

Australian Equity Research

30 January 2019

BUY

unchanged

PRICE TARGET A\$2.10↓

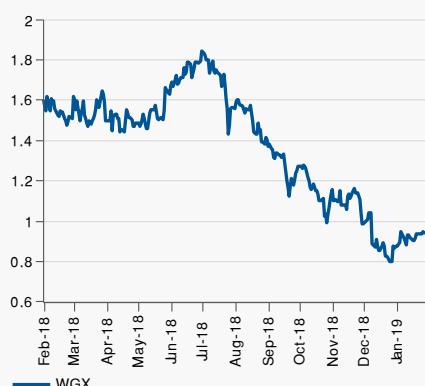
from A\$2.35

Price (30-Jan) A\$1.03

Ticker WGX-ASX

52-Week Range (A\$):	0.80 - 1.86
Avg Daily Vol (M) :	0.7
Market Cap (A\$M):	401
Shares Out. (M) :	389.1
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	357
NAV /Shr (5%) (A\$):	2.08
Net Cash (A\$M):	44.1
P/NAV (x) (A\$):	0.49
Major Shareholders:	GEAR 10.1% BlackRock 7.3%

FYE Jun	2018A	2019E	2020E	2021E
Gold Production (000oz)	253	265	303	313
All in Sustaining Cost (Gold) (US \$ /oz)	1,239	996	906	914
EBITDA (A\$M)	39.2	101.0↓	160.6↓	233.4↑
Previous	-	101.4	224.4	201.6
EV/EBITDA (x)	7.7	3.2	1.8	0.8
Net Income (A\$M)	(1.2)	36.7↓	73.9↓	122.8↑
Previous	-	39.2	116.9	99.5



Priced as of close of business 30 January 2019

Canaccord Genuity (Australia) Limited has received a fee as a Joint Lead Manager and Bookrunner to the Westgold Resources Limited capital raising announced on 7 December 2018.

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Lowering Target Price

DecQ'18 report

DecQ'18 results. Gold production of 60koz at an AISC of A\$1,501/oz (net of 7.5koz toll treatment credits) was modestly lower than our forecast of 64koz at an AISC of A\$1,457/oz for the DecQ'18. Higher-than-expected AISCs (A\$1,766/oz) at the Cue operation (higher strip ratio, lower grades in open pit and high processing costs as ramps up to nameplate), were offset to an extent by better-than-forecast AISCs (A\$1,244/oz) at Fortnum. Cash and gold on hand at the end of the DecQ'18 was A\$44.1m (GC est. A \$53m on the higher gold production assumption). We see cash remaining relatively static through to the end of FY19, before building through FY20.

Model changes. We have made a number of model changes, with the net impact resulting in a reduced valuation, but a more robust set of forecasts in our view.

Meekatharra and Cue. We now model these projects separately, having previously aggregated them under the assumption that ore from Big Bell and Great Fingal would provide feed for Meekatharra in the medium and longer term. While this is still a potential outcome, we now simplistically assume base load ore from the Paddys Flat and South Emu underground mines, supplemented with open pit and stockpiled ore, supporting Meekatharra production out to JunQ'24, at a steady state run rate of ~130kozpa (AISC A\$1,350/oz). At Cue, we assume Big Bell ramping up (~1Mtpa) by early 2020, and supporting the bulk of the ~1.2Mtpa processing capacity. An assumed steady state production rate of 109kozpa (AISC A\$1,180/oz) out to JunQ'27 is largely based on the Big Bell Reserve of 1.1Moz. The combined NPV5% for the two projects now stands at A\$551m (previously A\$672m).

Fortnum. Based on recent drilling at Starlight demonstrating good continuity (and grade) of underground mineralisation at depth, we now model the project out to JunQ'24 (previously JunQ'22). We expect this assumption to be supported in the mid-year 2019 Resource/Reserve update, and note, good potential for production to be sustained at higher rates than our assumed ~75kozpa (~AISC A\$1,250/oz) in the medium term. The NPV5% now stands at A\$208.7m (previously A\$150m).

Higginsville. A process to divest, merge or place Higginsville on care maintenance in 2H 2019 has commenced. We previously assumed production ceasing in JunQ'21, and while group production assumptions decline by 29koz and 48koz in FY20E/21E, respectively, Higginsville represents a benign part of our valuation. The NPV5% now stands at A \$18.7m (previously A\$30m).

Corporate. We have also updated our model for recent corporate activities including capital raising of A\$23.4m at A\$0.90/sh, an additional A\$21m gold pre-payment (total now 22.5koz to be repaid at 1.25koz per month from January 2019) and the live bid for its Mt Marion lithium royalty from Cobalt 27 (KBLT-TSX: \$4.20 | SPEC BUY, Eric Zauscherb) in the form of 200t of cobalt (spot value~A\$10m).

Valuation and recommendation. On incorporating a number of model updates, our valuation (NPV5% for the operating assets, net of corporate and other adjustments) on WGX has declined to A\$2.10/sh (previously A\$2.35/sh). The company is one of the most leveraged names in the coverage list, and we see good potential for a strong re-rate as production momentum builds over the next 12 months. BUY recommendation maintained.

FINANCIAL SUMMARY

Westgold Resources Limited

ASX:WGX

Analyst : Tim McCormack
Date: 30/01/2019
Year End: June

Rating:
Target Price:

BUY
A\$2.10

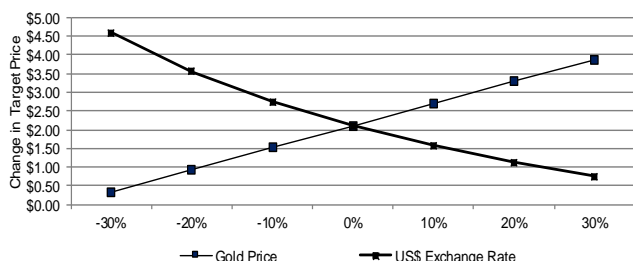
Market Information

Share Price	A\$	1.03
Market Capitalisation	A\$m	400.8
12 Month Hi	A\$	1.86
12 Month Lo	A\$	0.80
Issued Capital	m	389.1
Options (@ A\$2.00/sh)	m	61.8
Fully Diluted	m	450.9

Valuation		A\$m	A\$/share
Meekathara	NPV @ 5%	234.8	0.60
Cue	NPV @ 5%	316.5	0.81
Higginsville	NPV @ 5%	18.7	0.05
Fortnum	NPV @ 5%	208.7	0.54
Exploration & Development assets		30.0	0.08
Lithium Royalty		10.0	0.03
AMC contracting business		20.0	0.05
Hedging		(5.3)	(0.01)
Cash and gold on hand		44.1	0.11
Debt		-	-
Investments		3.9	0.01
Unpaid capital (ITM options)		-	-
Less: Gold prepayment		(40.5)	(0.10)
Less: Corporate & Oheads		(20.2)	(0.05)
TOTAL NAV		820.7	2.11
Price:NAV			0.49
NAV at Spot US\$1,315/oz, AUDUSD \$0.72			1.74
Target Price (rounded)			2.10

Assumptions	2018a	2019e	2020e	2021e
Gold Price (US\$/oz)	1,305	1,253	1,315	1,352
AUD:USD	0.78	0.71	0.71	0.71

Sensitivity



Production Metrics	2018a	2019e	2020e	2021e
Gold Assets				
Meekathara (koz)	121	110	132	130
AISC A\$/oz	1,647	1,391	1,364	1,345
Cue	0	57	78	109
AISC A\$/oz	0	1,414	1,134	1,171
South Kal (koz)	34	0	0	0
AISC A\$/oz	1,486	0	0	0
Higginsville prod'n (koz)	56	35	19	0
AISC A\$/oz	1,658	1,432	999	0
Fortnum prod'n (koz)	42	63	74	74
AISC A\$/oz	1,356	1,383	1,260	1,246
Gold Production (koz)	253	265	303	313
Group AISC (A\$/oz)	1,580	1,399	1,257	1,261

Reserves & Resources		Mt	Grade	Moz
Gold				
Resources	Total	168	2.08	11.3
Reserves	Total	39	2.39	3.0

Company Description

Westgold Resources Ltd (WGX:ASX) is a gold producer from its Western Australian gold operations (Higginsville, Meekathara, Cue and Fortnum). The company was formed as a result of the successful de-merger of the gold assets from Metals X Limited (MLX:ASX).

Profit & Loss (A\$m)	2018a	2019e	2020e	2021e
Revenue	377.2	439.8	540.0	602.6
Operating Costs	-319.4	-315.6	-357.0	-346.5
Corporate & Oheads	-12.4	-18.2	-18.4	-18.6
Exploration (Expensed)	-6.2	-5.1	-4.1	-4.1
EBITDA	39.2	101.0	160.6	233.4
Dep'n	-85.6	-48.6	-55.0	-58.0
Net Interest	-2.9	0.0	0.0	0.0
Tax	13.1	-15.7	-31.7	-52.6
NPAT (reported)	-36.3	36.7	73.9	122.8
Abnormals	35.1	0.0	0.0	0.0
NPAT	-1.2	36.7	73.9	122.8

EBITDA Margin	10%	23%	30%	39%
EV/EBITDA	7.7x	3.5x	2.0x	0.9x
EPS	\$0.00	\$0.09	\$0.19	\$0.32
EPS Growth	nm	-32.32%	102%	66%
PER	-342.7x	10.9x	5.4x	3.3x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%

Cash Flow (A\$m)	2018a	2019e	2020e	2021e
Cash Receipts	408.8	437.8	538.0	598.0
Cash paid to suppliers & employee:	-392.3	-333.8	-375.4	-365.0
Tax Paid	-1.8	-15.7	-31.7	-52.6
Net Interest	-0.9	2.1	2.1	4.6
+/- Working cap change	0.8	-9.6	0.0	0.0
Operating Cash Flow	14.7	80.7	133.0	184.9
Exploration and Evaluation	-25.5	-20.0	-16.0	-16.0
Capex	-146.4	-111.8	-88.0	-60.7
Other	75.2	3.4	0.0	0.0
Investing Cash Flow	-96.8	-128.4	-104.0	-76.7
Debt Drawdown (repayment)	18.3	0.0	0.0	0.0
Share capital	72.5	23.5	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-2.4	-1.1	0.0	0.0
Asset sale proceeds	0.0	0.0	0.0	0.0
Financing Cash Flow	88.4	22.4	0.0	0.0
Opening Cash	67.1	73.4	48.2	77.2
Increase / (Decrease) in cash	6.3	-25.2	29.0	108.2
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	73.4	48.2	77.2	185.3

Op. Cashflow/Share	\$0.04	\$0.21	\$0.34	\$0.48
P/CF	25.4x	5.0x	3.0x	2.2x
EV/FCF	-3.7x	-7.4x	11.2x	2.0x
FCF Yield	-20%	-12%	7%	27%

Balance Sheet (A\$m)	2018a	2019e	2020e	2021e
Cash + S/Term Deposits	73.4	48.2	77.2	185.3
Other current assets	83.3	70.4	86.4	96.4
Current Assets	156.7	118.6	163.6	281.8
Property, Plant & Equip.	181.4	175.1	171.8	171.5
Exploration & Develop.	147.3	162.3	174.3	186.3
Other Non-current Assets	181.9	223.8	266.6	302.3
Payables	85.2	44.0	54.0	60.3
Short Term Debt	16.8	0.0	0.0	0.0
Long Term Debt	13.8	0.0	0.0	0.0
Other Liabilities	145.6	169.7	182.3	218.8
Net Assets	405.8	466.0	539.9	662.7
Shareholders Funds	277.0	300.5	300.5	300.5
Reserves	194.8	194.8	194.8	194.8
Retained Earnings	-65.9	-29.3	44.7	167.5
Total Equity	405.8	466.0	539.9	662.7

Debt/Equity	3%	0%	0%	0%
Net Debt/EBITDA	-2.9x	-0.6x	-0.6x	-1.0x
Net Interest Cover	nm	nm	nm	nm
ROE	0%	8%	14%	19%
ROIC	0%	5%	10%	15%
Book Value/share	\$1.12	\$1.20	\$1.39	\$1.70

Source: Factset, Company reports & Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: January 30, 2019, 02:13 ET

Date and time of production: January 30, 2019, 02:13 ET

Target Price / Valuation Methodology:

Westgold Resources Limited - WGX

Our price target on WGX is based on a 1x forward curve NPV5% for the operating assets, net of corporate and other adjustments.

Risks to achieving Target Price / Valuation:

Westgold Resources Limited - WGX

Risks include, but are not limited to: 1) Operating risks include plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues; 2) Commodity price and currency fluctuation and 3) Exploration risk. Exploration is subject to a number of risks and can require a high rate of capital expenditure.

Distribution of Ratings:

Global Stock Ratings (as of 01/30/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	560	62.78%	47.50%
Hold	200	22.42%	30.00%
Sell	12	1.35%	25.00%
Speculative Buy	120	13.45%	69.17%
	892*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

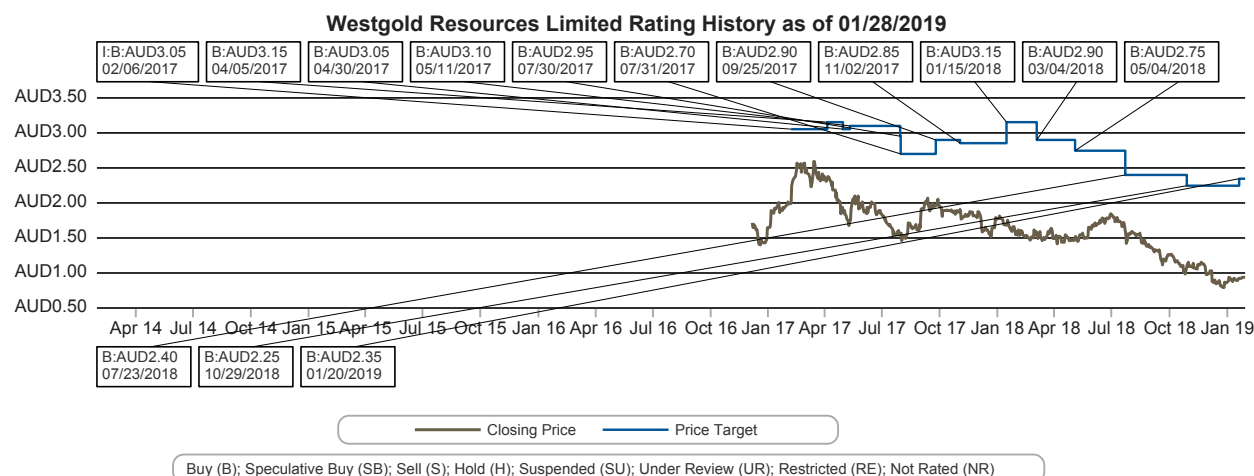
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