

Australian Equity Research

24 July 2019

BUY

unchanged

PRICE TARGET A\$2.80

unchanged

Price (24-Jul) A\$1.86

Ticker WGX-ASX

52-Week Range (A\$):	0.80 - 2.17
Avg Daily Vol (M) :	1.4
Market Cap (A\$M):	722
Shares Out. (M) :	389.1
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	692
NAV /Shr (A\$):	2.81
NAV /Shr (5%) (A\$):	2.80
Net Cash (A\$M):	67.3
P/NAV (x) (A\$):	0.66
Major Shareholders:	Ruffer 9.6% GEAR 9.25%

FYE Jun	2018A	2019E	2020E	2021E
Gold Production (000oz)	253	255	284	309
All in Sustaining Cost (Gold) (US \$/oz)	1,239	1,007	936	887
EBITDA (A\$M)	39.2	102.3↓	209.5↑	285.4↑
Previous	-	110.1	202.5	275.7
EV/EBITDA (x)	15.3	6.4	2.8	1.5
Net Income (A\$M)	(1.2)	37.9↓	110.6↑	159.7↑
Previous	-	43.0	105.7	152.9



Priced as of close of business 24 July 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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Estimates Revised

JunQ'19 report

JunQ'19 results. JunQ'19 gold production was 71.4koz (including 4.4koz third party ore processing) at an AISC of A\$1,336/oz (CG est. 73.3koz at an AISC of A\$1,254/oz).

- MGO produced 22.2koz at an AISC of A\$1,473/oz (CG est. 30koz at an A\$1,338/oz), resulting in A\$4.4m net mine cash flow after A\$5.9m growth capex. Costs were higher on lower production which was driven by lower feed grade from hanging-wall dilution (ultramafic zone). Ground support and mining methodologies have been modified which is expected to improve performance going forward.
- CGO produced 20.9koz at an AISC of A\$1,275/oz (CG est. 18koz at an A\$1,189/oz), resulting in A\$0.6m net mine cash flow after spending A\$14.9m growth capex. Plant throughput, grade and recovery were all slightly above our expectations. Rehab and re-establish caving operations by late 2019 at Big Bell remains a key focus, and the company flagged that the strike extent of the Big Bell orebody is longer than anticipated at depth (higher ounces per vertical metre). While it will require modest additional strike driving in setting up the cave, which may see a minor delay to hitting nameplate production rates (~1Mtpa), there is good scope for higher production rates (potentially 1.2-1.3Mtpa) from the mine. Our modelling of Big Bell is conservative and doesn't envisage the mine hitting nameplate until SepQ'20, and contributing ~100kozpa (on a 1Mtpa mined scenario).
- FGO produced 14.2oz at an AISC of A\$1,331/oz (CG est. 18koz at an A\$1,193/oz), resulting in A\$16.4m net mine cash flow after A\$1.9m growth capex. Costs were higher on lower production driven by mining residual remnant ores in the Starlight UG, impacting blended mill grade. A bulk mining approach is being considered which would result in a higher percentage of UG feed at a lower head grade with the intention of increasing overall Resource recovery over the LOM (doubling UG tonnage at ~75% the grade). Technical implications are being reviewed with initial analysis screening positive for the change.
- HGO produced 9.6koz at an AISC of A\$1,159/oz (CG est. 8koz at an A\$1,211/oz), resulting in A\$0.9m net mine cash flow after A\$1.5m growth capex. Divestment of this asset was completed on 10 June 2019 for A\$50m (50/50 cash and scrip).

Balance sheet. Cash and gold at the JunQ'19 was A\$67.3m, up from A\$50.2m QoQ, bolstered by the sale of Higginsville which contributed A\$24m in cash (net of fees). While net mine cashflow for the Q was A\$22m (after sustaining/growth capex and exploration of ~\$32m), a significant negative working capital adjustment of ~A\$28m saw net group cashflow modestly negative for the Q (ex-Higginsville sale proceeds). Importantly however, we estimate that the working capital adjustment comprised >50% one-offs relating to the Higginsville sale (creditors/debtor movements etc) and on a normalised basis group FCF would have been positive. Investments at the end of the Q totaled A\$41.7m, for a total cash, bullion and liquid position of A\$109m, a comfortable place as the company moves into FY20 where capex tapers and production and FCF increases steadily QoQ.

Valuation and recommendation. Our valuation is unchanged at A\$2.80/sh on incorporation of our new price deck and model roll forward. Our valuation (NPV5% 1.0x

NAV) places WGX on a P/NAV of 0.66x which screens as one of the cheapest from our small-cap coverage list. BUY rating maintained.

FINANCIAL SUMMARY

Westgold Resources Limited

ASX:WGX

Analyst: Tim McCormack
Date: 24/07/2019
Year End: June

Rating:
Target Price:

BUY
A\$2.80

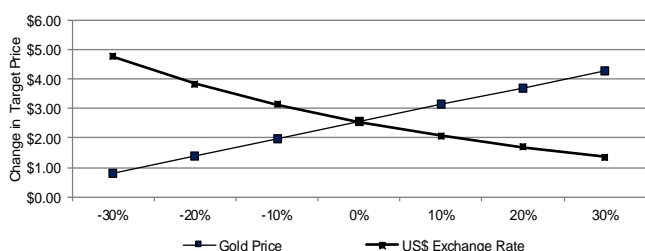
Market Information

Share Price	A\$	1.86
Market Capitalisation	A\$m	721.8
12 Month Hi	A\$	2.17
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%	337.6	0.87
Cue	NPV @ 5%	398.9	1.03
Fortnum	NPV @ 5%	237.6	0.61
Exploration & Development assets		40.0	0.10
Lithium Royalty		15.0	0.04
AMC contracting business		20.0	0.05
Hedging		(21.6)	(0.06)
Cash and gold on hand		67.3	0.17
Debt		-	-
Investments		32.9	0.08
Unpaid capital (ITM options)		-	-
Less: Gold prepayment		(27.0)	(0.07)
Less: Corporate & O'heads		(8.3)	(0.02)
TOTAL NAV		1,092.4	2.81
Price:NAV			0.66
NAV at Spot US\$1,422/oz, AUDUSD \$0.70			2.35
Target Price (1.00 x NAV)			2.80

Assumptions	2018a	2019e	2020e	2021e
Gold Price (US\$/oz)	1,305	1,257	1,431	1,457
AUD:USD	0.78	0.72	0.70	0.70

Sensitivity



Production Metrics	2018a	2019e	2020e	2021e
Gold Assets				
Meekathara (koz)	121	94	125	123
AISC A\$/oz	1,647	1,451	1,359	1,339
Cue	0	68	89	109
AISC A\$/oz	0	1,449	1,369	1,225
South Kal (koz)	34	0	0	0
AISC A\$/oz	1,486	0	0	0
Higginsville prod'n (koz)	56	34	0	0
AISC A\$/oz	1,658	1,520	0	0
Fortnum prod'n (koz)	42	58	70	76
AISC A\$/oz	1,356	1,224	1,299	1,223
Gold Production (koz)	253	255	284	309
Group AISC (A\$/oz)	1,580	1,408	1,347	1,270

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	425.4	561.6	652.1
Operating Costs	-319.4	-304.2	-329.9	-344.3
Corporate & O'heads	-12.4	-14.3	-18.2	-18.3
Exploration (Expensed)	-6.2	-4.6	-4.0	-4.1
EBITDA	39.2	102.3	209.5	285.4
Dep'n	-85.6	-48.2	-51.6	-57.3
Net Interest	-2.9	0.0	0.0	0.0
Tax	13.1	-16.2	-47.4	-68.4
NPAT (reported)	-36.3	37.9	110.6	159.7
Abnormals	35.1	0.0	0.0	0.0
NPAT	-1.2	37.9	110.6	159.7

EBITDA Margin	10%	24%	37%	44%
EV/EBITDA	15.3x	6.4x	2.8x	1.5x
EPS	\$0.00	\$0.10	\$0.28	\$0.41
EPS Growth	nm	-3336%	192%	44%
PER	-617.2x	19.1x	6.5x	4.5x
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	423.3	558.2	644.5
Cash paid to suppliers & employee	-392.3	-318.5	-348.0	-362.6
Tax Paid	-1.8	-16.2	-47.4	-68.4
Net Interest	-0.9	2.1	3.4	7.6
+/- Working cap change	0.8	-13.2	0.0	0.0
Operating Cash Flow	14.7	77.5	166.2	221.0
Exploration and Evaluation	-25.5	-18.3	-16.0	-16.0
Capex	-146.4	-116.7	-80.2	-59.2
Other	75.2	29.0	0.0	0.0
Investing Cash Flow	-96.8	-106.0	-96.2	-75.2
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	67.3	137.3
Increase / (Decrease) in cash	6.3	-6.1	70.0	145.8
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	73.4	67.3	137.3	283.1

Op. Cashflow/Share	\$0.04	\$0.20	\$0.43	\$0.57
P/CF	45.8x	9.3x	4.3x	3.3x
EV/FCF	-7.3x	-22.9x	8.3x	3.0x
FCF Yield	-11%	-4%	10%	20%

Balance Sheet (A\$m)	2018a	2019e	2020e	2021e
Cash + S/Term Deposits	73.4	67.3	137.3	283.1
Other current assets	83.3	68.1	89.9	104.3
Current Assets	156.7	135.4	227.2	387.5
Property, Plant & Equip.	181.4	174.6	171.7	171.5
Exploration & Develop.	147.3	161.0	173.0	185.0
Other Non-current Assets	181.9	225.1	264.6	299.6
Payables	85.2	42.5	56.2	65.2
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	186.3	202.6	240.9
Net Assets	405.8	467.2	577.8	737.5
Shareholders Funds	277.0	300.5	300.5	300.5
Reserves	194.8	194.8	194.8	194.8
Retained Earnings	-65.9	-28.0	82.5	242.2
Total Equity	405.8	467.2	577.8	737.5

Debt/Equity	3%	0%	0%	0%
Net Debt/EBITDA	-2.9x	-0.9x	-0.8x	-1.3x
Net Interest Cover	nm	nm	nm	nm
ROE	0%	8%	19%	22%
ROIC	0%	6%	15%	19%
Book Value/share	\$1.12	\$1.20	\$1.48	\$1.90

Source: Factset, Company reports & Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: July 24, 2019, 03:54 ET

Date and time of production: July 24, 2019, 03:54 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 07/24/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	519	59.25%	51.06%
Hold	203	23.17%	34.98%
Sell	24	2.74%	20.83%
Speculative Buy	130	14.84%	76.15%
	876*	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.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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

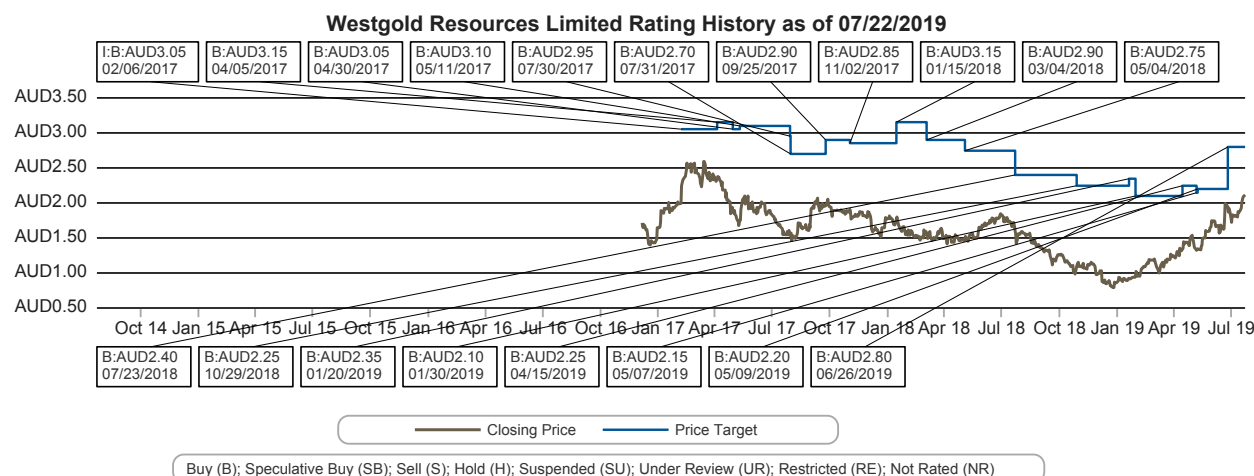
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