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# Westgold Resources (WGX)

## FY18 result badly dented by ACM

### Unexpected \$21m loss by ACM gave WGX a small overall loss

Despite improved gold production at the end of FY18, WGX reported a loss of \$1.2m for the year after disclosing that its 100% owned contract mining business, Australian Contract Mining (ACM), lost \$21.1m and needed to be essentially recapitalised as it represented a serious risk to WGX's overall business. As previously reported, WGX's gold sales in FY18 were essentially unchanged on the pcp but they were at a 17% higher average all in sustaining cost (AISC) of A\$1,471/oz. The average realised gold price in Australian dollar terms was 9% higher at A\$1,661/oz. EBITDA was 11% lower than the pcp at \$72.4m (despite inclusion of a \$40.2m gain on the sale of the SKO assets) after the ACM loss. Operating cash flow was considerably below expectation at only \$14.7m (down 81% on pcp). Total capital expenditure was up 28% to \$171.9m as the company continued to refurbish and develop its operations, actively explore and invest in recapitalising ACM. Net cash was 24% lower at \$42.8m at 30 June 2018.

### Paddy's Flat continues to find more very high grades

WGX continued its active exploration program in FY18 with expenditure up 7% on pcp to \$25.5m, most of which was directed at near mine extensions to mineralisation related to the many mines in the Central Murchison Gold Project (CMGP) with considerable success. Exploration drilling at the Paddy's Flat mine to extend the high grade thrust structures has intersected a new footwall lode position below the projected position of the Avon thrust containing bonanza grades and indicating significant potential upside at the Vivian's North/Ingliston area immediately north of current mine development. Refurbishment of the major Big Bell mine continues.

### Investment thesis – Buy, TP \$2.15/sh (unchanged)

WGX's FY18 result was below expectations, largely from the negative ACM impact. The company has made considerable progress with the ramp-up of production at the CMGP operations and is expected to perform much better in FY19 and beyond. In updating and rolling forward our forecasts and valuations after consideration of the result, we have lifted our FY19 earnings estimate by 15% and made a 2% reduction to FY21 earnings. The target price, which is based on our 12-month forward NPV-based valuation, is unchanged at \$2.15/share. Our Buy recommendation is retained.

**Recommendation**
**Buy** (unchanged)

**Price**
**\$1.36**
**Target (12 months)**
**\$2.15** (unchanged)

**Expected Return**

Capital growth	<b>58.1%</b>
Dividend yield	<b>1.5%</b>
Total expected return	<b>59.6%</b>

**Company Data & Ratios**

Enterprise value	<b>\$451m</b>
Market cap	<b>\$494m</b>
Issued capital	<b>363.1m</b>
Free float	<b>49%</b>
Avg. daily val. (52wk)	<b>\$1.5m</b>
12 month price range	<b>\$1.345 - \$2.14</b>

GICS sector

**Materials**
**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	1.59	1.63	1.70
Absolute (%)	-14.5	-16.6	-19.8
Rel market (%)	-14.9	-21.3	-31.2

**Absolute Price**


SOURCE: IRESS

**Earnings Forecast**

Year end June	2018a	2019e	2020e	2021e
Sales (A\$m)	377	570	706	779
EBITDA (A\$m)	72	139	232	242
NPAT (reported) (A\$m)	(1)	51	109	113
NPAT (adjusted) (A\$m)	(1)	51	109	113
EPS (adjusted) (eps)	(0)	14	30	31
EPS growth (%)	na	na	112%	4%
PER (x)	na	9.6	4.5	4.4
FCF Yield (%)	-17%	5%	17%	16%
EV/EBITDA (x)	6.2	3.1	1.5	1.2
Dividend (eps)	-	2	4	4
Yield (%)	na	1.5%	2.9%	2.9%
Franking (%)	na	0%	100%	100%
ROE (%)	0%	11%	20%	17%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# FY18 result takes hit from surprise ACM loss

Despite improved gold production at the end of FY18, WGX reported a loss of \$1.2m for the year after disclosing that its 100% owned contract mining business, Australian Contract Mining (ACM), lost \$21.1m and needed to be essentially recapitalised as it represented a serious risk to WGX's overall business.

Table 1 – WGX FY18 result summary

Year to June		FY17 Actual	1H FY18 Actual	2H FY18 Actual	FY18 Actual	FY18 Estimate	Variance % pcp	Variance % BPe
Equity gold production	koz	266.9	134.4	120.1	<b>254.5</b>	254.5	-5%	0%
Average all in sustaining cost	A\$/oz	1,252	1,332	1,636	<b>1,471</b>	1,471	17%	0%
Equity gold sales	koz	251.4	131.8	120.6	<b>252.5</b>	252.5	0%	0%
Average realised gold price	US\$/oz	1,147	1,287	1,290	<b>1,288</b>	1,288	12%	0%
Average realised US\$/A\$ exchange rate	US\$/A\$	0.75	0.78	0.77	<b>0.78</b>	0.78	3%	0%
Average realised gold price	A\$/oz	1,522	1,651	1,672	<b>1,661</b>	1,661	9%	0%
Sales Revenue	\$m	307.0	219.2	152.4	<b>371.6</b>	413.4	21%	-10%
EBITDA	\$m	81.1	46.7	25.8	<b>72.4</b>	106.1	-11%	-32%
Normalised NPAT	\$m	15.8	(1.4)	0.3	<b>(1.2)</b>	14.7	na	na
Earnings Per Share (normalised)	¢	5.2	(0.4)	0.1	<b>(0.3)</b>	4.2	na	na
Dividend Per Share	¢	0.0	0.0	0.0	<b>0.0</b>	0.0	nc	nc
Operating cash flow	\$m	75.6	19.6	(4.9)	<b>14.7</b>	42.8	-81%	-66%
Capital expenditure	\$m	(134.5)	(82.0)	(89.9)	<b>(171.9)</b>	(151.2)	28%	14%
Cash	\$m	67.1	59.7	73.4	<b>73.4</b>	59.5	9%	23%
Total interest-bearing debt	\$m	(10.5)	(24.9)	(30.6)	<b>(30.6)</b>	(24.9)	193%	23%
Net cash/(debt)	\$m	56.7	34.9	42.8	<b>42.8</b>	34.7	-24%	23%

SOURCE: WESTGOLD RESOURCES LTD AND BELL POTTER SECURITIES LTD ESTIMATES

The main features of the FY18 financial report were:

- As previously reported, WGX's gold sales in FY18 were essentially unchanged on the pcp but they were at a 17% higher average all in sustaining cost (AISC) of A\$1,471/oz. The average realised gold price in Australian dollar terms was 9% higher at A\$1,661/oz, which contributed to 21% higher revenue of \$371.6m (BPe \$413.4m). EBITDA was 11% lower than the pcp at \$72.4m (despite inclusion of a \$40.2m gain on the sale of the South Kalgoorlie Operation (SKO) assets) after the ACM loss (BPe \$106.1m). The reported loss of \$1.2m was considerably below our estimate) BPe NPAT of \$14.7m and came from the combination of higher depreciation and amortisation charges of \$85.6m (BPe \$78.9m); higher exploration write off of \$6.2m (BPe \$4.5m); and the \$21.1m loss by ACM.
- Operating cash flow was considerably below our expectation (BPe \$42.8m) at only \$14.7m (down 81% on pcp).
- Total capital expenditure (including exploration) was 28% higher than the pcp at \$171.9m, the bulk of which was for mine properties and development at the Murchison Gold Operation (MGO) and the Cue Gold Operation (CGO) within CMGP. Exploration expenditure was 7% higher at \$25.5m, most of which was directed at near mine extensions to mineralisation related to the many mines at CMGP with considerable success.
- WGX had cash and equivalents of \$73.4m at 30 June 2018, up 9% on the position at the end of the previous year. The company has no corporate debt but has interest bearing commitments related to equipment hire/purchase arrangements that totalled \$30.9m at 30 June 2018, up 193% on pcp related to ACM. The wholly owned mine contractor now operates six underground mines internally, two underground mines externally, and four open pits. Significant effort was put into upgrading and expanding the drilling division of ACM for underground and surface operations. Net cash at 30 June 2018 was 24% lower at \$42.8m.

- The company continued to deliver a significant proportion of its gold production into its gold hedge program. At June 30 2018, the total hedge position (including pre-pays) was 203.8kozs at an average covered price of A\$1,717 per ounce. WGX's gold hedge position is a combination of mostly flat forwards with a small amount of pre-pays. The overall marked-to-market value of the hedge position at June 30 2018 was estimated to be positive (in-the-money) \$5.2m at the then prevailing Australian dollar gold price of around A\$1,683/oz. The current marked-to-market value of that hedge position is estimated to be positive \$10m at the prevailing Australian dollar gold price of around A\$1,668/oz.

# Earnings and valuation changes

We have updated our forecasts and valuations for the FY18 financial result (Table 1) and have rolled our model forward. With the company having committed to a major recapitalisation of its ACM business, we are assuming that ACM is now able to at least achieve a breakeven financial result. We are now forecasting that the FY19 dividend will be unfranked. We have increased our FY19 earnings estimate by 15%. We have retained our estimate for FY20. We have lowered our FY21 earnings estimate by 2%. The valuation components for WGX are little changed.

We have retained our target price, which is based on our 12-month forward NPV-related valuation, at \$2.15 per share.

Our Buy recommendation is also retained.

**Table 2 – Summary of revised earnings estimates, valuations and price target for WGX**

	Previous			New			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Year ending 30 June									
<b>Prices &amp; currency</b>									
Gold (Spot, US\$/oz)	1,340	1,400	1,420	<b>1,340</b>	<b>1,400</b>	<b>1,420</b>	0%	0%	0%
US\$/A\$	0.75	0.75	0.75	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	0%	0%	0%
Gold (Spot, A\$/oz)	1,799	1,867	1,893	<b>1,799</b>	<b>1,867</b>	<b>1,893</b>	0%	0%	0%
<b>Equity production &amp; costs</b>									
Gold (koz)	322	382	415	<b>322</b>	<b>382</b>	<b>415</b>	0%	0%	0%
Gold all in sustaining cost (\$/oz)	1,435	1,351	1,377	<b>1,435</b>	<b>1,351</b>	<b>1,377</b>	0%	0%	0%
<b>Earnings</b>									
Revenue (\$m)	570	706	779	<b>570</b>	<b>706</b>	<b>779</b>	0%	0%	0%
EBITDA (\$m)	139	232	239	<b>139</b>	<b>232</b>	<b>242</b>	0%	0%	1%
EBIT (\$m)	71	162	162	<b>66</b>	<b>157</b>	<b>162</b>	-6%	-3%	0%
NPAT (adjusted) (\$m)	45	109	110	<b>51</b>	<b>109</b>	<b>113</b>	15%	0%	2%
EPS (adjusted) (cps)	12	30	30	<b>14</b>	<b>30</b>	<b>31</b>	15%	0%	2%
PER (x)	12.6	5.2	5.1	<b>11.0</b>	<b>5.2</b>	<b>5.0</b>	-13%	0%	-2%
EPS Growth (%)	194%	143%	1%	na	<b>112%</b>	<b>4%</b>	na	-31%	2%
DPS (reported) (cps)	2	4	4	<b>2</b>	<b>4</b>	<b>4</b>	0%	0%	0%
Yield	1.3%	2.6%	2.6%	<b>1.3%</b>	<b>2.6%</b>	<b>2.6%</b>	0%	0%	0%
Net debt/equity	na	na	na	na	na	na	na	na	na
Valuation (\$/sh)	2.15	2.42	2.37	<b>2.15</b>	<b>2.39</b>	<b>2.39</b>	0%	-1%	1%
Price Target (\$/sh)	2.15			<b>2.15</b>			0%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

## 12-month forward valuation unchanged at \$2.15/share

Our valuation of WGX (Table 3) is based on a sum-of-the-parts DCF valuation for each of the current gold operations using a discount rate of 10%. The Rover Gold Project, which is not in production, has been risk weighted to reflect its development uncertainty.

Key modelled assumptions, as follows:

- Gold AISCs are forecast to be in the range of about A\$1,360 – A\$1,440/oz for the next three years (FY19 to FY21) as the company continues to ramp-up existing operations and expand production to a rate of over 400kozpa with the addition of output from the major Big Bell mine now expected to start in the early part of the second half of 2019;
- Sustaining capex of around \$20mpa;
- Annual exploration spend of around \$24m; and

- The Rover Project is at the feasibility stage. Subject to a positive feasibility study outcome, which is likely to include establishment of decline access to enable more detailed underground drilling and sampling, the project is likely to be developed in the next few years. Initial operation is likely to be a modest scale underground polymetallic mine and conventional processing plant targeting production of about 50koz of gold equivalent in the form of gold bullion and a copper-bismuth-gold concentrate, but processing may be possible on a tolling basis with another potential operator in the district. Recent exploration has also encountered significant zinc-lead-silver mineralisation at the Explorer 108 and Clarity Prospects.

**Table 3 – Summary of WGX valuations**

DCF sum-of-parts valuation	A\$m	\$/sh <sup>1,2</sup>	A\$m	\$/sh <sup>1,2</sup>	A\$m	\$/sh <sup>1,2</sup>
Higginsville Gold Operation	70	0.16	61	0.14	48	0.11
South Kalgoorlie lithium royalty	25	0.06	25	0.06	25	0.06
Meekatharra Gold Operation	171	0.39	185	0.43	199	0.46
Cue Gold Operation	287	0.66	306	0.70	327	0.75
Fortnum Gold Project	42	0.10	44	0.10	46	0.11
Rover Project	29	0.07	29	0.07	29	0.07
Exploration and other	101	0.23	101	0.23	101	0.23
Corporate	(29)	(0.07)	(26)	(0.06)	(23)	(0.05)
<b>Total enterprise value</b>	<b>696</b>	<b>1.60</b>	<b>725</b>	<b>1.67</b>	<b>753</b>	<b>1.73</b>
Net cash / (debt) <sup>3</sup>	186	0.43	208	0.48	285	0.65
<b>Equity Value</b>	<b>882</b>	<b>2.03</b>	<b>934</b>	<b>2.15</b>	<b>1,038</b>	<b>2.39</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD DUE TO ROUNDING AND DILUTION;

2. BASED ON DILUTION OF 434.6M SHARES;

3. INCLUDES CASH FROM EXERCISE OF EMPLOYEE OPTIONS THAT ARE DILUTIVE AT THE VALUATIONS ABOVE.

## Valuations sensitive to gold prices

Valuations of WGX are very sensitive to gold prices because the company is a large (and growing) producer with average forecast AISCs that are slightly higher than the sector averages. We have tabulated a range of valuations for WGX at different gold price forecasts (Table 5 over page). On the basis of our sensitivity analysis, we estimate the share market is currently valuing WGX using a gold price forecast of around US\$1,350/oz. Note that our valuations in Table 4 use the same US\$/A\$ exchange rate of around 0.75 as our forecasts from 2019 onwards, which are presented in the Financial Summary table (Table 6 on page 9).

**Table 4 – Valuation sensitivities for WGX at different gold price forecasts**

Gold Price (US\$/oz)	Now	+12 months	+24 months	Gold Price (A\$/oz) at US\$/A\$=0.75
1,100	0.11	(0.01)	(0.05)	1,467
1,150	0.40	0.32	0.35	1,533
1,200	0.70	0.67	0.75	1,600
1,250	1.00	1.03	1.17	1,667
1,300	1.31	1.39	1.59	1,733
1,350	1.50	1.67	1.91	1,800
1,400	1.84	2.01	2.27	1,867
1,450	2.12	2.31	2.61	1,933
1,500	2.37	2.60	2.94	2,000

SOURCE: BELL POTTER SECURITIES ESTIMATES

The matrix of valuations for a range of US dollar denominated gold prices and US\$/A\$ exchange rates (Table 5) further highlights the sensitivity of the valuation of WGX to those two factors.

Table 5 - Matrix of valuations for different gold and US\$/A\$ rates

		Gold Prices (US\$/oz)								
	NOW	1,100	1,150	1,200	1,250	1,300	1,350	1,400	1,450	1,500
US\$/A\$	0.60	1.74	2.10	2.41	2.72	3.03	3.34	3.65	3.96	4.27
	0.65	1.15	1.50	1.78	2.10	2.40	2.68	2.97	3.26	3.54
	0.70	0.58	0.91	1.23	1.56	1.81	2.11	2.38	2.65	2.91
	0.75	0.11	0.40	0.70	1.00	1.31	1.55	1.84	2.12	2.37
	0.80	(0.32)	(0.04)	0.25	0.51	0.80	1.09	1.37	1.59	1.88
	0.85	(0.72)	(0.44)	(0.17)	0.11	0.36	0.62	0.89	1.16	1.43
	0.90	(1.08)	(0.81)	(0.54)	(0.28)	(0.03)	0.23	0.46	0.71	0.97
		Gold Prices (US\$/oz)								
	+12 mths	1,100	1,150	1,200	1,250	1,300	1,350	1,400	1,450	1,500
US\$/A\$	0.60	1.94	2.31	2.68	3.04	3.40	3.76	4.12	4.49	4.85
	0.65	1.22	1.64	1.96	2.31	2.65	2.98	3.31	3.65	3.98
	0.70	0.55	0.93	1.31	1.69	1.99	2.31	2.62	2.93	3.24
	0.75	(0.01)	0.32	0.67	1.03	1.39	1.67	2.01	2.31	2.60
	0.80	(0.52)	(0.19)	0.15	0.45	0.78	1.12	1.45	1.71	2.03
	0.85	(1.00)	(0.67)	(0.35)	(0.03)	0.27	0.57	0.88	1.20	1.51
	0.90	(1.43)	(1.11)	(0.80)	(0.45)	(0.19)	0.11	0.37	0.67	0.97

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Westgold Resources Limited (WGX)

## Company description

The company was formed in December 2016 by the demerger of the gold business from Metals X Limited. WGX is a significant and growing gold producer with four operations in Western Australia and a development project in Northern Territory. Current gold production is running at an annual rate of around 250koz at an average AISC of around A\$1,550/oz. WGX's gold production is expected to increase to more than 400koz over the next few years at a lower average AISC of around A\$1,360/oz and possibly even lower. The company also has significant exploration activities, mainly involving a near mine focus.

WGX's principal assets are all 100% owned. They comprise the Central Murchison Gold Project (CMGP), which is in the Murchison district of WA; the Higginsville Gold Operation (HGO) near Norseman; and the Fortnum Gold Project (FGP) north of Meekatharra. CMGP commenced production in late 2015 and while it is still undergoing ramp-up, it has become the company's main gold operation with multiple underground mines and open pit mines that will generally be progressively phased out as further underground mines are brought on stream. CMGP is made up of two processing hubs - the Meekatharra Gold Operations, which has a processing capacity of 1.6 -1.8Mtpa; and the Cue Gold Operation, which has a processing capacity of about 1.2 – 1.4Mtpa and where the principal mine being refurbished is Big Bell, which is now planned to commence mining in the second half of 2019. HGO is now mainly based on the Mt Henry deposit, which is being mined by open pit and supplemented by several smaller satellite open pits. FGP is continuing to ramp up gold production as the Starlight underground mine now becomes the dominant ore source and the operation transitions from processing low grade ore stockpiles to a mixture of primary open pit and underground mines. The Rover Project near Tenant Creek in the Northern Territory contains a high grade gold-copper-bismuth Resource in the Rover 1 Prospect (with similar mineralisation at the Explorer 142 Prospect) that is expected to be further evaluated by exploration decline prior to a potential development and it also contains significant zinc-lead-silver mineralisation nearby.

## Valuation

Our valuation of WGX is principally based on NPV estimates for the company's operations. We have made estimates for the non-producing and exploration assets that reflect their preliminary nature and development uncertainty.

## Investment thesis: Buy, TP\$2.15/sh (unchanged)

WGX's FY18 result was below expectations, largely from the negative ACM impact. The company has made considerable progress with the ramp-up of production at the CMGP operations and is expected to perform much better in FY19 and beyond. In updating and rolling forward our forecasts and valuations after consideration of the result, we have lifted our FY19 earnings estimate by 15% and made a 2% reduction to FY21 earnings. The target price, which is based on our 12-month forward NPV-based valuation, is unchanged at \$2.15/share. Our Buy recommendation is retained.

## Risks of investment

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign exchange rates.
- **Operating and capital cost fluctuations.** Costs for exploration, development and mining activities can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to the cost and availability of energy and labour.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon exploration success and resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of access to infrastructure; to environmental approvals; and to taxation (among other things) can impact the earnings and valuation of resources companies.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining). Development assets can be subject to a wide variety of approvals processes and timelines and to weather events, causing unforeseen or unexpected delays to commissioning and commercial production.
- **Funding and capital management risks.** Funding and capital management risks can include obtaining reasonable and ongoing access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Inappropriate acquisition risks.** The acquisition of other assets can divert management effort from the current focus and may lead to reduced overall returns.



Table 6 - Financial Summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e	Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
Revenue	\$m	308	377	570	706	779	<b>VALUATION</b>						
Operating expenses	\$m	(227)	(304)	(430)	(474)	(537)	NPAT (adjusted)	\$m	16	(1)	51	109	113
<b>EBITDA</b>	\$m	<b>81</b>	<b>72</b>	<b>139</b>	<b>232</b>	<b>242</b>	Adjusted EPS	c/sh	5	(0)	14	30	31
Depreciation and amortisation	\$m	(57)	(86)	(73)	(75)	(81)	EPS growth	%	na	-106%	na	112%	4%
<b>EBIT</b>	\$m	<b>24</b>	<b>(13)</b>	<b>66</b>	<b>157</b>	<b>162</b>	PER	x	31.3x	-421.7x	9.6x	4.5x	4.4x
Net interest	\$m	0	(1)	(1)	(1)	0	DPS	c/sh	-	-	2	4	4
<b>PBT</b>	\$m	<b>25</b>	<b>(14)</b>	<b>65</b>	<b>156</b>	<b>162</b>	Franking	%	0%	0%	0%	100%	100%
Tax expense	\$m	(9)	13	(14)	(47)	(48)	Yield	%	0.0%	0.0%	1.5%	2.9%	2.9%
Impairments/write-offs/other	\$m	-	-	-	-	-	FCF/share	c/sh	(20)	(24)	6	23	22
<b>NPAT (reported)</b>	\$m	<b>16</b>	<b>(1)</b>	<b>51</b>	<b>109</b>	<b>113</b>	FCF yield	%	-15%	-17%	5%	17%	16%
Abnormal items	\$m	-	-	-	-	-	EV/EBITDA	x	5.4x	6.2x	3.1x	1.5x	1.2x
<b>NPAT (adjusted)</b>	\$m	<b>16</b>	<b>(1)</b>	<b>51</b>	<b>109</b>	<b>113</b>	<b>PROFITABILITY RATIOS</b>						
<b>PROFIT AND LOSS (INTERIM)</b>													
Half year ending	Unit	Dec-16a	Jun-17a	Dec-17a	Jun-18a	Dec-18e	EBITDA margin	%	26%	19%	24%	33%	31%
Revenue	\$m	200	109	219	152	372	EBIT margin	%	8%	-4%	12%	22%	21%
Expense	\$m	(139)	(88)	(174)	(130)	(304)	Return on assets	%	3%	0%	7%	13%	12%
<b>EBITDA</b>	\$m	<b>61</b>	<b>20</b>	<b>45</b>	<b>22</b>	<b>67</b>	Return on equity	%	5%	0%	11%	20%	17%
Depreciation	\$m	(43)	(14)	(45)	(41)	(38)	<b>LIQUIDITY &amp; LEVERAGE</b>						
EBIT	\$m	18	7	0	(18)	29	Net debt / (cash)	\$m	(57)	(43)	(65)	(141)	(206)
Net interest expense	\$m	(0)	1	(1)	(0)	(1)	ND / E	%	nc	nc	nc	nc	nc
<b>PBT</b>	\$m	<b>17</b>	<b>7</b>	<b>(1)</b>	<b>(19)</b>	<b>28</b>	ND / (ND + E)	%	nc	nc	nc	nc	nc
Tax (expense)/benefit	\$m	(5)	(4)	(2)	15	(2)	<b>ASSUMPTIONS - Prices</b>						
Impairments/write-offs/other	\$m	-	-	-	-	-	Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	LT real
<b>NPAT (reported)</b>	\$m	<b>12</b>	<b>3</b>	<b>(2)</b>	<b>0</b>	<b>26</b>	Gold - Spot	US\$/oz	1,259	1,300	1,340	1,400	1,420
Abnormal items	\$m	-	-	-	-	-	- Hedging at year end (including pre-pay)	koz	125	204	na	na	na
<b>NPAT (adjusted)</b>	\$m	<b>12</b>	<b>3</b>	<b>(2)</b>	<b>0</b>	<b>26</b>	- Average Price	A\$/oz	1,653	1,717	na	na	na
							- Average Realised Price	A\$/oz	1,522	1,661	1,772	1,861	1,893
<b>CASH FLOW</b>							<b>CURRENCY</b>						
Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e	USD/AUD	US\$/A\$	0.75	0.78	0.75	0.75	0.75
<b>OPERATING CASHFLOW</b>							<b>ASSUMPTIONS - Production (equity share)</b>						
Receipts	\$m	415	409	564	701	776	Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
Payments	\$m	(340)	(392)	(423)	(471)	(532)	<b>Gold Division</b>	koz					
Tax	\$m	-	(2)	(2)	(34)	(49)	Gold production - Higginsville	koz	85	56	64	63	61
Net interest	\$m	0	(1)	(1)	(1)	0	- South Kalgoorlie	koz	79	44	-	-	-
Other	\$m	1	1	(4)	(6)	(8)	- Meekatharra (prev. CMGP)	koz	101	112	196	247	274
<b>Operating cash flow</b>	\$m	<b>76</b>	<b>15</b>	<b>133</b>	<b>189</b>	<b>187</b>	- Cue	koz		9	68	105	115
<b>INVESTING CASHFLOW</b>							- Fortnum	koz	2	42	62	71	80
Capex and exploration	\$m	(135)	(172)	(106)	(99)	(99)	- <b>Total</b>	<b>koz</b>	<b>267</b>	<b>263</b>	<b>391</b>	<b>487</b>	<b>530</b>
Other	\$m	(1)	75	(5)	(7)	(9)	All in sustaining costs - Higginsville	A\$/oz	1,244	1,581	1,239	1,346	1,420
<b>Investing cash flow</b>	\$m	<b>(136)</b>	<b>(97)</b>	<b>(111)</b>	<b>(106)</b>	<b>(108)</b>	- South Kalgoorlie	A\$/oz	1,244	1,237			
<b>FINANCING CASHFLOW</b>							- Meekatharra	A\$/oz	1,291	1,538	1,446	1,395	1,422
Net equity proceeds	\$m	(4)	70	-	-	-	- Cue	A\$/oz	-	1,612	1,717	1,318	1,310
Debt proceeds/(repayments)	\$m	35	(18)	-	-	-	- Fortnum	A\$/oz	60	1,392	1,303	1,317	1,350
Dividends	\$m	-	-	-	(7)	(15)	- <b>Total</b>	<b>A\$/oz</b>	<b>1,252</b>	<b>1,476</b>	<b>1,437</b>	<b>1,361</b>	<b>1,387</b>
Other	\$m	96	36	-	-	-	<b>VALUATION</b>						
<b>Financing cash flow</b>	\$m	<b>127</b>	<b>88</b>	-	<b>(7)</b>	<b>(15)</b>	<b>Issued capital</b>						
Change in cash	\$m	67	6	22	76	64	Ordinary shares	m					363.1
							Listed options	m					61.8
							Unlisted employee options	m					9.7
							<b>Total Issued Securities</b>	<b>m</b>					<b>434.6</b>
<b>BALANCE SHEET</b>							<b>Sum of parts valuation</b>						
Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e		\$m	\$/sh <sup>1</sup>	\$m	\$/sh <sup>1</sup>	\$m	\$/sh <sup>1</sup>
<b>ASSETS</b>							Higginsville Gold Operation	70	0.16	61	0.14	48	0.11
Cash & short term investments	\$m	67	73	96	172	236	South Kalgoorlie residual lithium royalty interests	25	0.06	25	0.06	25	0.06
Accounts receivable	\$m	9	20	23	25	26	Central Murchison Gold Project	171	0.39	185	0.43	199	0.46
Inventory	\$m	48	61	61	61	61	Fortnum Gold Project	42	0.10	44	0.10	46	0.11
Mine development and PPE	\$m	229	357	367	368	377	Rover	29	0.07	29	0.07	29	0.07
Exploration & evaluation	\$m	163	147	164	180	195	Other mineral interests (investments)	101	0.23	101	0.23	101	0.23
Other	\$m	3	9	9	9	16	Corporate	(29)	(0.07)	(26)	(0.06)	(23)	(0.05)
<b>Total assets</b>	\$m	<b>518</b>	<b>667</b>	<b>720</b>	<b>815</b>	<b>911</b>	<b>Enterprise value</b>	<b>696</b>	<b>1.60</b>	<b>725</b>	<b>1.67</b>	<b>753</b>	<b>1.73</b>
<b>LIABILITIES</b>							Net cash / (debt) <sup>2</sup>	186	0.43	208	0.48	285	0.65
Accounts payable	\$m	73	85	90	92	94	<b>Equity value</b>	<b>882</b>	<b>2.03</b>	<b>934</b>	<b>2.15</b>	<b>1,038</b>	<b>2.39</b>
Borrowings	\$m	10	31	31	31	31	<b>SUBSTANTIAL &amp; SIGNIFICANT SHAREHOLDERS</b>						
Other	\$m	134	146	141	134	128	<b>Shareholder</b>					<b>M Shares</b>	<b>Interest</b>
<b>Total liabilities</b>	\$m	<b>218</b>	<b>261</b>	<b>262</b>	<b>256</b>	<b>253</b>	Golden Energy and Resources Limited					36.0	9.9%
<b>SHAREHOLDER'S EQUITY</b>							BlackRock Group					34.2	9.4%
Share capital	\$m	174	277	277	277	277	Ruffer LLP					33.6	9.3%
Reserves	\$m	190	195	195	195	195	APAC Resources Ltd					28.0	7.7%
Retained earnings	\$m	(65)	(66)	(14)	88	186	Van Eck Associates Corp.					21.9	6.0%
Non-controlling interest	\$m	-	-	-	-	-	Directors and management					31.7	8.7%
<b>Total equity</b>	\$m	<b>300</b>	<b>406</b>	<b>457</b>	<b>559</b>	<b>658</b>							
Weighted average shares	m	305	349	363	363	363							

Notes. 1. Based on diluted capital of 434.6m; may not add due to rounding

2. Includes cash from assumed exercise of options based on that being dilutive at the above valuations

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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Peter Arden owns 75000 shares in WGX.

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