B2GOLD

TRADITION
INVESTMENT MANAGEMENT

Turnaround Looks Likely for B2Gold with Geopolitical Risks Mitigated

Price $2.36 **Dividend Holding** **January 29, 2025**

- 3.4% Dividend `Yield
- Opportunistic repurchase authorization funded with dividend reduction.
- Fekola mine in Mali concerns are resolved, expecting to receive mining authorization in early 2025.
- First commercialization of Goose mine in Canada in September.
- BTG expects 2025 production growth of 27.
- Strong financial position, selling off royalties and issuing convertible notes to bolster cash position and pay down high-interest revolver.

Investment Thesis

B2Gold (BTG) is a gold mining company operating the tier-1 Fekola mine in Mali and several other low-AISC (all-in sustaining cost) mines. In our last coverage, we emphasized the broader macroeconomic tailwinds for gold. Since then, gold has reached record highs. However, BTG has seen its share price collapse by 28.9% since our last article. The collapse of the share price is due to continued geopolitical risk in Mali which contributed to BTG reporting far-below guidance production results in 2024, falling 33.2% compared to 2023.

BTG has reached a settlement with the Malian government, and we expect the Fekola expansion to be licensed in early 2025, along with the Canadian Goose project entering first commercial production in the quarter ending September 2025. Combined, these will contribute to 27% growth in production at the midpoint.

The cutting of the dividend, if replaced by the promised share repurchase agreements, would make sense given the very low valuation of BTG. Over the medium-term, BTG has a strong development pipeline including the Gramalote project in Colombia which has the potential to be one of the lowest cost gold mines in the western hemisphere. Overall, while geopolitical risk remains, we believe that both the secular tailwinds that remain in precious metals will allow BTG to generate substantial earnings growth in line with production increases.

Estimated Fair Value

EFV (Estimated Fair Value) = EFY26 EPS (Earnings Per Share) times P/E (Price/EPS)

EFV = E26 EPS X P/E = $0.45 X 13.2x = $4.80

	E2025	E2026	E2027
Price-to-Sales	1.6	1.2	1.2
Price-to-Earnings	11.0	5.6	5.6

Analyst consensus data from SeekingAlpha

Operations

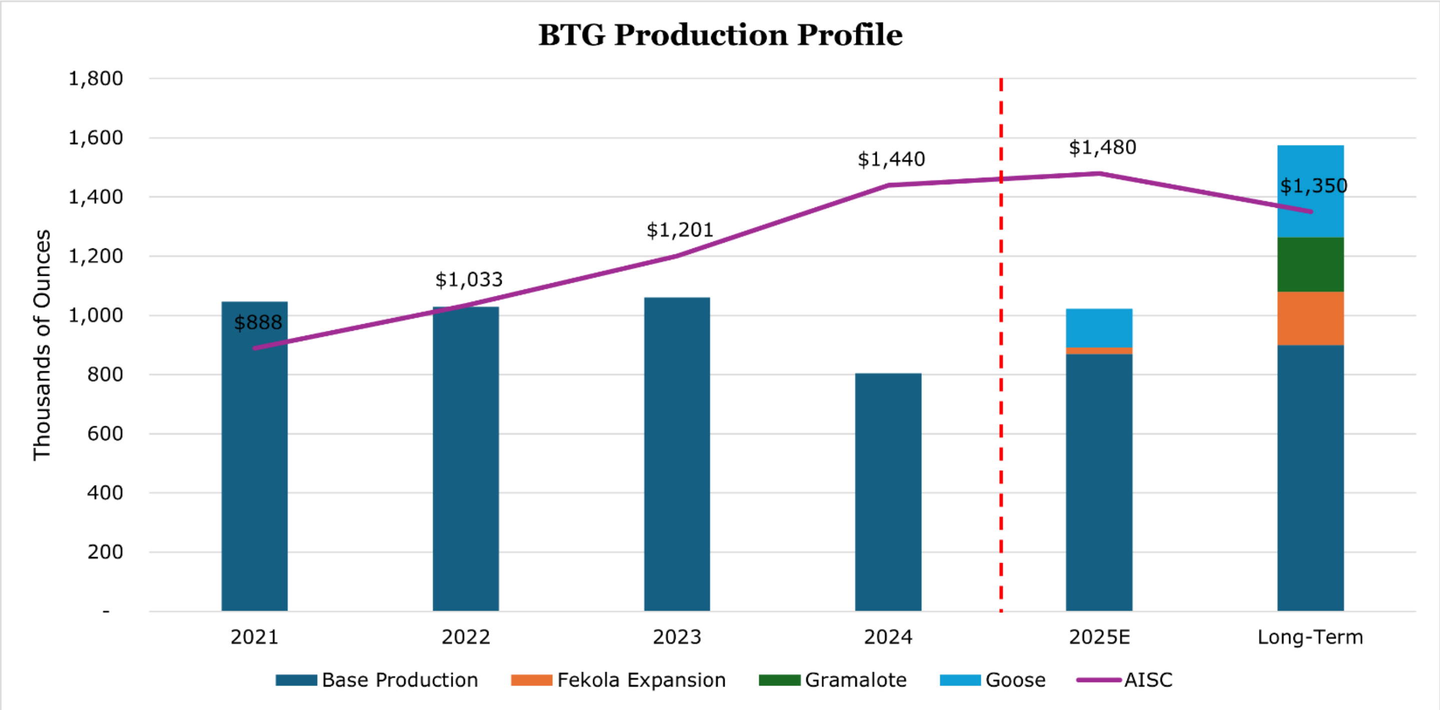
	2024 Production	2025 Production	Production Growth	2025 AISC
Fekola	393.9	532.5	35.5%	$1,580
Masbate	194.0	180.0	-7.2%	$1,340
Otijkoto	198.1	175.0	-11.7%	$1,010
Calibre*	19.6	-	-	N/A
Goose	-	135.0	-	TBA
Total	**804.8**	**1022.5**	**27.1%**	**$1,480**

*Calibre was not operated by BTG and sold its stake in June.

The current flagship mine is the Fekola project in Mali, making up around 52% of 2025's projected output. A mine strike late in the year and delays related to licensing for new projects weighed down production, falling 33.2%. At the midpoint, 2025 production at Fekola is expected to recover and reach 2023 levels.

At Masbate in the first 9 months of 2024, mining output was down 2% year over year, largely due to lower-than-expected ore grades. Realized AISC (all-in sustaining cost) was 13% lower than initially projected due to lower required sustaining capex, though we expect the capex to be realized in the final quarter of the year due to timing bringing AISC in line with the $1,441/oz expected. At Otijkoto, production in the first 9 months of 2024 was 14% higher than the same time frame in 2023 thanks to improved ore grades. AISC was 6% lower than projected, with BTG expecting to realize this difference as savings.

Expansion



BTG and Author's Calculations. 2025E is management's guidance. Long-term is based on management's statements and similar mine profiles in Nunavut.

Expansion at Fekola will complete in the middle of 2025, which will extend the life to 2029 and increase production in the short term by 35.5% at the midpoint. However, due to new negotiations with the Malian government the newer parts of the mine will only be 65% owned by BTG, rather than the 80% of the legacy component of the Fekola mine. When production begins, the project is expected to contribute 22.5 Koz (thousands of ounces) at the midpoint in 2025, which will grow to 180 Koz by 2026.

The Goose project within the Back River Gold District will enter commercialization in the quarter ending September 2025, with first gold output being in the quarter ending June 2025. First year production guidance is 135.0 Koz at the midpoint, with AISC estimates being released in February 2025. Based on peer mines in the area, we expect AISC to come in between $1,100-1,250/oz. BTG expects that the Goose project will have production grow to 310 Koz by 2026 and hold this level of production until 2031. In addition to the Goose project, BTG holds several leases and claims within the Back River Gold District. The likely next stop for BTG in the area is George to the northwest of Goose, with a 166 km^2 lease. According to the latest figures published by BTG, the iron-rich deposit has around 1.2 Moz (million ounces) of measured resources. The Back River Gold District had an exploration budget of $26 million in 2024, with around 20% going toward George, and 80% going toward Goose. In 2025, management has stated that it will put $28 million toward exploration in the area, focused primarily on Goose, though it does expect 'limited drilling' across its other active leases.

With rising gold prices, the Gramalote project in Columbia has returned to the development table. Previous economic results in 2022 were not over the investment yield threshold, but a re-run of the assessment in June of 2024 with a higher baseline pricing environment of $2,000/Oz yielded economic viability. For a cost of $807 million and 2.5 years of construction, BTG now believes that Gramalote could support a lifetime average of 185 Koz of production over 12.5 years at an AISC of $886/oz. This AISC would represent one the of the lowest in the western hemisphere and BTG's cheapest project. According to management, it is undergoing a more in-depth study to be released in June 2025.

While not specifically commented on by management, the Department of Trade and Industry of the Philippines stated that it met with BTG in December 2024 over plans to expand operations in the country, including opening an office dedicated to exploration.

Risk

The major risk for BTG is the Fekola mine, representing 52.0% of BTG's projected production in 2025. In 2021, BTG's Malian subsidiary was denied a renewal of its mining permit, with the government stating that the new 2019 mining code would apply, not the 2012 code that BTG had applied under. In December 2021, BTG announced that it was withdrawing arbitration after coming to an agreement with the government. The agreement stipulated that the older areas of Fekola would be grandfathered into the 2012 mining code through 2040, which allows BTG to retain 80% ownership, while new areas would be governed by the 2023 mining code. As previously discussed, the new mining code stipulates that BTG can only own 65% of the new expansions. Additionally, BTG would be paying a structured income-tax and dividend settlement of around $200 million to the government to end the dispute fully. While the risk Mali reneges or pushes back in the future is present, BTG has stated it does not expect problems in the future. Given BTG's extensive history in the country, and cooperation with Malian authorities, we do not expect things to meaningfully unwind over the medium-term.

In November 2024, most of the employees at Fekola went on strike over the dismissal of some of their colleagues. Reporting at the time indicated the mine was only operating at 25% capacity, though BTG disputes this. What is clear is that the strike had added to the troubles of Fekola, reporting a 33.2% decline in production compared to the 2023-year end results. According to Reuters, a court decision ruled that the dismissals were inappropriate, and the workers were reinstated.

Financials

Despite the low production for the year, in the first 9 months of 2024 BTG only realized a decrease in gold revenue by 1% thanks to record high prices. For the full year ending December 2024, we expect earnings to fall due to higher costs, one-time expenses relating to the Mali settlement, and lower production. However, we expect a strong recovery to the $0.40/share neighborhood in 2025 now that financial concerns regarding Fekola are solved, and Goose enters initial commercialization.

BTG has recently undergone some capital allocations changes focused on 'financial flexibility.' In January 2024 BTG entered a prepaid gold sale of $500 million, in exchange for 264.8 Koz at an average price of $2,191/oz through July 2026. In June 2024, BTG sold most of its stake in Calibre for $100 million. Additionally, throughout the 9 months ending September 2024, BTG sold $81 million in held royalties to Versamet. As of the quarter ending September 2024, BTG had a cash position of $431.1 million, with a remaining royalty investment portfolio valued at around $160 million.

Early in 2025, BTG announced that it would be cutting its dividend in half to fund share repurchases of an equivalent amount. We believe this is opportunistic and a positive if BTG can buy significant shares at the currently depressed price. Management stated it has now authorized a repurchase agreement of 5% of shares to be purchased and retired, though the exact timeline for execution is unclear. The new yield is expected to be $0.08 annually, or 3.4% at current prices.

BTG has announced that it will be issuing convertible notes due 2030, paying out 2.75% and can be redeemed for 315.2 shares per $1,000 principal value -- $3.17 per share -- if unannounced conditions are met. Based on production outlooks, these notes are certainly favorable given the over 30% premium from current prices on redemption and the relatively low interest rate. Initial proceeds are being used to pay down the $200 million drawn portion of the credit revolver. The paydown should reduce interest expense, as the revolver has a maximum rate of 6.8%.

While the debt load and maintenance capex spend has increased with the development of new Fekola mines and the startup of the first of the Canadian mines, BTG is still in a solid financial position. We expect much of the cash raised from note issuances and cutting the dividend to go toward retiring repurchased shares or speeding up the development timelines at the Gramalote project. Total debt on the balance sheet is $239.2 million, though in the final quarter of the year BTG will have had to make approximately $144 million in payments to settle a deal with the Malian government regarding its mining license.

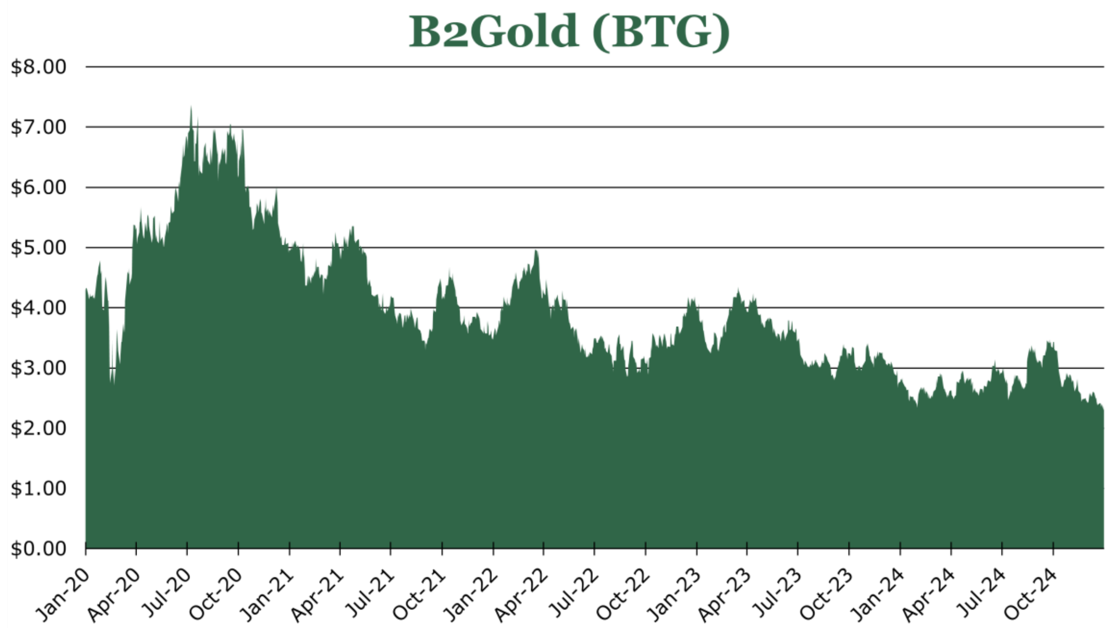
Conclusion

Provided Goose and the Fekola expansion begins on schedule, 2025 production is on track to grow by 27% which would return BTG to form. Over the long-term, BTG has a strong development pipeline in Canada and Colombia that could boost production by 50% by the end of the decade.

At current prices, BTG appears to be undervalued based on its output guidance in 2025. While there are still some geopolitical risks present, BTG has resolved financial concerns at Fekola and expects approval for expansion in early 2025.

Peer Comparisons

	B2Gold (BTG)	Barrick (GOLD)	Newmont (NEM)	Gold Fields (GFI)	Pan American Silver (PAAS)
Dividend Yield	3.72%	2.51%	2.42%	2.38%	1.83%
Price-to-Earnings	11.00	12.59	13.41	13.36	26.90
Price-to-Sales (TTM)	1.63	2.27	2.70	3.36	2.98
EV-to-EBITDA (FWD)	3.08	5.76	6.54	5.99	8.32
Net Income Margin	-38.20%	13.19%	-7.14%	14.56%	-2.40%
Price-to-Book (TTM)	1.03	1.17	1.59	3.15	1.72



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