

Almonty Industries Inc.

Canada / Mining

Toronto

Bloomberg: AII CN

ISIN: CA0203981034

Q2 2017/18 results

RATING**BUY****PRICE TARGET****CAD 1.30**

Return Potential

150.0%

Risk Rating

High

RAISING PRICE TARGET ON STRONG Q2 17/18 PERFORMANCE

Almonty has reported strong Q2 17/18 numbers which were well above our forecasts. Revenue was up 70.0% at CAD17.3m (FBe: CAD15.0m; Q2 16/17: CAD10.2m) while EBIT rose to CAD3.7m (FBe: CAD1.8m; Q2 16/17: CAD-3.1m). The results benefited from the expiry of fixed priced offtake agreements and falling unit costs at both the Los Santos and Panasqueira mines. Commodity pricing remains firm. The tungsten APT price is now USD340-345 per MTU compared with an average of USD324 per MTU in calendar Q1. Meanwhile, the ten year offtake agreed in March for the Sangdong mine in Korea continues to suggest that a financing agreement for this project is near. We have revised up our forecasts in the light of the Q2 17/18 results and now see fair value for the stock at CAD1.30 (previously: CAD 1.10). We maintain our Buy recommendation.

Q2 17/18 results well above our forecasts Q2 2017/18 results (see figure 1 overleaf) showed a 70.0% jump in revenues to CAD17.3m (FBe: CAD15.0m; Q2 16/17: CAD10.2m) and EBIT of CAD3.7m (FBe: CAD1.8m; Q2 16/17: CAD-3.1m). EBIT numbers were above our forecasts at both Los Santos and Panasqueira. At Los Santos this was mainly a function of lower production costs than we had modelled, while at Panasqueira revenue was above our expectation. The net price received per MTU (=10kg) WO₃ was 58.8% above the average spot price in Q2 2017/18. WO₃ sold rose 17.2% to 45,035 MTU (Q2 16/17: 38,453 MTU). Both volume and net price numbers benefited from the cyclical upturn in demand for tungsten and decreasing exports of tungsten concentrate from China.

Los Santos profitability helped by higher recovery rate, lower strip ratio Revenue from the Los Santos mine climbed 39.6% to CAD6.1m (FBe: CAD6.8m; Q2 16/17: CAD4.4m). The increase compared with Q1 17/18 was also large at 36.6%. WO₃ sold increased 19.4% to 21,894 MTU (Q2 16/17: 18,332 MTU) while production jumped 27.6% to 21,808 MTU (Q2 16/17: 17,089 MTU). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014/15	2015/16	2016/17	2017/18E	2018/19E	2019/20E
Revenue (CAD m)	36.14	37.31	39.02	73.20	94.75	71.22
Y-o-y growth	23.7%	3.2%	4.6%	87.6%	29.4%	-24.8%
EBIT (CAD m)	-18.19	-18.17	-10.07	13.66	24.45	17.97
EBIT margin	-50.3%	-48.7%	-25.8%	18.7%	25.8%	25.2%
Net income (CAD m)	-19.55	-21.18	-8.12	11.23	19.92	14.75
EPS (diluted) (CAD)	-0.38	-0.22	-0.07	0.06	0.11	0.08
DPS (CAD)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (CADm)	-11.98	-15.48	-13.83	11.88	16.06	3.50
Net gearing	90.1%	155.8%	105.9%	55.1%	21.1%	14.6%
Liquid assets (CAD m)	0.87	4.22	4.47	3.09	1.60	6.20

RISKS

Risks are a renewed turnaround in tungsten commodity prices and failure to secure financing for the strategically important Sangdong tungsten project.

COMPANY PROFILE

Almonty is a turnaround investor-operator specialising in acquiring distressed and underperforming operations and assets in tungsten markets.

MARKET DATA

As of 24 May 2018

Closing Price	CAD 0.52
Shares outstanding	181.60m
Market Capitalisation	CAD 94.43m
52-week Range	CAD 0.20 / 0.67
Avg. Volume (12 Months)	72,468

Multiples	2016/17	2017/18E	2018/19E
P/E	n.a.	8.4	4.7
EV/Sales	3.7	2.0	1.5
EV/EBIT	n.a.	10.5	5.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2018

Liquid Assets	CAD 3.77m
Current Assets	CAD 15.71m
Intangible Assets	CAD 0.00m
Total Assets	CAD 163.34m
Current Liabilities	CAD 40.64m
Shareholders' Equity	CAD 46.91m

SHAREHOLDERS

Lewis Black/Almonty Partners LLC	19.7%
Global Tungsten & Powders Corp.	15.2%
Deutsche Rohstoff AG	12.8%
J.P. Morgan Chase & Co.	8.5%
Free float and other	43.8%



Net pricing was influenced by a one year contract from 1 February 2017 under which 80% of production was fixed at USD192.5 per MTU WO₃. This is equivalent to USD247 per MTU tungsten APT (ammonium paratungstate) assuming the industry standard discount of 22%. Since the expiry of this contract Los Santos has been selling its output based on spot market pricing. The current spot price is USD340-345 per MTU tungsten APT. At the industry standard discount of 22%, the net price to Almonty would be USD267 per MTU WO₃. EBIT improved to CAD0.3m (FBe: CAD-0.3m; Q2 16/17: CAD-2.0m) due to the conjunction of higher revenues and lower production costs. Costs fell due to a higher recovery rate of 61.2% (Q2 16/17: 55.3%) and a lower strip ratio. At 0.3% the average grade mined was in line with Q2 16/17 but well above the FY 16/17 figure of 0.23%. Management tells us that over the next few quarters the recovery rate is expected to remain within the 60-65% range while the grade mined should rise. The strip ratio is also set to fall further.

Panasqueira's 2018 offtake at USD280/MTU WO₃ (2017: USD210/MTU WO₃) The Panasqueira mine's revenue increased 93.0% to CAD11.2m (FBe: CAD7.7m; Q2 16/17: CAD5.8m). The increase over Q1 17/18 was 77.8%. Pricing in Q2 17/18 benefited from the expiry at the end of December 2017 of a one year fixed-price offtake agreement at USD210 per MTU of contained WO₃ (equivalent to USD269 per MTU tungsten APT). Almonty concluded a new one year offtake for Panasqueira from 1 January 2018 at USD280/MTU WO₃. WO₃ sold from Panasqueira in Q2 17/18 rose 15.1% to 23,141 MTU (Q2 16/17: 20,103 MTU) while production was 14.8% higher at 24,130 MTU (Q2 16/17: 21,015 MTU). Revenue also benefited from substantial tin credits. EBIT jumped to CAD3.6m (FBe: CAD1.9m; Q2 16/17: CAD0.2m) helped by the increase in revenue but also by an improvement in the average grade of ore mined to 0.165% (Q2 16/17: 0.100%). Management anticipates that the average grade of ore mined will trend towards the average estimated remaining life of mine grade of 0.185%.

Figure 1: Q2 2017/18 results vs. forecasts

CAD 000	Q2 17/18A	Q2 17/18E	Δ vs. Q2 17/18E	Q1 17/18A	Δ vs. Q1 17/18A	Q2 16/17A	Δ vs. Q2 16/17A
Revenue	17,302	14,976	15.5%	10,767	60.7%	10,175	70.0%
Production costs	9,698	9,840		7,814		9,224	
EBITDA from mining operations	7,604	5,136	48.1%	2,953	157.5%	951	699.6%
Impairment loss	0	0		0		0	
Depreciation and amortisation	2,073	2,100		2,272		1,553	
Result of mining ops.	5,531	3,036	82.2%	681	712.2%	-602	n.a.
General and administrative	1,786	1,220		1,982		2,529	
Operating income (EBIT)	3,745	1,816	106.2%	-1,301	n.a.	-3,131	n.a.
Net interest	-615	-500		-617		-621	
Foreign exchange loss (gains)	82	0		233		-253	
Pre-tax income (EBT)	3,048	1,316	131.6%	-2,151	n.a.	-3,499	n.a.
Income taxes	-711	0		0		0	
Net income / loss	3,759	1,316	185.6%	-2,151	n.a.	-3,499	n.a.
EPS (CAD)	0.02	0.01	185.6%	-0.01	n.a.	-0.03	n.a.
EBITDA	5,818	3,916	48.6%	971	499.2%	-1,578	n.a.

Source: Almonty, First Berlin Equity research estimates

Figure 2: Q2 2017/18 WO₃ sales by mine

	Q2 17/18A	Q2 16/17A	Δ vs. Q2 16/17A
Los Santos	21,894	18,332	19.4%
Panasqueira	23,141	20,103	15.1%
Total	45,035	38,435	17.2%

Source: Almonty



FINANCIAL POSITION

Figure 3: Changes in financial position

CAD 000s	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	31-Mar-18
Cash	1,266	1,323	4,473	3,770	5,840
Restricted cash	1,351	1,325	1,300	1,302	1,316
Short term debt	26,868	21,519	20,944	13,006	9,482
Long term debt	40,363	35,875	33,162	41,028	46,029
Net debt	64,614	54,746	48,333	48,962	48,355
Equity	25,804	36,434	45,625	46,912	55,524
Net gearing	250.4%	150.3%	105.9%	104.4%	87.1%

Source: Almonty

Figure 3 illustrates the strengthening of Almonty's balance sheet over the past year. As we have detailed in previous notes, Almonty's financial position improved markedly during 2017 as the company swapped debt for equity, rescheduled debt and raised new equity capital. Net gearing was stable during calendar Q1 but in early February 2018, Almonty announced the restructuring of promissory notes of CAD5.9m issued to Dundee Resources into a convertible debenture. The convertible debenture has a coupon of 6.0% and matures on 30 January 2020. The conversion price is CAD1.00.

Changes to forecasts include early production resumption at Wolfram Camp Figure 4 shows changes to our forecasts for FY 2017/18 and subsequent years following the better than expected Q2 17/18 results. The large increase in the 2018/19 revenue forecast and the decrease in the 2019/20 forecast stem from the statement in the Q2 17/18 report that the restart of production at the Wolfram Camp mine is planned from the end of calendar 2018. We had previously assumed the resumption of production at Wolfram Camp in 2019/20. The current NI 43-101 compliant resource estimate at Wolfram Camp comprises 701k MTU of in situ WO₃ of which 83% or 582k MTU is inferred. The balance of 119k MTU is indicated. Reserves equate to 83k MTU. Against the background of the high ratio of inferred resources to indicated resources and reserves, the mining schedule published in the latest technical report on Wolfram Camp, dated March 2017, shows only 56,632 MTU of WO₃ product, which is sufficient for only seven months of mine life. This explains why we do not include Wolfram Camp in our 2019/20 forecast.

Figure 4: Changes to forecasts

All figures in CAD '000	2017/18E			2018/19E			2019/20E		
	old	new	% Δ	old	new	% Δ	old	new	% Δ
Revenue	62,661	73,196	16.8%	65,008	94,749	45.7%	83,880	71,217	-15.1%
Production costs	40,256	42,559	5.7%	34,417	52,645	53.0%	47,827	38,696	-19.1%
Impairment loss	0	0	n.a.	0	0	n.a.	0	0	n.a.
Depreciation and amortisation	5,100	8,508	66.8%	4,400	8,600	95.5%	5,600	6,800	21.4%
Result of mining ops.	17,305	22,129	27.9%	26,191	33,504	27.9%	30,453	25,721	-15.5%
General and administrative	7,630	8,467	11.0%	7,850	9,050	15.3%	8,100	7,750	-4.3%
Operating income (EBIT)	9,675	13,662	41.2%	18,341	24,454	33.3%	22,353	17,971	-19.6%
Interest expense	1,751	2,432	38.9%	1,357	1,014	-25.3%	724	623	-14.0%
Foreign exchange (gain) loss	0	0	n.a.	0	0	n.a.	0	0	n.a.
Pre-tax income (EBT)	7,924	11,230	41.7%	16,984	23,440	38.0%	21,629	17,348	-19.8%
Income taxes	0	0	n.a.	2,548	3,516	38.0%	3,244	2,602	-19.8%
Minority interests	0	0	n.a.	0	0	n.a.	0	0	n.a.
Net income / loss	7,924	11,230	41.7%	14,437	19,924	38.0%	18,385	14,746	-19.8%
EPS (CAD)	0.05	0.06	26.3%	0.08	0.11	38.5%	0.10	0.08	-19.8%
EBITDA	14,775	22,170	50.0%	22,741	33,054	45.3%	27,953	24,771	-11.4%

Source: First Berlin Equity research estimates



VALUATION

Pending financing of the Sangdong mine, we continue to value the project on the basis of the peer group comparison shown in figure 5.

Figure 5: Sangdong peer group comparison

	EV CADm	Total MTU W ₀₃ in situ (000s)	EV/MTU W ₀₃ in situ (CAD)
Blackheath Resources	1.7	1,228	1.41
Ormonde Mining*	24.0	2,174	11.04
Thor Mining	22.9	4,597	4.99
Sangdong	155.3	25,890	6.00

*in situ resource shown is 30% of total in line with Ormonde's 30% stake in the Barruecopardo project

Source: Company figures; First Berlin Equity Research estimates

Blackheath Resources is currently focused on exploration work rather than project financing.

Thor Mining published a feasibility study for its wholly-owned Molyhill tungsten project in Australia in early 2015. Project development cost is estimated at USD48m. The company has demonstrated the production of tungsten concentrate from the Molyhill project and also holds a Memorandum of Understanding in respect of concentrate sales with a major international downstream processor. However, the company has yet to conclude financing for the project.

Among the peers shown in figure 5, Ormonde Mining has the highest enterprise value/MTU/W₀₃ at CAD11.04. Ormonde is the only one of the companies in the peer group to have achieved financing for a project. The funding for the Barruecopardo tungsten project in Spain was agreed with Oaktree Capital in 2015. Ormonde retains 30% in the project while Oaktree holds 70%. Production is scheduled to start in calendar Q4 2018.

Price target now CAD1.30 (previously: CAD1.10). Buy recommendation maintained

We continue to base our valuation of Sangdong on Ormonde. Since our last note of 16 March the Ormonde share price has risen 57% from GBp1.95 to GBp3.07. In our March note we valued each MTU of resource at Sandong at CAD5.00 – a 31% discount to Ormonde's then valuation of CAD7.29 per MTU W₀₃. Conservatively, we now move this figure up to CAD6.00, which represents a 46% discount to the current Ormonde valuation of CAD11.04 per MTU W₀₃. This implies an overall valuation for Almonty of CAD1.29 per share (see figure 6 below). We raise our price target to CAD1.30 (previously: CAD1.10) and maintain our Buy recommendation.

Figure 6: Sum-of-the-parts valuation

USD 000's	Old	New	% Delta
Panasqueira	62,443	68,192	9.2%
Los Santos	25,617	27,793	8.5%
Valtreixal	15,527	15,946	2.7%
Wolfram Camp	691	702	1.6%
Sangdong	100,754	120,418	19.5%
Less: PV parent company costs	10,118	10,118	0.0%
Total enterprise value	194,914	222,932	14.4%
Total enterprise value (CAD 000's)	250,425	287,583	14.8%
Less: proforma net debt (CAD 000's)	36,430	38,666	6.1%
Fair equity value (CAD 000's)	213,996	248,917	16.3%
Proforma no. shares (000's)	194,116	193,142	-0.5%
Fair equity value per share (CAD)	1.10	1.29	16.9%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18E	2018/19E	2019/20E
Revenue	36,142	37,310	39,018	73,196	94,749	71,217
Production costs	37,743	32,969	32,349	42,559	52,645	38,696
EBITDA from mining operations	-1,601	4,341	6,669	30,637	42,104	32,521
Impairment loss	1,708	5,345	0	0	0	0
Depreciation and amortisation	8,545	8,200	6,400	8,508	8,600	6,800
Result from mining operations	-11,854	-9,204	269	22,129	33,504	25,721
General and administrative	6,339	8,962	10,336	8,467	9,050	7,750
Operating income (EBIT)	-18,193	-18,166	-10,067	13,662	24,454	17,971
Interest expense	1,404	2,709	2,436	2,432	1,014	623
Gains on debt settlements	0	0	3,015	0	0	0
Foreign exchange (gain) loss	1,313	-360	-1,368	0	0	0
Pre-tax income (EBT)	-20,910	-20,515	-8,120	11,230	23,440	17,348
Income taxes	-618	660	0	0	3,516	2,602
Minority interests	-747	0	0	0	0	0
Net income / loss	-19,545	-21,175	-8,120	11,230	19,924	14,746
Diluted EPS (in €)	-0.38	-0.22	-0.07	0.06	0.11	0.08
EBITDA	-7,940	-4,621	-3,667	22,170	33,054	24,771
Ratios						
EBITDA margin on revenues	-22.0%	-12.4%	-9.4%	30.3%	34.9%	34.8%
EBIT margin on revenues	-50.3%	-48.7%	-25.8%	18.7%	25.8%	25.2%
Net margin on revenues	-54.1%	-56.8%	-20.8%	15.3%	21.0%	20.7%
Tax rate	n.m.	n.m.	n.m.	n.m.	15.0%	15.0%
Expenses as % of revenues						
Production costs	104.4%	88.4%	82.9%	58.1%	55.6%	54.3%
Impairment loss	4.7%	14.3%	0.0%	0.0%	0.0%	0.0%
General and administrative	17.5%	24.0%	26.5%	11.6%	9.6%	10.9%
Y-Y Growth						
Revenues	23.7%	3.2%	4.6%	87.6%	29.4%	-24.8%
Operating income	n.a.	n.m.	n.m.	n.m.	79.0%	-26.5%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	77.4%	-26.0%



BALANCE SHEET

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18E	2018/19E	2019/20E
Assets						
Current assets, total	8,543	17,800	15,823	29,806	36,187	32,193
Cash and cash equivalents	866	4,215	4,473	3,090	1,603	6,199
Trade receivables	840	707	1,420	1,464	1,895	1,424
Sales tax receivable	2,149	1,439	1,372	2,855	3,695	2,777
Inventories	4,076	10,720	7,274	21,007	27,193	20,439
Other current assets	612	719	1,284	1,391	1,800	1,353
Non-current assets, total	108,984	149,966	144,328	151,019	163,243	165,117
Mining assets	88,136	125,928	115,721	120,774	130,754	135,312
Tailings inventory	15,410	18,665	23,492	23,492	23,492	23,492
Deferred tax assets	4,036	2,859	2,864	4,904	7,580	3,561
Restricted cash	1,223	1,336	1,300	898	466	1,801
Other assets	179	1,178	951	951	951	951
Total assets	117,527	167,766	160,151	180,825	199,429	197,310
Shareholders' equity & debt						
Current liabilities, total	32,578	55,849	47,374	61,972	68,999	54,666
Bank indebtedness	1,794	4,456	9,447	6,526	3,386	3,810
Accounts payable and accrued liabilities	15,453	21,799	22,479	42,747	55,333	41,591
Deferred revenue	1,697	2,422	3,951	4,758	6,159	4,629
Current portion of long term debt	13,634	27,172	11,497	7,942	4,121	4,636
Long-term liabilities, total	35,947	76,348	67,152	58,260	48,466	47,943
Long-term debt	30,801	29,325	33,162	22,908	11,886	13,373
Restoration and other provisions	3,228	45,548	32,790	32,790	32,790	32,790
Deferred tax liabilities	1,918	1,475	1,200	2,562	3,790	1,780
Minority interests	0	0	0	0	0	0
Shareholders' equity	49,002	35,569	45,625	60,593	81,965	94,701
Total consolidated equity and debt	117,527	167,766	160,151	180,825	199,429	197,310
Ratios						
Current ratio (x)	0.26	0.32	0.33	0.48	0.52	0.59
Quick ratio (x)	0.14	0.13	0.18	0.14	0.13	0.22
Net debt	44.14	55.40	48.33	33.39	17.32	13.82
Net gearing	90.1%	155.8%	105.9%	55.1%	21.1%	14.6%
Book value per share (in €)	0.57	0.32	0.27	0.34	0.46	0.53
Return on equity (ROE)	0.0%	-50.1%	-20.0%	21.1%	28.0%	16.7%



CASH FLOW STATEMENT

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18E	2018/19E	2019/20E
Net profit before minorities	-20,292	-21,175	-8,242	11,230	19,924	14,746
Share-based compensation	379	170	472	0	0	0
Depreciation and amortisation	8,545	8,200	6,400	8,508	8,600	6,800
Interest expense	1,404	2,709	2,436	0	0	0
Income tax expenses	618	660	122	0	0	0
Impairment of mine asset	1,708	5,345	0	0	0	0
Inventory impairment charges	7,408	6,301	0	0	0	0
Gain on debt settlement	0	0	-3,015	0	0	0
Unrealised foreign exchange (gain) loss	2,138	-390	-1,320	0	0	0
Other non-cash charges	111	116	104	0	0	0
Interest and taxes paid	-2,033	-1,125	-920	0	0	0
Net change in non-cash working capital	4877	-1,892	4,620	5,708	6,121	-6,683
Change in tailings inventory	-4065	-3,138	-3,545	0	0	0
Operating cash flow	798	-4,219	-2,888	25,446	34,645	14,863
Additions to mining assets	-12,783	-11,259	-10,945	-13,561	-18,580	-11,358
Free cash flow	-11,985	-15,478	-13,833	11,885	16,065	3,505
Acquisition of Panasqueira, net of cash acquired	0	-833	0	0	0	0
Acquisition of Woulfe, net of cash acquired	-2,275	0	0	0	0	0
Other investments	-1,058	-938	266	402	432	-1,336
Investment cash flow	-16,116	-13,030	-10,679	-13,159	-18,148	-12,694
Debt financing, net	924	13,543	7,581	-16,730	-17,983	2,426
Equity financing	-197	7,036	6,353	3,060	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	0	0	0	0	0
Financing cash flow	727	20,579	13,934	-13,670	-17,983	2,426
FOREX & other effects	610	19	-109	0	0	0
Net cash flows	-13,981	3,349	258	-1,383	-1,487	4,595
Cash, start of the year	14,847	866	4,215	4,473	3,090	1,603
Cash, end of the year	866	4,215	4,473	3,090	1,603	6,199
EBITDA/share (in CAD)	-0.15	-0.05	-0.03	0.12	0.18	0.14
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	36.2%	-57.1%
Free cash flow	n.a.	n.m.	n.m.	n.m.	35.2%	-78.2%
EBITDA/share	n.a.	n.m.	n.m.	n.m.	47.4%	-25.1%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	6 June 2017	CAD0.25	Buy	CAD0.60
2...3	↓	↓	↓	↓
4	12 February 2018	CAD0.57	Buy	CAD1.10
5	16 March 2018	CAD0.54	Buy	CAD1.10
6	Today	CAD0.52	Buy	CAD1.30

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