

Almonty Industries Inc.

Canada / Mining

Toronto

Bloomberg: AII CN

ISIN: CA0203981034

Q3 2018/19 results

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

Return Potential

68.8%

Risk Rating

High

TUNGSTEN PRICE DOWN BUT MORE GOOD NEWS ON SANGDONG

Almonty's Q3 18/19 results showed a 45.6% decline in revenue to CAD12.3m (FB: CAD12.9m; Q3 17/18: CAD22.5m) while EBITDA from mining operations came in at CAD3.3m (FB: CAD4.7m; Q3 17/18: CAD12.7m). Lower sales and profitability stemmed from the lower tungsten concentrate price, which in turn acted as a disincentive to produce, as well as certain "housekeeping costs" which tend to be taken during periods when the commodity price and capacity utilisation are low. Meanwhile, in late July, Almonty announced that KfW-IPEX Bank, the lender to the Sangdong Project, had cleared and accepted the final technical due diligence report on the project submitted by the Independent Engineer. This is a crucial step towards the closure of financing for the project. In our valuation model, reduced risk that Sangdong will not be financed cancels out the impact of lower tungsten concentrate prices on our valuations of the Los Santos, Panasqueira and Valtreixal mines. We maintain our Buy recommendation and price target of CAD1.35.

Q3/19 production down 50.5% y-o-y Production was 67.5% lower at Los Santos and down 31.0% at Panasqueira. At Los Santos the decline in production was due to the transition from mining of fresh ore to processing of tailings. Management is currently finalising planning to relocate the Los Santos processing plant to Valtreixal. However, given the current low tungsten price environment and management's prioritisation of the Sangdong project, we now push back our assumed start date for this project from 2019/2020 to 2021. Production fell at Panasqueira because Almonty mined lower grade ore to ensure future access to higher grade material and because the volume of ore mined and processed during the quarter was lower. In general, the declining price of tungsten concentrate during the latter weeks of the quarter acted as a disincentive to the maintenance of production at the levels achieved during the first two quarters of Almonty's financial year. Shipments were down 32.6% y-o-y and the average tungsten APT price was 23.3% lower at USD269 (Q3 17/18: USD350).

FINANCIAL HISTORY & PROJECTIONS

	2014/15	2015/16	2016/17	2017/18	2018/19E*	2020E**
Revenue (CAD m)	36.14	37.31	39.02	65.17	61.66	47.55
Y-o-y growth	23.7%	3.2%	4.6%	67.0%	-5.4%	-22.9%
EBIT (CAD m)	-18.19	-18.17	-10.07	-7.61	12.90	7.97
EBIT margin	-50.3%	-48.7%	-25.8%	-11.7%	20.9%	16.8%
Net income (CAD m)	-19.55	-21.18	-8.24	-10.69	10.02	4.20
EPS (diluted) (CAD)	-0.38	-0.22	-0.07	-0.06	0.06	0.02
DPS (CAD)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (CADm)	-11.98	-15.48	-13.83	4.67	-9.46	-4.20
Net gearing	90.1%	155.8%	105.9%	98.8%	102.9%	101.8%
Liquid assets (CAD m)	0.87	4.22	4.47	8.72	8.88	4.68

* from 1 October 2018 to 31 December 2019; **calendar year 2020

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 16 Aug 2019

Closing Price	CAD 0.80
Shares outstanding	181.44m
Market Capitalisation	CAD 145.15m
52-week Range	CAD 0.52 / 1.08
Avg. Volume (12 Months)	57,952

Multiples	2017/18	2018/19E	2020E
P/E	n.a.	14.5	34.6
EV/Sales	2.8	3.0	3.9
EV/EBIT	n.a.	14.2	23.0
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	CAD 5.17m
Current Assets	CAD 21.38m
Intangible Assets	CAD 58,656.00m
Total Assets	CAD 143.12m
Current Liabilities	CAD 48.10m
Shareholders' Equity	CAD 52.78m

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: Q3 18/19 results vs. our forecasts**

CAD 000s	Q3 18/19A	Q3 18/19E	Δ %	Q3 17/18A	Δ %
Revenue	12,250	12,921	-5.2%	22,473	-45.6%
Production costs	8,987	8,177	9.9%	9,771	-8.0%
% revenue	73.4%	63.3%	-	43.5%	-
EBITDA from mining ops.	3,263	4,744	-31.2%	12,702	-74.3%
Depreciation and amortisation	711	1,600	-55.6%	2,129	-66.6%
EBIT from mining ops.	2,552	3,144	-18.8%	10,573	-75.9%
Share-based compensation	68	0	-	0	-
General & admin. costs	1,880	1,800	4.4%	2,164	-13.1%
EBIT	604	1,344	-55.1%	8,409	-92.8%

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

EBITDA from mining operations fell 74.3% to CAD3.3m (Q3 17/18: CAD12.7m) due to the lower commodity price but also because of the higher unit cost of processing lower grade ore at Panasqueira and because of costs associated with the move to tailings processing.

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

	Q1 17/18	Q2 17/18	Q3 17/18	Q4 17/18	FY 17/18	Q1 18/19	Q2 18/19	Q3 18/19
Total shipment volume (metric tonne units)	36,299	44,070	51,500	53,394	185,263	47,552	42,351	34,711
y-o-y change	11.8%	14.7%	36.0%	38.0%	25.6%	31.0%	-3.9%	-32.6%
Total sales (CAD 000s)	10,767	17,302	22,473	14,629	65,171	16,412	13,051	12,250
y-o-y change	52.5%	70.0%	104.8%	35.3%	67.0%	52.4%	-24.6%	-45.5%
Total EBITDA from mining ops. excluding impairment (CAD 000s)	2,953	7,604	12,702	5,213	28,472	7,567	7,318	3,263
y-o-y change	n.a.	699.6%	281.1%	84.8%	326.9%	156.2%	-3.8%	-74.3%

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

Sangdong lender accepts Independent Engineer's due diligence report In late July Almonty announced that KfW-IPEX Bank, the lender to the Sangdong Project, had cleared and accepted the final technical due diligence report on the project submitted by the Independent Engineer. The next steps towards financial closure of project are the issuance of a guarantee for the KfW-IPEX loan by the Austrian Development Bank (OeKB) followed by loan agreement signing.

Almonty has completed 350 metres of underground development work at Sangdong. According to management, this work has demonstrated that the block models in the most recent technical report on the project (August 2016) are conservative. So far over 5,000 tonnes of fresh ore has been mined from the project and production of commercial grade concentrate at the pilot plant has begun.

Current financial debt requires refinancing Figure 3 below 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 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 USD8.8m term loan matures on 30 September 2019 and a USD7.0m revolving loan facility matures on 31 December 2019. These debts require refinancing.

**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	30-Jun-19
Cash	4,473	3,770	5,840	7,433	8,721	9,457	9,353	5,165
Restricted cash	1,300	1,302	1,316	1,294	1,245	1,279	1,262	1,495
Short term debt	20,944	13,006	9,482	7,696	25,876	30,278	36,073	31,733
Long term debt	33,162	41,028	46,029	46,176	24,455	22,327	13,616	13,423
Net debt	48,333	48,962	48,355	45,145	40,365	41,869	39,074	38,496
Equity	45,625	46,912	55,524	59,462	40,863	50,180	51,963	52,778
Net gearing	105.9%	104.4%	87.1%	75.9%	98.8%	83.4%	75.2%	72.9%

Source: Almonty Industries Inc.

Panasqueira selling output above spot price Changes to our forecasts shown in figure 4 below reflect the decline in the tungsten APT price in recent months. Tungsten APT averaged USD269/MTU during Q3 2018/19 but is currently trading at USD200. The price at which Los Santos is able to sell its tungsten concentrate production is based on a formula linked to the tungsten APT spot price. However, under the calendar 2019 terms of a long-term contract, Panasqueira is currently able to sell its output at a price well above the level achievable under a spot price-linked formula.

Almonty moving to December year-end Almonty has announced that it has changed its financial year end from 30 September to 31 December. For the sake of comparability all numbers in figure 4 are based on the 30 September year-end. However, the numbers on the front page and on pages 6-8 of this report are based on the 31 December year-end. The numbers for 2019 are based on five quarters from October 2018 to December 2019 while the 2020 numbers correspond to the calendar year.

Figure 4: Changes to forecasts

All figures in CAD '000	2018/19E			2019/20E		
	new	old	% Δ	new	old	% Δ
WO₃ sold (mtu)	157,614	161,143	-2.2%	144,500	157,200	-8.1%
Revenue	51,768	54,257	-4.6%	45,554	55,010	-17.2%
Production costs	31,201	29,997	4.0%	29,680	33,663	-11.8%
EBITDA from mining ops. before impairment charges	20,567	24,260	-15.2%	15,874	21,347	-25.6%
Reversal of impairment charge	-4,150	-4,150	n.a.	0	0	n.a.
Depreciation and amortisation	4,537	6,304	-28.0%	2,972	5,590	-46.8%
Result of mining ops.	20,180	22,106	-8.7%	12,902	15,757	-18.1%
General and administrative	7,017	7,057	-0.6%	6,783	7,396	-8.3%
Share-based compensation	136	0	n.a.	272	0	n.a.
Operating income (EBIT)	13,027	15,049	-13.4%	5,847	8,360	-30.1%
Interest expense	2,594	2,300	12.8%	2,926	1,664	75.8%
Gain on debt settlements	1,015	1,015	0.0%	0	0	n.a.
Foreign exchange (gain) loss	400	693	-42.3%	0	0	n.a.
Pre-tax income (EBT)	11,048	13,071	-15.5%	2,921	6,696	-56.4%
Income taxes	251	765	-67.2%	555	1,004	-44.7%
Minority interests	0	0	n.a.	0	0	n.a.
Net income / loss	10,797	12,306	-12.3%	2,366	5,692	-58.4%
EPS (CAD)	0.06	0.07	-12.3%	0.01	0.03	-58.4%
EBITDA	17,564	21,353	-17.7%	8,819	13,950	-36.8%

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 Mio. CAD	Gesamt MTU WO ₃ in situ (000)	EV/MTU WO ₃ in situ (CAD)
Blackheath Resources	0.4	1,228	0.34
Ormonde Mining*	18.0	2,174	8.28
Thor Mining	7.3	4,767	1.53
Sangdong	207.1	25,890	8.00

* 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 CAD8.28. 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 started earlier this year.

Price target unchanged at CAD1.35. Buy recommendation maintained We have reduced our valuations of Los Santos, Panasqueira and Valtreixal by between 29% and 33% to reflect the impact of the lower tungsten concentrate price. However, this is cancelled out by an increase in our valuation of the Sangdong project. We continue to base our valuation of Sangdong on Ormonde. In our May note, we valued each MTU of resource at Sangdong at CAD7.00. In our view KfW-IPEX Bank's acceptance of the final technical due diligence report on the project significantly lowers its financing risk. On this basis, we raise our valuation per MTU for Sangdong to CAD8.00. This represents a 3% discount to the current Ormonde valuation of CAD8.28 per MTU WO₃ and implies an overall valuation for Almonty of CAD1.35 per share (see figure 6 below). Our price target is unchanged at CAD1.35 and we maintain our Buy recommendation.

Figure 6: Sum-of-the-parts valuation

USD 000's	New	Old	% Δ
Los Santos	16,714	23,811	-29.8%
Panasqueira	34,463	48,213	-28.5%
Valtreixal	14,804	22,210	-33.3%
Wolfram Camp	0	0	n.a.
Sangdong	164,621	134,812	22.1%
Less: PV parent company costs	10,118	10,118	0.0%
Total enterprise value	220,483	218,929	0.7%
Total enterprise value (CAD 000's)	292,515	294,306	-0.6%
Less: proforma net debt (CAD 000's)	26,054	29,633	-12.1%
Fair equity value (CAD 000's)	266,461	264,673	0.7%
Proforma no. shares (000's)	196,735	195,388	0.7%
Fair equity value per share (CAD)	1.35	1.35	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*	2020E**
Revenue	36,142	37,310	39,018	65,171	61,658	47,552
Production costs	37,743	32,969	32,349	36,699	38,748	29,510
EBITDA from mining operations	-1,601	4,341	6,669	28,472	22,909	18,042
Impairment loss	1,708	5,345	0	15,604	-4,150	0
Depreciation and amortisation	8,545	8,200	6,400	11,155	5,259	3,000
Income from mining operations	-11,854	-9,204	269	1,713	21,800	15,042
General and administrative	6,339	8,962	10,336	8,426	8,700	6,800
Share-based compensation	0	0	0	897	204	272
Operating income (EBIT)	-18,193	-18,166	-10,067	-7,610	12,896	7,970
Interest expense	1,404	2,709	2,436	2,459	3,244	3,035
Gains on debt settlements	0	0	3,015	0	1,015	0
Foreign exchange (gain) loss	1,313	-360	-1,368	-95	400	0
Pre-tax income (EBT)	-20,910	-20,515	-8,120	-9,974	10,267	4,935
Income taxes	-618	660	122	715	251	740
Minority interests	-747	0	0	0	0	0
Net income / loss	-19,545	-21,175	-8,242	-10,689	10,016	4,195
Diluted EPS (in CAD)	-0.38	-0.22	-0.07	-0.06	0.06	0.02
EBITDA	-9,648	-9,966	-3,667	3,545	18,155	10,970
Ratios						
EBITDA margin on revenues	-26.7%	-26.7%	-9.4%	5.4%	29.4%	23.1%
EBIT margin on revenues	-50.3%	-48.7%	-25.8%	-11.7%	20.9%	16.8%
Net margin on revenues	-54.1%	-56.8%	-21.1%	-16.4%	16.2%	8.8%
Tax rate	n.m.	n.m.	n.m.	n.m.	2.4%	15.0%
Expenses as % of revenues						
Production costs	104.4%	88.4%	82.9%	56.3%	62.8%	62.1%
Impairment loss	4.7%	14.3%	0.0%	23.9%	-6.7%	0.0%
General and administrative	17.5%	24.0%	26.5%	12.9%	14.1%	14.3%
Y-Y Growth						
Revenues	23.7%	3.2%	4.6%	67.0%	-5.4%	-22.9%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	-38.2%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	-58.1%

* from 1 October 2018 to 31 December 2019; **calendar year 2020



BALANCE SHEET

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18A	2018/19E*	2020E**
Assets						
Current assets, total	8,543	17,800	15,823	24,469	23,304	15,804
Cash and cash equivalents	866	4,215	4,473	8,721	8,876	4,677
Trade receivables	840	707	1,420	2,674	2,466	1,902
Sales tax receivable	2,149	1,439	1,372	1,960	2,405	1,855
Inventories	4,076	10,720	7,274	9,698	8,016	6,182
Other current assets	612	719	1,284	1,416	1,541	1,189
Non-current assets, total	108,984	149,966	144,328	122,833	143,857	157,847
Mining assets	88,136	125,928	115,721	91,255	109,751	123,636
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	3,699	3,804
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	167,161	173,652
Shareholders' equity & debt						
Current liabilities, total	32,578	55,849	47,374	53,091	53,671	55,862
Bank indebtedness	1,794	4,456	9,447	0	0	0
Accounts payable and accrued liabilities	15,453	21,799	22,479	25,673	24,663	27,771
Deferred revenue	1,697	2,422	3,951	1,542	4,008	3,091
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	68,711	68,433
Long-term debt	30,801	29,325	33,162	24,455	31,244	31,244
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	2,466	1,189
Minority interests	0	0	0	0	0	0
Shareholders' equity	49,002	35,569	45,625	40,863	44,780	49,357
Total consolidated equity and debt	117,527	167,766	160,151	147,302	167,161	173,652
Ratios						
Current ratio (x)	0.26	0.32	0.33	0.46	0.43	0.28
Quick ratio (x)	0.14	0.13	0.18	0.28	0.28	0.17
Net debt	44.14	55.40	48.33	40.37	46.07	50.27
Net gearing	90.1%	155.8%	105.9%	98.8%	102.9%	101.8%
Book value per share (in CAD)	0.57	0.32	0.27	0.23	0.25	0.27
Return on equity (ROE)	0.0%	-50.1%	-20.3%	-24.7%	23.4%	8.9%



CASH FLOW STATEMENT

All figures in CAD '000	2014/15A	2015/16A	2016/17A	2017/18A	2018/19E*	2020E**
Net profit before minorities	-20,292	-21,175	-8,242	-10,689	10,016	4,195
Share-based compensation	379	170	472	897	0	0
Depreciation and amortisation	8,545	8,200	6,400	11,155	5,259	3,000
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	2,776	5,491
Change in tailings inventory	-4065	-3,138	-3,545	-3,632	0	0
Operating cash flow	798	-4,219	-2,888	10,940	14,297	12,686
Additions to mining assets	-12,783	-11,259	-10,945	-6,270	-23,755	-16,885
Free cash flow	-11,985	-15,478	-13,833	4,670	-9,457	-4,199
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	-23,810	-16,885
Debt financing, net	924	13,543	7,581	-5,295	10,063	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	10,063	0
FOREX & other effects	610	19	-109	-129	-719	0
Net cash flows	-13,981	3,349	258	4,248	-168	-4,199
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	4,677
EBITDA/share (in CAD)	-0.19	-0.10	-0.03	0.03	0.10	0.06
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	30.7%	-11.3%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	243.1%	-39.6%

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...6	↓	↓	↓	↓
7	21 January 2019	CAD0.65	Buy	CAD1.25
8	20 February 2019	CAD0.65	Buy	CAD1.25
9	16 May 2019	CAD1.02	Buy	CAD1.35
10	Today	CAD0.80	Buy	CAD1.35

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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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