

Almonty Industries Inc.

Canada / Mining
 Toronto
 Bloomberg: AII CN
 ISIN: CA0203981034

Sangdong project
 financing update

RATING
BUY

PRICE TARGET
CAD 1.50

Return Potential 87.5%
 Risk Rating High

SANGDONG TERM SHEET TO BE FINALISED WITHIN 12 WEEKS

Almonty's update on the progress of negotiations over the project financing of its Sangdong tungsten mine indicates that the final term sheet will be signed within 12 weeks. The terms outlined are attractive. China currently accounts for ca. 80% of world primary tungsten supply and is expected to become a net importer by the mid-2020s. The driving force behind the Sangdong deal is the concern of major downstream tungsten products manufacturer, Austria's Plansee/Global Tungsten & Powders Corp. (GTP), to ensure long term security of primary tungsten supply. A ten year offtake agreement signed with Almonty in March stipulated minimum revenue of CAD500m and accounts for ca. 85% of the first ten years of Sangdong's output. Plansee/GTP's selection of the Sangdong mine to become one of its most important long term suppliers is a strong validation of Almonty/the Sangdong mine in our view. Publication of the general terms of the Sangdong project financing causes us to raise our price target from CAD1.45 to CAD1.50. We maintain our Buy recommendation.

Lender is KfW IPEX-Bank GmbH Almonty has released an update on the project financing of its Sangdong mine in South Korea. KfW IPEX-Bank GmbH has consented to Almonty disclosing that it is the lender and also to the release of the general terms of the financing. According to the Almonty press release, due diligence is now almost complete and negotiations of the final term sheet are expected to be completed within 12 weeks.

Loan term: 8.25 years; 2 year initial payment holiday; we expect ca. 3% interest rate The terms include a USD 73 million senior project finance loan secured on the Sangdong mine. Almonty is looking to raise a total of around USD95m to finance the Sangdong project. The company is considering equity, debt or a metal streaming agreement as means to raise the balance of ca. USD20m. The interest rate is expected to be based on normal European commercial lending rates. We expect ca. 3%.
 (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(CADm)	0.87	4.22	4.47	7.50	10.00	12.00

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 05 Oct 2018

Closing Price	CAD 0.80
Shares outstanding	181.44m
Market Capitalisation	CAD 145.15m
52-week Range	CAD 0.37 / 0.96
Avg. Volume (12 Months)	76,177

Multiples	2016/17	2017/18E	2018/19E
P/E	n.a.	10.3	7.5
EV/Sales	4.9	2.6	2.0
EV/EBIT	n.a.	11.5	7.9
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%



The term of the loan will be 8.25 years incorporating an initial repayment holiday with repayments of principal commencing after the second anniversary of the initial drawdown. Oesterreichische Kontrollbank AG (“OeKB”), is currently evaluating substantially guaranteeing the loan, based on the ten year offtake agreement signed in March.

VALUATION

Pending finalisation of the Sangdong financing term sheet, we continue to value the project on the basis of the peer group comparison shown in figure 1.

Figure 1: Sangdong peer group comparison

	EV CADm	Total MTU W ₀₃ in situ (000s)	EV/MTU W ₀₃ in situ (CAD)
Blackheath Resources	0.7	1,228	0.60
Ormonde Mining*	38.9	2,174	17.87
Thor Mining	16.9	4,597	3.68
Sangdong	194.2	25,890	7.50

*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 for 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 1, Ormonde Mining has the highest enterprise value/MTU/W₀₃ at CAD17.87. 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 Q1 2019.

Price target now CAD1.50 (previously: CAD1.45). Buy recommendation maintained

We continue to base our valuation of Sangdong on Ormonde. Since our last note of 16 August the Ormonde share price has risen 18% from GBp4.20 to GBp4.95. In our August note we valued each MTU of resource at Sandong at CAD7.00 – a 53% discount to Ormonde's then valuation of CAD14.84 per MTU W₀₃. We now move this figure up to CAD7.25, which represents a 59% discount to the current Ormonde valuation of CAD17.87 per MTU W₀₃. This implies an overall valuation for Almonty of CAD1.50 per share (see figure 2 below). We raise our price target to CAD1.50 (previously: CAD1.45) and maintain our Buy recommendation.

Figure 2: Sum-of-the-parts valuation

USD 000's	Old	New	% Delta
Panasqueira	63,552	64,438	1.4%
Los Santos	33,145	33,606	1.4%
Valtreixal	16,295	16,522	1.4%
Wolfram Camp	718	728	1.3%
Sangdong	138,680	143,612	3.6%
Less: PV parent company costs	10,118	10,118	0.0%
Total enterprise value	242,251	248,788	2.7%
Total enterprise value (CAD 000's)	316,662	325,165	2.7%
Less: proforma net debt (CAD 000's)	34,344	34,344	0.0%
Fair equity value (CAD 000's)	282,278	290,821	3.0%
Proforma no. shares (000's)	194,255	194,255	0.0%
Fair equity value per share (CAD)	1.45	1.50	3.0%

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...3	↓	↓	↓	↓
4	16 March 2018	CAD0.54	Buy	CAD1.10
5	26 May 2018	CAD0.54	Buy	CAD1.30
6	16 August 2018	CAD0.89	Buy	CAD1.45
7	Today	CAD0.80	Buy	CAD1.50

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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.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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Legally required information regarding

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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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