October 18, 2023

Oroco Resource Corp. (OCO-CN, ORRCF)

Santo Tomas PEA Illustrates a World-Class Copper Project

Event

We are updating our valuation methodology for Oroco Resource Corp. given the recently announced Preliminary Economic Assessment for the flagship Santo Tomas project. Given that we now have a certain level of understanding for both process methodology, associated costs and resulting economics, we can now with a higher degree of confidence establish a 12-month target using a full $NPV_{8\%}$ DCF valuation model (as opposed to a previously used $0.03/lb in-situ valuation). Our resulting 0.25x $NAV_{8\%}$ price objective equates to +215% upside from the most recent close.

Details

- **Robust PEA Economics –** The PEA envisions a 20.1 year LOM operation producing a total of 4,749M lbs of payable copper. Assuming a LT copper price of $3.85/lb, along with $13.50/lb molybdenum, $1,700/ounce gold and $22.50/ounce silver, a pre-tax $NPV_{8\%}$ of $2.33B was estimated for Santo Tomas (or $1.24B post-tax).
- **Pit Constrained Resource –** Though an updated MRE was also announced (Indicated Cu resource increasing to 561.1MT at 0.37% CuEq from 487.3MT at 0.36% CuEq previously, a corresponding decrease to the Inferred resource was booked, decreasing to 549.1Mt at 0.34% from 599.9Mt at 0.36% CuEq previously). Recall that for the PEA, the pit constrained resource amounted to 387.9MT at 0.34% Cu in the Indicated category along with 459.7MT at 0.30% Cu in the Inferred category.
- **World Class Copper Deposit –** We highlight that the PEA has now solidified Santo Tomas as a robust project exhibiting similar after-tax IRR and average annual production rates as numerous other prestigious PEA/PFS projects such as Yellowhead (Taseko Mines), Taca Taca (First Quantum) and Galore Creek (Teck Resources, Newmont Mining).
- **Next Steps –** We expect a financing on back of this PEA in order to continue funding the drilling program needed to advance the project to full PFS. An additional ~20,000m spread over 12-18 months should suffice to reach a PFS level project.

Conclusion

As per our current Santo Tomas valuation (85.5%), we use a 0.25x $NAV_{8\%}$ target multiple which forms the basis for our 12-month price objective which equates to C$2.15 per share (rounded). Underpinned by our LT copper price estimate of $4.35/lb, our price objective equates to approximately +215% upside from the most recent close. We take a slightly more conservative approach with regards to C1 costs, recoveries and overall LOM production however our project level estimates remain similarly as robust: a pre-tax $NPV_{8\%}$ of $1.892B (IRR of 22.8%) along with an after-tax $NPV_{8\%}$ of $1.037B (IRR of 17.2%). Oroco shares currently trade at 0.08x NAV which is comparable to numerous PEA level copper developers. The full note and details can be found here:

Company Profile

Sector	Mining
Sub-Sector	Copper
Ticker	OCO
Ticker	ORRCF
Current Price ($)	C$0.68
12-Mth Price Objective ($)	C$2.15
Potential Upside	215%
Mkt Cap, Basic ($M)	$106.4M
Mkt Cap, FD ($M)	$121.2M
EV ($M)	$107.6M
Shares O/S Basic (M)	216.1M
1-Mth Return	+0.0%
3-Mth Return	-6.9%
YTD Return	-25.3%

Santo Tomas	2023e	2024e	2025e
Cu Production lbs '000	-	-	-
LOM Production lbs	-	-	-
LOM avg. C1 cost$/lb	-	-	-
LOM avg. AISC$/lb	-	-	-

Cu - M&I	Tons (Mt)	M lbs
Santo Tomas	561.1	4,077

Cu - Inferred	Tons (Mt)	M lbs
Santo Tomas	549.1	3,729

Company Description

Oroco Resource Corp is a TSXV and OTCQB listed copper company advancing the 85.5%-owned Santo Tomas project, located in Sinaloa, Mexico. Given a recently announced MRE totaling 8.74B CuEq lbs (7.81B Cu lbs), Santo Tomas ranks as one of the larger copper deposits located anywhere in the Americas.

2-Year Stock Chart

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