

# Almonty Industries

Q116 results

## APT price rebound key, finances bolstered

Metals &amp; mining

The present weakness in tungsten (APT) prices continues to be reflected in Almonty's financial results, against a backdrop of steady production, improving costs and corporate efforts to strengthen its balance sheet. Alongside its corporate activity, Almonty is progressing optimisation of its Wolfram Camp Mine (WCM) to bring costs in line with Los Santos's, as well as progressing development of its Sangdong asset (commissioning is expected in 2017). With APT prices at 10-year lows, it is clear a rebound in prices is the key for Almonty emerging as the pre-eminent global tungsten producer and maintaining itself as a going concern.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
09/13	18.3	0.6	1.6	0.0	16.8	N/A
09/14	29.6	9.9	25.4	2.6	1.1	N/A
09/15	36.1	(20.9)	(40.4)	0.0	N/A	N/A
09/16e	37.1	(3.7)	(4.3)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## February 2016 APT prices firming as costs decline

We note that European APT prices at 19 February show a slight improvement, averaging US\$170/mtu. This is still a way off our FY16 average APT price assumption of US\$250/mtu, which we will revise if there are no further significant price improvements by the end of Q216. All-in cash costs at Los Santos for Q116 were US\$124/mtu and at WCM averaged US\$465/mtu. Almonty states it may suspend operations at WCM if APT prices remain at current levels.

## Finances strengthened, supply agreements extended

On 6 January Almonty announced entering into new financing agreements totalling C\$28m (US\$20.8m), providing sufficient capital to service its near-term debt obligations (see page 2). The company has also agreed extensions to its off-take agreements at Los Santos and Panasqueira – both for five years – providing the company with security over future revenues.

## Valuation: Re-stated at the Q1 stage

We have adjusted our model for Almonty's FY15 results. At the Q1 stage we retain all our existing production and valuation assumptions (see our September 2015 note [Robust Q315 results despite weaker APT](#)). Our sum-of-the-parts valuation remains C\$1.26/share. Our base-case APT price assumptions average US\$250/mtu in FY16, US\$300/mtu in FY17 and US\$350/mtu in FY18. We maintain our conservative stance on the near- to medium-term operational and cost improvements at WCM. As previously stated, Sangdong adds considerable value at a 10% discount rate and assuming a 50/50 equity/debt funding split. Overall, we continue to believe that Sangdong's attractive economics coupled with a relatively large and high-grade resource base makes the project a valuable addition to Almonty's asset portfolio, especially given the current commodity price downturn that favours exposure to low-cost assets.

11 March 2016

**Price** **C\$0.27**
**Market cap** **C\$24m**

C\$1.35/US\$

Net debt (C\$m) at 31 December 2015 45.1

Shares in issue 87.1m

Free float 66%

Code All

Primary exchange TSX-V

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	12.5	3.9	(59.7)
Rel (local)	2.5	1.0	(55.9)

52-week high/low C\$0.86 C\$0.23

### Business description

Almonty Industries is an independent tungsten producer, with two operating mines – Los Santos in Spain and Wolfram Camp in Australia – and the development-stage Valtreixal tungsten-tin project in Spain. The company produced 91kmtu of contained WO<sub>3</sub> in FY14 and 98kmtu in FY15.

### Next event

Interim results May 2016

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## Financials

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On 6 January Almonty announced it had secured additional debt facilities totalling C\$28m, comprising C\$18.9m (US\$14m) for an expansion of its existing guaranteed loan agreement and C\$9.5m (US\$7m) relating to a working capital loan agreement with UniCredit Bank. At the end of Q116 Almonty's net debt position was C\$45.1m, which has now increased for the above debt facilities, by C\$28m, to give a provisional total for its debt funding facilities of C\$73m. This compares to our end FY17 net debt forecast of C\$57m.

Most of the company's debt is held under instruments with maturities between now and 2019; the first matures in July 2016 and relates to an un-secured C\$1.6m loan with Spanish Banks.

If APT prices do not improve from current levels, then our FY17 net funding requirement rises to C\$69m.

Almonty announced the completion of its acquisition of Woulfe Mining on 11 September 2015. We have now included the 34.8m new Almonty ordinary shares that were issued in connection with this transaction in our model, which now total 87.1m. Almonty acquired all the outstanding shares in Woulfe paid for purely in shares at a ratio of 1 Woulfe share per 0.1029 of an Almonty share.

**Exhibit 1: Financial summary**

<b>C\$'000</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>
Year end September	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>				
Revenue	18,341	29,609	36,142	37,118
Cash cost of Sales	11,400	10,287	37,743	22,183
Gross Profit	6,941	19,322	(1,601)	14,935
EBITDA	4,138	16,109	(7,940)	9,185
Operating Profit (before except.)	691	11,499	(16,485)	1,757
Exceptionals	0	0	0	0
Other	0	0	0	0
Operating Profit	691	11,499	(16,485)	1,757
Net Interest	214	443	1,404	2,464
Profit Before Tax (norm)	602	9,893	(20,910)	(3,729)
Profit Before Tax (FRS 3)	602	9,893	(20,910)	(3,729)
Tax	0	0	0	0
Profit After Tax (norm)	602	9,893	(20,910)	(3,729)
Profit After Tax (FRS 3)	602	9,893	(20,910)	(3,729)
Average Number of Shares Outstanding (m)	37.0	38.9	51.8	87.0
EPS - normalised (c)	1.6	25.4	(40.4)	(4.3)
EPS - normalised and fully diluted (c)	1.6	25.4	(40.4)	(4.3)
EPS - (IFRS) (c)	1.6	25.4	(40.4)	(4.3)
Dividend per share (c)	0.0	2.6	0.0	0.0
Gross Margin (%)	37.8	65.3	-4.4	40.2
EBITDA Margin (%)	22.6	54.4	-22.0	24.7
Operating Margin (before except.) (%)	3.8	38.8	-45.6	4.7
<b>BALANCE SHEET</b>				
Fixed Assets	35,921	63,952	108,984	103,583
Mine development	12,690	26,554	88,136	60,202
PP&E	12,168	18,074	0	16,414
Deferred tax asset	3,025	3,569	4,036	4,036
Tailings inventory	7,409	14,514	15,410	21,529
Other	629	1,241	1,402	1,402
Current Assets	6,202	24,164	8,543	(6,516)
Inventories	2,510	6,648	4,076	2,396
Receivables	2,341	1,980	2,989	3,012
Cash	1,083	14,916	866	0
Other	268	620	612	612
Current Liabilities	(10,502)	(17,193)	(32,578)	(26,207)
Payables	(5,456)	(6,733)	(15,453)	(9,082)
Short term borrowings	0	(6,332)	(13,634)	(13,634)
Other	(5,046)	(4,128)	(3,491)	(3,491)
Long Term Liabilities	(4,317)	(23,758)	(35,947)	(35,947)
Long term borrowings	(3,721)	(22,296)	(30,801)	(36,398)
Other	(596)	(1,462)	(5,146)	451
Net Assets	27,304	47,165	49,002	34,912
<b>CASH FLOW</b>				
Operating Cash Flow	378	8,661	1,408	(7,133)
Capex	(5,841)	(7,621)	(12,783)	(6,269)
Acquisitions/disposals	0	112	0	0
Equity financing	0	(218)	0	0
Dividends	0	(1,001)	0	0
Other	(284)	(50)	(197)	0
Net Cash Flow	(5,747)	(117)	(11,572)	(13,401)
Opening net debt/(cash)	(1,056)	2,638	13,712	43,569
Other	2,053	(10,957)	(18,285)	0
Closing net debt/(cash)	2,638	13,712	43,569	56,970

Source: Company accounts, Edison Investment Research

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