

11 May 2021

## Progressing the growth

Almonty Industries Inc (TSX:All) is a global mining company specialising in the mining, processing and sale of tungsten concentrate. The company's primary operations are in Spain, Portugal and South Korea, where it is in the last stages of commencing production from its flagship asset, the Sangdong Tungsten-Molybdenum Project. The company is on the cusp of a transformational growth opportunity which aims to increase tungsten concentrate production 7-fold out to 2027. Since the release of our Scoping Report the company has made significant progress on the Sangdong Project. Early works have gone well with a small but significant capex saving and financing is all but finalised. The company has confirmed the scope and plan for its 12,500m drilling campaign at Sangdong Molybdenum aiming to define a JORC compliant resource. The proposed ASX listing is moving towards the Final Prospectus stage subject to audited financials. Old metals continue to have life in a new industrial world and with global growth continuing to rebound from the COVID pandemic, All is well positioned to drive value accretion from its pre-development portfolio.

### Business model

Almonty Industries is a mid-cap miner holding a portfolio of production and pre-production assets across Europe and Asia. The company has an ambitious and transformational tungsten growth strategy set to impact from 2022. An early-stage molybdenum play could add 'growth on growth' and we will likely know through early-2022. The company continues to seek acquisition opportunities to which it can apply its mining expertise (a core competency of the company) and in that regard, the operating portfolio could look materially different over the forecast period...the growth options appear unlikely to end with Sangdong and Valtreixal.

### Ticking Sangdong boxes

Over the last two months All has made important progress on the Sangdong construction with some support facilities completed and site works to commence. Positively these works are expected to come in under budget by some US\$0.8mn. Sangdong construction costs are set against a fixed-price contract with POSCO E&G, which makes the chances of a significant cost blow-out very low and any capital savings significant...so this has been a very good operational outcome, we suggest. Equally importantly, the company has made progress with respect to project financing, which can largely be considered as finalised post recent equity and debenture issues.

### We retain our valuation of C\$1.76/share

We set our base asset value against risk-weighted development (NPV) scenarios based on company guidance, applying where appropriate, discretionary probability weightings to pricing, volume and success factors. We retain our risked valuation at C\$1.71/share against a **reference share price of C\$1.07/share**. We highlight the risk weightings applied to inferred resources and projects not yet defined (Sangdong-Moly) and note the significant value upside inherent in unwinding the risk delivery of evaluation and feasibility results.

Our financials are subject to adjustment upon release of audited financials which are expected imminently for inclusion in the Final Prospectus to be issued for the company's proposed ASX listing.

### Share details

TSX Code	All
Share price (7 May)	C\$1.09
Market Capitalisation	C\$201M
Shares on issue	184M
Net cash (est) at 31 Dec 2020	C\$4M
Free float	~49%

### Share performance (12 months)



### Upside Case

- Above model production outcomes across the operating portfolio & the potential for upgrades on planned developments and expansions
- Rapid global economic recovery driving tungsten demand – upwards price pressure
- Bringing forward Inferred Resource commercialisation.

### Downside Case

- Delays in the delivery of the Sangdong Project in the short-term and Valtreixal in the long-term
- Margin squeeze on revenue and costs versus guidance and forecasts
- Persistent global economic weakness on a return to COVID operating restrictions

### Board of Directors

Lewis Black	Executive Chairman/CEO
Daniel D'Amato	Independent Director
Mark Trachuk	Independent Director
Thomas Gutschlag	Independent Director
Michael Costa	Independent Director
James Kim	Independent Director

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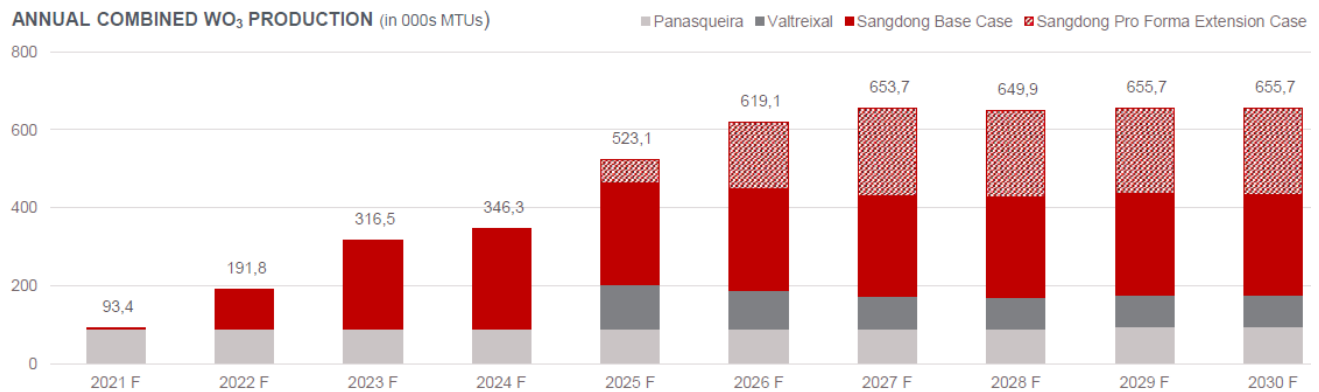
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## Almonty remains a growth story

The global ambition remains unchanged for Almonty, seeking to become a globally significant tungsten producer. Delivery to guidance would generate a 7-fold increase in production to 2030, to >650kt MTU. Almonty would be producing “...30% of all tungsten outside of China and 7-10% of global supply”.

Delivery of growth-forecasts (operationally and financially) are anchored by the key, Sangdong Tungsten Project in South Korea.

### Exhibit 1: Growth leading to annuity style output with a projected production life of 30+ years



Source: Company data

Exh. 1 outlines the growth opportunity off the existing production base of the Panasqueira operations, with Sangdong projected to increase attributable tungsten contrate production 7-fold by 2027, with further upside from the as yet still early-stage molybdenum project (“Almonty-Moly”) opportunity.

## Sangdong moving forward

Since our Scoping Report (Initiation 10-Mar), Almonty has made important progress on its growth strategy centred on the Sangdong Tungsten mine.

### Operations

Early -stage construction is underway on mine support facilities with the completion (as reported) of the concrete batch plant and administration office, whilst road and site works are to commence imminently.

Importantly and positively, management has reported anticipated capex savings in the order of US\$800,000 across these initial activities (against a budgeted capital cost of US\$105mn).

### Financing

The company has ticked the boxes on a number of important aspects of the Sangdong/corporate financing, with the completion of two private placements and issue of Convertible Debentures **raising US\$9.59mn.**

- Placement 1: 2,000,000 shares @ C\$0.85
- Placement 2: 308,333 shares @ C\$0.90
  - Raising C\$1.98mn (US\$1.58mn)
- US\$8.01mn Convertible Debentures with a C\$1.05 strike price

We cite from our Scoping Report on the **Sangdong financing** –

*“All has put in place project financing for Sangdong, securing US\$75.1m from the German state-owned KfW-IPEX Bank GmbH (the Credit Institute for Reconstruction) It is expected that this facility will cover ~70% of the US\$105 million construction costs. Construction costs are set against a fixed-price contract with POSCO E&G...the chances of a significant cost blow-out are very low we suggest.*

*The Sangdong debt financing is at Libor plus 2.3%.*

As at 27-Jan, only US\$10.1m (of the implied ~US\$30mn) was required to complete the equity component of the financing”.

Financing requirements are now largely put away.

We would also highlight the purchase of ~10.6mn ordinary shares at \$1.06 by the Plansee Group from Lewis Black as part of the transaction announced in Dec-2020. As noted –

*“This transaction provided Almonty with both a US\$20m cost overrun guarantee dedicated to the construction of the Sangdong project and a further non-dilutive US\$10m guarantee to cover the DRSA (reserve account) required by KFW IPEX bank as a condition of the loan to replace the more normal cash equity that would have had to be provided otherwise and represented one third of the total equity required”.*

### **Restructuring the existing debt**

We cite from our Scoping Report on **the existing debt balance** –

*“As of the last pro-forma financials for the period ending 20-Sep-2020, the company was carrying a closing debt position of C\$61.4mn primarily through a series of term loans and convertible debentures. Of the debt drawn, some C\$48.9mn was classified as a Current Liability, due and payable in 2021”.*

*We believe negotiations are underway with the aim of restructuring the nature of the terms related to repayment, effectively pushing the repayment commitments out ‘to the right’ (perhaps by three years or more [RaaS estimate]).*

The company has recently announced that it had successfully extended the maturity dates for ~C\$54.1M of debt to end-2023 whilst retaining the same terms... interest only balloon facilities.

We have made no material changes in terms of our financial forecasts as we had assumed a refinance or restructure of modelled current liabilities. Financial adjustments will be subject to the release of audited accounts, expected in the immediate short-term.

### **Coming (still) to Australia**

The company is continuing to advance its plans to have a secondary listing on the Australian Stock Exchange (ASX). The timing has been pushed to the right slightly with the final prospectus awaiting completion of the company’s audited financials.

We reiterate our Scoping Report commentary-

*“Whilst the primary listing will remain on the TSX, we see this (an ASX listing) as a smart, strategic move with the ASX being an historically strong bourse for mining and metals listings in terms of financing, investor support and liquidity **leading through to price discovery**. All would represent an investment with a strong point of differentiation against other listed tungsten offerings and against the mid-cap mining space in general as a funded production growth story”.*

### **The molybdenum opportunity...confirmation drilling is a lock**

We note recent advice for management that the design aspects of the 12,500m drilling campaign for Almonty Moly is complete after review and analysis. The company is confident that upon completion the data will be fit for the purposes of 43-101 and JORC reports.

Upon completion and review of the results we expect to be able to better define this growth option with likely significant upside to our currently ascribed (nominal) value. The company has previously indicated that a NI 43-101 compliant report would allow the company to apply a book value to subsequent reserves

The company has previously expected the campaign to commence in mid-April. No revised timing was included in the market release., however, previous commentary suggested the drilling would take ~6 months to complete and support a mining plan that should integrate with operations in the tungsten project.

We highlight commentary from our Scoping Report - *“Data from previous investigations...based on 12,390m of core drilling suggested tonnage >16.30Mt with grades >0.40% MoS<sub>2</sub>”, that would make Sangdong Molybdenum “...one of the world’s largest long-life high-grade Molybdenum projects.”*

*“Importantly the molybdenum orebody is located just 150m below the tungsten deposit. Initial capital costs should be low at least from a mine development perspective - the proximity to existing works and infrastructure footprint should deliver significant capital and operating cost savings.”*

Allowing for current delays to the timing we still hold to broad guidance that a success case would support a project commitment around end-2022.

We value All using a combination of the estimated NPV of producing and development assets; and unit values on ‘resource’ estimates adjusted for our discretionary project probability weighting (1-risk %), to derive a value per share. Probability weightings are subject to change as the company delivers key milestones or significant changes to the outlook/macro-operating environment.

## We retain our DCF (Risked) Valuation at \$1.71/share

Assigning a value to All is a readily quantifiable exercise given the broad operating parameters and guidance as confirmed by management. This is not to say the valuation is without risk as new projects, in this case Valtreixal and the molybdenum play at Sangdong are longer dated and subject to final definition. Our estimates are underpinned by a significant number of assumptions that are subject to change and a (subjective) probability weighted confidence assessment of ultimate commercial outcomes.

### Exhibit 2: All NAV – the NAV is compelling before unwinding of risk weightings

		Pr	A\$m	A\$/share	
Sangdong	100%	85%	\$342	\$1.86	Finalising financing would unwind some of the risk discount
Sangdong Moly	100%		\$14	\$0.08	This should be considered a nominal value only at this stage as we await the results of the evaluation drilling to be conducted this year
Valtreixal	100%		\$29	\$0.16	We apply 75% weighting to Valtreixal as proposed given the project is yet to finalise financing and timing. We value the ‘resource’ upside against a 25% Pr weighting
Panasqueira	100%		\$32	\$0.17	We weight the resources upside at Pr=25% against the unit NPV of the producing operation
Los Santos	100%		\$13	\$0.07	Expected to restart in 2021 post the COVID related care and maintenance phase
			<b>\$430</b>	<b>\$2.34</b>	
<b>Net Debt</b>			(\$109)	(\$0.60)	Estimated as at 31-Dec-2020
<b>Corporate</b>			(\$6)	(\$0.04)	
<b>TOTAL</b>			<b>\$314</b>	<b>\$1.71</b>	
Shares issued (mn)	183				Estimated as at 31-Dec-2020
	195		\$398	\$2.04	Against issued capital assumptions through 2021, particularly with respect to the assumed conversion of current debentures on financing of Sangdong, offset by unwinding of Sangdong Project risk and other discount factors.

Source: RaaS analysis; Risked values based on Probabilities of Success (POS) and weighted by a RaaS risk overlay. Weightings at RaaS’ discretion.

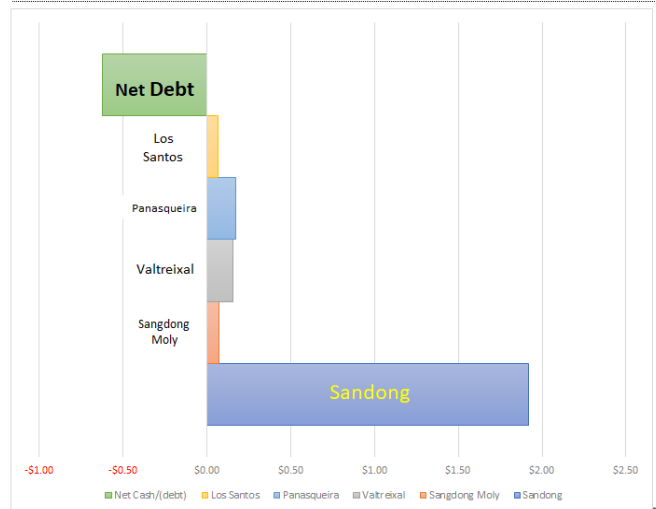
We reiterate that we carry high risk weightings on inferred resources and projects not yet properly defined and note the significant value upside inherent in unwinding the risk on timing and further in-ground activity.

We choose to value projects on a NPV basis to the limit of the current ‘proven’ reserves then apply a weighted unit NPV to the remaining resources. This can result in a discount compared to valuing the assets at a reserve life based on a reasonable conversion of higher risk ore volumes to economic reserves.

We await more confirmation of project expansions and extensions, but feel comfortable assigning a **valuation upside to C\$2.00 and over.**

### Exhibit 3: Financial Summary

ALMONTY INDUSTRIES INC		All				listed on the TSX	nm = not meaningful	na = not applicable
YEAR END								
NAV	C\$	\$1.70	A\$	\$1.71				
SHARE PRICE	C\$	\$1.09	A\$	\$1.09				
MARKET CAP	C\$M	200	A\$M	201				
ORDINARY SHARES	M	183.5						
OPTIONS	M							
COMMODITY ASSUMPTIONS		2018	2019	2020f	2021f	2022f		
Average Tungsten Price	US\$/MTU				254	273		
CAD:USD				0.7458	0.7916	0.7913		
AUD:USD				0.6989	0.7864	0.7874		
Spot cross rate	AUD:CAD							
RATIO ANALYSIS		2018	2019	2020f	2021f	2022f		
Shares Outstanding	M	181	181	183	195	203		
EPS (pre sig items)	C\$ cps	0.0	1.1	(4.3)	(3.7)	2.9		
EPS (post sig items)	C\$ cps							
PER (pre sig items)	x			na	na	37.3x		
OCFPS	C\$ cps			(3.0)	(2.3)	5.4		
CFR	x			na	na	20.3x		
DPS	C\$ cps							
Dividend Yield	%							
BVPS	C\$ cps			16.4	12.9	15.1		
Price/Book	x			6.7x	8.4x	7.2x		
ROE	%			na	nm	19%		
ROA	%			na	nm	3%		
(Trailing) Debt/Cash	x							
Interest Cover	x							
Gross Profit/share	C\$ cps			(4.3)	(3.7)	2.9		
EBITDAX	C\$M	28,472	13,177	2,349	3,278	19,746		
EBITDAX Ratio	%	44%	31%	10%	11%	34%		
EARNINGS		2018	2019	2020f	2021f	2022f		
Revenue	C\$000s	65,171	42,384	24,288	30,347	58,433		
Cost of sales		(47,854)	(32,983)	(23,646)	(28,902)	(42,436)		
Gross Profit		17,317	9,401	642	1,445	15,997		
Other revenue								
Other income								
Exploration written off								
Finance costs		(2,459)	(2,403)	(2,947)	(1,974)	(2,235)		
Impairment		(15,604)	(10,112)	0	0	0		
Other expenses		(9,228)	(2,201)	(5,572)	(6,713)	(6,788)		
Profit before tax		(9,974)	(5,315)	(7,877)	(7,242)	6,974		
Taxes		(715)	(194)	(7)	0	(1,046)		
NPAT Reported		(10,689)	(5,509)	(7,884)	(7,242)	5,928		
Underlying Adjustments		15,604	10,112	0	0	0		
NPAT Underlying		4,915	4,603	(7,884)	(7,242)	5,928		
CASHFLOW		2018	2019	2020f	2021f	2022f		
Operational Cash Flow								
Net Interest								
Taxes Paid								
Other								
Net Operating Cashflow		10,940	4,210	(5,513)	(4,435)	10,912		
Payments for Mining assets		(6,270)	(9,206)	(5,284)	(44,163)	(4,272)		
PP&E								
Development								
Net Asset Sales/other								
Net Investing Cashflow		(6,023)	(7,798)	(6,284)	(45,163)	(5,272)		
Dividends Paid								
Net Debt Drawdown		4,022		9,280	45,060	(737)		
Equity Issues/(Buyback)				474	3,661			
Other								
Net Financing Cashflow		(540)	(3,556)	9,042	48,721	(737)		
Net Change in Cash		4,377	(7,144)	(2,755)	(877)	4,903		
BALANCE SHEET		2018	2019	2020f	2021f	2022f		
Cash & Equivalents	C\$000s	8,721	1,496	4,344	3,467	8,370		
PP&E & Development		119,339	120,546	126,749	169,079	165,330		
Exploration								
Total Assets		122,833	123,307	142,431	182,046	182,120		
Debt		50,331	49,499	60,778	111,254	110,435		
Total Liabilities		106,439	99,830	112,383	156,866	151,581		
Total Net Assets/Equity		16,394	23,477	30,048	25,180	30,540		
Cash/(Debt)		(41,610)	(48,003)	(56,434)	(107,787)	(102,064)		
Gearing (d <sub>v</sub> /(d <sub>v</sub> +e))		72%	67%	65%	81%	77%		
PRODUCTION		2018	2019	2020f	2021f	2022f		
Tungsten	000s MTU							
Sangdong						4,964	80,005	
Valtreixal						0	0	
Panasqueira						89,500	89,500	
Los Santos						0	0	
TOTAL						94,464	169,505	
Ave Unit Production Cost	C\$/MTU					218.46	175.92	
Ave Unit Revenue	C\$/MTU					321.26	344.73	
Operating Margin						32%	49%	
RESERVES & RESOURCES		Proven		Probable		Proven+Probable		
Reserves		kt	%	kt	%	kt	%	
Sangdong						7,896	0.45%	
Los Santos						3,582	0.23%	
Valtreixal						2,549	0.34%	
Panasqueira						1,951	0.20%	
Resources		Measured		Indicated		Inferred		
Resources		kt	%	kt	%	kt	%	
Sangdong				8,029	0.51%	50,686	0.43%	
Los Santos				2,133	0.28%	1,878	0.25%	
Valtreixal				2,828	0.34%	15,419	0.17%	
Panasqueira				8,076	0.24%	10,322	0.24%	
EQUITY VALUATION		Interest		Pr		A\$M		Acps
Sandong		100%				\$352	\$1.92	
Sangdong Moly		100%	25%			\$14	\$0.07	
Valtreixal		100%				\$29	\$0.16	
Panasqueira		100%				\$32	\$0.17	
Los Santos		100%				\$13	\$0.07	
						\$427	\$2.33	
Net Cash/(debt)				100%		(\$108)	(\$0.59)	
Corporate costs						(\$6)	(\$0.04)	P/NAV
TOTAL						\$313	\$1.70	0.64
Cash Producing Assets							\$2.09	



Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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