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Westgold Resources Limited

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Precious Metals - Producer

Australian Equity Research

29 October 2018

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

BUY

unchanged

PRICE TARGET A\$2.25↓

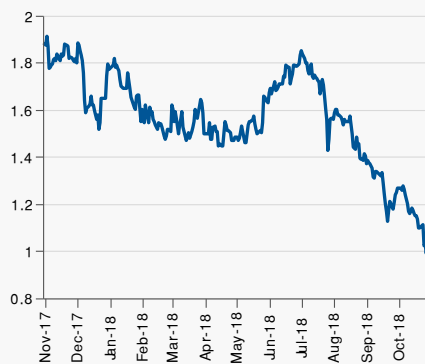
from A\$2.40

Price (29-Oct) A\$1.14

Ticker WGX-ASX

52-Week Range (A\$):	0.99 - 1.93
Avg Daily Vol (M) :	0.6
Market Cap (A\$M):	412
Shares Out. (M) :	363.1
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	367
NAV /Shr (A\$):	2.27
Net Cash (A\$M):	45.2
P/NAV (x) (A\$):	0.50
Major Shareholders:	GEAR 10.1%
	BlackRock 8.4%

FYE Jun	2018A	2019E	2020E	2021E
Gold Production (000oz)	253	281	354	368
All in Sustaining Cost (Gold) (US \$ /oz)	1,239	1,009	893	787
EBITDA (A\$M)	39.2	101.2↓	217.8↓	167.6
Previous	-	135.3	239.0	-
EV/EBITDA (x)	8.6	3.7	1.4	1.4
Net Income (A\$M)	(1.2)	38.5↓	112.3↓	75.6
Previous	-	60.0	123.0	-



Source: FactSet

Priced as of close of business 29 October 2018

Westgold Resources Ltd (WXG:ASX) is a gold producer from its Western Australian gold operations (Higginsville, CMGP and Fortnum), where is it ramping up production to +300kozpa

Lowering Target Price

SepQ'18 report

SepQ'18 result. WGX produced 61koz at an AISC of A\$1552/oz (CG est. 68koz at an AISC A\$1395/oz) for the SepQ'18, with lower production and higher costs at Higginsville and Fortnum driving the miss versus our expectations. We also note the higher costs for the quarter at Cue (AISC of A\$1730/oz), however, given the operation is still ramping up, and with tailings re-treatment set to drop out of the blend in the coming quarters, the cost profile didn't come as a surprise and we expect it to normalise during FY19. Positively, WGX also flagged that its mining contract business (Australian Contract Mining) transitioned to generating a modestly positive EBITDA, which comes following a period of heavy re-investment during FY18. We have updated our production assumptions from FY19 to incorporate slightly lower through-put at Fortnum and lower recoveries at Higginsville while Mt Henry is the dominant ore supply. We now forecast FY19 production of 281koz and an AISC of A\$1405/oz (previously 305koz at an AISC of A\$1339/oz), increasing to 354koz at an AISC of A\$1224/oz in FY20.

Higginsville future up in the air, in our view. The SepQ'18 production result of 9.7koz (excludes toll milled ore) at an AISC of A\$1896/oz was another under performing result for Higginsville (rolling 12-month, its produced 49koz at an AISC of A\$1792/oz). In our view, Higginsville's destiny has only a few options; 1) Committing to a mill upgrade (capital cost of <A\$20m) which would improve through-put and recoveries (82% in SepQ'18), 2) Bolstering mill feed with the addition of ore from Baloo (approvals in processes) and additional small scale open pits nears the Higginsville plant or 3) Close down or divest the operation. With the first to options requiring additional capital (limited flexibility in FY19), we see the latter outcome as the most desirable for shareholders, particularly given that Higginsville only comprises a small part of our valuation (<10% of NAV) with an NPV5% of A\$25.6m. As a reminder, WGX divested its non-core South Kalgoorlie project to NST.ASX for A\$80m earlier in the year (~30% higher than our valuation), and in our view the milling facility could attract interest from a number of regional players. WGX has flagged in the SepQ'18 report that "a strategy and clear direction for the project should be resolved in the ensuing quarter".

Looking to FY20 for the FCF sugar hit. We continue to see next financial year as the FCF inflection point for WGX, and forecast the group to generate FY20 FCF of A\$75m, placing the company on an EV/FCF of ~4x, significantly cheaper than the mid-cap Australian production peer group (~14x). WGX finished the SepQ'18 with cash and gold on hand of A\$45.2m (A\$73.4m end of FY18), and while we model the cash position to remain relatively flat in FY19, it should build markedly through FY20 and close the year at ~A\$113m.

Valuation and recommendation. We have updated our gold price and FX assumptions, and together with refinements to production assumptions (Fortnum and Higginsville), our valuation on WGX has reduced to A\$2.25/sh (previously A\$2.40/sh). Our valuation is based on a NPV5% for the operating assets, net of corporate and other adjustments. We retain a BUY recommendation on valuation grounds, and continue to see WGX as one of the most leveraged names in the coverage list, and one that could re-rate strongly with production consistency, increasing margins and building sector tailwinds.

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FINANCIAL SUMMARY

Westgold Resources Limited

ASX:WGX

Analyst : Tim McCormack
Date: 29/10/2018
Year End: June

Rating:
Target Price:

BUY
A\$2.25

Market Information

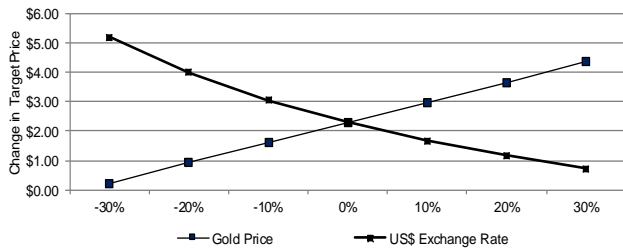
Share Price	A\$	1.14
Market Capitalisation	A\$m	412.1
12 Month Hi	A\$	1.93
12 Month Lo	A\$	0.99
Issued Capital	m	363.1
Options (@ A\$2.00/sh)	m	61.8
Fully Diluted	m	424.9

Valuation

	A\$m	A\$/share	
Meekeathara and Cue	NPV @ 5%	574.4	1.58
South Kal	NPV @ 5%	-	-
Higginsville	NPV @ 5%	25.6	0.07
Fortnum	NPV @ 5%	141.8	0.39
Exploration & Development assets		40.0	0.11
AMC contracting business		30.0	0.08
Hedging	(2.8)	(0.01)	
Cash and gold on hand	45.2	0.12	
Debt	-	-	
Investments	3.6	0.01	
Unpaid capital (ITM options)	-	-	
Less: Gold prepayment O/S	(12.0)	(0.03)	
Less: Corporate & O'heads	(20.2)	(0.06)	
TOTAL NAV	825.4	2.27	
Price:NAV		0.50	
NAV at Spot US\$1,231/oz, AUDUSD \$0.71		1.86	
Target Price (rounded)		2.25	

Assumptions	2018a	2019e	2020e	2021e
Gold Price (US\$/oz)	1,305	1,229	1,270	1,313
AUD:USD	0.78	0.72	0.72	0.72

Sensitivity



Production Metrics	2018a	2019e	2020e	2021e
Gold Assets				
Meekeathara and Cue (koz)	121	166	232	246
AISC A\$/oz	1,647	1,346	1,224	1,264
South Kal (koz)	34	0	0	0
AISC A\$/oz	1,486	0	0	0
Higginsville prod'n (koz)	56	46	48	48
AISC A\$/oz	1,658	1,746	1,388	1,390
Fortnum prod'n (koz)	42	69	74	74
AISC A\$/oz	1,356	1,322	1,215	1,200
Gold Production (koz)	253	281	354	368
Group AISC (A\$/oz)	1,386	1,405	1,244	1,268

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, South Kal, CMGP 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	458.8	628.6	672.6
Operating Costs	-319.4	-333.4	-386.3	-480.3
Corporate & O'heads	-12.4	-18.2	-18.4	-18.6
Exploration (Expensed)	-6.2	-6.1	-6.1	-6.2
EBITDA	39.2	101.2	217.8	167.6
Dep'n	-85.6	-46.2	-57.4	-59.5
Net Interest	-2.9	0.0	0.0	0.0
Tax	13.1	-16.5	-48.1	-32.4
NPAT (reported)	-36.3	38.5	112.3	75.6
Abnormals	35.1	0.0	0.0	0.0
NPAT	-1.2	38.5	112.3	75.6
<i>EBITDA Margin</i>	<i>10%</i>	<i>22%</i>	<i>35%</i>	<i>25%</i>
EV/EBITDA	8.6x	3.7x	1.4x	1.4x
<i>EPS</i>	<i>\$0.00</i>	<i>\$0.11</i>	<i>\$0.31</i>	<i>\$0.21</i>
<i>EPS Growth</i>	<i>nm</i>	<i>-3624%</i>	<i>192%</i>	<i>-33%</i>
<i>PER</i>	<i>-377.6x</i>	<i>10.7x</i>	<i>3.7x</i>	<i>5.4x</i>
<i>Dividend Per Share</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>
Dividend Yield	0%	0%	0%	0%

Cash Flow (A\$m)	2018a	2019e	2020e	2021e
Cash Receipts	408.8	456.9	626.0	667.3
Cash paid to suppliers & employee:	-392.3	-351.6	-404.7	-498.8
Tax Paid	-1.8	-16.5	-48.1	-32.4
Net Interest	-0.9	1.9	2.6	5.3
+/- Working cap change	0.8	0.0	0.0	0.0
Operating Cash Flow	14.7	90.8	175.8	141.3
Exploration and Evaluation	-25.5	-24.0	-24.0	-24.0
Capex	-146.4	-89.0	-77.6	-53.6
Other	75.2	-12.4	0.0	0.0
Investing Cash Flow	-96.8	-125.4	-101.6	-77.6
Debt Drawdown (repayment)	18.3	0.0	0.0	0.0
Share capital	72.5	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-2.4	0.0	0.0	0.0
Asset sale proceeds	0.0	0.0	0.0	0.0
Financing Cash Flow	88.4	0.0	0.0	0.0
Opening Cash	67.1	73.4	38.8	113.0
Increase / (Decrease) in cash	6.3	-34.6	74.2	63.7
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	73.4	38.8	113.0	176.7

<i>Op. Cashflow/Share</i>	<i>\$0.04</i>	<i>\$0.25</i>	<i>\$0.48</i>	<i>\$0.39</i>
<i>P/CF</i>	<i>28.0x</i>	<i>4.5x</i>	<i>2.3x</i>	<i>2.9x</i>
EV/FCF	-4.1x	-10.8x	4.0x	3.7x
FCF Yield	-20%	-8%	18%	15%

Balance Sheet (A\$m)	2018a	2019e	2020e	2021e
Cash + S/Term Deposits	73.4	38.8	113.0	176.7
Other current assets	83.3	73.4	100.6	107.6
Current Assets	156.7	112.2	213.6	284.3
Property, Plant & Equip.	181.4	177.1	175.1	175.7
Exploration & Develop.	147.3	165.3	183.3	201.3
Other Non-current Assets	181.9	216.2	256.7	290.7
Payables	85.2	45.9	62.9	67.3
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	180.7	209.3	252.5
Net Assets	405.8	444.3	556.6	632.2
Shareholders Funds	277.0	277.0	277.0	277.0
Reserves	194.8	194.8	194.8	194.8
Retained Earnings	-65.9	-27.5	84.8	160.5
Total Equity	405.8	444.3	556.6	632.2

<i>Debt/Equity</i>	<i>3%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
<i>Net Debt/EBITDA</i>	<i>-2.9x</i>	<i>-0.4x</i>	<i>-0.6x</i>	<i>-1.3x</i>
<i>Net Interest Cover</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>
<i>ROE</i>	<i>0%</i>	<i>9%</i>	<i>20%</i>	<i>12%</i>
<i>ROIC</i>	<i>0%</i>	<i>6%</i>	<i>14%</i>	<i>9%</i>
<i>Book Value/Share</i>	<i>\$1.12</i>	<i>\$1.22</i>	<i>\$1.53</i>	<i>\$1.74</i>

Source: Factset, Company reports & Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: October 29, 2018, 04:39 ET

Date and time of production: October 29, 2018, 04:39 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 10/29/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	555	63.00%	46.85%
Hold	205	23.27%	29.76%
Sell	14	1.59%	21.43%
Speculative Buy	107	12.15%	64.49%
	881*	100.0%	

*Total includes stocks that are Under Review

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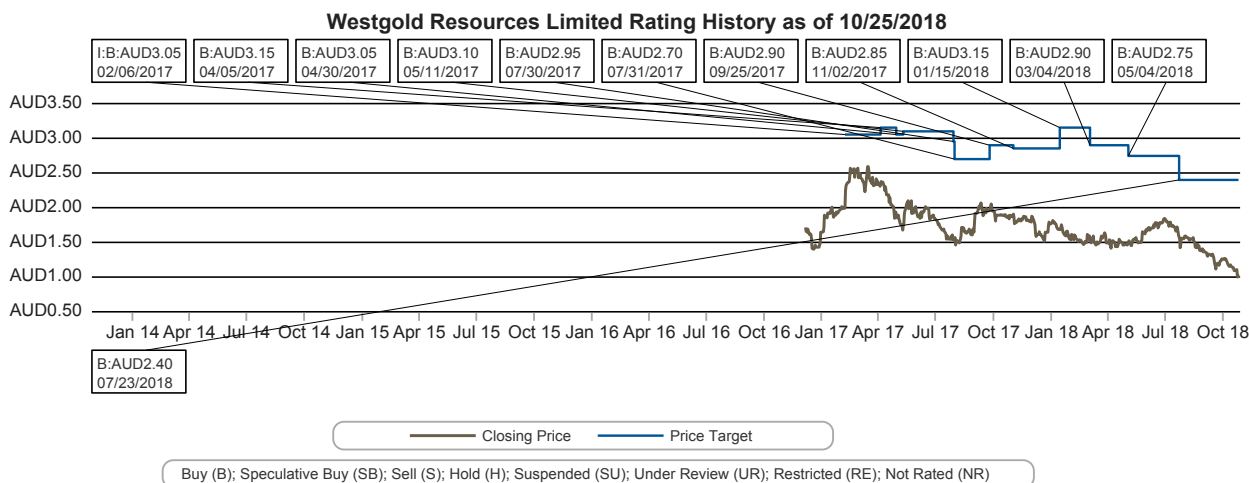
12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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