



FOCUS CAPITAL  
— MANAGEMENT —

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# Focus Capital Management

We focus and concentrate our time, energy, and resources on a few select opportunities – allowing us to achieve superior returns.

- Our focus allows us to do **deep research and analysis** and to really understand the company we are investing in
- Our focus drives higher returns because we only pick our **best ideas**
- Our focus **reduces risk** by thoroughly vetting and stress-testing every investment

# **Kingsgate (KCN: Australia)**

## **Litigation with a gold mine at the end of the rainbow**



**Kingsgate**

Consolidated Limited

- 1. The One-Minute Pitch**
- 2. The Long Story**
- 3. TAFTA**
- 4. Negotiations and Settlement**
- 5. Valuation**
- 6. Risks**
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# The One-Minute Pitch

- Owns Chatree gold mine in Thailand
- Arbitrarily and illegally closed by Thai military junta in 2016
- TAFTA Arbitration – Open-and-shut case
- Government now eager to settle
- Mine coming back online in stages, full capacity by mid-2024
- Highly profitable mine, trading at very cheap valuation
- TAFTA award as backstop and leverage for further concessions

# The Long Story

- November 2001 Chatree mine commissioned, proves to be very profitable
- May 2014 Thai military coup; new government begins making trouble for Chatree**
- January 2015 Mine closed for 44 days amid (false) allegations of elevated levels of arsenic and manganese in surrounding population
- May 2016 Thailand announces policy to cancel all gold operations and exploration (only Chatree)  
Renews Chatree licenses only to year-end 2016
- December 2016 Using Section 44 dictatorial powers, General Prayut (Thai military leader) shuts down all gold mine production and exploration by end of year**
- April 2017 Kingsgate commences TAFTA proceedings, beginning with formal consultation period
- November 2017 Kingsgate sues Thailand under TAFTA**
- March 2018 Tribunal hearings scheduled for November 2019 in Hong Kong
- November 2019 Due to unrest in Hong Kong, tribunal hearings rescheduled to February 2020 in Singapore
- February 2020 Tribunal hearings completed over ten days**
- September 2020 Thailand reverses position; returns to negotiating table with concessions
- January 2022 All licenses and permits reinstated**  
**Process to refurbish and restart mine begins**
- January 2023 Mine refurbishment Stage 1 basically complete; mine commissioning imminent, followed by Stage 2**
- Mid 2024 Mine back to full capacity, with additional concessions from Thailand**

# TAFTA

- Thailand-Australia Free Trade Agreement
- Fair and equitable treatment
- Expropriations (including indirect) must satisfy 4 conditions:
  - Public Purpose (Thailand admits there is no health or environmental issue)
  - Due Process (neither military coup nor Section 44 are due process)
  - Non-discriminatory (policy affecting only one company is discriminatory?)
  - Prompt, adequate, and effective compensation (quite obviously missing)
- Open and shut case, no disagreement from any observer anywhere
- \$750 million lawsuit, plus interest
- Tribunal decision ready; being held by joint request pending negotiations

# Negotiations and Settlement

- September 2020 **Thailand allows Kingsgate to process and sell gold sludge left from cleaning tanks and machinery**
- November 2020 **Thailand approves 44 SPLs for Kingsgate exploration, totaling ~150,000 acres, an increase of >130x**
- September 2021 Tribunal ready to issue decision  
Both sides jointly request to hold decision until end of October to allow for negotiations  
New LOM (Life-of-Mine) plan to incorporate higher gold price (\$1,200 → \$1,700), increase reserves, and expand pits
- October 2021 Announces plan to restart Chatree in staged bootstrap manner, starting with Plant 2 and stockpile  
Has begun exploration on 22 of the 44 SPLs  
**Expects to receive approval for Quartz lease (important orebody extension of present mine pit)**  
Tribunal to hold award until end of January 2022
- January 2022 **Mining licenses reinstated, including new approval for Quartz mining lease**  
**Metallurgical licenses reinstated**  
Capex study being finalized  
JORC reserves upgrade being finalized  
Recruitment agency appointed to begin process of restaffing mine personnel  
Positive exploration results from 12 SPLs; 24 potential priority areas
- February 2022 Tribunal to hold award until end of 2022 as negotiations continue on small number of remaining issues



# Negotiations and Settlement

March 2022 Term Sheet from Taurus for \$15 million Bridge Facility

## **Scoping Study on Plant 2 refurbishment**

- 4-6 months from commencement of refurbishment until mine restarts; potentially finished by end of year
- Plan to use stockpile and Quartz lease to fund Plant 1 refurbishment

May 2022 Taurus funding secured

- \$15 million Bridge Facility, 9% interest, due in 12 months or when refinanced
- 2.5 million option grant to Taurus (strike price of \$2 AUD, expiry in five years)
- First tranche (\$7.5 million) drawn

CR3 hired as engineering firm for mine refurbishment and restart

Scope of work finalized, work to commence in July

Orders long lead items

**PMR (local Thai company) appointed as refiner**

**Reserves increased by 46% to 1.3 million ounces of gold, 12.2 million ounces of silver**

- Uses \$1,700 p/oz. gold price
- Supports mine life of 8-10 years
- Potential to increase reserves further; focus on converting resources to reserves

4 promising exploration areas prioritized for RC and diamond core drilling

# Negotiations and Settlement

- July 2022 **Refurbishment commences; second tranche of Taurus funding drawn**  
Como Engineers (Australia) hired to project manage CR3 refurbishment  
AMC hired to revise LOM plan based on upgraded reserves  
Exploration prioritizing targets near mine (6 prospective areas), including potential feed for Chatree
- September 2022 **Meeting in Sydney with high-level Thai officials (including Deputy Prime Minister)**
- October 2022 **Further meetings in Sydney to discuss final steps, further concessions, and development funding**
- November 2022 Refurbishment 85% complete (total cost: \$14 million); commissioning targeted for January 2023  
**Full ramp-up of Plant 2 by March/April 2023, using stockpile; mining to restart in September 2023**  
**Refurbishment of Plant 1 begins early 2023 (cost: \$15-\$20 million); commissioning in September 2023**  
**Opportunity for Thai BoI incentives to waive taxes for 8 years**  
Targeted annual rate of 110,000 oz. gold, 420,000 oz. silver, 5.5 million tonnes per year, beginning 2024  
Independent scoping study reveals potential to convert ~600,000 oz. to reserves, extend LOM to 2038
- January 2023 Mine refurbishment basically complete, awaiting inspection and delivery of reagents  
First gold pour as early as January or February  
**Receives Expanded Metallurgical License, enabling improved operational flexibility**

# Negotiations and Settlement

## Endgame

- Mine is back on
- Long-awaited Quartz lease to optimize A Pit (increased revenue and lower cost)
- Long-awaited SPLs; already showing promise
- Possibility of relief on royalties (very high by world standards)
- Possibility of relief on taxes
- Possibility of Thai financing available on extra attractive terms
- TAFTA award remains in background as leverage

# Valuation

Share Price (1/13/2023): \$1.81 AUD (= \$1.26 USD)

Shares Outstanding: 221.3 million (fewer than before the  
2016 closure; no dilution!)

Options Outstanding: 2.5 million

Fully Diluted Market Cap: \$282 million USD

Net Debt: \$68 million USD

Enterprise Value: \$350 million USD

# Valuation

- Annual output of 115,000 ounces of gold and 420,000 ounces of silver
- Present prices of ~\$1,900 an ounce gold and \$25 an ounce silver
- \$230 million revenue
- \$110 million cash costs (conservative estimate of \$950 cash cost p/oz. vs. prior cash cost <\$800 p/oz.)
- \$5 million interest (Taurus Bridge Facility + Insurance repayments)
- \$30 million depletion (based off present market cap, conservatively depleted over 10 years)
- Worst case scenario (no further concessions on royalties or taxes)
  - \$23 million royalties
  - \$12 million taxes
- **\$50 million net income, about \$80 million cash flow – on market cap of \$280 million!**

# Valuation

## Bottom Line

- **\$50 million net income, about \$80 million cash flow – on market cap of \$280 million!**
- Conservative operating metrics – historically achieved 6.2 million tonnes annually vs. 5.5 million tonnes nameplate capacity
- Possible upside from concessions on royalties and taxes
- More productive and accessible Quartz ore (increased revenue and reduced cost)
- Exploration likely to extend mine life for many more years
- Even if gold were to drop to \$1,300 an ounce (a drop of  $\frac{1}{3}$ ), still likely to generate \$50 million annual cash flow

# Valuation

## Comparisons

Past Kingsgate: In years past, with gold prices at similar levels to now (2011-2012), Kingsgate traded as high as \$1.3 billion market cap (4.6x present price)

EV/Resources: \$103/oz.

EV/Reserves: \$185-\$270/oz.

**Will not find such low valuations in an already developed producing property**

# Risks

- Disruption to settlement process
  - Thailand is motivated to settle
  - TAFTA is both leverage and backstop if settlement fails
- Regime change
  - Same as above
  - Even more likely to settle and blame previous government
- Drop in gold prices
  - Have to drop a huge amount to start hurting thesis
- Thailand discount



# Catalysts

- Segues from obscure litigation play to producing gold mine
- News flow throughout 2023
- First gold pour
- Further financing news
- Cashflow and GAAP positive
- Possible concessions on royalties and taxes
- Signed official settlement
- Sale of Nueva Esperanza asset (potential silver mine in Chile)