

Ticker: WAF AU **Est net cash:** (US\$69m) **Project:** Sanbrado
Market cap: A\$914m **Price:** A\$1.05/sh **Country:** Burkina Faso
RECOMMEND. (unc): BUY **TARGET** (down): A\$1.85/sh **RISK RATING:** HIGH

Full UG production was the final aspect of Sanbrado to hit nameplate. We had confidence on grade given prior quarters' 10-11g/t, but tonnes had yet to hit 100kt pq. Productivity hasn't changed (855m horizontal development vs. 802m QoQ), the move through upper levels needing transverse stopes to long-term long hole mining saw +22% QoQ tonnes mined to 104kt with concurrent >10g/t for a +13% QoQ UG production. This puts the company in the range of 250-280koz guidance requiring 65-80koz pq for 2H21. Production of 64koz was 5% ahead of our forecast, driven almost entirely by tonnes ~25% higher than expected from both the pit and the UG. Against maintained guidance of 250-280koz @ US\$720-800/oz, we maintain our **BUY rating and 0.9xNAV_{5%-1850} PT of A\$1.85/sh**. Despite gains today, our SCPE US\$1.5bn NAV puts the stock on just 0.51xNAV, with debt falling and likely to see accelerated repayment by early 2022. While the discount be put down to a one-asset company, Africa risk, or simply falling between coverage (no international bank dealer covering), cash ultimately closes the gap, and at SCPE 20-30% FCF yield over the coming 3Y, it's a gap that won't take long to close in our view. That all this excludes the upside from a Toega cut-back (only 43% of resources converted so far), M1S deep extensions (7m @ 20g/t in the deepest hole), and the M5 UG (8m @ 17.5g/tm 18m @ 9.5g/t under the pit) reinforces our conviction in this name.

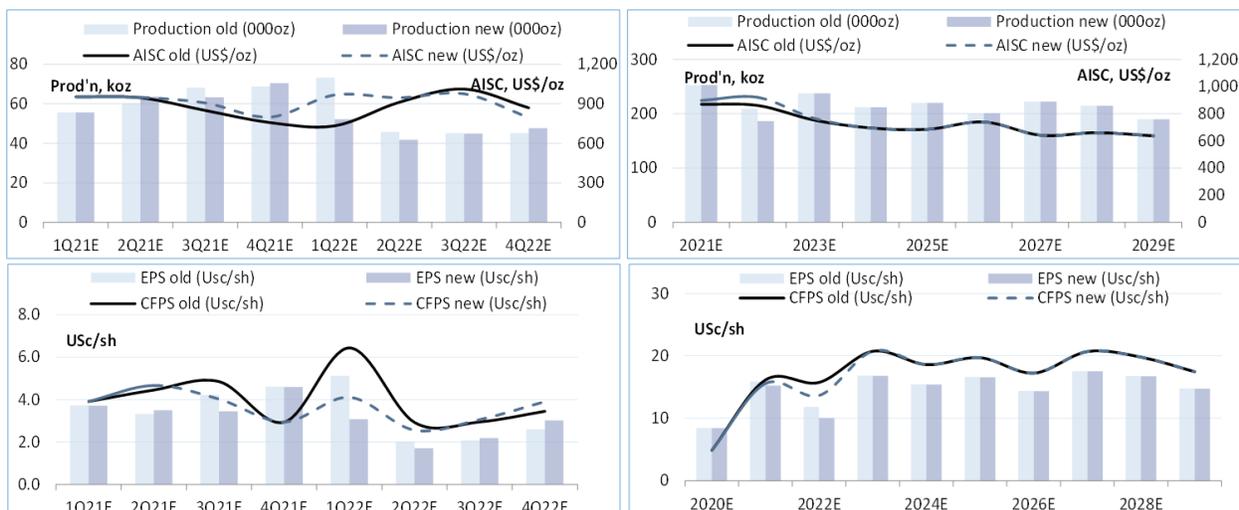
Table 1 (A) Production and (B) financial metrics against prior quarter and SCP forecast

Operations	1Q21A	2Q21E	2Q21A	QoQ	vs. SCPE
Pit ore mined (000t)	711	590	738	4%	25%
Pit grade mined (g/t)	1.90	1.80	1.68	-12%	-7%
UG ore mined (000t)	63	85	104	66%	22%
UG grade mined (g/t)	7.70	11.00	10.16	32%	-8%
Ore milled (000t)	788	675	842	7%	25%
Head grade (g/t)	2.33	2.96	2.90	24%	-2%
Recovery (%)	94.0%	94.0%	94.0%	0%	0%
Group production (000oz)	55.6	60.4	63.6	14%	5%

UG hits its stride with 34koz up vs. SCPE

A 14% QoQ production lift to 63.6koz was driven 33koz @ 10.1g/t of UG ore, up 116% QoQ. The pit delivered 40koz @ 1.7g/t, down 8% QoQ as grades eased 0.1g/t. Mill recoveries remained at 94%, with throughput of 2.95Mtpa remaining well over 2.2Mtpa nameplate through a combination of soft oxide contribution and operation above design, despite a scheduled mill reline during the quarter.

Figure 1. Old and new production and financial forecasts



Source: SCP estimates

Why we like West African

1. 136koz in CY20 lifts to SCPe 226koz pa for next 3Y from UG feed and higher-grade pits
2. Toega materially expands mine life, upside from further reserve conversion
3. M1S shoot continues to extend at depth, as does M5 pit with UG potential
4. Stock trades at 20-30% CY21-23 SCPe FCF yield
5. Regional exploration (re)starts this year with \$12.5m / 25km RC-diamond

Research

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Ticker: WAF AU	Price / mkt cap: A\$105c/sh, A\$914m	Group P/NAV today: 0.51x	Asset: Sanbrado
Author: Brock Salier	Rec/0.9xNAV PT: BUY, A\$1.85/sh	1xNAV1Q21 FF FD: A\$2.06/sh	Country: Burkina Faso

Commodity price	CY19E	CY20E	CY21E	CY22E	CY23E
Gold price	1,850	1,767	1,786	1,815	1,850

Group-level SOTP valuation

	US\$m	O/ship	NAVx	A\$/sh*
NPV Sanbrado 2Q21	1,526	90%	1.0x	2.22
Central and finance cost	(40.1)	-	1.0x	(0.06)
Net cash 1Q21	(69.3)	-	1.0x	(0.10)
Cash from options	1.2	-	1.0x	0.00
1xNAV5% 2Q21 US\$1850/oz	1,418			2.06

Asset value: 1xNPV project today (US\$m, ungeared)*

Group NAV (US\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1,008	1,097	1,186	1,276	1,365
7% discount	1,099	1,196	1,294	1,391	1,488
5% discount	1,205	1,312	1,418	1,525	1,631
Group 1xNAV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1.47	1.60	1.73	1.86	1.99
7% discount	1.60	1.74	1.88	2.02	2.16
5% discount	1.75	1.91	2.06	2.22	2.37

*Project level NPV, excl finance costs and central SGA, discounted to build start

Group NAV over time

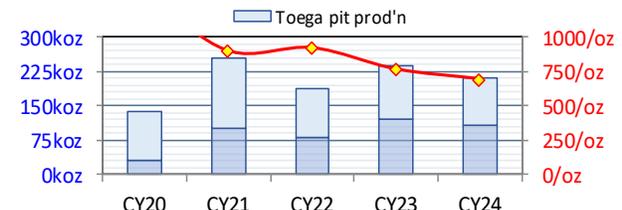
	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25
Sanbrado - geared (US\$m)	1,486	1,444	1,395	1,303	1,191
Net cash (US\$m)	(69.3)	22.7	140.5	314.8	477.2
Cash from options (US\$m)	1.2	1.2	1.2	1.2	1.2
NAV (US\$m)	1,418	1,468	1,537	1,619	1,669
1xNAV5%/sh FF FD (A\$/sh)	2.06	2.14	2.23	2.35	2.43

1.0xNAV/sh @ 1Q21 in prod'n (US\$m, geared)^

2Q22 NAV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1,074	1,171	1,268	1,365	1,462
7% discount	1,153	1,257	1,361	1,465	1,569
5% discount	1,244	1,356	1,468	1,580	1,692
2Q22 NAV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1.56	1.70	1.84	1.99	2.13
7% discount	1.68	1.83	1.98	2.13	2.28
5% discount	1.81	1.97	2.14	2.30	2.46

^Project NPV less central SG&A & finance cost, plus net cash at the time

Production	CY20	CY21	CY22	CY23	CY24
UG production (000oz)	30	101	80	120	108
M5 pit production (000oz)	106	152	106	117	104
Toega pit production (000oz)	-	-	-	-	-
Total production (000oz)	136	253	186	237	212
Guidance CY20:	250-280koz @ US\$720-800/oz AISC				
AISC cost (US\$/oz)	1,316	898	921	766	695
C3 cost (US\$/oz)	1,334	1,160	1,219	938	844



Source: SCP estimates

Resource	Au (koz)	Au (g/t)	Inv't'ry: Au (koz)	Au (g/t)
Open pits	1,960koz	1.3g/t	Pit: 1,438koz	1.7g/t
Underground	850koz	14.8g/t	UG: 1,310koz	9.1g/t
Total	5,143koz	2.0g/t	Total: 2,748koz	2.7255

Share data

Basic shares (m)	870.6	Spot share price (A\$/sh)	A\$1.05
FF FD with options (m)	882.6		

Ratio analysis

	CY19E	CY20E	CY21E	CY22E	CY23E
z	871.2	873.6	883	883	883
EPS (US\$/sh)	(0.01)	0.08	0.15	0.10	0.17
CFPS before w/c (US\$/sh)	(0.01)	0.12	0.24	0.17	0.22
EV (US\$m)	488.4	467.5	474.7	461.3	383.3
FCF yield (%)	-	15%	29%	21%	27%
PER (x)	-	9.8x	5.4x	8.3x	4.9x
P/CF (x)	-	6.7x	3.4x	4.8x	3.8x
EV/EBITDA (x)	-	4.0x	1.8x	2.5x	1.5x

Income statement attrib.

	CY19E	CY20E	CY21E	CY22E	CY23E
Revenue, attrib (US\$m)	0.5	225.5	451.9	336.7	436.4
COGS, attrib (US\$m)	-	87.8	143.9	115.6	131.8
D&A, attrib (US\$m)	0.1	17.5	66.4	55.6	40.9

Gross profit (US\$m)

	CY19E	CY20E	CY21E	CY22E	CY23E
Gross profit (US\$m)	0.4	120.2	241.5	165.5	263.7
Admin (US\$m)	2.4	4.7	4.6	4.8	4.8
Finance cost (US\$m)	4.3	14.6	12.1	8.4	4.8
Expln, royalty, min. (US\$m)	1.5	16.6	37.7	29.1	45.3
Tax (US\$m)	-	11.1	54.4	36.3	62.6

Net income (US\$m)

	CY19E	CY20E	CY21E	CY22E	CY23E
Net income (US\$m)	(7.8)	73.2	132.8	87.0	146.2

Cash flow, attrib.

	CY19E	CY20E	CY21E	CY22E	CY23E
Cash flow, attrib.	(2.0)	125.1	184.6	146.9	186.8
EBITDA (US\$m)	(3.4)	116.4	265.6	187.3	254.5
Less working cap. (US\$m)	1.0	18.7	(26.8)	(4.1)	(5.0)
Less finance costs (US\$m)	0.4	1.0	0.2	-	-
Less tax paid (US\$m)	-	(11.1)	(54.4)	(36.3)	(62.6)

Cash flow ops (US\$m)

	CY19E	CY20E	CY21E	CY22E	CY23E
Cash flow ops (US\$m)	(2.0)	125.1	184.6	146.9	186.8
PP&E - build (US\$m)	(138.1)	(59.1)	(76.1)	(32.2)	(11.2)
Capitalised interest (US\$m)	(6.1)	(5.1)	-	-	-

Cash flow inv. (US\$m)

	CY19E	CY20E	CY21E	CY22E	CY23E
Cash flow inv. (US\$m)	(144.3)	(64.2)	(76.1)	(32.2)	(11.2)
Share issue (US\$m)	0.7	0.9	0.4	-	-
Debt draw (repay) (US\$m)	159.3	(15.9)	(60.2)	(54.8)	(51.2)

Cash flow fin. (US\$m)

	CY19E	CY20E	CY21E	CY22E	CY23E
Cash flow fin. (US\$m)	160.0	(15.1)	(59.7)	(54.8)	(51.2)
Net change in cash (US\$m)	13.7	45.8	48.8	59.8	124.5

Balance sheet

	CY19E	CY20E	CY21E	CY22E	CY23E
Balance sheet	223.7	408.2	476.5	505.3	611.4
Cash (US\$m)	58.2	73.1	121.3	181.1	305.5
AR + inv + other (US\$m)	74.2	57.4	67.9	60.2	71.5
PPE (US\$m)	91.3	277.7	287.4	264.1	234.3

Total assets (US\$m)

	CY19E	CY20E	CY21E	CY22E	CY23E
Total assets (US\$m)	223.7	408.2	476.5	505.3	611.4
Debt (US\$m)	(166.2)	(174.1)	(126.0)	(79.6)	(33.2)
Accnts payable (US\$m)	(8.7)	(65.6)	(49.2)	(37.5)	(43.8)
Total liabilities (US\$m)	(174.9)	(239.7)	(175.2)	(117.1)	(77.0)
S/holders equity (US\$m)	114.2	127.1	127.1	127.1	127.1
Retained earnings (US\$m)	(71.0)	(3.0)	129.8	216.7	362.9

Liabilities+equity (US\$m)

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TENDER:	0
NOT RATED:	0
TOTAL	42

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