

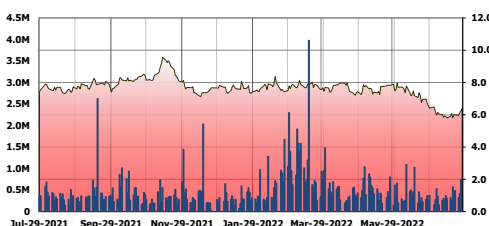
July 29, 2022

DUNDEE PRECIOUS METALS INC. (DPM – TSX, \$6.20)

Rating: **BUY**
Target Price: **C\$15.50**

Q2 FINANCIALS IN-LINE; BEAT ON AISC – PROGRESS AT LOMA LARGA

DUNDEE PRECIOUS METALS INC. DPM	
(Currency is US\$ unless noted otherwise)	
Net Asset Value Per Share	\$11.21
52 Week Low / High	C\$5.53 / C\$9.650
CAPITALIZATION	
	Basic Diluted
Shares Outstanding (M)	190.8 191.9
Market Capitalization (\$M)	\$1,183 \$1,190
Enterprise Value (\$M)	\$760
Reported Cash Balance (\$M)	\$423
Long Term Debt (\$M)	\$0.0
FY: DEC 31	
	2021A 2022E 2023E
Gold Price (\$/oz)	\$1,791 \$1,822 \$1,800
Gold Produced (Koz)	310.0 256.4 282.8
Copper Produced (Mlbs)	34.7 34.6 36.0
Revenue (\$M)	\$641 \$592 \$715
Cash Costs (\$/oz)	\$479 \$452 \$300
AISC (\$/oz)	\$657 \$695 \$550
Operating CFPS	\$1.65 \$1.39 \$1.95
Cash At Year End (\$M)	\$334 \$497 \$767
RELATIVE VALUATION	
	P/NAV P/CF
(Capital IQ Consensus)	
	FY2022E FY2023E
DPM (M Partners)	0.43x 3.5x 2.5x
Peer Group Mean	0.53x 3.8x 3.7x
PRODUCTION FORECAST (000s oz Au)	
DISCLOSURE CODE: None (Please refer to the applicable disclosures listed on the back page) Source: M Partners, Company Information, CapitalIQ	



DPM is a Canada-based gold & copper producer with two mines in Bulgaria: The Chelopech and the Ada Tepe mine. DPM also has The Tsumeb, a concentrate smelter in Namibia. It operates in stable, low-risk jurisdictions, generating revenues since 2004.

Company [website](#).

Yesterday, after market close, DPM released Q2/22 financial and operating results. Production results were pre-released on July 11th, 2022. Q2 was a strong quarter for DPM with production and cost metrics beating expectations, however, the 45-day maintenance shutdown at the Tsumeb Smelter affected earnings. The Company was within guidance for both production metrics as well as cost.

DPM reported better than expected cost performance in Q2 with AISC of \$792/oz Au vs. our estimate of \$843/oz Au. Cash costs were \$611/oz Au vs. our estimate \$602/oz Au. Cash flow generated from operations was \$71.8M, below our estimate of \$75.9M. Free cash flow also missed expectations, coming in at \$41.2M for the quarter vs. our expectations of \$61.2M. The miss on cashflow can primarily be attributed to the 45-day maintenance shutdown of the Tsumeb Smelter as well as the capital expenditure required for the maintenance. As a reminder, the Smelter is up and running and the Company is seeing better efficiency following the maintenance.

We are maintaining our BUY rating and our 12-month target price of C\$15.50/share.

DPM continues to maintain a strong financial position, ending the quarter with \$423M in cash, an undrawn \$150M credit facility, an investment portfolio of \$35.8M and no debt.

On July 28th, 2022, DPM maintained its dividend of \$0.04/sh (~2% annualized) payable on October 17th and repurchased 1.6M common shares for a total value of \$9.5M in the quarter.

Progress at Loma Larga: As previously reported, the Company provided an update on the Loma Larga project in Ecuador, stating it received technical approval of the Environmental Impact Assessment (“EIA”) study from the Ministry of Environment, Water and Ecological Transition (“MAATE”). The process is now advancing to the Citizens Participation Process (CPP), followed by another review by the MAATE and the issuance of the environmental license, which is expected in Q3 of 2022. We note that the CPP was temporarily postponed due to the national protests in June. Despite the protests, we are pleased with the developments DPM has made since the acquisition of the project.

In parallel with the permitting activities, DPM continues to advance towards an updated feasibility study (FS). Since the acquisition of the project the Company has been progressing with several optimization studies to better improve the FS completed by the previous owner. These studies include a metallurgical test program, mine optimization trade-off studies and a 15,800m drill program to study the following more accurately: hydrogeological, geotechnical, metallurgical, condemnation and extension drilling.

DPM plans to complete the FS in Q4/22 or early Q3/22; we expect the project economics to exceed the previous FS which depicted a project NPV_{5%} of \$520M using a base case gold price of US\$1,400/oz. At our modelled gold price of

US\$1,800/oz the NPV of the project would be ~\$680M. This would reflect a C\$4.50/sh increase to our target price. We note that at this time we are not reflecting the full value of the Loma Larga Project, primarily due to the inherent permitting risk. As DPM completes more permitting milestones, we will look to build more Loma Larga value into valuation.

Q2/22 Production: Consolidated gold production came in at 72.9 Koz, beating our estimate of 68.5 Koz, on the upper end of Company guidance. Copper production also beat our expectations, with DPM producing 8.8 Mlbs for the quarter vs. our estimate of 8.7 Mlbs. Following a record year of production for DPM that saw the Company achieve the higher end of its guidance in 2021, we expect DPM to outperform expectations in the following quarters towards the upper end of its 2022 guidance once again.

3 Year Guidance Cost Reduction: DPM is on track to meet its 2022 production and cost guidance, we remind readers that on May 4th, DPM reported it reduced its cost guidance for 2023 & 2024. The 2023 and 2024 all-in sustaining cost per ounce guidance was reduced to \$590-700 and \$690-800 from \$630-760 and \$720-860, respectively. We view this positively, especially considering the inflationary pressures mining companies are facing around the world. In addition, DPM is already one of the lowest cost gold producers in the world.

Bulgaria Power Supply: As previously reported on April 27th, DPM put to rest the concerns involving the recent announcement that Russia is suspending natural gas deliveries to Bulgaria. As stated in the press release, only 5% of the Country's power supply is generated from natural gas and in fact, Bulgaria is a net exporter of power and is not reliant on Russian natural gas for its energy needs. Besides cost inflation resulting from overall pressure on the European supply chain, DPM continues to be unaffected by the conflict in Ukraine.

Valuation: We are maintaining our BUY rating and our 12-month target price of C\$15.50/share. As a high margin operator in stable jurisdictions with a competitive \$0.04 quarterly dividend and a bolstered \$423M cash position with no debt, DPM is well positioned to take advantage of high gold and copper prices as development projects progress. Our valuation is based on a 1.1x NAV and a long-term gold and copper price of \$1,800/oz and \$3.50/lb, respectively. DPM is currently trading at 0.43x our NAV estimate.

Net Asset Valuation	Discount	\$ Million	\$/Share	Target Derivation	\$/Share
Chelopech	5.0%	\$1,287	\$6.71	Project NAV	\$10.20
Ada Tepe	5.0%	\$304	\$1.59		
Tsumeb	10.0%	\$95	\$0.50		
Timok + Loma Larga & Expl.	10.0%	\$272	\$1.42	Multiple	1.10x
Project NAV		\$1,958	\$10.20		\$11.22
Corporate Adjustments	5.0%	(\$230)	(\$1.20)	Adjustments	\$1.01
Cash		\$423	\$2.21	Total Valuation (US\$)	\$12.23
ITM Warrants		\$0	\$0.00		
Adjusted NAV		\$2,152	\$11.21	USD:CAD	1.28
				Total Valuation (CAD\$)	\$15.71
Current Share Price			C\$6.19	12-Month Target	C\$15.50
P/Adjusted NAV			0.43x	Implied Return	150%

Figure 1: Valuation Summary and Target Derivation

QoQ Financial Results	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	QoQ %
Revenue (\$M)	174.7	162.2	166.4	153.8	134.5	-12.5%
Cost of Sales (\$M)	89.9	87.5	96.8	97.3	86.8	-10.8%
Adjusted EBITDA (\$M)	100.6	85.8	84.3	69.5	68.6	-1.3%
EPS (\$)	0.37	0.27	0.27	0.14	0.18	28.6%
Adj. EPS (\$)	0.37	0.27	0.27	0.19	0.17	-10.5%
Operating Cash Flow (\$)	84.7	81.2	79.9	64.3	56.4	-12.2%
FCF (\$M)	67.1	68.5	65.8	52.4	41.2	-21.3%
Cash Cost (\$/oz)	430	393	445	423	611	44.4%
AISC (\$/oz)	605	701	757	684	792	15.8%

Table 1: Quarterly Financial Summary

Disclosure Code: None

Disclosure

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DPM	1	2	3	4	5	6	7
	NO	NO	NO	NO	NO	NO	NO

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19