WPG Resources Ltd

DH16 financials; focus on Challenger head grade

- WPG's Half Year Report for DH16 includes EBITDA of $0.6m and a loss of $4.1m (includes $4.7m of expensed depreciation and amortisation) off revenue of $37.7m. Cash and bullion at the end of the quarter totalled $12.4m.
- The attributable production at Challenger for the half was 22,676 ounces at AISCs of $1,550/oz. The production ounces were on plan however lower grades, due to low development metres in DQ16, has had a significant impact on earnings. WPG's confidence in production ounces has enabled the Company to provide FY17 Group guidance of 52koz to 56koz Au.
- During the half Challenger ore continued to be blended with the surface low grade stockpiles, resulting in an average milled grade of 2.61g/t Au. The large proportion of fixed costs at Challenger will require grades of +4g/t Au from underground (DQ16 3.02g/t Au) and/or an increase in tonnes to reduce unit costs.
- WPG has commenced studies to increase mill throughput with an increase from 0.6mtpa to 0.7mtpa achievable without additional capital expenditure. Also an increase to 0.8mtpa is possible with limited capital expenditure.
- Ongoing development and near mine exploration drilling at Challenger West, CSSW, Aminus and M3 in DQ16 returned abundant high grade intervals including 1.24m at 140g/t Au and 0.95m at 214g/t Au at Challenger West, 1.00m at 47.3g/t Au at Amminus and 0.94m at 157g/t Au at M3/SEZ.
- During the DH16 WPG also commenced production at Tarcoola with the first ore processed in February 2017 at Challenger. Tarcoola is on track to add ~20kozpa of recovered gold over the next 3.5 years to WPG production.
- Ongoing drilling by Tyranna Resources at the WGCJV continues to confirm the potential of satellite ore from a number of prospects within a 50km trucking distance to the Challenger mill.

Veritas comment and Recommendation

- The setback in costs at Challenger is not a grade issue with the orebody but due to additional dilution mined from outside of the resource as a result of the lack of development accessing planned stopes. We have accordingly adjusted our JH17 forecasts for a slower ramp up in grade providing for a negative 2017FY EBITDA forecast to -A$3.0m (includes expensed D&A). We anticipate that development will catch up in JQ17 followed by a parallel improvement in cash costs to <A$1,400/oz (target <$1,300/oz).
- We continue to recommend a BUY with a revised fully diluted NAV of $0.10 per share (from 14cps) after allowing for a slower increase in the Challenger underground head grade.

WPG.ASX BUY

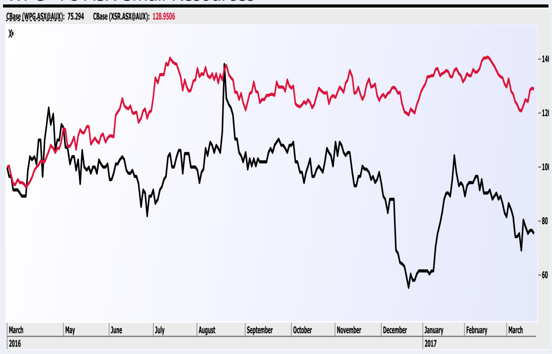
Monday 27 March 2017

Price		$0.060
Valuation		$0.10
Valuation method		DCF
(DCF at 10% dr)		
GICS sector		Metals & Mining
Market capitalisation*	$m	47
Shares on Issue*	m	778
Enterprise value	$m	35
Previous rating		BUY

* fully diluted for Performance Rights

Year Ended June 30		15a	16a	17e	18e
Production	koz	0	2	52	67
Cash Costs - AISC	$/oz	0	na	1,527	1,263
Sales revenue	$m	0	2	83	113
EBITDA	$m	-3	-10	-3	24
EBITDA margin	%	na	na	na	21
Reported NPAT	$m	-3	-10	-4	20
Adjusted NPAT	$m	-3	-10	-4	20
EPS adj	c	-1.2	-2.9	-0.6	2.6
EPS adj growth	%			na	na
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0
PER	x	na	na	n/a	2.3
Dividend yield	%	na	na	na	na
EV/EBITDA	x	-1.7	-3.2	-12.6	0.7
ROA	%	na	na	na	185
ROE	%	na	na	na	51
Debt / Debt + equity	%	na	na	na	na

WPG v's ASX Small Resources



Source: IRESS

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WPG Resources Limited

Share Price: $ 0.060 **Valuation $ 0.10**

Profit and Loss (A$m)

Year ending June	2015a	2016a	2017e	2018e
Sales	0.1	1.5	82.5	112.6
Other Revenue	0.0	0.1	0.1	0.1
Op. costs	0.0	3.6	80.1	81.2
Royalty	0.0	0.0	1.4	3.5
Exploration Writeoff	0.0	2.4	0.0	0.0
Corporate & Other	3.6	5.4	4.1	4.4
EBITDA	**-3.4**	**-9.8**	**-3.0**	**23.6**
Dep/Amtz	0.0	0.0	1.6	4.2
EBIT	**-3.4**	**-9.8**	**-4.6**	**19.4**
Net Interest	0.1	0.1	0.1	0.2
Pre-Tax Profit	**-3.3**	**-9.8**	**-4.4**	**19.6**
Tax Provision	0.0	0.0	0.0	0.0
Net Profit/(Loss)	**-3.3**	**-9.8**	**-4.4**	**19.6**
Abnormals	0.0	0.0	0.0	0.0
Reported Net Profit	-3.3	-9.8	-4.4	19.6

Balance Sheet (A$m)

Year ending June	2015a	2016a	2017e	2018e
Cash	1.3	4.6	7.9	28.0
Receivables	0.1	1.2	1.7	1.7
Fixed assets	7.4	7.5	24.1	23.7
Other assets	1.1	5.0	5.5	5.5
Total Assets	**10.0**	**18.3**	**39.2**	**58.9**
Creditors	0.6	5.5	10.2	10.2
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	0.4	6.4	10.0	10.0
Total Liabilities	**1.1**	**11.8**	**20.2**	**20.2**
Net Assets	**8.9**	**6.5**	**19.0**	**38.6**
Share capital	25.6	31.3	47.8	47.8
Retained earnings	-16.7	-25.0	-28.8	-9.2
Shareholders Funds	**8.9**	**6.4**	**19.0**	**38.6**

Cashflow (A$m)

Year ending June	2015a	2016a	2017e	2018e
Sales Revenue	0.0	1.5	81.5	112.6
Less Outflows	0.0	-4.1	-73.6	-81.2
Prod. costs in exc. sales	-2.4	0.0	-3.6	-7.9
Net interest	0.1	0.1	0.1	0.2
Income tax paid/Other	0.1	0.3	2.7	0.0
Operational Cash Flow	**-2.1**	**-2.2**	**7.2**	**23.7**
Exploration	-1.9	-2.1	-2.6	-3.0
Capex	0.0	-0.4	-6.8	-0.8
Asset (Purchases)/Sales	0.0	-0.2	-10.5	0.0
C/Flow from Investing	**-1.9**	**-2.6**	**-19.9**	**-3.8**
Dividends paid	-0.1	0.0	0.0	0.0
Debt (Repay)/Borrowings	0.0	0.0	0.0	0.0
Equity Raised	0.0	8.4	16.0	0.0
Other	0.0	0.0	0.0	0.1
C/Flow from Financing	**-0.1**	**8.4**	**16.0**	**0.1**
Cash at Beginning	0.0	1.3	4.6	7.9
Net Increase/(Decrease)	-4.1	3.6	3.3	20.1
Cash at end	**1.3**	**4.6**	**7.9**	**28.0**

Directors & Management

Chairman	Bob Duffin
CEO	Wayne Rossiter
Exec. Director	Gary Jones
Non-Ex. Director	See Yong Lim
Non-Ex. Director	Helen Wiseman

Major Shareholders

- Bob Duffin
- Jalinsons Pty Ltd
- Diversified Minerals P/L

Market Measures

Year ending June	2015a	2016a	2017e	2018e
EPS adj. (¢)	-1.2	-2.9	-0.6	2.6
EPS Growth (%)		na	na	na
PER (x)	**na**	**na**	**n/a**	**2.3**
CFPS	-1.9	-2.8	-0.7	2.7
CF Multiple (x)	na	na	na	2.2
DPS (¢)	0.0	0.0	0.0	0.0
Div. Yield (%)	na	na	na	na
EV	5.7	31.4	37.4	17.4

Profitability Ratios

Year ending June	2015a	2016a	2017e	2018e
Return on Equity (%)	na	na	na	50.8
Return on Assets (%)	na	na	na	184.5
NPAT / Sales (%)	na	na	na	17.4
Debt / (Debt + Equity) (%)	na	na	na	na
EBITDA / Sales (%)	na	na	na	21.0

Valuation	dr @ 10%		dr @ 5%	
	A$m	A$ps	A$m	A$ps
Challenger/Tarcoola	69.7	0.09	74.4	0.10
Exploration	10.0	0.01	10.0	0.01
Options	0.0	0.00	0.0	0.00
Forward sales	0.0	0.00	0.0	0.00
Cash/Liquids	18.7	0.02	18.7	0.02
Total Borrowings	-16.2	-0.02	0.0	0.00
Corporate/Other	-5.5	-0.01	-6.8	-0.01
TOTAL	**76.7**	**0.10**	**96.4**	**0.12**

Production

Year ending June		2015a	2016a	2017e	2018e
Challenger/Tarcoola	(koz)	0	2	52	67
Other	(koz)	0	0	0	0
Other	(koz)	0	0	0	0
Attrib. Production (koz)		**0**	**2**	**52**	**67**
Cash Costs - AISC (A$/oz)		**0**	**na**	**1527**	**1263**
Total Costs (A$/oz)		**0**	**na**	**1573**	**1326**

Price Assumptions

Year ending June	2015a	2016a	2017e	2018e
Exchange Rate (A$/US$)	0.84	0.73	0.75	0.75
Gold ($US/oz)	1224	1166	1247	1250
Gold ($A/oz)	1468	1593	1655	1678

Attributable reserves & resources (@ June 16)

	Company		Veritas	
	mt	g/t	mt	g/t
Challenger reserve	0.6	4.7	1.7	4.4
Tarcoola reserve	0.9	2.6	0.9	2.6
Total - WPG	**1.5**	**3.4**	**2.6**	**3.8**
Attributable Ounces (koz)		154		305
Challenger resources	0.8	9.8		
Tunkillia resources	12.3	1.4		
Total Resources	**0.92Moz @ 2.0g/t Au**			

Sensitivities - eps % change

	2015a	2016a	2017e	2018e
Gold Price +/- 10%	0.0%	0.0%	0.0%	56.9%
Exchange Rate +/- 10%	0.0%	0.0%	0.0%	-52.8%
Cash Costs +/- 10%	0.0%	0.0%	0.0%	-40.8%

Source: Company reports & Veritas Securities estimates

Half Year milestones

The Company has had an active half year

WPG has successfully completed a number of key milestones in DH16 including:

- Successful Challenger mine commissioning in late July 2016;
- Increase in ownership of Challenger to 100% from 1 August 2017;
- Total on budget gold production of 24,567oz (100%) at Challenger;
- Near mine exploration providing further additions to resource/reserves;
- Announcing Challenger reserves of 89koz at 4.98g/t Au and resources of 263koz at 9.76g/t Au as at 30 June 2016;
- Tarcoola Gold mine start up in November 2016 and reserves of 71koz; and the
- Western Gawler Craton Joint Venture dispute resolved and the JV (WPG 34%, TYX 66%) providing a resource of 219koz and further significant exploration intercepts.

Challenger production issues

Not everything has gone according to plan

The complications at Challenger resulting in higher AISCs of $1,550/oz during the half year were due to a combination of:

- The need to mine lower grade stopes left by the former owner;
- Processing of lower grade development ore that was mined to gain access to future mining areas;
- The processing of the low grade stockpiles for a longer period than anticipated prior to higher grade Tarcoola ore being available for processing.; and
- The lower than planned development rates has resulted in new stoping areas not being available for mining as scheduled; and therefore lower grade material that has not been within the resource envelope has been mined to replace mill feed. All of this has been exacerbated by equipment availability and manpower issues from time to time.

An expansion of the Challenger mill will provide a lowering of unit costs

Total ounces produced during the half year was on plan at 24,567oz (100%) and WPG is actively reviewing ways to rectify the development issues to limit a potential repeat of the high AISCs. An expansion study is currently being assessed looking at increasing the plant throughput from 0.6mtpa to 0.7mtpa, at no additional cost or reduction in recoveries, and an increase to 0.8mtpa for a low capital requirement (VSL estimate ~$2.0m).

December Half 2017 Financials

WPG is expensing depreciation and amortisation largely as it occurs. This included $4.7m in the half year which has contributed to a loss of $4.1m. We maintain that at a head grade of +4.0g/t Au the Challenger mine will provide robust earnings for WPG.

Current assets and current liabilities

An analysis of the key underlying components in the half year for the current assets and current liabilities provides comfort that sufficient cash is on hand. The DH17 current assets total $18.9m which includes:

- Cash of $9.7m.
- Trade and other Receivables of $3.5m, including $2.4m in GST and diesel rebates. The GST and diesel rebates are elevated and will more likely be half this amount going forward.

- Inventories of \$5.6m which includes \$2.7m gold dore held at cost (~\$1,575/oz) and a stores build-up of \$2.0m.

Therefore total current cash and receivables are at approximately \$14.8m.

The total current liabilities of \$17.4m include:

- Trade and other payables of \$16.2m. The higher payables appear to be due to an end of month later payment of the November mining costs.

The balance sheet appears sound, however lower costs are paramount to increasing cash levels.

The fixed costs for the Challenger underground mining contractor are ~\$7.0m per month, therefore we anticipate Payables going forward to be approximately \$10.0m.

Veritas comment

We continue to forecast stope grades of 4 to 5g/t Au

We remain positive on Challenger cash costs reaching target levels of <\$1,300/oz, however continued high costs will put undue strain on cash levels. Our revised cash flow forecasts provide for operational cashflow of \$7.2m in 2017FY and \$23.7m in 2018FY as grades increase. We anticipate that once development provides planned stope access the Challenger head grade will increase to 4.0 – 5.0g/t Au.

Prior to WPG recommencing production at Challenger in JQ16 the previous 2 years of Kingsgate quarterly production data, where the focus was on tonnes and grade, highlights that the head grade ranged from 4.64g/t Au to 5.64g/t Au (DQ13 to DQ16) and the total cash costs also ranged from \$1,119/oz to \$1,442/oz.

We have not seen the impact that Tarcoola ore will have on cash margins.

Ore from Tarcoola was processed through the mill in February 2017. The Tarcoola ore has the ability to reduce group cash costs and help sustain robust cash flows at the planned 20kozpa production rate. An increase in Tarcoola throughput would be positive to earnings and could be an initial filler for an expanded plant to 0.7mtpa. Exploration at Tarcoola may also provide incremental reserves adding to the mine life.

The maiden resource at the WGCJV may provide satellite ore for the Challenger mill.

The additional focus of the Challenger mill is the potential to process satellite orebodies from within a 50km radius. The WGCJV's recent maiden resource of 219koz provides the potential for additional mill feed in the next 24 months.

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RATING

BUY – anticipated stock return is greater than 10%
SELL – anticipated stock return is less than -10%
HOLD – anticipated stock return is between -10% and +10%
SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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