

# WPG Resources Ltd

## First full quarter of production at Challenger

- WPG has announced SQ16 Challenger production of 12,138 ounces at an AISC of \$1,493/oz (VSL 12,631oz at \$1,391/oz) which includes the ramping up of production to late July of the Challenger u/g.
- Challenger ore was blended with the surface low grade stockpiles as planned, resulting in an average milled grade of 2.64g/t Au and a slightly lower recovery at 94.5% (VSL estimate: 2.75g/t Au, 95.0% recovery).
- Underground development which is fully expensed into the cash costs at Challenger totalled 1,213m. Development and near mine exploration drilling totalled 8,733m into Challenger West, CSSW and Aminus returning high grade intervals including 1.51m at 75.8g/t Au and 4.61m at 16.3g/t Au at Challenger West and 0.88m at 55.4g/t Au and 0.3m at 55.2g/t Au at CSSW
- Cash at the end of the quarter was \$12.1m and the average gold price received was \$1,775/oz on 11,425oz sold.

## Tarcoola and Western Gawler JV

- WPG is awaiting final approvals prior to commencing mining at Tarcoola. We have not as yet factored in the feasibility AISC's of \$916/oz (VSL \$1,100/oz) into our model as we await first production. Once in production Tarcoola will add ~20kozpa of recovered gold with ore reserves currently at 71koz at 3.1g/t Au.
- WPG has resolved the ownership dispute with JV partner Tyranna Resources over the new mining lease down plunge of Challenger and the adjoining northern section of EL5661. WPG has confirmed its right to 100% of all minerals in the EL5661 and has also agreed to ownership of the tenements subject to the JV be transferred to Tyranna.
- Ongoing drilling by the JV continues to confirm the potential of satellite ore from a number of prospects within a 50km trucking distance to the Challenger mill.

## Financials

- The SQ16 has been a ramp up quarter to full production from the Challenger underground and also an increase in ownership to 100% from 1 August 2016. The inclusion of Tarcoola and a continuing increase in the underground head grade at Challenger in the DQ16 will provide further on budget production with a declining cash cost towards our target of ~ \$1,300/oz AISC.

## Recommendation and Veritas comment

- We continue to recommend a BUY based on our fully diluted NAV of \$0.14 per share, which incorporates production for 4 years based on the current Challenger M+I resource and Tarcoola reserves.

WPG.ASX

BUY

Tuesday 18 October 2016

Price \$0.077  
Valuation \$0.14  
Valuation method DCF  
(DCF at 10% dr)

GICS sector Metals & Mining  
Market capitalisation\* \$m 60  
Shares on Issue\* m 774  
Enterprise value \$m 47  
Previous rating BUY  
\* fully diluted for options, perf. Rights

Year Ended June 30		15a	16e	17e	18e
Production	koz	0	2	64	74
Cash Costs - AISC	\$/oz	0	na	1,301	1,188
Sales revenue	\$m	0	3	112	130
EBITDA	\$m	-3	-3	23	38
EBITDA margin	%	na	na	21	29
Reported NPAT	\$m	-3	-3	20	24
Adjusted NPAT	\$m	-3	-3	20	24

EPS adj	c	-1.2	-0.8	2.7	3.2
EPS adj growth	%			na	20
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0
PER	x	na	na	2.9	2.4
Dividend yield	%	na	na	na	na

EV/EBITDA	x	-1.7	-12.0	1.3	0.0
ROA	%	na	na	91	152
ROE	%	na	na	41	33
Debt / Debt + equity	%	na	na	na	na

### WPG v's ASX Small Resources



Source: IRESS

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## WPG Resources Limited

Share Price: \$ 0.077

Valuation \$ 0.14

### Profit and Loss (A\$m)

Year ending June	2015a	2016e	2017e	2018e
Sales	0.1	3.1	111.6	130.5
Other Revenue	0.0	0.0	0.0	0.0
Op. costs	0.0	2.4	80.0	83.4
Royalty	0.0	0.1	3.1	4.0
Exploration Writeoff	0.0	0.0	0.0	0.0
Corporate & Other	3.6	3.3	5.0	5.0
<b>EBITDA</b>	<b>-3.4</b>	<b>-2.6</b>	<b>23.4</b>	<b>38.1</b>
Dep/Amtz	0.0	0.0	3.4	5.1
<b>EBIT</b>	<b>-3.4</b>	<b>-2.6</b>	<b>20.0</b>	<b>33.0</b>
Net Interest	0.1	0.1	0.1	0.7
<b>Pre-Tax Profit</b>	<b>-3.3</b>	<b>-2.6</b>	<b>20.2</b>	<b>33.7</b>
Tax Provision	0.0	0.0	0.0	9.2
<b>Net Profit/(Loss)</b>	<b>-3.3</b>	<b>-2.6</b>	<b>20.2</b>	<b>24.5</b>
Abnormals	0.0	0.0	0.0	0.0
Reported Net Profit	-3.3	-2.6	20.2	24.5

### Balance Sheet (A\$m)

Year ending June	2015a	2016e	2017e	2018e
Cash	1.3	4.2	27.0	57.6
Receivables	0.1	2.6	5.6	5.6
Fixed assets	7.4	8.2	22.8	22.5
Other assets	1.1	0.3	0.3	0.3
<b>Total Assets</b>	<b>10.0</b>	<b>15.2</b>	<b>55.6</b>	<b>85.9</b>
Creditors	0.6	3.0	6.0	6.0
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	0.4	0.4	0.4	6.3
<b>Total Liabilities</b>	<b>1.1</b>	<b>3.4</b>	<b>6.4</b>	<b>12.3</b>
<b>Net Assets</b>	<b>8.9</b>	<b>11.8</b>	<b>49.2</b>	<b>73.7</b>
Share capital	25.6	31.1	48.3	48.3
Retained earnings	-16.7	-19.3	0.9	25.3
<b>Shareholders Funds</b>	<b>8.9</b>	<b>11.8</b>	<b>49.2</b>	<b>73.7</b>

### Cashflow (A\$m)

Year ending June	2015a	2016e	2017e	2018e
Sales Revenue	0.0	3.1	111.6	130.5
Less Outflows	0.0	-2.4	-80.0	-83.4
Prod. costs in exc. sales	-2.4	-2.6	-8.1	-9.0
Net interest	0.1	0.1	0.1	0.7
Income tax paid/Other	0.1	0.0	0.0	-3.4
<b>Operational Cash Flow</b>	<b>-2.1</b>	<b>-1.8</b>	<b>23.5</b>	<b>35.4</b>
Exploration	-1.9	-1.5	-4.0	-4.0
Capex	0.0	0.0	-5.0	-0.8
Asset (Purchases)/Sales	0.0	0.8	-9.0	0.0
<b>C/Flow from Investing</b>	<b>-1.9</b>	<b>-0.7</b>	<b>-18.0</b>	<b>-4.8</b>
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	5.5	17.2	0.0
Other	0.0	-0.1	0.0	0.0
<b>C/Flow from Financing</b>	<b>-0.1</b>	<b>5.4</b>	<b>17.2</b>	<b>0.0</b>
Cash at Beginning	0.0	1.3	4.2	27.0
Net Increase/(Decrease)	-4.1	2.8	22.8	30.6
<b>Cash at end</b>	<b>1.3</b>	<b>4.2</b>	<b>27.0</b>	<b>57.6</b>

### Directors & Management

Chairman	Bob Duffin	Bob Duffin
Managing Director	Martin Jacobsen	Jalinsons Pty Ltd
Exec. Director	Gary Jones	Diversified Minerals P/L
Non-Ex. Director	See Yong Lim	
Non-Ex. Director	Dennis Mutton	

### Major Shareholders

### Market Measures

Year ending June	2015a	2016e	2017e	2018e
EPS adj. (¢)	-1.2	-0.8	2.7	3.2
EPS Growth (%)		na	na	20
<b>PER (x)</b>	<b>na</b>	<b>na</b>	<b>2.9</b>	<b>2.4</b>
CFPS	-1.9	-1.3	2.6	4.1
CF Multiple (x)	na	na	3.0	1.9
DPS (¢)	0.0	0.0	0.0	0.0
Div. Yield (%)	na	na	na	na
EV	5.7	31.8	31.5	0.9

### Profitability Ratios

Year ending June	2015a	2016e	2017e	2018e
Return on Equity (%)	na	na	41.0	33.2
Return on Assets (%)	na	na	90.7	152.1
NPAT / Sales (%)	na	na	18.1	18.7
Debt / (Debt + Equity) (%)	na	na	na	na
EBITDA / Sales (%)	na	na	21.0	29.2

### Valuation

	dr @ 10%		dr @ 5%	
	A\$m	A\$ps	A\$m	A\$ps
Challenger/Tarcoola	91.6	0.12	102.2	0.13
Exploration	10.0	0.01	10.0	0.01
Options	3.5	0.00	3.5	0.00
Forward sales	0.0	0.00	0.0	0.00
Cash/Liquids	12.1	0.02	12.1	0.02
Total Borrowings	0.0	0.00	0.0	0.00
Corporate/Other	-7.1	-0.01	-7.6	-0.01
<b>TOTAL</b>	<b>110.1</b>	<b>0.14</b>	<b>120.2</b>	<b>0.16</b>

### Production

Year ending June	2015a	2016e	2017e	2018e
Challenger/Tarcoola (koz)	0	2	64	74
Other (koz)	0	0	0	0
Other (koz)	0	0	0	0
<b>Attrib. Production (koz)</b>	<b>0</b>	<b>2</b>	<b>64</b>	<b>74</b>
<b>Cash Costs - AISC (A\$/oz)</b>	<b>0</b>	<b>na</b>	<b>1301</b>	<b>1188</b>
<b>Total Costs (A\$/oz)</b>	<b>0</b>	<b>na</b>	<b>1354</b>	<b>1257</b>

### Price Assumptions

Year ending June	2015a	2016e	2017e	2018e
Exchange Rate (A\$/US\$)	0.84	0.72	0.71	0.71
Gold (\$US/oz)	1224	1156	1238	1250
Gold (\$A/oz)	1468	1602	1743	1774

### Attributable reserves & resources (@ June 16)

	Company		Veritas mine plan	
	mt	g/t	mt	g/t
Challenger mine	0.6	4.7	1.4	4.7
Tarcoola	0.9	2.6	0.9	2.6
Tunkillia	12.3	1.4	0.0	0.0
Total - WPG	13.8	1.6	2.3	3.9
Attributable Ounces (koz)			695	283
Total Reserves + Resources			0.7Moz @ 1.6g/t Au	

### Sensitivities - eps % change

	2015a	2016e	2017e	2018e
Gold Price +/- 10%	0.0%	-8.7%	42.7%	34.6%
Exchange Rate +/- 10%	0.0%	7.9%	-50.5%	-21.9%
Cash Costs +/- 10%	0.0%	6.7%	-39.4%	-13.2%

Source: Company reports & Veritas Securities estimates

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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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