Action Call – Buy

New Gold Inc. (NGD)

April 26, 2024

12-Month Price Target, $2.30

Price as of 4/25/24, $1.80



New Gold Inc., an intermediate gold mining company, develops and operates mineral properties in Canada. It primarily explores for gold, silver, and copper deposits. The Company's principal operating properties include 100% interest in the Rainy River mine located in Northwestern Ontario, Canada and the New Afton project situated in South-Central British Columbia. New Gold Inc. is headquartered in Toronto, Canada. As a result of the Russia/Ukraine and Israel/Hamas wars combined with an increase in

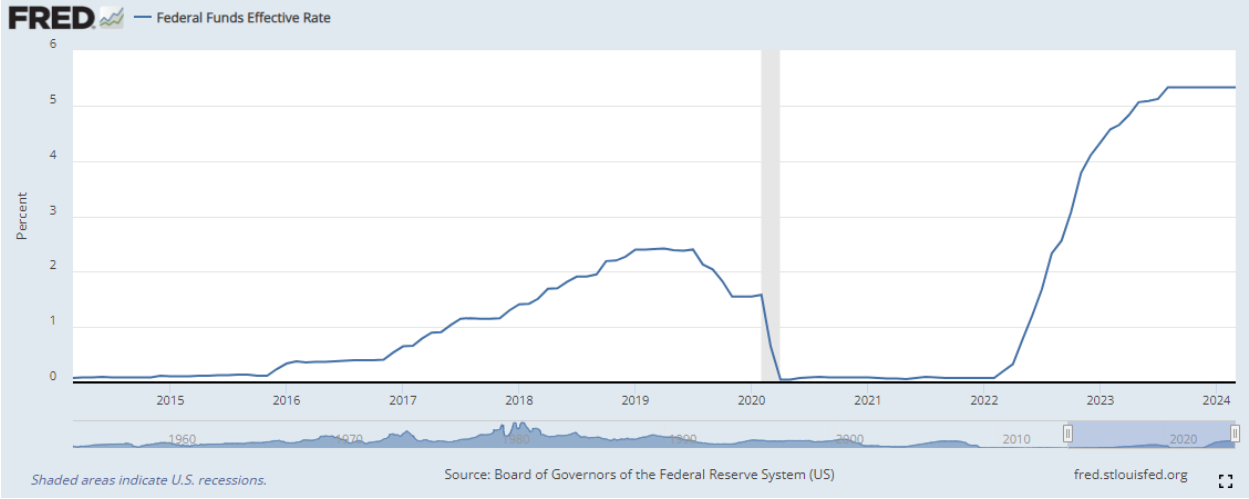
central banks purchasing gold, and stubborn inflation and interest rates, we believe NGD is a strong investment opportunity as investors look for safe-haven investments.

1. During wars, the price of gold increases substantially. During World War II, Vietnam, and Iraq wars, the price of gold increased more than 100, 50, and 50 percent, respectively.[1]

2. According to data by the World Gold Council, global central banks increased their gold reserves by 39 tons in January, 2024. For all of 2023, central banks' net gold purchases were a total of 1,037 tons. It was the second straight year where central banks added more than 1,000 tons to total reserves.[2]



3. According to Money.com's article, "*What Drives the Price of Gold?*," gold prices rise as interest rates fall and vice versa.[3] Therefore, as interest rates are set to decline by 75 basis points in 2024 (according to Fed Chair Powell), investors may be looking to invest more in gold before any rate cuts occur.



4. Gold also is more demanded in times of political uncertainty. In 2024, voters in more than 60 countries, including the United States, are going to the polls this year to vote in new potential leadership.[4]

5. Although somewhat under control, gold is viewed as a protection against inflation. March's 12-month percentage change CPI reading for all items less food and energy was 3.8 percent (all items was 3.5 percent), still above the Fed's annual goal of 2.0 percent.[5]

6. According to Wells Fargo, Costco, who started selling gold bars in August and silver coins in January, may be selling as much as $200 million in gold and silver each month. CFO Richard Galanti of Costco mentioned that Costco had sold $100 million in gold bars in the third quarter.[6]

7. On their fourth quarter results, NGD grew fourth quarter and 2023 revenue by 22 and 30 percent year-over-year, respectively. Cash generated from operations grew by 121 and 51 percent for Q4:23 and all of 2023 year-over-year, respectively. 2024 is expected to be the year of completion of the majority of project capital expenditures. Production is expected to strengthen in the second half of 2024 and is expected to represent approximately 60 percent of annual production. By 2026, consolidated gold and copper production are expected to increase by 35 and 60 percent, respectively, while all-in sustaining costs are

expected to decline by 50 percent, representing a substantial increase in free cash flow for the Company.[7]

8. Valuation. We have provided an analysis of NGD's common stock to show how it is undervalued relative to its peers, as seen in the table below which compares the Company to its peer average EV-to-EBITDA (EV/EBITDA), Price-to-Sales (P/S), and Price-to-Cash Flow (P/CF) ratios.

Company Name	Identifier (RIC)	Market Cap (millions)	EV / EBITDA	P / S	P / CF
Equinox Gold Corp	EQX	1,870	8.26	1.73	8.04
IAMGOLD Corp	IMG.TO	1,730	8.71	1.86	55.67
Eldorado Gold Corp	ELD.TO	2,905	6.69	2.92	23.44
New Gold Inc	*NGD*	*1,164*	*4.67*	*1.50*	*4.19*
Average			**7.08**	**2.00**	**22.83**

9. Over the next twelve months, it is reasonable to assume (barring any sudden shocks to the economy), that there will still be geopolitical tension and political uncertainty both domestically and globally, thus creating cautious investor sentiment, leaving room for continued growth at NGD. If we assume New Gold's EV-to-EBITDA ratio expands to 75 percent of the peer group average, we forecast a price of $2.05. If we assume NGD's Price-to-Sales ratio expands to its peer group average, we forecast a price of $2.40. And finally, if we assume the Company's Price-to-Cash Flow ratio expands to 25 percent of the peer group average, we forecast a price of $2.45. The average of these three prices is $2.30, 28 percent higher than NGD's closing price of $1.80 on April 25, 2024.

Risks

- Inflation subsides, leading to lower interest rates and a lack of demand for gold.
- Global wars end and gold is no longer viewed as a temporary safe haven.

-Christopher J. Sakai, CFA

For more information on a trial offer, please call us at 818-222-6234, e-mail us at Research@SingularResearch.com, or sign up by Clicking Here.

[1] https://www.bizepic.com/2023/10/30/gold-rush-analyzing-the-historical-price-fluctuations-of-gold-during-times-of-war/

[2] https://www.fxstreet.com/analysis/2024-started-as-2023-ended-with-central-banks-buying-more-gold-202403071515#:~:text=According%20to%20the%20World%20Gold%20Council%2C%20central%20banks%20net%20gold,on%20the%20prior%20record%20year.

[3] https://money.com/what-drives-the-price-of-gold/#:~:text=In%20general%2C%20they%20have%20an,fall%20as%20interest%20rates%20rise.

[4] https://www.cnn.com/2024/04/09/economy/gold-prices-record-highs/index.html

[5] https://www.bls.gov/cpi/latest-numbers.htm

[6] https://www.cnn.com/2024/04/09/economy/gold-prices-record-highs/index.html

[7] https://finance.yahoo.com/news/gold-reports-fourth-quarter-full-221500827.html