

Egan Street on road to riches

SPINIFEX

■ Ben Harvey



Emerging WA gold producer Egan Street Resources has received a shot in the arm from an analyst report suggesting the stock could quadruple if the company gets its Rothsay project up and then gets lucky with its exploration program.

Mark Gordon's bullish view of Egan Street, contained in an Independent Investment Research note, is sure to trigger interest in Marc Ducler's junior.

Ducler is going flat out to reopen the historic Rothsay gold

mine, in the Mid West, which was first mined in 1894 but has not been in production since it closed under the ownership of Metana Minerals more than 25 years ago. Almost three-quarters of the mapped territory is yet to be drilled.

IIR puts an initial valuation of 44¢ on Egan Street shares, about 60 per cent higher than yesterday's closing price of 28.5¢.

That in itself would be a tasty return for those who have taken a punt but the real upside, IIR reckons, is the potential to grow inventory through exploration.

If a few ducks line up for Ducler, shares in Egan Street could gallop ahead to more than \$1.

"We have completed a valuation for Egan Street, with this resulting in a risked base-case company valuation/price target of \$60 million, or 44¢ a share on a share base diluted for option conversions and which uses a conceptual funding model for Rothsay," the IIR report noted.

"We see considerable upside in this. Our unrisks valuation is \$143 million, or \$1.03 a share and we would expect this to increase with positive results from ongoing work and de-risking as the project advances."

Rothsay has a resource of 307,000oz grading 10.9 grams per tonne — a concentration that gives Ducler a lot of room for error in his business model and

still be able to turn a nice profit. He does, however, need to get over the problem of a 43 per cent dilution rate because of the narrow nature of the Rothsay mineralisation.

The company's pre-feasibility study found it would be low-cost and boast an internal rate of return of 57 per cent based on a capital cost of \$34 million.

Raising \$34 million in Perth a couple of years ago was no easy feat but the amount of money trying to find a home has ballooned since then and few would doubt Ducler's ability to successfully rattle his tin. When he does, his mine will enjoy all-in sustaining costs estimated at \$1020/oz.

The IIR report noted that the robust numbers in the study were based on a more miserly resource estimate.

"Additional drilling has highlighted the resource expansion potential, with additional scope for resource increases through new discoveries on the over-14km strike length of prospective shears within the property," IIR said. "The majority of this, despite the fact that there are numerous historic workings, has seen no drilling."

Investors will likely be kept well informed about how things are progressing courtesy of a steady flow of drilling and metallurgical results and completion of the definitive feasibility.