

# Gran Colombia Gold Corp. (TSX: GCM)

## Record Free Cash Flow & A 300% Dividend Increase in Q3/20

### Financial Results

November 13, 2020

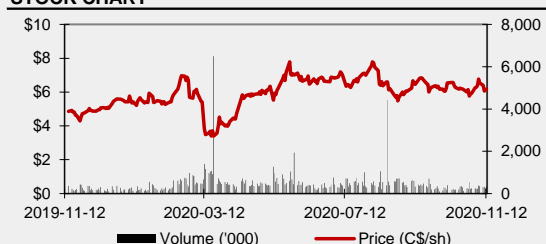
(Currency is C\$ unless noted otherwise)

Closing Price (C\$/sh)	\$6.17
Rating	BUY
Target (C\$/sh)	\$16.50
Return to Target	167%
52 Week Low / High (C\$/sh)	\$2.88 / \$8.10

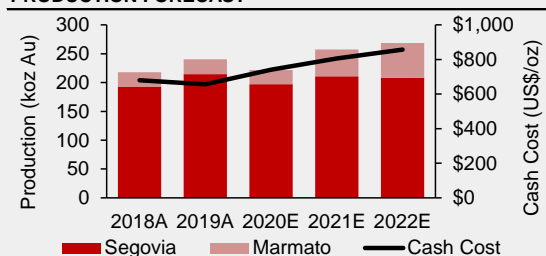
CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	61.6	89.2
Market Capitalization (C\$M)	\$380.0	
Enterprise Value (C\$M)	\$247.7	
Cash (C\$M)	\$184.3	
Debt (C\$M)	\$52.0	

FYE: DEC 31	2019A	2020E	2021E
Au Produced (000's oz)	240	222	257
Cash Costs (US\$/oz)	\$656	\$741	\$805
CAPEX (US\$M)	\$52	\$27	\$92
Gross Revenue (US\$M)	\$326	\$396	\$477
EBITDA (US\$M)	\$143	\$195	\$241
CFPS (US\$/sh)	\$2.16	\$2.46	\$2.60
EPS (US\$/sh)	\$0.92	\$1.03	\$2.35

#### STOCK CHART



#### PRODUCTION FORECAST



VALUATION	(C\$M)	(C\$/sh)
2019 EV/EBITDA	\$ 190	4.0x
2020 EV/EBITDA	\$ 262	4.0x
1yr FWD NTM EV/EBITDA	\$ 329	4.0x
2021 EV/EBITDA	\$ 321	4.0x
2022 EV/EBITDA	\$ 307	4.0x

#### MAJOR SHAREHOLDERS

Management (4.41%), MM Asset Management Inc (12.45%), Sprott, Eric Steven (5.4%), Iacono, Serafino (1.9%), Sprott Asset Management, . (1.54%), Jarislowsky, Fraser Limit. (1.03%)

#### DISCLOSURE CODE:

1, 2, 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; and the Marmato gold project situated in Colombia.

#### Impact: Positive

Gran Colombia announced its Q3/20 financial results, reporting record financial metrics and a significant dividend increase. This performance was driven by solid operating results from Segovia, along with higher gold prices. The company is also on-track to meet revised 2020 guidance. **We expect Gran Colombia's share price to be driven by steady operating results coupled with exploration success at Segovia.**

#### Highlights:

- Strong gold price translates to the income statement and balance sheet (Figure 1).** Gran Colombia hit five new record highs including Revenue of US\$113.1M (+47% QoQ, 36% YoY), Adjusted EBITDA of US\$56.7M (+51% QoQ and YoY) and Free Cash Flow (FCF) of US\$53.4M (+1314% QoQ, +172% YoY). We note that with the exception of Revenue and FCF, the Q3 results were a slight miss versus our estimates owing to higher operating costs. We expect costs to improve in Q4/20 with both operations returning to more typical run-rates despite the necessary COVID-19 protocols continuing to impact costs.
- Annual dividend increased by 3x; balance sheet expected to further strengthen.** The company increased its annual dividend by changing its payment frequency from C\$0.015/sh every quarter (C\$0.06/sh per annum) to C\$0.015/sh every month (C\$0.18/sh per annum). The increased dividend represents a ~3% dividend yield but only accounts for ~12% of the company's 2021E FCF of US\$68M. If gold prices continue to hold at current levels, Gran Colombia remains in a position to capitalize on growth opportunities, return additional capital to shareholders and/or reduce the debt on its balance sheet by redeeming part or all of its US\$35.5M gold-linked notes.
- Focus should be shifting to exploration results.** The company currently has eight drill rigs turning at Segovia, with its 3,500m diamond drilling campaign expected to continue into 2021. We believe that exploration will succeed in expanding the reserve base at Segovia while maintaining current grades. We see reserve growth as a key catalyst for Gran Colombia closing its valuation gap relative to peers.

#### Valuation:

**We maintain our BUY rating and price target of C\$16.50/sh (unchanged).** Our target is based on 4.0x our one-year forward, NTM EBITDA estimate of C\$329M (was C\$327M). Gran Colombia trades at 1.0x 2021E EV/EBITDA and 0.32x NAV versus peers at 2.9x and 0.52x, respectively. We believe that the combination of continued strong FCF generation and demonstrating that higher-grade areas are likely to continue at Segovia, should help close the valuation gap to peers. **Upcoming Catalysts:** 1) Exploration results at Segovia (ongoing) and Marmato (ongoing), 2) 2021 guidance (Q1/21) and 3) Q4 Operating and Financial results (Q1/21).

### Q3/20 Financial Results:

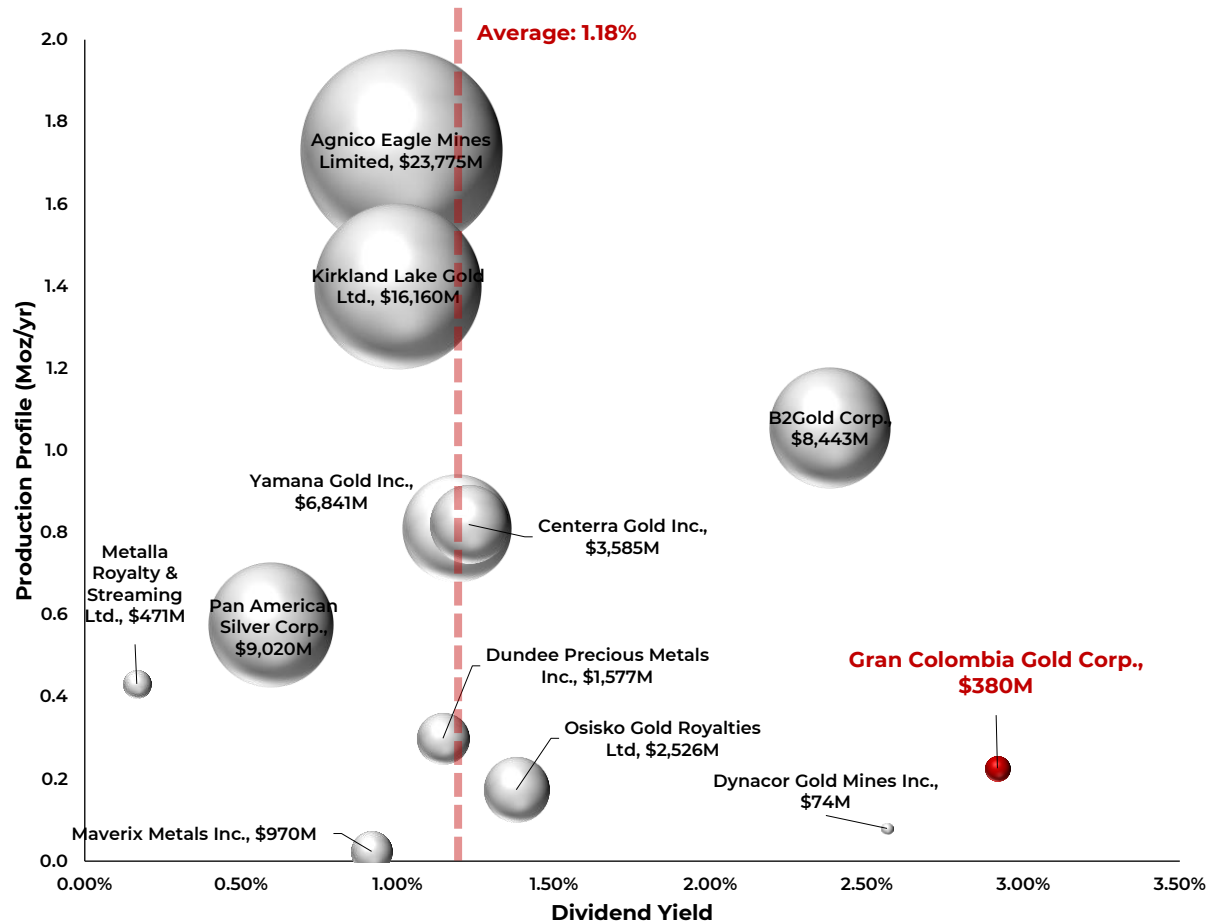
**Strong set of quarterly results.** Given the increase in the gold price of ~US\$200/oz for the quarter, we were expecting a QoQ and YoY increase in financial metrics across the board. While the impact from COVID-19 was largely realized in Q2, our estimates did not account for its lingering effect this quarter. As a result, Total Cash Costs of US\$796/oz (RCS est, US\$691/oz), EBITDA of US\$55.8M (RCS est US\$60.1M) and EPS of US\$0.29/sh (RCS est US\$0.43/sh) missed our expectations. With Segovia expected to produce just under 200,000 oz, the company remains on track to meet its annual production guidance at both, Segovia and Marmato. Assuming gold prices continue to hold at current levels, mining rates are maintained, and costs from COVID-19 normalize in Q4/20, we expect another steady quarter of results from the company to round out its FY/20 results.

**Figure 1: Gran Colombia Quarterly Estimates**

	Updated Q3 2020A	Previous Q3 2020E	Change	Q2 2020A	Q1 2020A	Q4 2019A	Q3 2019A	Q2 2019A	Q1 2019A
Segovia Production (koz)	51.6	51.6	0%	44.4	50.3	58.2	50.5	51.6	54.4
Marmato Production (koz - 100% basis)	6.9	6.9	0%	3.9	5.9	7.1	6.2	6.3	6.2
Total Production (koz - 100% basis)	58.5	58.5	0%	48.2	56.2	65.2	56.7	57.9	60.6
Total Cash Cost (US\$/oz)	\$796	\$691	15%	\$713	\$667	\$683	\$684	\$655	\$601
Gold Price (US/oz)	\$1,928	\$1,928	0%	\$1,725	\$1,587	\$1,487	\$1,479	\$1,312	\$1,305
Revenue (US\$M)	\$113.1	\$107.4	5%	\$77.1	\$101.0	\$88.5	\$83.0	\$77.6	\$77.4
EPS (US\$/sh)	\$0.29	\$0.43	-33%	-\$0.30	\$0.42	-\$2.86	\$0.18	\$0.02	\$0.16
EBITDA (US\$M)	\$55.8	\$60.1	-7%	\$32.9	\$53.4	\$38.8	\$37.9	\$32.1	\$34.3
FCF (CFO+CFI) (US\$M)	\$52.4	\$38.9	35%	-\$8.4	\$14.3	\$12.6	\$15.1	\$5.0	\$8.6
CFPS (US\$/sh)	\$0.90	\$0.90	1%	\$0.00	\$0.78	\$0.70	\$0.70	\$0.38	\$0.38
Cash (US\$M)	\$138.2	\$230.8	-40%	\$87.7	\$99.7	\$84.2	\$63.3	\$51.3	\$40.2
CAPEX (US\$M)	\$14.3	\$16.6	-14%	\$10.8	\$14.0	\$12.7	\$14.2	\$8.0	\$7.8

Source: Company Reports, RCS Estimates

**Figure 2: Bubble chart showing Production Profile x Dividend Yield of mid-tier peers (bubble size corresponds to market capitalization)**



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

Note: For royalty companies production profile corresponds to sales volume.

## Financial and Operating Summary: Gran Colombia Gold Corp.

### FINANCIAL DATA

<b>Ticker</b>	<b>TSX:GCM</b>
<b>Current Price (C\$/sh)</b>	<b>C\$6.17</b>
<b>52 Week Low / High (C\$/sh)</b>	<b>\$2.88 / \$8.10</b>
<b>Target Price (C\$/sh)</b>	<b>\$16.50</b>
<b>Shares Outstanding (M)</b>	<b>61.6</b>
<b>Market Capitalization (C\$M)</b>	<b>\$380.0</b>
<b>Cash &amp; Cash Equivalents (C\$M)</b>	<b>\$184.3</b>
<b>Total Debt (C\$M)</b>	<b>\$52.0</b>
<b>Enterprise Value (C\$M)</b>	<b>\$247.7</b>

### FINANCIAL DATA

Capital Structure	Shares Millions
Shares Outstanding	61.6
Options	1.8
Warrants	21.6
Fully Diluted Shares	84.9

Ownership (May 2019)	Shares O/S (M)	% O/S
Management	2.7	4.4%
MM Asset Management Inc	7.7	12.5%
Van Eck Associates Corporation	2.8	4.6%
AGF Management Limited	1.6	2.7%
Iacono, Serafino	1.6	2.7%

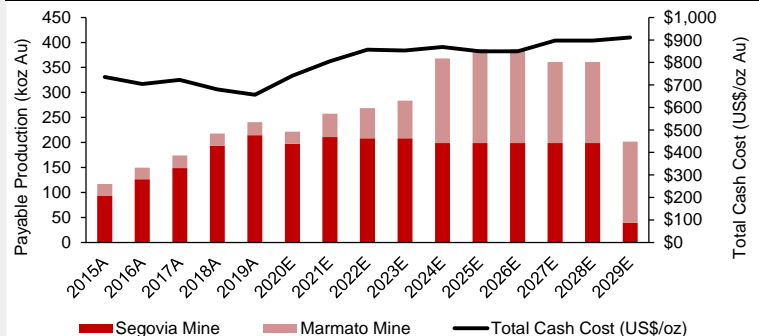
Financial Summary (US\$)	2018A	2019E	2020E	2021E	2022E	2023E
Year-end December 31st						
Shares O/S (M)	48.3	53.6	61.6	61.6	61.6	61.6
EBITDA (US\$M)	\$102	\$143	\$195	\$241	\$230	\$234
FCF (CFO+CFI) (US\$M)	\$41	\$52	\$127	\$68	-\$26	\$33
EPS (US\$/sh)	-\$0.11	\$0.69	\$0.76	\$1.76	\$1.69	\$1.58
CFPS (US\$/sh)	\$2.02	\$2.16	\$2.46	\$2.60	\$2.13	\$2.32
EV/EBITDA	1.9x	1.3x	0.9x	0.8x	0.8x	0.8x
P/CFPS	2.4x	2.2x	1.9x	1.8x	2.2x	2.0x

Income Statement (US\$M)	2018A	2019E	2020E	2021E	2022E	2023E
Revenue	281.7	326.4	396.3	477.5	488.0	504.2
Operating Expenses	151.7	157.2	174.9	213.7	237.9	250.0
Depreciation	54.6	32.3	26.4	32.0	35.4	45.5
General & Admin	15.5	22.9	24.6	23.2	19.9	20.6
Net Income	(2.9)	34.8	45.4	108.5	104.0	97.0

Balance Sheet (US\$M)	2018A	2019E	2020E	2021E	2022E	2023E
Cash & Equivalents	35.6	84.2	281.8	314.6	251.4	259.8
Debt	86.7	64.8	97.0	81.8	64.0	52.1

Cash Flow (US\$M)	2018A	2019E	2020E	2021E	2022E	2023E
Operating CF	79.7	103.3	154.1	159.9	131.4	143.0
Financing CF	(7.5)	(3.0)	79.5	(35.2)	(37.0)	(24.5)
Investing CF	(38.8)	(51.6)	(26.9)	(91.9)	(157.6)	(110.1)
Change in Cash	32.4	48.6	197.6	32.8	(63.2)	8.4

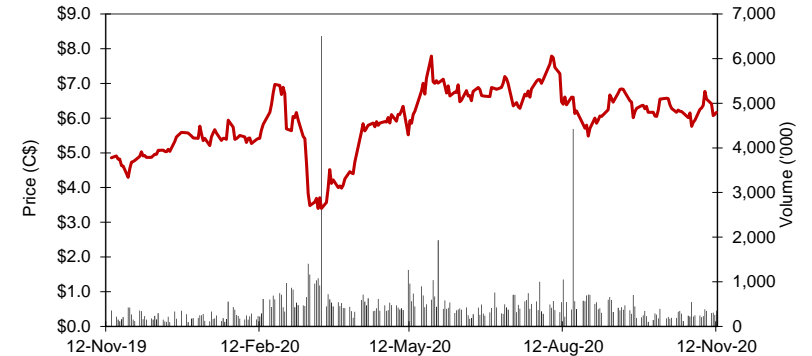
### PRODUCTION PROFILE



Priced as of market close on November 12, 2020.

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

### STOCK CHART



### TECHNICAL ASSUMPTIONS

	2018A	2019E	2020E	2021E	2022E	2023E
Gold Price (US\$/oz)	\$ 1,278	\$ 1,396	\$ 1,785	\$ 2,000	\$ 2,000	\$ 2,000
Silver Price (US\$/oz)	\$ 16.53	\$ 16.21	\$ 19.47	\$ 25.00	\$ 25.00	\$ 25.00
Canadian : US\$ exchange rate	\$ 0.77	\$ 0.75	\$ 0.74	\$ 0.75	\$ 0.75	\$ 0.75

RESOURCE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	7.07	10.94	2,484
Marmato	93.20	2.84	8,582
Global Resource	100.27	3.41	11,066

RESERVE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	1.94	11.00	688
Marmato	-	-	-
Global Reserves	1.94	11.00	688

Segovia (RCKS Mine Model)	5.78	10.69	1,988
Marmato (RCKS Mine Model)	63.00	2.88	5,829

### VALUATION

Year	EBITDA (C\$M)	Multiple	Valuation (C\$/sh)
2019 EV/EBITDA	\$190	4.0x	\$10.21
2020 EV/EBITDA	\$262	4.0x	\$13.47
1yr FWD NTM EV/EBITDA	\$329	4.0x	\$16.46
2021 EV/EBITDA	\$321	4.0x	\$16.10
2022 EV/EBITDA	\$307	4.0x	\$14.02

### NET ASSET VALUE

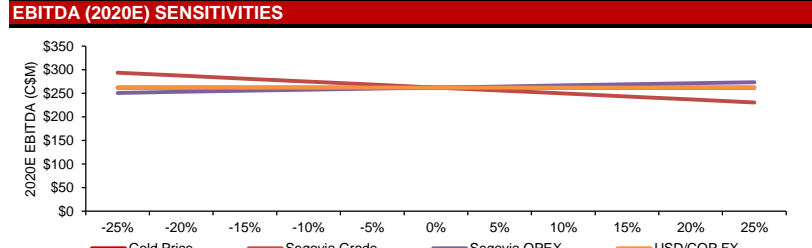
	Discount Rate	(C\$M)	(C\$/Sh)
Segovia (100%), Colombia	5%	\$ 1,796	\$ 20.16
Marmato (53.6%), Colombia	5%	\$ 821	\$ 9.21
Taxes	5%	\$ (743)	\$ (8.34)
Other Assets	in-situ	\$ 91	\$ 1.02
Corporate Adjustments	5%	\$ (267)	\$ (2.99)

<b>Total NAV</b>	<b>\$ 1,698</b>	<b>\$ 19.05</b>
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### COMPARABLES

Company	Ticker	Price C\$	EV/EBITDA FY2020E	EV/EBITDA FY2021E	P/NAV
Pretium Resources Inc.	TSX:PVG	\$15.87	8.5x	6.0x	0.97x
TMAC Resources Inc.	TSX:TMR	\$1.15	2.5x	1.3x	0.25x
Wesdome Gold Mines Ltd.	TSX:WDO	\$11.10	12.1x	6.4x	0.89x
Guyana Goldfields Inc.	TSX:GUY	\$0.00	0.0x	0.0x	0.00x
Torex Gold Resources Inc.	TSX:TXG	\$19.53	2.8x	1.9x	0.60x
Argonaut Gold Inc.	TSX:AR	\$2.45	3.1x	1.5x	0.39x
Average			4.8x	2.9x	0.52x
Gran Colombia Gold Corp.	TSX:GCM	\$6.17	1.3x	1.0x	0.32x

### EBITDA (2020E) SENSITIVITIES





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Company Name	Ticker Symbol	Disclosures
Gran Colombia Gold Corp.	TSX: GCM	1,2,3,4

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