	BUY	14.00		
2020-05-25	BUY	14.00		
2020-06-17	BUY	14.00		
2020-07-07	BUY	13.00		
2020-07-14	BUY	13.00		
2020-07-20	BUY	13.00		
2020-07-21	BUY	13.00		
2020-07-22	BUY	13.00		
2020-08-17	BUY	13.00		
2020-10-14	BUY	13.00		
2020-10-22	BUY	13.00		
2020-10-29	BUY	16.50		
2020-11-13	BUY	16.50		
2020-12-22	BUY	16.50		
2021-01-14	BUY	16.50		
2021-02-08	BUY	17.50		
2021-02-24	BUY	17.50		
2021-03-08	BUY	17.50		
2021-03-16	BUY	17.50		
2021-04-05	BUY	17.50		

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Company Specific Disclosure Details

Company Name	Ticker Symbol	Disclosures
Gran Colombia Gold Corp.	TSX:GCM	3,4

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12. There are material conflicts of interest with Red Cloud Securities Inc. or the analyst who prepared the report and the issuer.

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- HOLD – expected to perform with its peer group
- SELL – expected to underperform its peer group
- Tender – clients are advised to tender their shares to a takeover bid
- Not Rated or NA – currently restricted from publishing, or we do not yet have a rating
- Under Review – our rating and target are under review pending, prior estimates and rating should be disregarded.

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