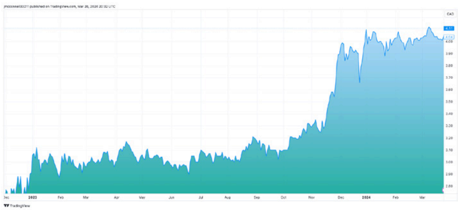
Dynacor Group Inc. (DNG:TSX)

Rating: Near-Term: SPEC BUY/Long-Term: SPEC BUY **Current Price (March 25, 2024): $4.11**



Portfolio: Focus BUY
Recommended: July 2017
Recommended Price: $2.00
Industry: Metals & Mining

Market Cap: $149.74 Million
Shares Outstand: 38,340,193
Fully Diluted: 39,234,095
Dividend Yield: 3.47%

Annual Financial Data			
USD$ Thousands	**2023**	**2022**	**Change**
Revenue	$250,189	$197,545	26.6%
EBITDA	$25,539	$21,237	20.3%
EPS	$0.39	$0.31	25.8%

Annual Financial Data			
USD$ Thousands	**2022**	**2021**	**Change**
Revenue	$197,500	$195,900	0.8%
EBITDA	$21,300	$23,840	-10.7%
EPS	$0.30	$0.30	0.0%

Ratios	
P/E (TTM)	7.51
P/EBITDA (TTM)	5.77
EV/EBITDA (TTM)	3.27
P/S (TTM)	0.49

COMPANY DESCRIPTION

Dynacor is a cash-rich, profitable dividend-growing industrial gold ore processor headquartered in Montreal, Canada. The company currently operates primarily in Peru where it purchases its ore from government-registered producers in various regions of the country and then processes it at its wholly-owned milling facility to produce gold and silver (primarily gold), which is sold internationally at market prices.

INVESTMENT SUMMARY

- We are encouraged by Dynacor's FY 2024 guidance which appears conservative allowing the company to potentially increase growth guidance as the year progresses if the gold price remains supportive or capacity is increased at the current mill.
- The next leg up in the company's stock is dependent on the announcement and successful execution of one of its three planned new mills (targeted over the next 4 years). We expect at least one expansion announcement in 2023.
- Dynacor plans to invest up to US$13 million in capital expenditures in 2024. This investment will be used at the company's Veta Dorada plant for new equipment to improve efficiency, increase tailing pond capacity, and develop new projects in other jurisdictions.
- Based on a low multiple of 8 times FY 2024 midpoint earnings and adding back the value of the cash held, we arrive at a fair value of $5.75 - $6.00 – a figure that could increase in 2024 if Dynacor executes on its geographic expansion plans and gold remains elevated.

EXPANDED COMPANY DESCRIPTION

Dynacor has a very simple business model - profitability largely depends on two factors:

- A margin between the price of ore purchased and the market price of gold – the higher the margin the better.
- Throughput (the amount of ore processed) - the higher throughput the better.

A higher gold pricing environment encourages more small-scale mining which grows Dynacor's ore supply and creates profitable growth. Fluctuations in terms of margins in the quarter can occur if the price of gold is trending up (positive for margins) or trending down (negative for margins) – but this tends to average out with the fluctuations in gold prices through a given year.

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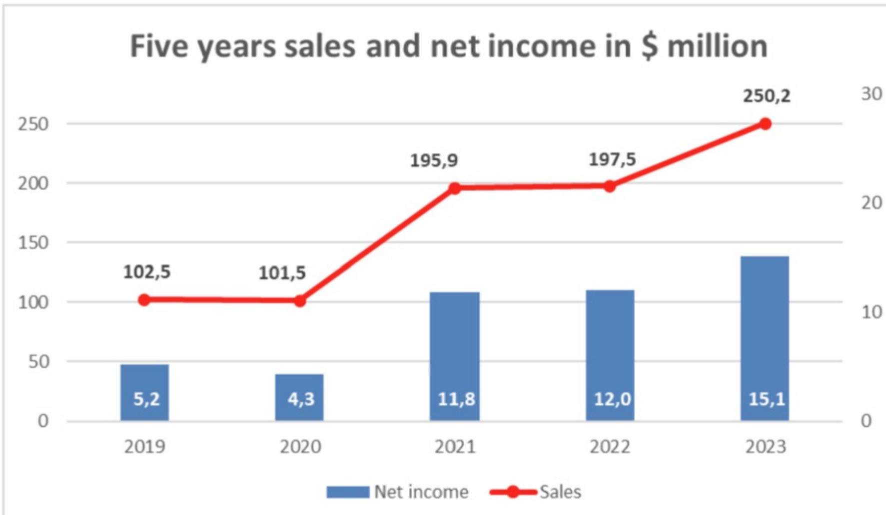
Rating: Near-Term: SPEC BUY/Long-Term: SPEC BUY **Current Price (March 25, 2024): $4.11**

On March 26th, Dynacor reported that the company completed 2023 with both production and financial historical high performances generating its thirteenth (13th) consecutive year of profit. The company achieved a production record of 130,001 AuEq ounces powering total sales to $250.2 million (CA$337.6 million), an increase of +26.7% compared to 2022 and a net income of $15.1 million (US$0.39 or CA$0.53 per share), an increase of +25.8% compared to 2022.



2023 was the first full year of operation at a processing capacity of 500 tonnes per day. As a result of the company's high level of ore inventory at the opening of the year and the high volume of ore supplied and purchased, the mill operated at full capacity throughout the year averaging a new daily record processing rate of 468 tpd.

2024 GUIDANCE RELEASED

2024 Financial Guidance			
	US$	CAD$	Increase
Revenues:	$265 million and $285 million	$359 million and $387 million	6% and 14%
Operating Cash Flow:	$0.41 and $0.49	$0.56 and $0.67	
Net Income:	$0.33 and $0.41	$0.45 and $0.56	

Sales and earnings forecasts are based on gold price estimates ranging between US$2,000 and $US2,050 per ounce and various other production assumptions, including ore grades.

On March 21, 2024, Dynacor announced its 2024 earnings guidance, with total sales projected to increase between 6% and 14% compared to 2023 sales, reaching between US$265 million and US$285 million (C$359 million and C$387 million).

Net income is estimated to reach between US$12 million and $15 million (between US$0.33 and $0.41 per share) (C$0.45 and $0.56 per share), and cash flow from operating activities (before changes in working capital items) is expected to be between US$15 million and US$18 million (between US$0.41 and

$0.49 per share) (C$0.56 and $0.67 per share).
Sales and earnings forecasts are based on gold price estimates ranging between US$2,000 and $US2,050 per ounce and various other production assumptions, including ore grades.

2024 CAPEX Update: Dynacor also reported that Dynacor Group plans to invest up to US$13 million in capital expenditures in 2024. This investment will be used at the Veta Dorada plant for new equipment to improve efficiency, increase tailing pond capacity, and develop new projects in other jurisdictions.

Jan-Feb 2024 Sales: On March 20, 2024, Dynacor announced that it had recorded unaudited gold sales of US$20.1 million (C$27.1 million) for February 2024 as the plant continued running at full capacity, processing 14,000 tonnes. In 2023, February sales amounted to US$28.6 million (C$38.5 million).

The negative variance of US$8.5 million compared to February of 2023 is explained by the postponement to February, from January 16 to January 31, 2023, for planned exports which contributed to significantly higher monthly sales in February 2023.

Cumulative sales after two months in 2024 amount to US$47.0 million (C$63.5 million) compared to US$37.2 million (C$50.0 million) in 2023, a 26.3% increase. In February, the average selling price of gold was US$2,032 per ounce compared to US$1,845 per ounce last year.

Dividend Increase: On November 21, 2023, Dynacor announced its board of directors approved a 16.666% increase to the corporation's monthly dividend. The monthly dividend will increase to Canadian 1.166667 cents from 1 cent and on an annual basis to Canadian 14 cents from 12 cents per common share starting in January 2024. This announcement marks Dynacor's 5th dividend increase since the company paid its first dividend to shareholders in October 2018.

FY 2023 Year-End Numbers

Revenues rose to $250.2 million compared to $197.5 million in 2022. The $52.7 million increase is explained by quantities sold and higher average selling prices contributing to respectively a +$35.1 million and a +$17.6 million increase.

The 2023 gross operating margin amounted to $30.2 million (12.1% of sales) compared to $24.4 million (12.4% of sales) in 2022. The 2023 gross operating margin in dollars was positively impacted by higher sales and by the overall positive trend in gold market prices compared to 2022. General and administrative expenses amounted to $7.1 million in 2023 compared to $6.0 million in 2022. The increase is mainly explained by increases in salaries and share-based expenses. Other projects represent the expenses incurred by the Corporation to duplicate its unique business model in the same or other jurisdictions.

A $7.9 million income tax expense was also recorded in 2023. This expense includes $0.5 million of withholding tax paid on dividends received from the subsidiary and a -$0.5 million (non-cash) deferred income tax recovery. The deferred tax expense or recovery is mainly explained by the variance throughout the period of the Peruvian Sol against the US$ which affects long-term assets local tax basis. Future fluctuations will affect positively or negatively the deferred tax at the end of each period.

For the year ended December 31, 2023, the cash flow from operations, before changes in working capital items, amounted to $18.6 million compared to $14.9 million for the year ended December 31, 2022. Net cash from operating activities amounted to $9.6 million compared to $6.2 million for the year ended December 31, 2022. Changes in working capital items amounted to (-$9.0 million) compared to (-$8.7 million) for the year ended December 31, 2022.

Dynacor achieved a production record of 130,001 AuEq ounces powering total sales to $250.2 million (CA$337.6 million), an increase of +26.7% compared to 2022 and a net income of $15.1 million (US$0.39 or CA$0.53 per share), an increase of +25.8% compared to 2022.

VALUATION

Despite the surge in its share price through 2023, Dynacor continues to trade with a low valuation of 8.03x and a 5.74x earnings ex-cash (normalized) based on the midpoint of the company's FY 2024 guidance. Based on the highpoint of FY 2024 guidance, Dynacor traded at 7.32x and 5.23x ex-cash. The low multiples appear to more than compensate for the high geopolitical risk as part of a 15-25 stock portfolio.

CONCLUSION

On March 26th, Dynacor reported that the company completed 2023 with both production and financial historical high performances generating its thirteenth (13th) consecutive year of profit. The company achieved a production record of 130,001 AuEq ounces powering total sales to $250.2 million (CA$337.6 million), an increase of +26.7% compared to 2022 and a net income of $15.1 million (US$0.39 or CA$0.53 per share), an increase of +25.8% compared to 2022.

Broadly speaking we are encouraged by Dynacor's FY 2024 guidance which appears conservative allowing the company to potentially increase growth guidance as the year progresses if the gold price remains supportive or capacity is increased at the current mill. Again, we believe the next leg up in the company's stock is dependent on the announcement and successful execution of one of its three planned new mills (targeted over the next 4 years). We expect at least one expansion announcement in 2023.

In the FY 2024 guidance announcement, Dynacor reported that the team is fully committed to creating value for shareholders by executing well-planned, low-risk expansions, increasing monthly dividends, and implementing share buybacks that drive cash returns when capital management criteria are met.

Dynacor plans to invest up to US$13 million in capital expenditures in 2024. This investment will be used at the company's Veta Dorada plant for new equipment to improve efficiency, increase tailing pond capacity, and develop new projects in other jurisdictions. The breakdown of CAPEX has not been released, but if the company moves forward on a new mill, we expect over half the funds will be used for this investment.

Dynacor will provide regular updates throughout the year to keep shareholders informed and engaged. The next guidance update will be provided during the company's quarterly earnings report in May 2024.

Based on a low multiple of 8 times FY 2024 midpoint earnings and adding back the value of the cash held (normalized after high year-end inventories), we arrive at a fair value of $5.75 - $6.00 – a figure that could increase in 2024 if Dynacor executes on its geographic expansion plans and gold remains elevated. If Dynacor is successful in diversifying operations (adding 2-3 mills), the company's current low multiple could also expand offering further upside. Geopolitical risk remains high – SPEC BUY in the current range.

2022a; 2023e:

The term (a) refers to the actual reported financial results. The term (e) refers estimated or forecasted financial results for a future period.

AFFO (Adjusted Funds from Operations):

An alternative measure to Free Cash Flow. It is generally calculated as FFO less maintenance capital expenditures (which are capital expenditures associated with maintaining, but not growing, the company).

Cash Flow from Operations (CFO):

The amount of cash generated from a company's regular business activities.

Debt-to-EBITDA(D/EBITDA):

A ratio which measures debt leverage. It is calculated as total debt (or net debt) divided by EBITDA. Higher ratios generally imply higher debt leverage and financial risk.

Debt-to-Equity Ratio(D/E):

A measure of a company's financial leverage calculated by dividing total debt by shareholders equity.

EBITDA:

Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EBITDA Margin, Operating Margin:

This ratio measures the profitability of a company by comparing its EBITDA or operating income to its total revenue

Earnings per Share (EPS):

A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

Enterprise Value (EV):

A measure of a company's total value, often used as a comprehensive alternative to equity market capitalization. It is calculated by taking the market capitalization of a company, adding in any debt the company may have, and then subtracting out any cash and cash equivalents the company is holding. This calculation is typically used to compare companies of different sizes in different industries, as it accounts for both equity and debt.

Fair Value Assessment:

The price at which an analyst believes a company's stock should be priced. Although this value is based on intelligent analysis, it in no way is a representation of what the companies share price will be trading at given any period of time. The analysis used to determine Fair Value is based on numerous assumptions and uncertainties. Fair Value should be used only as a general guide to investing and should not be depended upon.

FFO (Funds from Operations):

An alternative measure of Cash Flow which is generally calculated as cash flow from operations before changes in non-cash working capital (including inventory, receivables, payables, etc.).

Free Cash Flow (FCF):

A measure of a company's financial performance. FCF represents the cash that a company has available after capital expenditures. Free cash flow is an important measure of a company's ability to generate cash to pay dividends, pay off debt, or reinvest in the business.

Payout Ratio:

The percentage of a company's net income, cash flow or free cash flow that is used to pay regular dividends or distributions. The payout ratio is an important metric for measuring a company's ability to maintain its dividends or income distributions.

Price/Earnings (PE), Price/Cash Flow (P/CF), and Price/Free Cash Flow (P/FCF):

Valuation ratios which measure the company's value relative to its underlying net income, cash flow, or free cash flow.

Return on Assets (ROA):

A financial ratio that measures the profitability of a company in relation to its total assets. It is calculated by dividing a company's net income by its total assets. ROA gives an indication of the efficiency with which a company is using its assets to generate profits. A higher ROA indicates that the company is more efficient in generating profits from its assets.

Yield:

The income investment return resulting from dividends or income distributions. Yield is calculated as the annualized dividend or income distribution per share dividend by the share price.

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Dynacor Gold Mines Inc.	YES	YES	NO	NO	NO