

Australian Equity Research

15 April 2019

BUY

unchanged

PRICE TARGET A\$2.25↑

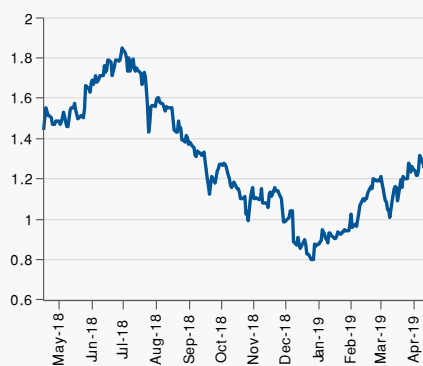
from A\$2.10

Price (15-Apr) A\$1.36

Ticker WGX-ASX

52-Week Range (A\$):	0.80 - 1.86
Avg Daily Vol (M) :	1.2
Market Cap (A\$M):	529
Shares Out. (M) :	389.1
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	479
NAV /Shr (A\$):	2.23
NAV /Shr (5%) (A\$):	2.25
Net Cash (A\$M):	50.2
P/NAV (x) (A\$):	0.61
Major Shareholders:	Ruffer 9.6% GEAR 9.25%

FYE Jun	2018A	2019E	2020E	2021E
Gold Production (000oz)	253	262	313	309
All in Sustaining Cost (Gold) (US \$ /oz)	1,239	968	634	589
EBITDA (A\$M)	39.2	105.7↑	189.6↑	235.5↑
Previous	-	101.0	160.6	233.4
EV/EBITDA (x)	11.6	4.5	2.2	1.3
Net Income (A\$M)	(1.2)	39.9↑	92.1↑	124.8↑
Previous	-	36.7	73.9	122.8



Priced as of close of business 15 April 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.

Tim McCormack | Analyst | Canaccord Genuity (Australia) Ltd. | tim.mccormack@canaccord.com.au | +61.8.6216.2088

Reg Spencer | Analyst | Canaccord Genuity (Australia) Ltd. | reg.spencer@canaccord.com.au | +61.2.9263.2701

Raising Target Price

MarQ'19 report

MarQ'19 results. WGX's MarQ'19 result marked an important inflection point for the company, with the heavy phase of capital re-investment across the portfolio beginning to taper, and with a coincident step-up in gold production, the company generated FCF for the first time since 2017.

- Group gold production was 67.2koz (up 12% QoQ) at an AISC of A\$1,269/oz (down 15%) vs CG est. 69koz at an AISC A\$1,356/oz
- Cue and Fortnum were the standout performers, producing 20.1koz (+37% QoQ) at an AISC of A\$1,250/oz (-29% QoQ) and 17koz (+30% QoQ) at an AISC of A\$937/oz (-25% QoQ), respectively. Production at Meekathara of 23.3koz (flat QoQ) at an AISC of A\$1,438/oz (+4% QoQ) should improve into FY20 with the integration of a new secondary crushing circuit. Higginsville production was only 6.7koz at an ASIC of A\$1,424/oz with WGX reaching an agreement to divest the asset during the MarQ'19.
- Cash and gold at the end of the Q was A\$50.2m, up from A\$44.1m. The A\$6m FCF sugar hit was a welcome surprise (CG est. FCF breakeven in the MarQ'19) and gives a taste for what is expected as the company's +2 year capital re-investment cycle across the asset suite draws to a close. Big Bell remains the key asset requiring capital investment as the sub-level cave comes on line over the duration of 2019. We conservatively model production from the large scale underground to be at nameplate (~1Mtpa at ~3g/t) in the 1H 2020.

Asset sales accretive, but more importantly simplify the story. WGX reached an agreement to sell Higginsville for \$50m (50% cash, 50% shares) to RNC Minerals (RNX-TSX | Not rated) during the MarQ'19. The deal is accretive against our A\$14.3m valuation for the asset, and one that will significantly bolster WGX's balance sheet assuming it completes (expected JunQ'19). Divesting Higginsville will help lower the group AISC profile for WGX, and also allow for a more streamlined focus on the 3 operating assets in the Murchison area, an outcome we see as beneficial to management and investors alike, by simplifying the story. Subsequent to the end of the MarQ'19, WGX also announced that it has entered into a binding agreement to sell its lithium royalty rights over Mt Marion for A\$15m cash to Silverstream SEZC. The outcome marks the end (assuming completion this Q) to a series of negotiations on divesting the royalty, and one that is again accretive against our A\$10m valuation. With a rationalized asset base now entirely focused in the Murchison region, bolstered balance sheet (CG est +A\$100m by end JunQ'19 assuming asset sales complete), and <12 month estimated time frame to steady state group production profile (+300kozpa at an AISC from ~A\$1250/oz), WGX is a rapidly improving investment proposition, in our view.

Valuation and recommendation. Our valuation (NPV5% for the operating assets, net of corporate and other adjustments) has increased modestly to A\$2.25/sh (previously A\$2.10/sh) after refining ramp-up assumptions at Cue and rolling forward our model. WGX is one of the most leveraged names in the gold coverage list, and while we have seen a strong re-rate in the stock YTD (+50%), it still screens cheaply both fundamentally (P/NAV 0.61x) and on multiples FY20/21 EV/EBITDA (2.2x/1.3x), FY20/21 EV/FCF (8.2x/2.8x). We maintain a BUY recommendation.

FINANCIAL SUMMARY

Westgold Resources Limited

ASX:WGX

Analyst : Tim McCormack
Date: 15/04/2019
Year End: June

Rating:
Target Price:

BUY
A\$2.25

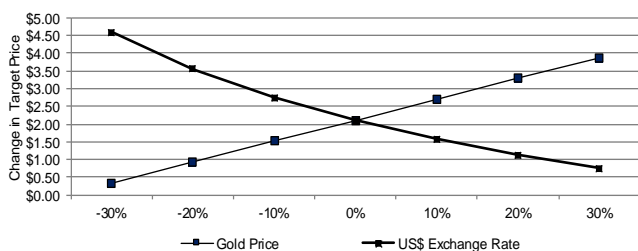
Market Information

Share Price	A\$	1.36
Market Capitalisation	A\$m	529.2
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%	223.7	0.58
Cue	NPV @ 5%	354.1	0.91
Higginsville	NPV @ 5%	14.4	0.04
Fortnum	NPV @ 5%	217.3	0.56
Exploration & Development assets		30.0	0.08
Lithium Royalty		15.0	0.04
AMC contracting business		20.0	0.05
Hedging		(4.6)	(0.01)
Cash and gold on hand		50.2	0.13
Debt		-	-
Investments		3.4	0.01
Unpaid capital (ITM options)		-	-
Less: Gold prepayment		(33.8)	(0.09)
Less: Corporate & O'heads		(20.2)	(0.05)
TOTAL NAV		869.5	2.23
Price:NAV			0.61
NAV at Spot US\$1,288/oz, AUDUSD \$0.72			1.67
Target Price (1.00 x NAV)			2.25

Assumptions	2018a	2019e	2020e	2021e
Gold Price (US\$/oz)	1,305	1,252	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	102	125	123
AISC A\$/oz	1,647	1,386	1,352	1,332
Cue	0	65	94	109
AISC A\$/oz	0	1,320	1,242	1,171
South Kal (koz)	34	0	0	0
AISC A\$/oz	1,486	0	0	0
Higginsville prod'n (koz)	56	33	18	0
AISC A\$/oz	1,658	1,472	1,055	0
Fortnum prod'n (koz)	42	63	76	76
AISC A\$/oz	1,356	1,300	1,230	1,215
Gold Production (koz)	253	262	313	309
Group AISC (A\$/oz)	1,580	1,360	1,272	1,246

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	431.7	559.8	594.9
Operating Costs	-319.4	-303.0	-348.0	-337.0
Corporate & O'heads	-12.4	-18.0	-18.2	-18.3
Exploration (Expensed)	-6.2	-5.0	-4.0	-4.1
EBITDA	39.2	105.7	189.6	235.5
Dep'n	-85.6	-48.7	-58.0	-57.3
Net Interest	-2.9	0.0	0.0	0.0
Tax	13.1	-17.1	-39.5	-53.5
NPAT (reported)	-36.3	39.9	92.1	124.8
Abnormals	35.1	0.0	0.0	0.0
NPAT	-1.2	39.9	92.1	124.8
EBITDA Margin	10%	24%	34%	40%
EV/EBITDA	10.7x	4.5x	2.2x	1.3x
EPS	\$0.00	\$0.10	\$0.24	\$0.32
EPS Growth	nm	-3508%	131%	35%
PER	-452.5x	13.3x	5.7x	4.2x
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	429.6	557.2	589.2
Cash paid to suppliers & employee:	-392.3	-321.0	-366.1	-355.3
Tax Paid	-1.8	-17.1	-39.5	-53.5
Net Interest	-0.9	2.1	2.6	5.7
+/- Working cap change	0.8	-9.6	0.0	0.0
Operating Cash Flow	14.7	84.0	154.2	186.1
Exploration and Evaluation	-25.5	-20.0	-16.0	-16.0
Capex	-146.4	-108.8	-86.2	-59.2
Other	75.2	2.0	0.0	0.0
Investing Cash Flow	-96.8	-126.8	-102.2	-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	53.1	105.1
Increase / (Decrease) in cash	6.3	-20.3	52.0	110.9
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	73.4	53.1	105.1	216.0

Op. Cashflow/Share	\$0.04	\$0.22	\$0.40	\$0.48
P/CF	33.6x	6.3x	3.4x	2.8x
EV/FCF	-5.1x	-11.1x	8.2x	2.8x
FCF Yield	-16%	-8%	10%	21%

Balance Sheet (A\$m)	2018a	2019e	2020e	2021e
Cash + S/Term Deposits	73.4	53.1	105.1	216.0
Other current assets	83.3	69.1	89.6	95.2
Current Assets	156.7	122.2	194.7	311.2
Property, Plant & Equip.	181.4	175.4	172.6	172.4
Exploration & Develop.	147.3	162.3	174.3	186.3
Other Non-current Assets	181.9	222.9	266.1	301.1
Payables	85.2	43.2	56.0	59.5
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	170.4	190.4	225.4
Net Assets	405.8	469.2	561.3	686.1
Shareholders Funds	277.0	300.5	300.5	300.5
Reserves	194.8	194.8	194.8	194.8
Retained Earnings	-65.9	-26.0	66.1	190.9
Total Equity	405.8	469.2	561.3	686.1

Debt/Equity	3%	0%	0%	0%
Net Debt/EBITDA	-2.9x	-0.6x	-0.7x	-1.2x
Net Interest Cover	nm	nm	nm	nm
ROE	0%	9%	16%	18%
ROIC	0%	6%	12%	15%
Book Value/share	\$1.12	\$1.21	\$1.44	\$1.76

Source: Factset, Company reports & Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: April 15, 2019, 03:48 ET

Date and time of production: April 15, 2019, 03:48 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 04/15/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	537	60.07%	48.04%
Hold	207	23.15%	29.95%
Sell	20	2.24%	25.00%
Speculative Buy	130	14.54%	72.31%
	894*	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)

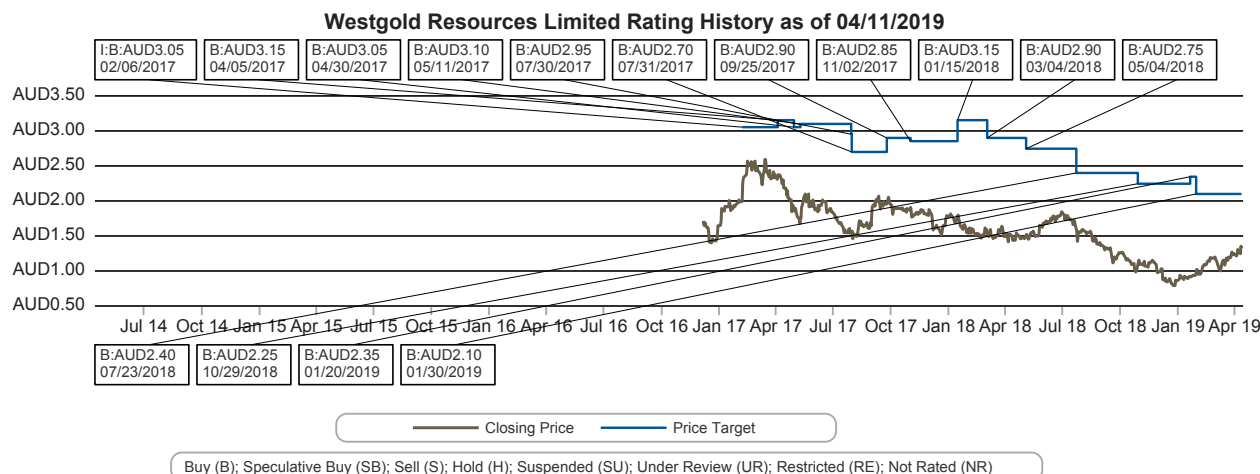
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