

Almonty Industries Inc.

Canada / Mining

Toronto

Bloomberg: All CN

ISIN: CA0203981034

Q2 2018/19 results

RATING**BUY****PRICE TARGET****CAD 1.35**

Return Potential

32.4%

Risk Rating

High

Q2 ABOVE FORECAST; WORK AT SANGDONG BODES WELL FOR FINANCING

Q2 18/19 revenue at CAD13.1m (Q2 17/18: CAD17.3m) was close to our expectation but EBITDA from mining operations at CAD7.3m (Q2 17/18: CAD7.6m) was clearly above our forecast of CAD4.7m. This is a strong performance given that shipment volume and pricing were down 3.9% and 16.7% respectively, and is due mainly to a 41% q-o-q reduction in production costs. Over 60% of the cost reduction was attributable to the Los Santos mine where costs fell further than we had expected due to the transition from mining of fresh ore to processing of tailings. Meanwhile, development work at Sangdong demonstrates that the block models in the most recent technical report on the project (August 2016) are conservative. In our view this work is derisking the project and could facilitate funding at more favourable terms than would otherwise have been available. Pilot production of commercial grade concentrate is due to begin next month. We maintain our Buy recommendation and raise the price target to CAD1.35 (previously: CAD1.25) due mainly to the reduction in the cost base at Los Santos.

Q2 18/19 EBITDA from mining 54% above our forecast Almonty's Q2 18/19 results showed a 24.6% decline in revenue to CAD13.1m (FBe: CAD12.9m; Q2 17/18: CAD17.3m) while EBITDA from mining operations came in at CAD7.3m (FBe: CAD4.7m; Q2/17/18: CAD7.6m). Production increased 4.3% (+20.9% at Los Santos; -10.7% at Panasqueira). Shipments were down 3.9% and so the revenue decline was primarily a function of the average commodity price which was down 16.7%. EBITDA from mining operations was 54% above our forecast due to lower production costs than we had modelled. Combined production costs for Los Santos and Panasqueira amounted to 43.9% of sales in Q2 18/19 compared with 56.1% in Q2 17/18 and 56.8% for the full year 2017/18. The reduction in costs in Q2 18/19 was due to generally higher grades and recovery rates as well as lower stripping costs at Los Santos due to the transition from mining of fresh ore to processing of tailings. (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	54.26	55.01
Y-o-y growth	23.7%	3.2%	4.6%	67.0%	-16.7%	1.4%
EBIT (CAD m)	-18.19	-18.17	-10.07	-7.61	15.05	8.36
EBIT margin	-50.3%	-48.7%	-25.8%	-11.7%	27.7%	15.2%
Net income (CAD m)	-19.55	-21.18	-8.24	-10.69	12.31	5.69
EPS (diluted) (CAD)	-0.38	-0.22	-0.07	-0.06	0.07	0.03
DPS (CAD)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (CADm)	-11.98	-15.48	-13.83	4.67	4.30	12.45
Net gearing	90.1%	155.8%	105.9%	98.8%	69.6%	37.7%
Liquid assets (CAD m)	0.87	4.22	4.47	8.72	8.88	21.32

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 16 May 2019

Closing Price	CAD 1.02
Shares outstanding	181.44m
Market Capitalisation	CAD 185.07m
52-week Range	CAD 0.43 / 1.08
Avg. Volume (12 Months)	72,452

Multiples	2017/18	2018/19E	2019/20E
P/E	n.a.	15.0	32.5
EV/Sales	3.4	4.1	4.1
EV/EBIT	n.a.	14.9	26.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	CAD 9.35m
Current Assets	CAD 24.78m
Intangible Assets	CAD 0.00m
Total Assets	CAD 148.80m
Current Liabilities	CAD 54.20m
Shareholders' Equity	CAD 51.96m

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%

**Figure 1: Q2 18/19 results vs. our forecasts**

CAD 000s	Q2 18/19A	Q2 18/19E	Δ %	Q2 17/18A	Δ %
Revenue	13,051	12,921	1.0%	17,302	-24.6%
Production costs	5,733	8,177	-29.9%	9,698	-40.9%
% revenue	43.9%	63.3%	-	56.1%	-
EBITDA from mining ops.	7,318	4,744	54.3%	7,604	-3.8%
Depreciation and amortisation	1,630	1,600	1.9%	2,073	-21.4%
EBIT from mining ops.	5,688	3,144	80.9%	5,531	2.8%
General & admin. costs	1,620	1,800	-10.0%	1,786	-9.3%
EBIT	4,068	1,344	202.7%	3,745	8.6%

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

The company plans to dismantle some of the equipment at Los Santos and move it 250km northwest to the Valtreixal project. Almonty completed the acquisition of Valtreixal in Q1/17. Management has not yet taken a final decision as to whether to proceed with the project (this is also subject to receipt of permits) but we continue to assume a production start in 2019/20.

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	Q2 18/19
Total shipment volume (metric tonne units)	147,456	36,299	44,070	51,500	53,394	185,263	47,552	42,351
y-o-y change	n.a.	11.8%	14.7%	36.0%	38.0%	25.6%	31.0%	-3.9%
Total sales (CAD 000s)	39,018	10,767	17,302	22,473	14,629	65,171	16,412	13,051
y-o-y change	4.6%	52.5%	70.0%	104.8%	35.3%	67.0%	52.4%	-24.6%
Total EBITDA from mining ops. excluding impairment (CAD 000s)	6,669	2,953	7,604	12,702	5,213	28,472	7,567	7,318
y-o-y change	53.6%	n.a.	699.6%	281.1%	84.8%	326.9%	156.2%	-3.8%

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

Almonty has completed 350 metres of development work at the Sangdong project. Financing has still not yet been finalised but we believe the delay could be advantageous for Almonty as current work is derisking the project and could facilitate funding at more favourable terms than would otherwise have been available. According to management, development work has demonstrated that the block models in the most recent technical report on the project (August 2016) are conservative. Almonty has so far mined over 5,000 tonnes of fresh ore from the project and plans to begin pilot production of commercial grade concentrate next month.

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	31-Mar-19
Cash	4,473	3,770	5,840	7,433	8,721	9,457	9,353
Restricted cash	1,300	1,302	1,316	1,294	1,245	1,279	1,262
Short term debt	20,944	13,006	9,482	7,696	25,876	30,278	36,073
Long term debt	33,162	41,028	46,029	46,176	24,455	22,327	13,616
Net debt	48,333	48,962	48,355	45,145	40,365	41,869	39,074
Equity	45,625	46,912	55,524	59,462	40,863	50,180	51,963
Net gearing	105.9%	104.4%	87.1%	75.9%	98.8%	83.4%	75.2%

Source: Almonty Industries Inc.

Figure 3 above shows the development of Almonty's net debt and 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 an impairment charge, mostly relating to Wolfram Camp, 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. In Q2 2018/19 CAD5.8m of Euro-denominated term loans were transferred from long-term to short-term liabilities. These moves account for the rise in short-term liabilities during H1 2018/19. Management tell us that they are currently negotiating the refinancing of several of the company's short-term debt liabilities.

Figure 4 below shows changes to our forecasts. These relate mainly to the reduction in production costs at Los Santos discussed above.

Figure 4: Changes to forecasts

All figures in CAD '000	2018/19E			2019/20E		
	new	old	% Δ	new	old	% Δ
WO₃ sold (mtu)	161,143	161,143	0.0%	157,200	157,200	0.0%
Revenue	54,257	53,525	1.4%	55,010	55,010	0.0%
Production costs	29,997	33,711	-11.0%	33,663	36,848	-8.6%
EBITDA from mining ops. before impairment charges	24,260	19,775	22.7%	21,347	18,162	17.5%
Reversal of impairment charge	-4,150	-4,150	n.a.	0	0	n.a.
Depreciation and amortisation	6,304	6,274	0.5%	5,590	5,590	0.0%
Result of mining ops.	22,106	17,651	25.2%	15,757	12,572	25.3%
General and administrative	7,057	7,237	-2.5%	7,396	7,396	0.0%
Share-based compensation	0	0	n.a.	0	0	n.a.
Operating income (EBIT)	15,049	10,394	44.8%	8,360	5,176	61.5%
Interest expense	2,300	2,405	-4.4%	1,664	2,005	-17.0%
Gain on debt settlements	1,015	1,015	n.a.	0	0	n.a.
Foreign exchange (gain) loss	693	1,411	n.a.	0	0	n.a.
Pre-tax income (EBT)	13,071	7,593	72.1%	6,696	3,171	111.2%
Income taxes	765	479	59.7%	1,004	476	111.0%
Minority interests	0	0	n.a.	0	0	n.a.
Net income / loss	12,306	7,113	73.0%	5,692	2,695	111.2%
EPS (CAD)	0.07	0.04	70.0%	0.03	0.01	111.2%
EBITDA	21,353	16,668	28.1%	13,950	10,766	29.6%

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.

**Figure 5: Sangdong peer group comparison**

	EV CADm	Total MTU WO ₃ in situ (000s)	EV/MTU WO ₃ in situ (CAD)
Blackheath Resources	0.4	1,228	0.34
Ormonde Mining*	32.8	2,174	15.09
Thor Mining	9.6	4,767	2.01
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

Among the peers shown in figure 5, Ormonde Mining has the highest enterprise value/MTU/WO₃ at CAD15.09. 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%. The project is currently transitioning to the production phase.

Price target raised to CAD1.35; Buy recommendation maintained We continue to base our valuation of Sangdong on Ormonde. Since our last note of 20 February the Ormonde share price has risen 9.3% from GBP3.75 to GBP4.10. In our February note, we valued each MTU of resource at Sandong at CAD7.00 - a 49% discount to Ormonde's then valuation of CAD13.60 per MTU WO₃. In the light of the Q2 2018/19 figures, we leave the CAD7.00 figure unchanged. This represents a 54% discount to the current Ormonde valuation of CAD15.09 per MTU WO₃. This implies an overall valuation for Almonty of CAD1.35 per share (see figure 6 below). We maintain our Buy recommendation and raise the price target to CAD1.35 (previously: CAD1.25).

Figure 6: Sum-of-the-parts valuation

USD 000's	New	Old	% Δ
Panasqueira	48,213	44,901	7.4%
Los Santos	23,811	16,985	40.2%
Valtreixal	22,210	21,706	2.3%
Wolfram Camp	0	0	n.a.
Sangdong	134,812	136,838	-1.5%
Less: PV parent company costs	10,118	10,118	0.0%
Total enterprise value	218,929	210,312	4.1%
Total enterprise value (CAD 000's)	294,306	278,537	5.7%
Less: proforma net debt (CAD 000's)	29,633	27,059	9.5%
Fair equity value (CAD 000's)	264,673	251,478	5.2%
Proforma no. shares (000's)	195,388	200,841	-2.7%
Fair equity value per share (CAD)	1.35	1.25	8.2%

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	54,257	55,010
Production costs	37,743	32,969	32,349	36,699	29,997	33,663
EBITDA from mining operations	-1,601	4,341	6,669	28,472	24,260	21,347
Impairment loss	1,708	5,345	0	15,604	-4,150	0
Depreciation and amortisation	8,545	8,200	6,400	11,155	6,304	5,590
Income from mining operations	-11,854	-9,204	269	1,713	22,106	15,757
General and administrative	6,339	8,962	10,336	8,426	7,057	7,396
Share-based compensation	0	0	0	897	0	0
Operating income (EBIT)	-18,193	-18,166	-10,067	-7,610	15,049	8,360
Interest expense	1,404	2,709	2,436	2,459	2,300	1,664
Gains on debt settlements	0	0	3,015	0	1,015	0
Foreign exchange (gain) loss	1,313	-360	-1,368	-95	693	0
Pre-tax income (EBT)	-20,910	-20,515	-8,120	-9,974	13,071	6,696
Income taxes	-618	660	122	715	765	1,004
Minority interests	-747	0	0	0	0	0
Net income / loss	-19,545	-21,175	-8,242	-10,689	12,306	5,692
Diluted EPS (in CAD)	-0.38	-0.22	-0.07	-0.06	0.07	0.03
EBITDA	-9,648	-9,966	-3,667	3,545	21,353	13,950
Ratios						
EBITDA margin on revenues	-26.7%	-26.7%	-9.4%	5.4%	39.4%	25.4%
EBIT margin on revenues	-50.3%	-48.7%	-25.8%	-11.7%	27.7%	15.2%
Net margin on revenues	-54.1%	-56.8%	-21.1%	-16.4%	22.7%	10.3%
Tax rate	n.m.	n.m.	n.m.	n.m.	5.9%	15.0%
Expenses as % of revenues						
Production costs	104.4%	88.4%	82.9%	56.3%	55.3%	61.2%
Impairment loss	4.7%	14.3%	0.0%	23.9%	-7.6%	0.0%
General and administrative	17.5%	24.0%	26.5%	12.9%	13.0%	13.4%
Y-Y Growth						
Revenues	23.7%	3.2%	4.6%	67.0%	-16.7%	1.4%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	-44.4%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	-53.7%



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	21,572	34,195
Cash and cash equivalents	866	4,215	4,473	8,721	8,876	21,323
Trade receivables	840	707	1,420	2,674	2,170	2,200
Sales tax receivable	2,149	1,439	1,372	1,960	2,116	2,145
Inventories	4,076	10,720	7,274	9,698	7,053	7,151
Other current assets	612	719	1,284	1,416	1,356	1,375
Non-current assets, total	108,984	149,966	144,328	122,833	130,239	134,926
Mining assets	88,136	125,928	115,721	91,255	96,577	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	3,255	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	151,811	169,121
Shareholders' equity & debt						
Current liabilities, total	32,578	55,849	47,374	53,091	50,229	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	21,703	32,126
Deferred revenue	1,697	2,422	3,951	1,542	3,527	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	54,984	55,189
Long-term debt	30,801	29,325	33,162	24,455	17,813	17,813
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	2,170	1,375
Minority interests	0	0	0	0	0	0
Shareholders' equity	49,002	35,569	45,625	40,863	46,920	53,553
Total consolidated equity and debt	117,527	167,766	160,151	147,302	151,811	169,121
Ratios						
Current ratio (x)	0.26	0.32	0.33	0.46	0.43	0.56
Quick ratio (x)	0.14	0.13	0.18	0.28	0.29	0.45
Net debt	44.14	55.40	48.33	40.37	32.64	20.19
Net gearing	90.1%	155.8%	105.9%	98.8%	69.6%	37.7%
Book value per share (in CAD)	0.57	0.32	0.27	0.23	0.26	0.30
Return on equity (ROE)	0.0%	-50.1%	-20.3%	-24.7%	28.0%	11.3%



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	12,306	5,692
Share-based compensation	379	170	472	897	0	0
Depreciation and amortisation	8,545	8,200	6,400	11,155	6,304	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	1,066	10,296
Change in tailings inventory	-4065	-3,138	-3,545	-3,632	0	0
Operating cash flow	798	-4,219	-2,888	10,940	15,923	21,578
Additions to mining assets	-12,783	-11,259	-10,945	-6,270	-11,626	-9,131
Free cash flow	-11,985	-15,478	-13,833	4,670	4,297	12,447
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	-11,681	-9,131
Debt financing, net	924	13,543	7,581	-5,295	-3,368	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	-3,368	0
FOREX & other effects	610	19	-109	-129	-719	0
Net cash flows	-13,981	3,349	258	4,248	155	12,447
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	21,323
EBITDA/share (in CAD)	-0.19	-0.10	-0.03	0.03	0.12	0.08
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	45.5%	35.5%
Free cash flow	n.a.	n.m.	n.m.	n.m.	-8.0%	189.7%
EBITDA/share	n.a.	n.m.	n.m.	n.m.	303.5%	-34.7%

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...5	↓	↓	↓	↓
6	8 October 2018	CAD0.80	Buy	CAD1.50
7	21 January 2019	CAD0.65	Buy	CAD1.25
8	20 February 2019	CAD0.65	Buy	CAD1.25
9	Today	CAD1.02	Buy	CAD1.35

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

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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- key sources of information in the preparation of this research report
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