UBS

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Australian Gold

RRL & VAU: Bigger is better (in mid-cap gold)

Equities

Australasia

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Gold sector consolidation continues

Regis Resources and Vault Minerals have announced a "merger of equals" deal, to create Australia's third-largest ASX gold producer with >700kozpa forecast production. Spanning 5 operating assets in WA and 2 development projects (6Moz reserves/ 21Moz resources), the combined entity will be debt free, virtually hedge-free, with pro forma cash & bullion of ~A$1.9bn & annualizing ~A$1.7bnpa FCF. Individually, these two companies screen among the cheapest & highest yielding mid-cap producers in our ASX-gold coverage. While synergies seem largely limited to the ~A$500m of tax benefits, the balance sheet and operating base position the group well to: 1) fund organic growth (Sugar Zone/McPhillamys); 2) pursue inorganic options to extend mine life & improve margins to facilitate a re-rating; and 3) maintain a material returns framework (RRL 25-50% FCF). We retain Buy ratings on both RRL and VAU (noting no changes to modelling), which were trading at 18%/49% discounts to our NPVs respectively pre-deal, and the transaction implying a ~10% premium to VAU's last close.

Deal terms & interloper risk

Via a scheme of arrangement, RRL would acquire 100% of VAU in exchange for 0.6947 RRL shares per VAU share and no cash consideration. RRL and VAU shareholders would own ~51% / 49% of MergeCo respectively, with the exchange ratio adj. for pre-completion dividends (capped at 0.7183). The deal includes reciprocal ~A$50m break fees and a relatively generous ~A$500m material adverse change (MAC) on net assets (~10% of each company's market cap). With its clear ambition to consolidate Leonora–Laverton, Genesis has in the past been associated with VAU and could be viewed as a potential interloper (link), with the deal spread suggesting some risk here.

What's next...grow to ~800kozpa or rationalise?

On UBSe forecasts, the group could see ~710koz in FY26, growing to ~800koz by FY28, albeit with limited cost out and AISC ranging between A$2,900–3,150/oz over the next 5yrs. RRL has highlighted A$500m in corporate tax benefits from the asset write up. As with many large mergers, portfolio rationalisation may follow; and the strengthened balance sheet could provide flexibility to consolidate Tropicana (link) and prioritise longer-life, higher-quality assets, notably Leonora (200–250kozpa), Tropicana (~450kozpa if consolidated), McPhillamys (~200kozpa) and Duketon (~200kozpa).

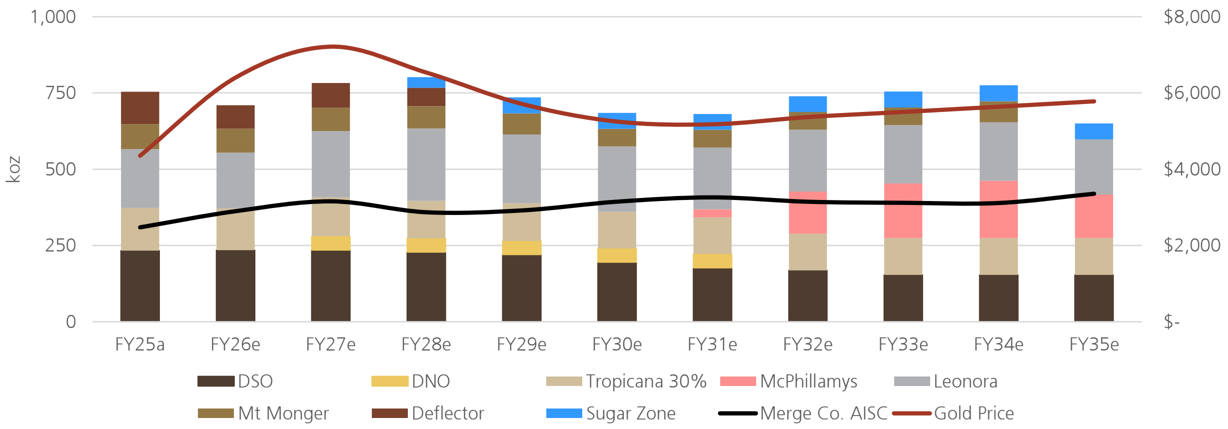
Figure 1: Updated ASX gold producer comps

Coverage		Market Cap (A$m)	Share Price (A$/sh)	Price Target Current	Up/Dw to PT (%)	Rating Current	EV/EBITDA 2026	EV/EBITDA 2027	EV/EBITDA 2028	FCF Yields (%) 2026	FCF Yields (%) 2027	FCF Yields (%) 2028
NEM	Newmont Corporation	165,228	151.41	195.00	29%	Buy	5.9	6.2	6.9	8.4%	8.3%	8.1%
NST	Northern Star Resources	29,643	20.75	24.35	17%	Buy	7.5	5.5	5.3	2.7%	6.8%	5.8%
EVN	Evolution Mining	24,398	12.02	13.20	10%	Neutral	8.1	6.1	5.8	3.7%	8.2%	7.1%
	Merge Co.	*10,012*					*3.3*	*2.3*	*2.1*	*12.9%*	*19.2%*	*14.8%*
PRU	Perseus Mining	7,303	5.39	6.75	25%	Buy	5.7	3.8	2.7	0.3%	7.8%	16.5%
GMD	Genesis Minerals	6,686	5.92	10.15	72%	Buy	6.9	5.2	3.6	7.9%	8.2%	11.6%
RMS	Ramelius Resources	6,453	3.38	5.00	48%	Buy	8.6	5.0	3.5	2.3%	5.8%	8.2%
RRL	Regis Resources	5,125	6.79	8.75	29%	Buy	3.2	2.3	2.6	13.5%	16.3%	6.0%
VAU	Vault Minerals	4,887	4.67	7.05	51%	Buy	4.0	2.3	1.6	12.1%	22.2%	23.9%
BGL	Bellevue Gold	2,277	1.54	2.05	33%	Buy	6.9	2.7	2.8	5.7%	17.6%	14.7%
WGX	Westgold Resources	5,073	5.37	8.50	58%	Buy	4.1	2.2	1.6	11.9%	19.4%	22.0%
OBM	Ora Banda Mining	2,439	1.27	1.50	18%	Neutral	4.8	3.2	3.4	9.4%	8.9%	6.5%
PNR	Pantoro Gold	1,244	3.16	6.20	96%	Buy	3.2	1.7	0.7	13.0%	15.7%	33.2%
CYL	Catalyst Metals	1,319	5.06	9.75	93%	Buy	3.4	1.9	1.6	5.8%	15.9%	14.9%
	Simple Average of Producers						5.8	4.0	3.5	7.4%	12.7%	12.6%

Source: UBS estimates

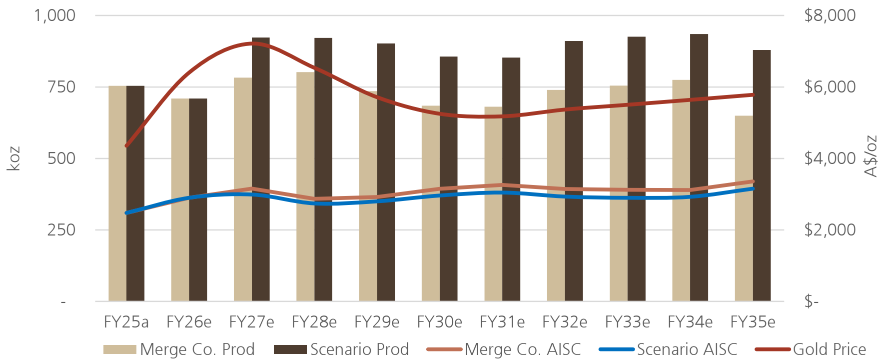
KEY MERGER CHARTS

Figure 2: Combined production & AISC for Merge Co. on UBS modelling



Source: UBS estimates, company data

Figure 3: Given mergers often drive strategic realignment, we highlight a high-level scenario involving divestment of VAU's non-core assets and consolidation of Tropicana



Source: UBS estimates. *Scenario in graph reflects divesting Mt Monger, Deflector & Sugar Zone, in addition to consolidating the remaining 70% in Tropicana.*

Indicative unit cost savings are relatively modest at ~A$100–200/oz when factoring in potential changes to asset mix, noting ongoing strong margins on UBSe gold price forecast

Figure 4: On an exchange-ratio basis, the proposed deal looks broadly in line with market expectations

Source: Company data, Factset

The proposed deal closes an ~8% spread between their respective equity prices, noting VAU & RRL were trading at 18%/49% discounts to our NPVs respectively pre-deal announcement

Valuation Method and Risk Statement

Our valuations are based on DCF, using a long term gold price of ~US$3,250/oz. We point out to investors the potential risks inherent in the mining sector, including, but not limited to, the volatile nature of commodity prices and currencies, which may differ materially from expectations. Furthermore, the sector is exposed to political, financial and operational risks, each of which has the potential to significantly impact company/industry performance.

RRL: Our price target is based on DCF, with a 6% WACC and a US$3,250/oz long term gold price. Investment risk inherent in the resource sector includes, but is not limited to movement of commodity price and currency which may differ materially from the assumptions used in this report. Furthermore, the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry performance. Mid/small cap gold miners have added volatility in reserve extension risks. RRL have limited mine life and are therefore dependent on exploration and resource to reserve conversion to sustain operations.

VAU: Our price target is based on DCF with a 6% WACC and a US$3,250/oz long-term gold price. Investment risk inherent in the resource sector includes, but is not limited to movement of commodity price and currency which may differ materially from the assumptions used in this report. Furthermore, the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry performance. Mid/small cap gold miners have added volatility in reserve extension risks. Risks beyond the base case to our forecasts include delays to production ramp up, delivery and potential cost escalation in late stage delivery.