

Empress Royalty Corp. (TSXV:EMPR)

Revenue Generating Au Stream to Provide Immediate Cash Flow

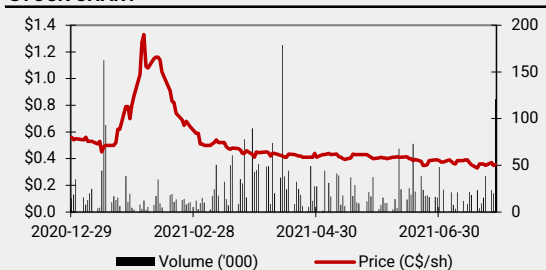
Corporate Update

July 29, 2021

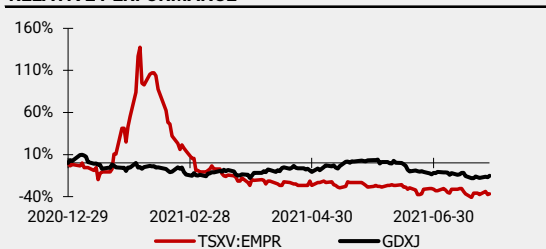
(Currency is C\$ unless noted otherwise)

Closing Price (C\$/sh)	\$0.36		
Rating	BUY		
Target (C\$/sh)	\$1.00		
Return to Target	182%		
NAV (C\$/sh)	\$0.60		
P/NAV	0.6x		
52 Week Low / High (C\$/sh)	\$0.30 / \$1.55		
CAPITALIZATION	Basic	Diluted	
Shares Outstanding (M)	104.6	130.7	
Market Capitalization (C\$M)	\$37.1		
Enterprise Value (C\$M)	\$31.1		
Cash (C\$M)	\$6.0		
Debt (C\$M)	\$0.0		
FYE: SEP 30	2021E	2022E	2023E
Gross Revenue (US\$M)	\$0.1	\$5.1	\$7.9
EBITDA (US\$M)	-\$1.5	\$5.5	\$9.0
CFPS (US\$/sh)	\$0.00	\$0.02	\$0.03
EPS (US/sh)	-\$0.01	\$0.03	\$0.06

STOCK CHART



RELATIVE PERFORMANCE



RELATIVE VALUATION	EV/EBITDA 2023E	P/NAV
Empress Royalty Corp.	3.5x	0.6x
Royalty Peers*	18.7x	1.3x

* S&P Capital IQ Consensus

MAJOR SHAREHOLDERS

Management & Strategic Partners (38%), Institutional Holders (32%)

DISCLOSURE CODE: 3,4

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

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

Company Description

Empress Royalty Corp. is a precious metals royalty and streaming creation company focused on adding development and production-stage royalties and streams to its portfolio. The company's current portfolio is comprised of 16 investments primarily in the Americas and Africa. Empress works through its strategic partners – Endeavour Financial in London, Terra Capital in Australia, and Accendo Banco in Mexico – to help bring unique mining finance expertise to the sector. The company was incorporated in 2020 and is headquartered in Vancouver, Canada.

Impact: Positive

Empress Royalty has executed a US\$10M gold stream agreement for the Sierra Antapite mine of Sierra Sun Group (Private) in Peru. Historical production hit ~1M oz Au before closure in 2013 and sale in late 2016. New ownership appears to have taken advantage of existing infrastructure and achieved capacity, although at lower than historical grades. We don't have all details from this private firm, but Empress appears comfortable with current operating costs. We presume they may decline further due to economies of scale from a mill expansion that the deal will fund. **Given that Sierra Antapite is in production, we view execution of this stream positively as it provides immediate cash flow to EMPR. With a strong and experienced management team, unique strategic alliances, and robust pipeline of potential investments, we believe Empress will continue to grow by adding high-quality, low risk, near-term revenue generating royalties and streams. We view growth as a key share price driver and expect EMPR shares to re-rate as its portfolio expands.**

- **Stream from a 35k Au oz/yr mine.** As throughput ramps to 1000tpd by 2022, we forecast production of ~35k oz Au/yr. A 4.5% stream should net ~1,570 oz Au pa attributable until 11k oz is achieved, and then the ongoing 1% stream should deliver 350 oz pa thereafter (through 2031).
- **We value the Sierra Antapite stream at NAV_{5%} of C\$11.5M** or C\$0.16/sh (Figure 1). We estimate initial post-tax cash flows of C\$2.4M pa, based on a US\$2,000/oz Au and a US\$400/oz stream cost. A first US\$5M tranche has been paid, and we expect a second US\$5M tranche (details on pg. 2) to be funded via debt. **As a result of these adjustments, we increase our target to C\$1.00/sh (was C\$0.90/sh).**
- **Expecting the asset to improve.** Use of proceeds are for carbon-in-carbon mill expansion from 750tpd to 1,000 tpd, underground expansion (mechanical and conventional long-hole stoping and cut-and-fill mining), tailings facility work, and some accounts payable.
- **This is the larger of Empress' two investments-in-progress** While we anticipated this US\$10M Au stream, asset particulars, terms and means of payment were unknown, and thus it was not incorporated into our model. A US\$2.5M Au stream in the works, is not in our model.
- **Preference to create royalties/ streams is a win-win.** As outlined in our initiation report ([read more](#)) due diligence is extensive, but a worthwhile de-risking as exercise as Empress (and partner Endeavor Financial) work hand in hand with mine operators to improve the asset. While time consuming, stream creation avoids competition for assets, and likely reduces cost as compared to buying in the market.

We maintain our BUY rating and increase our target to C\$1.00/sh (was C\$0.90/sh). Our target is derived using DCF valuation of two royalties and two streams to determine our NAVPS_{5%} upon which we apply a 1.6x multiple. EMPR trades at a discount to peers at 0.6x vs. 1.3x. We believe that as revenue grows, this valuation gap will close. **Upcoming catalysts:** 1) Closing of Sierra Antapite stream (Q3/21); 2) Revenue from Manica Au royalty (Q4/21), 3) Additional investments (ongoing) and 4) Revenue from Pinos Au-Ag royalty and Tahuehueto stream (Q1/22).

Figure 1: RCS NAV Breakdown

NAV Breakdown				
	Discount Rate	NAV (C\$M)	NAV/Share	% of NAV
Pinos (Au, Ag) - 1% NSR	5.0%	\$1.4	\$0.02	3.2%
Manica (Au) - 2.25% NSR	5.0%	\$5.0	\$0.07	11.3%
Tahuehueto (Ag) - 10 year stream	5.0%	\$30.6	\$0.41	68.8%
Sierra Antapite (Au) - LOM stream	5.0%	\$11.5	\$0.16	25.8%
Windfall East (Au) - 1% NSR	5.0%	\$0.0	\$0.00	0.0%
Destiny (Au) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Oxford Lake (Au) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Brookbank East (Au) - 1% NSR	5.0%	\$0.0	\$0.00	0.0%
Coldstream (Au) - 0.5% - 1.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Miner Lake (Au) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Greenoaks (Au) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Mud Lake (Au) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Empress (Au) - 1% NSR	5.0%	\$0.0	\$0.00	0.0%
Three Towers (Au) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Golden Heart (Au) - 1% NSR	5.0%	\$0.0	\$0.00	0.0%
Fisher (Cu/Zn) - 0.5% NSR	5.0%	\$0.0	\$0.00	0.0%
Other Assets	in-situ	\$0.0	\$0.00	0.0%
Corporate Adjustments	5.0%	(\$4.0)	(\$0.05)	-9.0%
Total		\$44.6	\$0.60	100%
Target			Multiple	
5% NAVPS			1.60x	
			C\$0.96	

Source: RCS Estimates

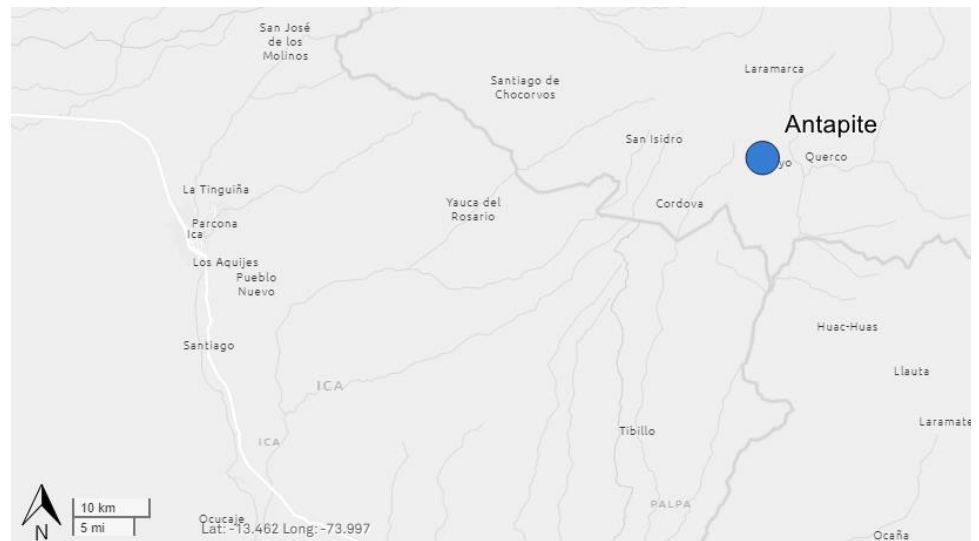
The Stream Agreement

Per the terms of the agreement, Empress will provide US\$10M for a portion of payable gold production from the Sierra Antapite Au-Ag mine, at a cost of 20% of Au spot price. The stream is applicable to 4.5% of the payable Au production for the first 11,000 oz Au, dropping to 1% thereafter for the life of mine. The investment from Empress will be used to increase the mine's processing capacity from 750tpd to 1,000tpd. The stream will be funded in two parts: 1) the first tranche of US\$5M was provided on July 28th and 2) the second US\$5M tranche will be provided by the end of Sep/21.

Asset Overview

The Sierra Antapite mine lies at an altitude range of about ~3,200m-~3,400m above sea level and is located in Huaytara province, department Huancavelica, Peru (Figure 2). It is classified as a vein-hosted low sulphization epithermal deposit that produces gold and silver as a by-product and is accessible from from the town of Los Aquijes, in the city of Ica, from where the unsurfaced section of the 130km road towards Tingue-Cordova-Antapite begins.

Figure 2: Location of the Sierra Antapite mine



Source: S&P Global Market Intelligence

The mine has been operated by the Sierra Sun Group since December 2016 when the mine was purchased from Buenaventura. Based on management's internal assessment and long-term planning, the mine has more than a five-year LOM at a rate of 1,000 tpd. Long hole stopping and cut-and-fill are the two mining methods utilized at the mine. Since initiation of operation in 2002, the mine has reported to have produced approximately 1M oz of Au.

The mine is fully permitted, has all social licenses to operate, and sells dore bars. The cyanidation and carbon-in-carbon flowsheet is straight forward, with no need for fine or ultra-fine grinding, no refractory ore and the flowsheet is "off the shelf" technology. Given this is an operating company with a track record, realized results de-risks many operating assumptions and inputs used in production forecasts derived from realized results.

Geology

The property has veins hosted in volcanic rocks and sedimentary volcanoes, from the Eocene to Oligocene age, that overlap discordant on a pre-volcanic substrate of Mesozoic sediments and also on a basement constituted by the Coastal Batholith.

There are two systems of structures, the first one on the NW-SE Andean course (current area of operation). The second system has a NE-SW trans-Andean course, represented by the veins in the Accocancha and Carmencita zones. The process plant facilities are in the area called Chocllanca.

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Disclosure Statement
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Date	Rating	Target C\$/sh	Status	%
2021-04-19	NA	NA	BUY	70%
2021-06-21	NA	NA	BUY (S)	24%
2021-06-30	BUY	0.90	HOLD	0%
			SELL /Tender	0%
			NA	5%
			Under Review	2%

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Company Name	Ticker Symbol	Disclosures
First Cobalt Corp.	TSXV: FCC	1,2,3,4

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