

RNC Minerals (TSX:RNX)
H2 2019 Guidance Supports Likelihood for Positive Q3 Cash Flow

Operations Update
October 16, 2019

(Currency is CAD\$ unless noted otherwise)

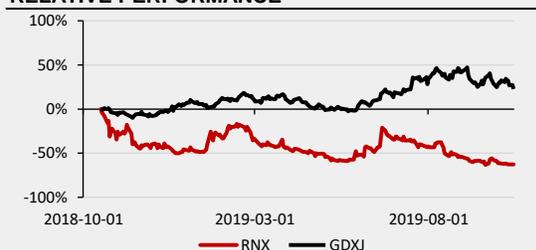
Closing Price (\$/sh)	\$0.34
Fair Value Estimate (\$/sh)	\$1.00
52 Week Low / High	\$0.33 / \$0.91

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	605.9	650.5
Market Capitalization (\$MM)	\$203.0	
Enterprise Value (\$MM)	\$205.9	
Cash and Cash Equivalents (\$MM)	\$32.4	
Last reported debt (\$MM)	\$35.4	

STOCK CHART



RELATIVE PERFORMANCE



RELATIVE VALUATION	P/NAV
Peer Group Average*	0.33x
Royal Nickel Corporation	0.36x

*Capital IQ Consensus

MAJOR SHAREHOLDERS

Management (9.88%), Westgold Resources Limited (9.39%), Van Eck Associates Corporation (4.5%)

DISCLOSURE CODE: 1,2,3,4

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

Source: RCKS, Company Information, Capital IQ

Company Description

RNC Minerals is a multi-asset mineral resource company with a portfolio of nickel, cobalt, and gold production and exploration properties. RNC has a 28% interest in a nickel joint venture with Waterton that owns the Dumont Nickel-Cobalt Project located in the Abitibi region of Quebec which contains the second largest nickel reserve and eighth largest cobalt reserve. RNC has a 100% interest in the producing Beta Hunt mine where the company has discovered a high-grade coarse gold structure from a new development area.

Impact: Positive

RNC Minerals reported guidance for H2 2019, which supports our view that the company has started generating positive cash flow from operations. Translating this guidance to implied EBITDA should result in the stock reversing the recent share price weakness (both relative and absolute). **In our view, this guidance indicates two important things: 1) that the company is now generating positive cash flow from operations and is unlikely to need further outside capital, and 2) that it is materially undervalued at this early stage of the ramp-up.**

Highlights:

- **Guidance in line with Q3 operations.** RNC has guided for 42-49koz of production at AISC of US\$1,150-1,250/oz. This is in line with the run-rate implied by Q3 production of 24.2koz. We would note this management team has been historically conservative with guidance. Additionally, the AISC cost guidance, is in line with our view the company is likely to generate positive cash flow in Q3. We believe that if this is demonstrated with Q3 financial results, it should reverse RNC's share price underperformance.
- **With gold at US\$1480/oz, RNC is poised to be posting cash-flow.** Using the company's previous accounting approach (exploration, operating costs G&A and some capital included), this implies that the company is not generating positive cash flow from operations and potentially adding cash to the balance sheet. In our view this guidance implies annual run-rate EBTIDA of ~C\$50-60M or less than 4x EV/EBITDA. Considering the premier jurisdiction and a long resource life, we think RNC should trade closer to peers at 5.5x. We highlight that operations are still ramping up and should ultimately reach +100koz/year at sub US\$900/oz cash costs C\$75M of EBTIDA at the current gold price or an EV/EBITDA multiple below 3x.
- **Key to re-rating is delivering on announced guidance.** The first opportunities being October monthly production and Q3 financial results, both expected in early November. We believe that as the company executes on its plan it should progressively re-rate towards peers.

Valuation:

Taking another step towards our \$1/sh fair value estimate. We are maintaining our fair value estimate for RNC at C\$1.00/sh, based on our probability weighted valuation. We plan to move to a DCF based valuation to better reflect RNC's restart of its operations and our outlook on the company. We believe that as the company executes on its short-term plan and lays out its longer-term plan for Beta Hunt and Higginsville it should progressively re-rate. **Upcoming catalysts** include: 1) Q3 2019 financial results (Q4/19); 2) Maiden reserves (Q4/19); and 3) 2020 guidance (Q1/20).

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Company Specific Disclosure Details

Company Name	Ticker Symbol	Disclosures
RNC Minerals Corp.	TSX:RNX	1,2,3,4

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