

Almonty Industries Inc.

Canada / Mining

Toronto

Bloomberg: AII CN

ISIN: CA0203981034

Q1 2018/19 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**CAD 1.25**

92.3%

High

GOOD Q1, SANGDONG TERM SHEET DUE “EARLY-CALENDAR 2019”

Q1 18/19 revenue climbed 52.4% to CAD16.4m (Q1 17/18: CAD10.8m, FBe: CAD 16.1m). EBITDA from mining operations excluding the partial reversal of an impairment charge taken in Q4 17/18, was 27% better than we expected and came in at CAD7.6m (Q1 17/18: CAD3.0m, FBe: CAD 5.9m). Over three quarters of the difference between our forecast for this figure and the reported result was attributable to lower production costs (mainly at the Los Santos mine) than we had modelled. Negotiation of the final term sheet for the financing of the Sangdong mine project is continuing and management expects all principal terms and commitments to be completed during “early-calendar 2019.” The project financing commitment will then be subject to the execution of definitive loan and security documentation. Meanwhile, work continues at the mine site to ensure commissioning on schedule in 2020. Given that it is still early in Almonty’s financial year, and the higher than average macroeconomic uncertainty, we have made only minor changes to our forecasts excluding the impact of the partial reversal of the impairment charge. We maintain our Buy recommendation and price target of CAD1.25.

Volume, pricing, recovery rate, stripping costs all helped Q1 18/19 numbers

As figure 2 overleaf shows, group sales volume rose 31.0% in Q1 18/19 to 47,552 MTU (Q1 17/18: 36,299 MTU). Sales climbed 52.4% because both the Los Santos and Panasqueira mines achieved higher prices for their output in Q1 18/19 compared with Q1 17/18. Sales growth also outstripped reported volume growth because of increasing volume of by-product payable metals (copper and tin) from the Panasqueira mine which are not included in the reported volume figures. We estimate that copper and tin contributed around CAD1.2m to group sales in Q1 18/19.

Q1 helped by inclusion of CAD2-3m in revenue held over from Q4 17/18

The Los Santos mine was the sole driver of sales volume in Q1 18/19. We estimate that Q1 18/19 sales volume at Los Santos climbed 70.2%...(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014/15	2015/16	2016/17	2017/18	2018/19E	2019/20E
Revenue (CAD m)	36.14	37.31	39.02	65.17	53.53	55.01
Y-o-y growth	23.7%	3.2%	4.6%	67.0%	-17.9%	2.8%
EBIT (CAD m)	-18.19	-18.17	-10.07	-7.61	10.39	5.18
EBIT margin	-50.3%	-48.7%	-25.8%	-11.7%	19.4%	9.4%
Net income (CAD m)	-19.55	-21.18	-8.24	-10.69	7.11	2.70
EPS (diluted) (CAD)	-0.38	-0.22	-0.07	-0.06	0.04	0.01
DPS (CAD)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (CADm)	-11.98	-15.48	-13.83	4.67	0.24	8.32
Net gearing	90.1%	155.8%	105.9%	98.8%	85.4%	60.4%
Liquid assets (CAD m)	0.87	4.22	4.47	8.72	8.88	17.19

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.

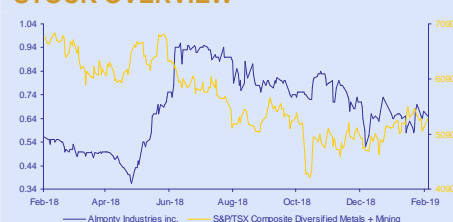
MARKET DATA

As of 19 Feb 2019

Closing Price	CAD 0.65
Shares outstanding	181.44m
Market Capitalisation	CAD 117.94m
52-week Range	CAD 0.37 / 0.96
Avg. Volume (12 Months)	73,525

Multiples	2017/18	2018/19E	2019/20E
P/E	n.a.	16.6	43.8
EV/Sales	1.8	2.2	2.1
EV/EBIT	n.a.	11.4	22.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	CAD 9.46m
Current Assets	CAD 23.50m
Intangible Assets	CAD 0.00m
Total Assets	CAD 149.87m
Current Liabilities	CAD 47.29m
Shareholders' Equity	CAD 50.18m

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%



...to 28,800 MTU WO₃ (Q1 17/18: 16,926 MTU WO₃) helped by the inclusion of approximately 7,000-10,000 MTU WO₃ which were shipped in Q4 17/18 but not converted into sales because they did not reach the customer in time. This material added CAD2-3m to the mine's Q1 18/19 sales total which climbed 82% to CAD8.1m (Q1 17/18: CAD4.5m). Production growth at Los Santos was accordingly more modest at 25.5% to 22,526 MTU WO₃ (Q1 17/18: 17,949 MTU WO₃).

Figure 1: Q1 18/19 results vs. our forecasts

CAD 000s	Q1 18/19A	Q1 18/19E	Δ %	Q1 17/18A	Δ %
Revenue	16,412	16,067	2.1%	10,767	52.4%
Production costs	8,845	10,127	-12.7%	7,814	13.2%
% revenue	53.9%	63.0%	-	72.6%	-
Reversal of impairment of mine assets	-4,150	0	n.a.	0	n.a.
EBITDA from mining ops.	11,717	5,940	97.3%	2,953	296.8%
EBITDA from mining ops. excluding impairment	7,567	5,940	27.4%	2,953	156.2%
Depreciation and amortisation	1,474	1,650	-10.7%	2,272	-35.1%
EBIT from mining ops.	10,243	4,290	138.8%	681	1404.1%
EBIT from mining ops. excluding impairment	6,093	4,290	42.0%	681	794.7%

Source: Almonty Industries Inc., First Berlin Equity research estimates

We estimate that sales volume at Panasqueira fell 3.2% to 18,752 MTU WO₃ (Q1 17/18: 19,373 MTU WO₃). According to the Q1 18/19 report, production volumes at Panasqueira in Q1 18/19 were "consistent with those of Q1 18/19."

Figure 2: Recent development of sales volume, sales and EBITDA from mining operations

	FY 16/17	Q1 17/18	Q2 17/18	Q3 17/18	Q4 17/18	FY 17/18	Q1 18/19
Los Santos WO ₃ sales (MTUs)*	66,698	16,926	20,929	27,858	27,910	93,623	28,800
y-o-y change	n.a.	16.5%	14.2%	64.7%	65.0%	40.4%	70.2%
Panasqueira WO ₃ sales (MTUs)*	80,758	19,373	23,141	23,642	25,484	91,640	18,752
y-o-y change	n.a.	8.1%	15.1%	12.8%	17.1%	13.5%	-3.2%
Total sales (MTUs)	147,456	36,299	44,070	51,500	53,394	185,263	47,552
y-o-y change	n.a.	11.8%	14.7%	36.0%	38.0%	25.6%	31.0%
Total sales (CAD 000s)	39,018	10,767	17,302	22,473	14,629	65,171	16,412
y-o-y change	4.6%	52.5%	70.0%	104.8%	35.3%	67.0%	52.4%
Total EBITDA from mining ops. excluding impairment (CAD 000s)	6,669	2,953	7,604	12,702	5,213	28,472	7,567
y-o-y change	53.6%	n.a.	699.6%	281.1%	84.8%	326.9%	156.2%

*figures for Q1 18/19 are FB estimates

Source: Almonty Industries Inc.

Los Santos Q1 also benefited from lower strip ratio and higher recovery rate

Production costs climbed 13.2% in Q1 18/19 to CAD8.8m (Q1 17/18: CAD7.8m) i.e. much more slowly than volume or sales. The main reason for this development was a 17.6% decline in production costs at Los Santos due to a lower strip ratio and a higher tungsten recovery rate. Reported EBITDA from mining operations at CAD11.7m (Q1 17/18: CAD3.0m) also benefited from the reversal of CAD4.2m of the CAD12.8m impairment charge taken against the Wolfram Camp mine in Q4 17/18. The impairment charge reversal relates to the write-off of liabilities. Stripping out the impairment charge reversal, EBITDA from mining operations was CAD7.6m (Q1 17/18: CAD3.0m).

**Figure 3: Changes in financial position**

CAD 000s	30-Sep-17	31-Dec-17	31-Mar-18	30-Jun-18	30-Sep-18	31-Dec-18
Cash	4,473	3,770	5,840	7,433	8,721	9,457
Restricted cash	1,300	1,302	1,316	1,294	1,245	1,279
Short term debt	20,944	13,006	9,482	7,696	25,876	30,278
Long term debt	33,162	41,028	46,029	46,176	24,455	22,327
Net debt	48,333	48,962	48,355	45,145	40,365	41,869
Equity	45,625	46,912	55,524	59,462	40,863	50,180
Net gearing	105.9%	104.4%	87.1%	75.9%	98.8%	83.4%

Source: Almonty

Figure 3 above shows the development of Almonty's net debt and net equity position since the end of its 2016/17 financial year. Almonty raised net new equity of CAD4.8m during FY 17/18, but the company's equity position declined due mainly to the CAD10.7m net loss for the year, of which the impairment charge contributed CAD15.6m. In Q1 2018/19 the maturity of a CAD6m convertible debenture outstanding with Deutsche Rohstoff (a 12.8% shareholder in Almonty) was extended from 22 March 2019 to 22 March 2021. However, a USD7m revolving loan facility maturing on 31 December 2019 moved from long-term to short-term liabilities. This accounts for the rise in short term liabilities during Q1 2018/19. The company will need to refinance several of its short-term debt liabilities this year.

Figure 4: Changes to forecasts

All figures in CAD '000	2018/19E			2019/20E		
	old	new	% Δ	old	new	% Δ
WO₃ sold (mtu)	161,330	161,143	-0.1%	153,800	157,200	2.2%
Revenue	53,488	53,525	0.1%	53,724	55,010	2.4%
Production costs	33,711	33,771	0.2%	36,036	36,848	2.3%
EBITDA from mining ops. before impairment charges	19,776	19,755	-0.1%	17,688	18,162	2.7%
Impairment loss	0	-4,150	n.a.	0	0	n.a.
Depreciation and amortisation	6,600	6,274	-4.9%	5,590	5,590	0.0%
Result of mining ops.	13,176	17,631	33.8%	12,098	12,572	3.9%
General and administrative	7,700	7,237	-6.0%	7,596	7,396	-2.6%
Share-based compensation	0	0	n.a.	0	0	n.a.
Operating income (EBIT)	5,476	10,394	89.8%	4,502	5,176	15.0%
Interest expense	1,686	2,405	42.6%	1,627	2,005	23.2%
Gain on debt settlements	0	1,015	n.a.	0	0	n.a.
Foreign exchange (gain) loss	0	1,411	n.a.	0	0	n.a.
Pre-tax income (EBT)	3,790	7,593	100.3%	2,875	3,171	10.3%
Income taxes	569	479	-15.8%	431	476	10.4%
Minority interests	0	0	n.a.	0	0	n.a.
Net income / loss	3,222	7,113	120.8%	2,444	2,695	10.3%
EPS (CAD)	0.11	0.04	-64.4%	0.01	0.01	10.3%
EBITDA	12,076	16,668	38.0%	10,092	10,766	6.7%

Source: First Berlin Equity Research estimates



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 5.

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 5, Ormonde Mining has the highest enterprise value/MTU/WO₃ at CAD13.60. 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 the current quarter.

Figure 5: 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*	29.6	2,174	13.60
Thor Mining	12.3	4,767	2.58
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

Price target unchanged at CAD1.25. Buy recommendation maintained We continue to base our valuation of Sangdong on Ormonde. Since our last note of 21 January the Ormonde share price has fallen 18.5% from GBp4.60 to GBp3.75. In our January note, we valued each MTU of resource at Sandong at CAD7.00 - a 58% discount to Ormonde's then valuation of CAD16.75 per MTU WO₃. In the light of the Q1 2018/19 figures, we leave the CAD7.00 figure unchanged, which represents a 49% discount to the current Ormonde valuation of CAD13.60 per MTU WO₃. This implies an overall valuation for Almonty of CAD1.25 per share (see figure 6 below). Our price target is unchanged at CAD1.25 and we maintain our Buy recommendation.

Figure 6: Sum-of-the-parts valuation

USD 000's	Old	New	% Δ
Panasqueira	43,769	44,901	2.6%
Los Santos	17,086	16,985	-0.6%
Valtreixal	21,548	21,706	0.7%
Wolfram Camp	0	0	n.a.
Sangdong	136,673	136,838	0.1%
Less: PV parent company costs	10,118	10,118	0.0%
Total enterprise value	208,958	210,312	0.6%
Total enterprise value (CAD 000's)	277,077	278,537	0.5%
Less: proforma net debt (CAD 000's)	25,555	27,059	5.9%
Fair equity value (CAD 000's)	251,523	251,478	0.0%
Proforma no. shares (000's)	200,841	200,841	0.0%
Fair equity value per share (CAD)	1.25	1.25	0.0%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E
Revenue	36,142	37,310	39,018	65,171	53,525	55,010
Production costs	37,743	32,969	32,349	36,699	33,771	36,848
EBITDA from mining operations	-1,601	4,341	6,669	28,472	19,755	18,162
Impairment loss	1,708	5,345	0	15,604	-4,150	0
Depreciation and amortisation	8,545	8,200	6,400	11,155	6,274	5,590
Income from mining operations	-11,854	-9,204	269	1,713	17,631	12,572
General and administrative	6,339	8,962	10,336	8,426	7,237	7,396
Share-based compensation	0	0	0	897	0	0
Operating income (EBIT)	-18,193	-18,166	-10,067	-7,610	10,394	5,176
Interest expense	1,404	2,709	2,436	2,459	2,405	2,005
Gains on debt settlements	0	0	3,015	0	1,015	0
Foreign exchange (gain) loss	1,313	-360	-1,368	-95	1,411	0
Pre-tax income (EBT)	-20,910	-20,515	-8,120	-9,974	7,593	3,171
Income taxes	-618	660	122	715	479	476
Minority interests	-747	0	0	0	0	0
Net income / loss	-19,545	-21,175	-8,242	-10,689	7,113	2,695
Diluted EPS (in CAD)	-0.38	-0.22	-0.07	-0.06	0.04	0.01
EBITDA	-9,648	-9,966	-3,667	3,545	16,668	10,766
Ratios						
EBITDA margin on revenues	-26.7%	-26.7%	-9.4%	5.4%	31.1%	19.6%
EBIT margin on revenues	-50.3%	-48.7%	-25.8%	-11.7%	19.4%	9.4%
Net margin on revenues	-54.1%	-56.8%	-21.1%	-16.4%	13.3%	4.9%
Tax rate	n.m.	n.m.	n.m.	n.m.	6.3%	15.0%
Expenses as % of revenues						
Production costs	104.4%	88.4%	82.9%	56.3%	63.1%	67.0%
Impairment loss	4.7%	14.3%	0.0%	23.9%	-7.8%	0.0%
General and administrative	17.5%	24.0%	26.5%	12.9%	13.5%	13.4%
Y-Y Growth						
Revenues	23.7%	3.2%	4.6%	67.0%	-17.9%	2.8%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	-50.2%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	-62.1%



BALANCE SHEET

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E
Assets						
Current assets, total	8,543	17,800	15,823	24,469	21,401	30,066
Cash and cash equivalents	866	4,215	4,473	8,721	8,876	17,194
Trade receivables	840	707	1,420	2,674	2,141	2,200
Sales tax receivable	2,149	1,439	1,372	1,960	2,087	2,145
Inventories	4,076	10,720	7,274	9,698	6,958	7,151
Other current assets	612	719	1,284	1,416	1,338	1,375
Non-current assets, total	108,984	149,966	144,328	122,833	128,894	134,926
Mining assets	88,136	125,928	115,721	91,255	95,275	100,118
Tailings inventory	15,410	18,665	23,492	28,084	28,084	28,084
Deferred tax assets	4,036	2,859	2,864	1,226	3,212	4,401
Restricted cash	1,223	1,336	1,300	1,245	1,300	1,300
Other assets	179	1,178	951	1,023	1,023	1,023
Total assets	117,527	167,766	160,151	147,302	150,295	164,991
Shareholders' equity & debt						
Current liabilities, total	32,578	55,849	47,374	53,091	49,889	60,701
Bank indebtedness	1,794	4,456	9,447	0	0	0
Accounts payable and accrued liabilities	15,453	21,799	22,479	25,673	21,410	32,126
Deferred revenue	1,697	2,422	3,951	1,542	3,479	3,576
Current portion of long term debt	13,634	27,172	11,497	25,876	25,000	25,000
Long-term liabilities, total	35,947	76,348	67,152	53,348	58,295	58,530
Long-term debt	30,801	29,325	33,162	24,455	21,154	21,154
Restoration and other provisions	3,228	45,548	32,790	28,893	35,000	36,000
Deferred tax liabilities	1,918	1,475	1,200	0	2,141	1,375
Minority interests	0	0	0	0	0	0
Shareholders' equity	49,002	35,569	45,625	40,863	42,110	45,760
Total consolidated equity and debt	117,527	167,766	160,151	147,302	150,295	164,991
Ratios						
Current ratio (x)	0.26	0.32	0.33	0.46	0.43	0.50
Quick ratio (x)	0.14	0.13	0.18	0.28	0.29	0.38
Net debt	44.14	55.40	48.33	40.37	35.98	27.66
Net gearing	90.1%	155.8%	105.9%	98.8%	85.4%	60.4%
Book value per share (in CAD)	0.57	0.32	0.27	0.23	0.23	0.25
Return on equity (ROE)	0.0%	-50.1%	-20.3%	-24.7%	17.1%	6.1%



CASH FLOW STATEMENT

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E
Net profit before minorities	-20,292	-21,175	-8,242	-10,689	7,113	2,695
Share-based compensation	379	170	472	897	0	0
Depreciation and amortisation	8,545	8,200	6,400	11,155	6,274	5,590
Interest expense	1,404	2,709	2,436	2,459	0	0
Income tax expenses	618	660	122	715	0	0
Impairment of mine asset	1,708	5,345	0	15,604	-4,150	0
Inventory impairment charges	7,408	6,301	0	0	0	0
Gain on debt settlement	0	0	-3,015	0	-1,015	0
Unrealised foreign exchange (gain) loss	2,138	-390	-1,320	936	1,411	0
Other non-cash items	111	116	104	-215	0	0
Interest and taxes paid	-2,033	-1,125	-920	-1,199	0	0
Net change in non-cash working capital	4877	-1,892	4,620	-5,091	897	10,465
Change in tailings inventory	-4065	-3,138	-3,545	-3,632	0	0
Operating cash flow	798	-4,219	-2,888	10,940	10,531	18,750
Additions to mining assets	-12,783	-11,259	-10,945	-6,270	-10,294	-10,432
Free cash flow	-11,985	-15,478	-13,833	4,670	237	8,318
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	247	-55	0
Investment cash flow	-16,116	-13,030	-10,679	-6,023	-10,349	-10,432
Debt financing, net	924	13,543	7,581	-5,295	-27	0
Equity financing	-197	7,036	6,353	4,755	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	-540	-27	0
FOREX & other effects	610	19	-109	-129	0	0
Net cash flows	-13,981	3,349	258	4,248	155	8,318
Cash, start of the year	14,847	866	4,215	4,473	8,721	8,876
Cash, end of the year	866	4,215	4,473	8,721	8,876	17,194
EBITDA/share (in CAD)	-0.15	-0.05	-0.03	0.16	0.07	0.06
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	-3.7%	78.0%
Free cash flow	n.a.	n.m.	n.m.	n.m.	-94.9%	3416.5%
EBITDA/share	n.a.	n.m.	n.m.	n.m.	-56.2%	-14.0%

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...4	↓	↓	↓	↓
5	16 August 2018	CAD0.80	Buy	CAD1.45
6	8 October 2018	CAD0.80	Buy	CAD1.50
7	21 January 2019	CAD0.65	Buy	CAD1.25
8	Today	CAD0.65	Buy	CAD1.25

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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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