

Almonty Industries Inc.

Canada / Mining

Toronto

Bloomberg: All CN

ISIN: CA0203981034

Q3 2017/18 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**CAD 1.45**

62.9%

High

ANOTHER STRONG QUARTER; PROFIT FORECASTS RAISED

Almonty has reported another strong set of quarterly numbers which were above our forecasts. Q3 17/18 revenue (to end June) more than doubled to CAD22.5m (FBe: CAD20.5m; Q3 16/17: CAD11.0m) and was also nearly 30% ahead of the Q2 17/18 figure. EBIT jumped to CAD7.5m (FBe: CAD5.0m; Q3 16/17: CAD-1.1m). Q2 17/18 EBIT was €5.0m. The results benefited from the expiry at end 2017/early 2018 of fixed priced offtake agreements during a period of rising tungsten APT spot prices as well as higher volumes and lower unit costs. Industrial logic still suggests to us that the Sangdong deal will be done over the next few months to secure long term non-Chinese tungsten supply for western customers. The ten year offtake for Sangdong agreed in March strongly supports Almonty's negotiating position in our view. However, in the light of the delay in this deal we now take a more conservative view on 2017/18 WO₃ shipments and pencil in 180k MTU (previously 196k MTU). Nevertheless, higher than expected Q3 17/18 profitability, particularly at Los Santos, prompts us to increase our full year EBITDA and EBIT forecasts by 13.2% and 21.1% respectively. We raise our price target to CAD1.45 (previously: CAD1.30) and maintain our Buy recommendation.

Group volume up 22.3% y-o-y Group shipment volume rose 22.3% in Q3 17/18 to 47,900 MTU WO₃ (Q3 16/17: 39,200 MTU WO₃). Q3 17/18 volume was 24.7% above the Q2 17/18 figure of 38,400 MTU. The difference between the 30% revenue increase between Q2 17/18 and Q3 17/18 and the 24.7% increase in volume is explicable in terms of Los Santos' exposure to a rising spot market in Q3 17/18. Until the end of January 2018 80% of Los Santos's production was subject to a fixed price contract at USD192.5 per MTU WO₃ (equivalent to USD247 per MTU tungsten APT). Since the beginning of February Los Santos has been selling its output according to a contract based on spot market pricing. The average spot market price per MTU WO₃ during Q2 17/18 and Q3 17/18 was USD263 (equivalent to USD337 per MTU tungsten APT). (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	74.13	96.00	72.13
Y-o-y growth	23.7%	3.2%	4.6%	90.0%	29.5%	-24.9%
EBIT (CAD m)	-18.19	-18.17	-10.07	16.55	24.07	18.01
EBIT margin	-50.3%	-48.7%	-25.8%	22.3%	25.1%	25.0%
Net income (CAD m)	-19.55	-21.18	-8.12	14.13	19.39	14.87
EPS (diluted) (CAD)	-0.38	-0.22	-0.07	0.08	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	4.89	14.12	23.59
Net gearing	90.1%	155.8%	105.9%	60.8%	30.0%	1.0%
Liquid assets (CAD m)	0.87	4.22	4.47	7.50	10.00	12.00

RISKS

Risks are a renewed turn-down 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 15 Aug 2018

Closing Price	CAD 0.89
Shares outstanding	181.44m
Market Capitalisation	CAD 161.48m
52-week Range	CAD 0.31 / 0.96
Avg. Volume (12 Months)	82,006

Multiples	2016/17	2017/18E	2018/19E
P/E	n.a.	11.4	8.3
EV/Sales	5.3	2.8	2.2
EV/EBIT	n.a.	12.5	8.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	CAD 7.43m
Current Assets	CAD 23.44m
Intangible Assets	CAD 0.00m
Total Assets	CAD 177.98m
Current Liabilities	CAD 36.82m
Shareholders' Equity	CAD 59.46m

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%



Pricing at Panasqueira was fixed at USD 280 per MTU WO₃ (equivalent to USD359 per MTU tungsten APT) during Q2 17/18 and Q3 17/18.

Figure 1: Q3 2017/18 results vs. forecasts

CAD 000	Q3 17/18A	Q3 17/18E	Δ vs. Q3 17/18E	Q2 17/18A	Δ vs. Q2 17/18A	Q3 16/17A	Δ vs. Q3 16/17A
Revenue	22,473	20,454	9.9%	17,302	29.9%	10,974	104.8%
Production costs	9,771	11,066		9,698		7,641	
EBITDA from mining operations	12,702	9,387	35.3%	7,604	67.0%	3,333	281.1%
Impairment loss	0	0		0		0	
Depreciation and amortisation	2,129	2,081		2,073		2,031	
Result of mining ops.	10,573	7,306	44.7%	5,531	91.2%	1,302	712.1%
General and administrative	2,164	2,330		1,786		2,363	
Share-based compensation	897	0		0		0	
Operating income (EBIT)	7,512	4,976	51.0%	3,745	n.a.	-1,061	n.a.
Net interest	-760	-600		-615		-662	
Foreign exchange loss (gains)	858	0		82		-814	
Pre-tax income (EBT)	5,894	4,376	34.7%	3,048	n.a.	-909	n.a.
Income taxes	-639	0		-711		0	
Net income / loss	6,533	4,376	49.3%	3,759	n.a.	-909	n.a.
EPS (CAD)	0.04	0.02	49.3%	0.02	n.a.	-0.01	n.a.
EBITDA	9,641	7,057	36.6%	5,818	65.7%	970	893.9%

Source: Almonty, First Berlin Equity research estimates

Higher recovery rate/lower strip ratio reduced unit costs at Los Santos WO₃ production at Los Santos rose 35.6% to 24,100 MTU in Q3 17/18 (Q3 16/17: 17,800 MTU WO₃) and 10.6% in comparison with the Q2 17/18 figure of 21,800 MTU WO₃. Almonty has not broken out shipment figures by mine. However, we calculate that shipments from Los Santos at least kept up with production on a y-o-y basis. EBIT at Los Santos jumped to CAD5.3m (Q3 16/17: CAD0m) due to higher revenues and lower unit costs. Helped by a higher recovery rate and a lower strip ratio, production costs climbed only 20% to CAD3.2m (Q3 16/17: CAD2.6m).

Panasqueira production up 14% in Q3 17/18 Production of WO₃ at Panasqueira climbed 14% to 24,600 MTU (Q3 16/17: 21,600 MTU). We estimate that shipments were flat y-o-y at 21,000 MTU which would imply a roughly 4% increase on the Q2 17/18 level of 20,100 MTU. Revenue climbed 69.6% to CAD10.9m (Q3 16/17: CAD6.4m) but was slightly (-2.4%) below the Q2 17/18 level of CAD11.2m. Production costs climbed 20% to CAD6.0m (Q3 16/17: CAD5.0m) which indicates that unit production costs did not fall as they did at Los Santos. However EBIT was still strongly ahead at CAD3.3m (CAD0.3m) on the strength of better pricing, strong sales growth and relatively stable depreciation and G&A costs.

FINANCIAL POSITION

Figure 2: Changes in financial position

CAD 000s	31-Dec-16	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	31-Mar-18	30-Jun-18
Cash	2,463	1,266	1,323	4,473	3,770	5,840	7,433
Restricted cash	1,290	1,351	1,325	1,300	1,302	1,316	1,294
Short term debt	25,777	26,868	21,519	20,944	13,006	9,482	7,696
Long term debt	39,024	40,363	35,875	33,162	41,028	46,029	46,176
Net debt	61,048	64,614	54,746	48,333	48,962	48,355	45,145
Equity	29,159	25,804	36,434	45,625	46,912	55,524	59,462
Net gearing	209.4%	250.4%	150.3%	105.9%	104.4%	87.1%	75.9%

Source: Almonty



Cyclical upturn, balance sheet restructuring has pushed net gearing well below 100%

Figure 2 illustrates the improvement in Almonty's financial position during the eighteen months ending 30 June 2018. Almonty's balance sheet has strengthened markedly over the past 18 months as the company has swapped debt for equity, restructured and rescheduled debt, and raised new equity capital.

FY EBITDA and EBIT forecasts up 13.2% and 21.1% respectively on strong Q3 17/18

Figure 3 shows changes to our forecasts for FY 2017/18 and subsequent years following the Q3 17/18 results. We continue to expect Almonty to conclude the Sangdong deal over the next few months. However, in the light of the delay in this deal we now take a more conservative view on 2017/18 WO₃ shipments and pencil in 180k MTU (previously 196k MTU). Nevertheless, higher than expected Q3 17/18 profitability, particularly at Los Santos, prompts us to increase our full year EBITDA and EBIT forecasts by 13.2% and 21.1% respectively. We raise our price target to CAD1.45 (previously: CAD1.30) and maintain our Buy recommendation.

Figure 3: Changes to forecasts

All figures in CAD '000	2017/18E			2018/19E			2019/20E		
	old	new	% Δ	old	new	% Δ	old	new	% Δ
Revenue	73,196	74,135	1.3%	94,749	95,997	1.3%	71,217	72,133	1.3%
Production costs	42,559	40,180	-5.6%	52,645	54,274	3.1%	38,696	39,575	2.3%
Impairment loss	0	0	n.a.	0	0	n.a.	0	0	n.a.
Depreciation and amortisation	8,508	8,557	0.6%	8,600	8,600	0.0%	6,800	6,800	0.0%
Result of mining ops.	22,129	25,398	14.8%	33,504	33,123	-1.1%	25,721	25,758	0.1%
General and administrative	8,467	8,852	4.5%	9,050	9,050	0.0%	7,750	7,750	0.0%
Operating income (EBIT)	13,662	16,546	21.1%	24,454	24,073	-1.6%	17,971	18,008	0.2%
Interest expense	2,432	2,592	6.6%	1,014	1,265	24.8%	623	511	-18.0%
Foreign exchange (gain) loss	0	1,173	n.a.	0	0	n.a.	0	0	n.a.
Pre-tax income (EBT)	11,230	12,781	13.8%	23,440	22,808	-2.7%	17,348	17,497	0.9%
Income taxes	0	-1,350	n.a.	3,516	3,421	-2.7%	2,602	2,625	0.9%
Minority interests	0	0	n.a.	0	0	n.a.	0	0	n.a.
Net income / loss	11,230	14,131	25.8%	19,924	19,387	-2.7%	14,746	14,872	0.9%
EPS (CAD)	0.06	0.08	30.0%	0.11	0.11	-2.9%	0.08	0.08	0.9%
EBITDA	22,170	25,103	13.2%	33,054	32,673	-1.2%	24,771	24,808	0.1%

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 4.

Figure 4: Sangdong peer group comparison

	EV CADm	Total MTU WO ₃ in situ (000s)	EV/MTU WO ₃ in situ (CAD)
Blackheath Resources	0.7	1,228	0.60
Ormonde Mining*	32.3	2,174	14.84
Thor Mining	16.9	4,597	3.68
Sangdong	181.2	25,890	7.00

* 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 4, Ormonde Mining has the highest enterprise value/MTU/WO₃ at CAD14.84. 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 CAD1.45 (previously: CAD1.30). Buy recommendation maintained

We continue to base our valuation of Sangdong on Ormonde. Since our last note of 25 May the Ormonde share price has risen 37% from GBp3.07 to GBp4.20. In our May note we valued each MTU of resource at Sandong at CAD6.00 – a 46% discount to Ormonde's then valuation of CAD11.04 per MTU WO₃. We now move this figure up to CAD7.00, which represents a 53% discount to the current Ormonde valuation of CAD14.84 per MTU WO₃. This implies an overall valuation for Almonty of CAD1.45 per share (see figure 5 below). We raise our price target to CAD1.45 (previously: CAD1.30) and maintain our Buy recommendation.

Figure 5: Sum-of-the-parts valuation

USD 000's	Old	New	% Delta
Panasqueira	68,192	63,552	-6.8%
Los Santos	27,793	33,145	19.3%
Valtreixal	15,946	16,295	2.2%
Wolfram Camp	702	718	2.2%
Sangdong	120,418	138,660	15.1%
Less: PV parent company costs	10,118	10,118	0.0%
Total enterprise value	222,932	242,251	8.7%
Total enterprise value (CAD 000's)	287,583	316,622	10.1%
Less: proforma net debt (CAD 000's)	38,666	34,344	-11.2%
Fair equity value (CAD 000's)	248,917	282,278	13.4%
Proforma no. shares (000's)	193,142	194,255	0.6%
Fair equity value per share (CAD)	1.29	1.45	12.8%

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	74,135	95,997	72,133
Production costs	37,743	32,969	32,349	39,283	54,274	39,575
EBITDA from mining operations	-1,601	4,341	6,669	34,852	41,723	32,558
Impairment loss	1,708	5,345	0	0	0	0
Depreciation and amortisation	8,545	8,200	6,400	8,557	8,600	6,800
Result from mining operations	-11,854	-9,204	269	26,295	33,123	25,758
General and administrative	6,339	8,962	10,336	8,852	9,050	7,750
Share-based compensation	0	0	0	897	0	0
Operating income (EBIT)	-18,193	-18,166	-10,067	16,546	24,073	18,008
Interest expense	1,404	2,709	2,436	2,592	1,265	511
Gains on debt settlements	0	0	3,015	0	0	0
Foreign exchange (gain) loss	1,313	-360	-1,368	1,173	0	0
Pre-tax income (EBT)	-20,910	-20,515	-8,120	12,781	22,808	17,497
Income taxes	-618	660	0	-1,350	3,421	2,625
Minority interests	-747	0	0	0	0	0
Net income / loss	-19,545	-21,175	-8,120	14,131	19,387	14,872
Diluted EPS (in €)	-0.38	-0.22	-0.07	0.08	0.11	0.08
EBITDA	-7,940	-4,621	-3,667	25,103	32,673	24,808
Ratios						
EBITDA margin on revenues	-22.0%	-12.4%	-9.4%	33.9%	34.0%	34.4%
EBIT margin on revenues	-50.3%	-48.7%	-25.8%	22.3%	25.1%	25.0%
Net margin on revenues	-54.1%	-56.8%	-20.8%	19.1%	20.2%	20.6%
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%	53.0%	56.5%	54.9%
Impairment loss	4.7%	14.3%	0.0%	0.0%	0.0%	0.0%
General and administrative	17.5%	24.0%	26.5%	11.9%	9.4%	10.7%
Y-Y Growth						
Revenues	23.7%	3.2%	4.6%	90.0%	29.5%	-24.9%
Operating income	n.a.	n.m.	n.m.	n.m.	45.5%	-25.2%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	37.2%	-23.3%



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	23,068	29,583	26,715
Cash and cash equivalents	866	4,215	4,473	7,500	10,000	12,000
Trade receivables	840	707	1,420	2,965	1,920	1,443
Sales tax receivable	2,149	1,439	1,372	1,853	3,744	2,813
Inventories	4,076	10,720	7,274	8,896	11,520	8,656
Other current assets	612	719	1,284	1,853	2,400	1,803
Non-current assets, total	108,984	149,966	144,328	157,686	164,807	169,861
Mining assets	88,136	125,928	115,721	118,616	124,797	129,840
Tailings inventory	15,410	18,665	23,492	32,000	32,000	32,000
Deferred tax assets	4,036	2,859	2,864	4,819	5,760	5,771
Restricted cash	1,223	1,336	1,300	1,300	1,300	1,300
Other assets	179	1,178	951	951	951	951
Total assets	117,527	167,766	160,151	180,754	194,391	196,576
Shareholders' equity & debt						
Current liabilities, total	32,578	55,849	47,374	40,690	37,919	46,814
Bank indebtedness	1,794	4,456	9,447	0	0	0
Accounts payable and accrued liabilities	15,453	21,799	22,479	28,171	31,679	42,126
Deferred revenue	1,697	2,422	3,951	4,819	6,240	4,689
Current portion of long term debt	13,634	27,172	11,497	7,700	0	0
Long-term liabilities, total	35,947	76,348	67,152	76,382	74,707	52,077
Long-term debt	30,801	29,325	33,162	39,787	35,867	14,274
Restoration and other provisions	3,228	45,548	32,790	34,000	35,000	36,000
Deferred tax liabilities	1,918	1,475	1,200	2,595	3,840	1,803
Minority interests	0	0	0	0	0	0
Shareholders' equity	49,002	35,569	45,625	63,682	81,765	97,685
Total consolidated equity and debt	117,527	167,766	160,151	180,754	194,391	196,576
Ratios						
Current ratio (x)	0.26	0.32	0.33	0.57	0.78	0.57
Quick ratio (x)	0.14	0.13	0.18	0.35	0.48	0.39
Net debt	44.14	55.40	48.33	38.69	24.57	0.97
Net gearing	90.1%	155.8%	105.9%	60.8%	30.0%	1.0%
Book value per share (in €)	0.57	0.32	0.27	0.35	0.45	0.54
Return on equity (ROE)	0.0%	-50.1%	-20.0%	25.9%	26.7%	16.6%



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	14,131	19,387	14,872
Share-based compensation	379	170	472	0	0	0
Depreciation and amortisation	8,545	8,200	6,400	8,557	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 items	111	116	104	-177	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	-6,166	914	13,764
Change in tailings inventory	-4065	-3,138	-3,545	0	0	0
Operating cash flow	798	-4,219	-2,888	16,345	28,901	35,436
Additions to mining assets	-12,783	-11,259	-10,945	-11,452	-14,781	-11,843
Free cash flow	-11,985	-15,478	-13,833	4,893	14,120	23,593
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	0	0	0
Investment cash flow	-16,116	-13,030	-10,679	-11,452	-14,781	-11,843
Debt financing, net	924	13,543	7,581	-6,619	-11,620	-21,593
Equity financing	-197	7,036	6,353	4,753	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	-1,866	-11,620	-21,593
FOREX & other effects	610	19	-109	0	0	0
Net cash flows	-13,981	3,349	258	3,027	2,500	2,000
Cash, start of the year	14,847	866	4,215	4,473	7,500	10,000
Cash, end of the year	866	4,215	4,473	7,500	10,000	12,000
EBITDA/share (in CAD)	-0.15	-0.05	-0.03	0.14	0.18	0.14
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	76.8%	22.6%
Free cash flow	n.a.	n.m.	n.m.	n.m.	188.6%	67.1%
EBITDA/share	n.a.	n.m.	n.m.	n.m.	28.3%	-24.1%

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...2	↓	↓	↓	↓
3	12 February 2018	CAD0.57	Buy	CAD1.10
4	16 March 2018	CAD0.54	Buy	CAD1.10
5	26 May 2018	CAD0.54	Buy	CAD1.30
6	Today	CAD0.89	Buy	CAD1.45

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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