

# True North Gems

**Metals & mining**
**30 September 2014**

## Financed, in construction & due to start 2015

Taking the market by surprise is surely the continued turnaround in fortunes for True North Gems (TGX). Mine construction is now underway, which follows completion of its project financing, announced on 11 September 2014, and the approval of its mine permit on 3 March 2014. Construction and first cash flows are anticipated during 2015.

## Capex met via JV funding and project cash flows

True North Gems has announced a C\$11m financing agreement with its JV partners, Leonhard Nilsen & Sonner A/S (LNS) and LNS Greenland (LNSG). Under a Letter of Agreement signed between LNS and TGX, LNS will invest C\$3m in TGX through the purchase of 28.6m Class A common shares at C\$0.105 per share. LNS Greenland will purchase 7% of TGX's operating subsidiary True North Gems Greenland for US\$3m, increasing its total JV interest to 27%. The remaining balance of up to US\$5m will take the form of a capital loan to TGX paid back over the term of the mine life. The US\$11m financing package follows the initial US\$23m earn-in by LNSG in August 2013, which outlined LNSG's commitment to complete planning, civil engineering and investing of infrastructure capital to earn a 20% JV interest. It is our understanding that certain other items of processing machinery will be vendor financed and paid back through cash flows, which makes up the US\$4m shortfall in capex, to US\$38m. With all construction capex satisfied, first production is targeted during (probably H2) 2015.

## Marketing now key to securing revenues

The JV agreement sees LNS handle all development and mining. This leaves TGX to concentrate on marketing the extracted gemstones. TGX's CEO Nick Houghton is best positioned to complete this task. His experience spans 40 years in the marketing, retail and wholesale aspects of the gemstone industry. This includes establishing his own operation in 1994, Elan Diamonds, which he guided to its successful merger in 2001. We expect TGX to announce its selling strategy in due course, which will be pivotal to maximising future revenues from Aappaluttoq.

## Valuation: Marketing key to upside

Aappaluttoq has a current nine-year LOM, with total capex estimated by TGX at c US\$38m and average EBITDA after ramp-up of US\$12.91m pa. TGX calculates a post-tax base case NPV<sub>8</sub> of US\$15.6m, rising to between US\$20.6m and US\$71.4m depending on successful marketing and pricing of its rubies. We will undertake a detailed financial analysis when we initiate coverage of TGX in Q414.

### Historical financials

Year end	Revenue (C\$m)	PBT (C\$m)	EPS (C\$)	DPS (C\$)	P/E (x)	Yield (%)
12/10	0.0	(3.4)	(0.03)	0.00	N/A	N/A
12/11	0.0	(1.9)	(0.01)	0.00	N/A	N/A
12/12	0.0	(1.1)	(0.01)	0.00	N/A	N/A
12/13	0.0	(1.7)	(0.01)	0.00	N/A	N/A

Source: Company accounts

**Price C\$0.12**
**Market cap C\$32m**

US\$0.90/C\$

### Share price graph



### Share details

Code	TGX
Listing	TSX-V
Shares in issue	268.7m

### Business description

True North Gems intends to develop its 100% owned and exploitation (mining) permitted Aappaluttoq ruby and pink sapphire mine in Greenland.

### Bull

- Mine financed with construction underway.
- Experienced Arctic operator in TGX's JV partner LNS Greenland should de-risk winter construction.
- Record ruby prices achieved in 2013. First ruby prices (Gemfields) made publically available in June 2014, realising an average carat price of US\$18.43/ct. TGX PFS used US\$0.08/ct.

### Bear

- Marketing efforts will be crucial to expansion and realising additional value.
- Potential delays to construction with impending winter in Greenland. This should be somewhat mitigated through LNSG's Arctic experience.
- General macroeconomic outlook for miners still fragile, although TGX plays to a buoyant luxury goods market.

### Analysts

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