

Financing pieces now in place

Almonty Industries Inc (ASX: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. The company's flagship asset, the Sangdong Tungsten-Molybdenum Project, should underpin a transformational growth opportunity which aims to increase tungsten concentrate production seven-fold out to 2028. The final piece of the Sangdong financing is done with all conditions met for the drawdown of the US\$75.1mn facility. The company has made significant progress on the construction schedule and is now in the position to accelerate towards commissioning, expected in Q4 FY22. The Sangdong Project is becoming very tangible, importantly as the world transitions towards a new energy paradigm requiring new sources of supply and tungsten is finding new markets as a technology metal. The company is looking at downstream value-add opportunities...it doesn't stop at mining All is well positioned to drive value accretion from its pre-development portfolio, particularly over the next 12 months with a number of significant re-rating events in the offing.

Business model

Almonty Industries is a mid-cap miner holding a portfolio of production and pre-production assets across Europe and South Korea. The company has an ambitious and transformational tungsten growth strategy set to impact from late 2022. An early-stage molybdenum play at Sangdong could add 'growth on growth'. 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.

All conditions met and the debt facility is finalised

After an extensive application process, the company has now met all the conditions precedent and the US\$75.1mn is now in place representing the last financing requirement for the Sangdong Project. Construction has progressed with some 15% of the total works completed including 27% of the underground development, some six months ahead of schedule. Completion and the start of commissioning remains on track for Q4 FY22. We highlight that project construction costs are set against a fixed-price contract with POSCO E&G, which provides a buffer against current global inflation pressures.

Our valuation is A\$2.03/share

We set our base asset value against risk-weighted development (NPV) scenarios underpinned by company guidance, applying where appropriate, discretionary probability weightings to pricing, volume and success factors. We set our risked valuation at A\$2.03/share against a **reference share price of A\$1.00/share**. We highlight the risk weightings applied to inferred resources and projects not yet defined (Sangdong-Moly) or in construction, noting the significant value upside inherent in unwinding the risk delivery of evaluation and feasibility results. We await confirmation of potential project expansions and extensions, but feel comfortable assigning an **'unrisked' valuation upside to >A\$3.00**.

Our assumptions are subject to potentially significant adjustment through the course of delivery of the company's growth strategy and particularly given the global economic and operating risks inherent in the present COVID environment.

Specialty Metals

7th March 2022

Share Details

ASX code	All
Share price (4-Mar)	A\$1.00
Market capitalisation	A\$208M
Shares on issue	208M
Net cash (est) at 4-Mar	~C\$1.83M
Free float	~50.2%

Share Performance (since listing)



Upside Case

- Above model production outcomes across the operating portfolio and 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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Sangdong Out Of The Starting Blocks And Heading Down The Strait

The company has advised that it has now satisfied all 110 conditions precedent for the finalisation of a US\$75.1mn senior secured loan facility with Germany's state bank KfW and pending the remaining administrative issues, All can commence drawdown and accelerate construction activity on the Sangdong Project.

Project construction has progressed with some 15% of the total works completed including 27% of the underground development, funded by a A\$15.25mn equity raising as part of the company's ASX listing and other private placements.

The principal terms of the facility are:

- US\$75.1mn;
- Interest rate – three-month LIBOR +2.5% (LIBOR to be replaced by the Secured Overnight Financing Rate); and
- Term – 6.25 years with no repayments during the construction phase. Principal will be repaid quarterly beginning two years after the first drawdown is made.

The company has executed a 15-year offtake agreement with Plansee GTP, with a significantly favourable floor price which we believe to be US\$183/MTU (APT eq = US\$235/MTU).

Construction costs are set against a fixed-price contract with POSCO E&G, which includes a 15% contingency, so we remain confident the chances of a significant cost blow-out from here are very low.

We don't see capital costs as the critical risk per se, but more so timing from COVID-related supply chain disruptions. Where possible and when available the company has been stockpiling materials but this issue is prevalent globally.

Guidance is still pointing to completion and commissioning in the December quarter this year.

The metrics for tungsten are only getting better

We refer readers to a short video interview conducted with All Executive Chairman/CEO, Lewis Black, as part of the **RaaS 2022 Outlook Series (19-Jan)** in which progress on the Sangdong Project and the tungsten market were discussed. We highlight some key commentary:

- The tungsten price has *increased some 45% over 2021 and is rising*. Anecdotally, supply is being squeezed and concentrated;
- There is an *increasing demand for tungsten use in technology applications*, particularly in South Korea for use in semi-conductors and batteries as a replacement for cobalt; and
- Geopolitically there is *increasing demand push for supply diversification* where anecdotally South Korea is currently sourcing some 93% of its tungsten ore from China.

Complementary discussions focussed on macro factors, specifically the demand pull on tungsten and the critical role of South Korea as a metal consumer which we summarise as follows-

South Korea – position and growth plans

The government has declared tungsten a **top five essential mineral**

Is the **largest per capital consumer on a global basis**, importing 94.7% of its requirements at a cost of US\$2.0Bn (with 92.8% sourced from China)

Currently **consumes ~40% of Tungsten Hexafluoride (WF₆)**, an essential part of the semi-conductor manufacturing process

Was the **largest global semi-conductor supplier by revenue in 2021** (US\$227.6Bn) with plans to invest ~US\$420Bn by 2030 to materially increase production.

Increasing tungsten demand driven by...

Forecast rising demand for semi-conductors from automotive, industrial and electronics industries driven by the push towards renewables and increasing WFH requirements

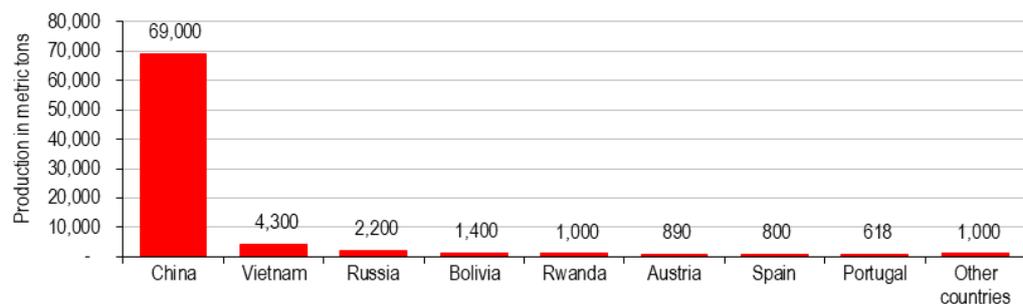
Upgrading existing battery technology requiring nano **Tungsten Oxide** powder to improve efficiencies and safety

New battery technologies for next generation EV's (**Niobium Tungsten Oxide batteries**) with higher life cycles, cost efficiencies and fast charging technology

Recent (and current) global concerns continue to underscore the need for not only more development but diversified supply.

The *USGS Mineral Commodities Summaries Report* (Jan-2021) identified tungsten supply “...as dominated by production and exports from China. China’s Government regulated its tungsten industry by limiting the number of mining and export licenses, imposing quotas on concentrate production and placing constraints on mining and processing. In 2020, production of tungsten concentrate outside China was expected to remain at less than 20% of world production.”

Exhibit 1: Global supply (2020), dominated by China...all eggs in one basket



Source: www.statista.com

A recent report from *mcgroup.co.uk* made the following observations -

- tungsten is on **the critical mineral lists in the USA, Canada, European countries** and this metal is under Chinese control;
- China has the largest wolfram reserves, followed by Russia and Vietnam;
- China has been the main tungsten supplier to the global market (and has had a strong influence on global market trends);
- world tungsten demand is expected to expand supported by strong growth in cemented carbides sector, superalloys and other alloys alongside with increasing demand in the chemicals (*and technology*) sectors;
- tungsten supply is estimated to grow as well; new mines are projected to be put in operation (*we highlight the project with the potential to move the supply needle is Sangdong*)

There has been some specific commentary that suggests global tungsten fundamentals are positive for the industry in 2022 with supply chain issues, rising production costs and significantly stronger global infrastructure spending likely to support prices.

European demand has been strong through the beginning of 2022 but may be attributable to inventory management and the building of stocks associated with increasing political uncertainty, rather than immediate growth requirements.

www.argusmedia.com

The price outlook is robust and expected to be so over the next three-five years with some short-term upside on supply tightness.

Assessing downstream opportunities

The path to value is expanding beyond simply selling concentrate, with the company evaluating downstream opportunities related to the growth areas as previously referenced.

We suggest these opportunities are speculative at this stage and subject to economic assumptions delivering a required rate of return but it's important to note that the company is looking to maximise its leverage across the supply-consumption chain, looking at value add opportunities.

We have not assumed any downstream options in our NAV...more definition is required, but we would add that the speculative upside to the portfolio is potentially transformational.

Sangdong Is The Flagship And Cornerstone Asset

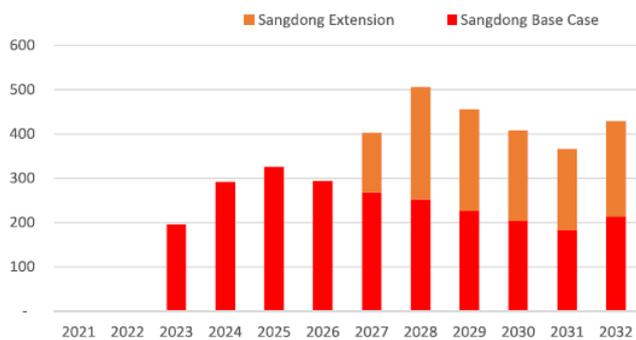
It's worthwhile reiterating the importance of the Sangdong Project to All and its impact with respect to the global market.

The Sangdong Project is one of the **largest tungsten resources in the world** and the only new tungsten mine expected to be in production in the medium term, providing the company with a strong operational and industry advantage.

On a base-case outcome, Sangdong can account for a three-fold increase in attributable concentrate production by 2023 and in combination with an expansion case, a seven-fold upside case by 2028...**delivery of Sangdong as planned is the critical success outcome for the company.**

Exhibit 2: Sangdong guidance and asset data

Production in 000 MTU WO₃eq

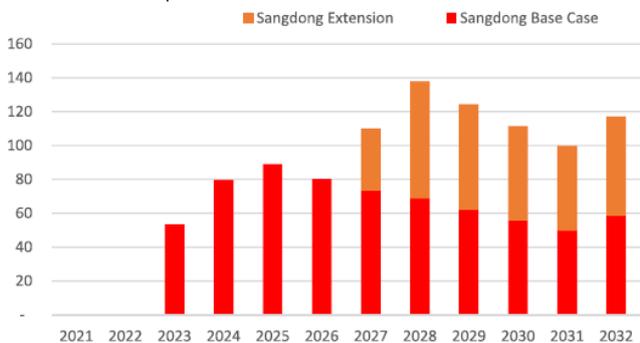


The project is located some 187km and a three-and-a-half hour drive, east-southeast of Seoul Production and is expected to commence in 2023; with a projected mine life of >20 years, producing WO₃ and tin.

An expansion case is modelled as commencing sometime in 2027, which intrinsically makes sense given the resources ascribed to the project and mine life (>90 years) predicated on the base-case production assumptions.

The expansion case will not be resource nor market constrained...it intrinsically feels like the expansion option could be triggered earlier than indicated, perhaps delivering first contributions from late 2025 or early 2026 (RaaS estimate).

Revenue in US\$m pa

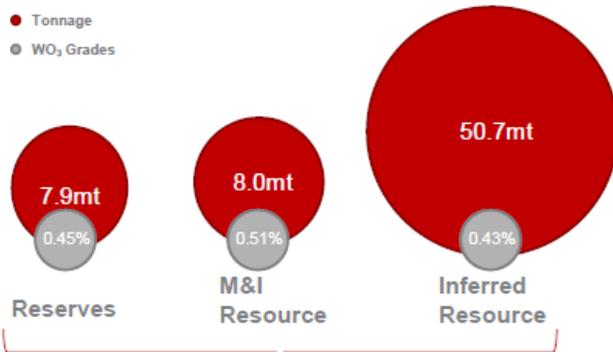


Construction is well under way with financing finalised and set to accelerate from here. Construction costs are set against a fixed-price contract with POSCO E&G.

We understand there are current stockpiles at the surface that could be processed for >one year, reducing the project's early production risks.

Concentrate sales are underpinned by an offtake deal with the Plansee Group, which has committed to underwriting the entire initial production (equivalent to 45% of the design output) of the mine. The concentrate will have a floor price of US\$183/MTU (APT eq = US\$235/MTU) and is secured for a term of 15 years.

The guidance provides a back-solved (long-run) realised net tungsten price of ~US\$275/MTU WO₃eq.



With total booked reserves and resources of ~58Mt, Sangdong has a potential mine life of >90 years at a projected production rate of 640kt pa. **This is as close to an annuity project as you will see.**

We assign an NPV based on the defined project and to capture the upside potential using a discretionary probability weighting against a unit concentrate NPV metric.

We estimate the Sangdong Project (risky) base case to be worth ~A\$313mn or A\$1.45/share based on management assumptions and pricing as outlined, ungeared and a risk-weighted (Pr=75%) base-case development scenario.

On an unrisks basis, the project could be valued at >A\$2.50/share...could this valuation represent the annuity value?

**Total Reserves & Resource of 58,000kt
→ Potential 90+ years LOM at 640kt p.a.**

Source: Company data

Exhibit 3: Financial Summary

ALMONTY INDUSTRIES INC		All				
YEAR END		Dec				
NAV	A\$	\$2.03				
SHARE PRICE	A\$	\$1.00				
MARKET CAP	A\$M	209				
ORDINARY SHARES	M	209.2				
OPTIONS	M					
COMMODITY ASSUMPTIONS		2020	2021f	2022f	2023f	
Average Tungsten Price	US\$/MTU		296	285	287	
CAD:USD		0.7458	0.7980	0.7892	0.7858	
AUD:USD		0.6989	0.7513	0.7280	0.7265	
Spot cross rate	AUD:CAD	0.9371	0.9415	0.9224	0.9246	
RATIO ANALYSIS		2020	2021f	2022f	2023f	
Shares Outstanding	M	183	208	216	225	
EPS (pre sig items)	A\$ cps	(5.3)	(3.8)	(2.3)	13.3	
EPS (post sig items)	A\$ cps					
PER (pre sig items)	x	na	na	na	7.5x	
OCFPS	A\$ cps	(2.8)	(2.7)	(0.6)	1.2	
CFR	x	na	na	na	83.8x	
DPS	A\$ cps					
Dividend Yield	%					
BVPS	A\$ cps	17.0	24.3	23.2	36.4	
Price/Book	x	5.9x	4.1x	4.3x	2.7x	
ROE	%	na	nm	-10%	46%	
ROA	%	na	nm	-3%	21%	
(Trailing) Debt/Cash	x					
Interest Cover	x					
Gross Profit/share	A\$ cps	(5.3)	(3.8)	(2.3)	16.9	
EBITDAX	A\$M	751	3,065	6,754	52,758	
EBITDAX Ratio	%	3%	11%	15%	45%	
EARNINGS		C\$000s	2020	2021f	2022f	2023f
Revenue			25,095	28,949	44,474	118,113
Cost of sales			(26,466)	(28,138)	(40,319)	(75,809)
Gross Profit			(1,371)	811	4,155	42,304
Other revenue						
Other income						
Exploration written off						
Finance costs			(3,836)	(1,049)	(2,256)	(2,557)
Impairment			0	0	0	0
Other expenses			(4,936)	(7,191)	(7,270)	188
Profit before tax			(10,143)	(7,429)	(5,371)	39,934
Taxes			1,086	0	806	(4,865)
NPAT Reported			(9,057)	(7,429)	(4,566)	35,069
Underlying Adjustments			0	0	0	0
NPAT Underlying			(9,057)	(7,429)	(4,566)	35,069
CASHFLOW		C\$000s	2020	2021f	2022f	2023f
Operational Cash Flow						
Net Interest						
Taxes Paid						
Other						
Net Operating Cashflow			(4,831)	(5,305)	(1,235)	35,603
Payments for Mining assets			(5,284)	(38,421)	(44,295)	(4,302)
PP&E						
Development						
Net Asset Sales/other						
Net Investing Cashflow			(6,294)	(39,421)	(44,295)	(4,302)
Dividends Paid						
Net Debt Drawdown			9,280	41,009	16,497	(25,000)
Equity Issues/(Buyback)			474	20,275		
Other						
Net Financing Cashflow			11,906	61,284	22,524	(25,000)
Net Change in Cash			781	16,558	(23,006)	6,301
BALANCE SHEET		C\$000s	2020	2021f	2022f	2023f
Cash & Equivalents			2,372	18,930	(4,076)	2,226
PP&E & Development			134,919	151,301	169,190	162,714
Exploration						
Total Assets			151,063	170,240	167,618	166,532
Debt			61,524	62,455	80,323	53,258
Total Liabilities			121,894	122,655	121,469	90,852
Total Net Assets/Equity			29,169	47,585	46,149	75,680
Cash/(Debt)			(59,152)	(43,525)	(84,399)	(51,033)
Gearing (d ₊)/(d ₊ +e)			67%	48%	65%	40%

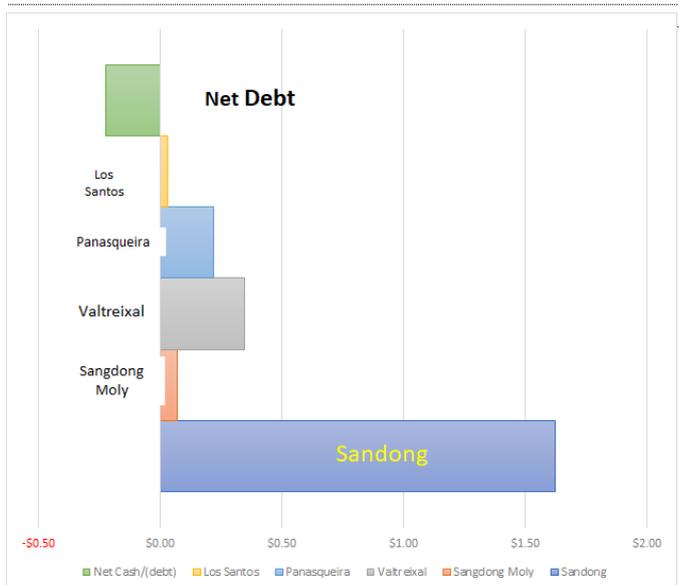
nm = not meaningful
na = not applicable

PRODUCTION		2020	2021f	2022f	2023f
<i>Tungsten</i>	<i>000s MTU</i>				
Sangdong			0	0	190,180
Valtreixal			0	0	10,004
Panasqueira			78,100	78,100	78,100
Los Santos			0	45,000	45,000
TOTAL			78,100	123,100	323,283
Ave Unit Production Cost	C\$/MTU		256.08	235.58	162.44
Ave Unit Revenue	C\$/MTU		370.66	361.28	365.35
Operating Margin			31%	35%	56%

RESERVES & RESOURCES						
Reserves	Proven		Probable		Proven+Probable	
	kt	%	kt	%	kt	%
Sangdong					7,896	0.45%
Los Santos					3,767	0.13%
Valtreixal					2,577	0.35%
Panasqueira					3,056	0.21%

Resources	Measured		Indicated		Inferred	
	kt	%	kt	%	kt	%
Sangdong			8,029	0.51%	50,686	0.43%
Los Santos			2,133	0.28%	1,878	0.25%
Valtreixal			2,833	0.25%	16,755	0.80%
Panasqueira			8,799	0.24%	10,631	0.24%

EQUITY VALUATION					
	Interest	Pr	A\$M	A\$ cps	
Sangdong	100%	75%	\$339	\$1.62	
Sangdong Moly	100%	25%	\$15	\$0.07	
Valtreixal	100%		\$73	\$0.35	
Panasqueira	100%		\$46	\$0.22	
Los Santos	100%		\$6	\$0.03	
			\$478	\$2.29	
Net Cash/(debt)			(\$47)	(\$0.22)	
Corporate costs			(\$8)	(\$0.04)	
TOTAL			\$424	\$2.03	
Cash Producing Assets				\$0.25	



Source: RaaS estimates, Company data for actuals; priced as of close of trading 4-March



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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AFSL 456663

Effective Date: 6th May 2021



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- our services
- how we transact with you
- how we are paid, and
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