

Ticker: WAF AU **Net cash:** (US\$84m) **Project:** Sanbrado
Market cap: A\$918m **Price:** A\$1.04/sh **Country:** Burkina Faso
RECOMMEND. (unc): BUY **TARGET** (unc): A\$1.85/sh **RISK RATING:** HIGH

West African's pre-reported +14% QoQ production lift flowed through to a 3% drop in AISC to US\$928/oz and beat on our forecast. Despite US\$19m of tax paid (another win for the Burkina Government's reliable mining code, more on the NAV premium below), and ~US\$12m of sales trailing production, net debt fell from -US\$109m to -US\$84m, and herein lies our two-fold investment thesis; (i) the stock is trading on 2Q21 17% FCF yield or 24% adjusted for gold sales. While industry-leading, it evidently isn't driving a re-rate yet. So what is going to change from this year to next? We expect WAF to be net-debt free by ~March/April next year, depending on the Toega road build and site prep timing. Much of the reason we backed WAF originally was because of its young and energetic CEO, Richard Hyde, who has now ably proven himself more capable than more experienced teams withering on the vine with depleting assets. However, with debt comes handcuffs, usually in the form of sweeps or restrictions on M&A or exploration. So, come 1H22, we expect (ii) the second pillar of our investment thesis: the 'tiger to be unleashed'. Once debt-free, we think drilling M1S down dip (7m @ 20g/t outside resource), M5 UG (8m @ 17.5g/t, 18m @ 9.5g/t under the pit), the Toega cut-back (only 43% reserve conversion to date), and on regional targets untouched for years should all add to the share price. Thereafter, this is not a lifestyle company, so we expect acquisitive M&A to follow. Against guidance of 250-280koz @ US\$720-800/oz, we update our full-year forecast from 253koz @ US\$898/oz to similar production at US\$920/oz AISC, and maintain **our BUY rating and 0.9xNAV_{5%-1850} PT of A\$1.85/sh**. Despite recent gains, we estimate WAF is trading at just 0.51xNAV, putting it on 20-30% FCF yield going forward. While Australian and Canadian investors may query a 0.9xNAV multiple given the increased political risk compared to domestic assets, we suggest this misses a rather important point: more gold. As evidenced by junior peer Predictive (PDI AU), Australian and Canadian companies are simply not finding gold. African issuers are. Hence we see 0.9xNAV as reflecting a chunky and legitimate premium to quantify after FCF, that WAF will, in our view, have more gold next year than this. Rinse. Repeat. Own.

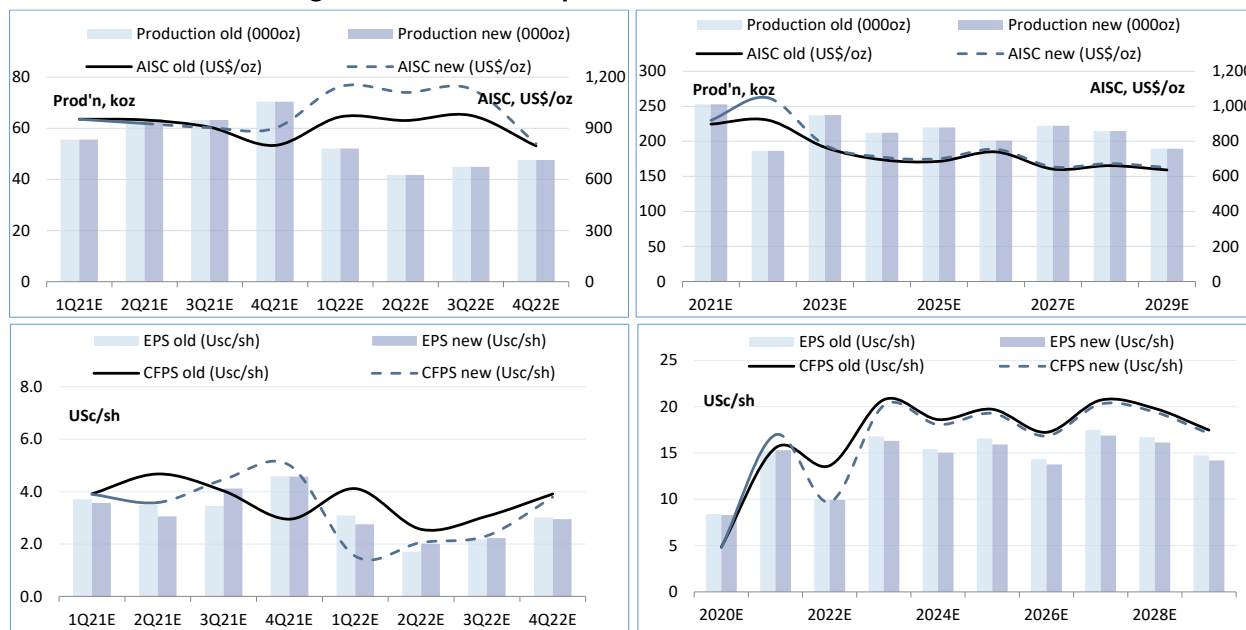
Table 1 (A) Production and (B) financial metrics against prior quarter and SCP forecast

Operations	1Q21A	2Q21E	2Q21A	QoQ	vs. SCPe	Financials	1Q21A	2Q21E	2Q21A	QoQ	vs. SCPe
Pit ore mined (000t)	711	738	738	4%	pre-rep	Gold sold (000oz)	56,780	63,610	56,852	0.1%	-11%
Pit grade mined (g/t)	1.90	1.68	1.68	-12%	rep-rep	Sales price (US\$/oz)	1,800	1,771	1,810	0.6%	2%
Pit strip (x)	8.1	8.3	6.9	-15%	-16%	Revenue (US\$m)	102.2	112.1	102.9	0.7%	-8%
UG ore mined (000t)	63	104	104	66%	pre-rep	Cash flow ops. (US\$m)	29.7	47.0	44.1	48%	-6%
UG grade mined (g/t)	7.70	10.16	10.16	32%	rep-rep	SCPe EBITDA (US\$m)	58.7	65.5	55.5	-5.4%	-15%
Ore milled (000t)	788	842	842	7%	pre-rep	SCPe PAT (US\$m)	31.5	30.4	27.0	-14%	-11%
Head grade (g/t)	2.33	2.90	2.90	24%	pre-rep	SCPe EPS (USc/sh)	3.6	3.5	3.1	-14%	-13%
Recovery (%)	94.0%	94.0%	94.0%	0%	pre-rep	Change in net cash (US\$m)	12.5	31.8	25.4	103%	-20%
Group production (000oz)	55.6	63.6	63.6	14%	pre-rep	Netcash at end (US\$m)	(109.4)	(77.6)	(84.0)	-23%	8%
Group AISC (US\$/oz)	957	949	928	-3%	-2%	Source: SCP estimates, West African					

2Q21 financials see beat on AISC to US\$928/oz AISC as FCF yields lift to 24% and debt plummets

Pre-reported +14% QoQ production lift came from increased UG ounces and grade combined with mill throughput 34% over nameplate at 2.95Mtpa. Today's AISC of US\$928/oz was a 2% beat on our forecast as the UG hit its stride with mining cost down from US\$77/t to US\$56/t, offset by a lift in processing from US\$12/t to US\$16/t, and lift in G&A from US\$6.54/t to US\$8.94/t. The beat on costs drove US\$44m cash flow operations, a US\$3m miss on our forecast as sales trailed production by 6.7koz (~US\$12m). While not reported, we forecast this flowed through to a US\$27m PAT / 3.1c EPS against our US\$30m / 3.5c forecast. Net cash lifted by US\$25m QoQ, just behind our US\$32m forecast, but well ahead when adjusted for unsold gold and also coming after US\$19m of tax paid to the Burkina Faso government (nil prior quarter). The company is aggressively pre-paying debt, which fell from US\$182m to US\$131m face value.

Figure 1. Old and new production and financial forecasts



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\$104c/sh, A\$918m	Group P/NAV today: 0.51x	Asset: Sanbrado
Author: Brock Salier	Rec/O.9xNAV PT: BUY, A\$1.85/sh	1xNAV_{1Q21} FF FD: A\$2.03/sh	Country: Burkina Faso

Commodity price	CY19E	CY20E	CY21E	CY22E	CY23E
Gold price	1,850	1,767	1,804	1,821	1,850

Group-level SOTP valuation				
	US\$m	O/ship	NAVx	A\$/sh*
NPV Sanbrado 3Q21	1,481	90%	1.0x	2.20
Central and finance cost	(30.5)	-	1.0x	(0.05)
Net cash 2Q21	(84.0)	-	1.0x	(0.12)
Cash from options	1.2	-	1.0x	0.00
1xNAV5% 2Q21 US\$1850/oz	1,367			2.03

Asset value: 1xNPV project today (US\$m, ungeared)*					
Group NAV (US\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	978	1,066	1,154	1,241	1,329
7% discount	1,065	1,161	1,256	1,352	1,447
5% discount	1,166	1,270	1,375	1,479	1,583
Group 1xNAV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1.44	1.57	1.70	1.83	1.96
7% discount	1.57	1.71	1.85	1.99	2.13
5% discount	1.72	1.87	2.03	2.18	2.34

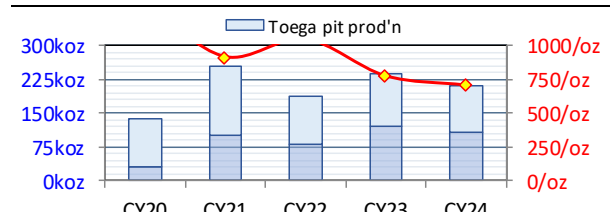
Group NAV over time					
	Sep 21	Sep 22	Sep 23	Sep 24	Sep 25
Sanbrado (US\$m)	1,450	1,422	1,353	1,261	1,147
Net cash (US\$m)	(84.0)	37.0	170.1	340.9	465.8
Options cash (US\$m)	1.2	1.2	1.2	1.2	1.2
NAV (US\$m)	1,367	1,460	1,525	1,603	1,614
1xNAV5%/sh FF FD (A\$)	2.03	2.17	2.27	2.38	2.40
1.0xNAV/sh @ 1Q21 in prod'n (US\$m, geared)^					
2Q22 NAV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1,087	1,182	1,278	1,373	1,468
7% discount	1,162	1,264	1,366	1,468	1,570
5% discount	1,248	1,357	1,467	1,577	1,686
2Q22 NAV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1.60	1.74	1.88	2.02	2.17
7% discount	1.71	1.86	2.01	2.16	2.32
5% discount	1.84	2.00	2.16	2.33	2.49

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

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9% discount	1.60	1.74	1.88	2.02	2.17
7% discount	1.71	1.86	2.01	2.16	2.32
5% discount	1.84	2.00	2.16	2.33	2.49

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

Production	CY20	CY21	CY22	CY23	CY24
UG prod'n (koz)	30	101	80	120	108
M5 pit prod'n (koz)	106	152	106	117	104
Toega pit prod'n (koz)	-	-	-	-	-
Total prod'n (000oz)	136	253	186	237	212
Guidance CY20:	250-280koz @ US\$720-800/oz AISC				
AISC cost (US\$/oz)	1,316	920	1,048	779	710
C3 cost (US\$/oz)	1,334	1,159	1,350	961	869



Source: SCP estimates

Resource	Au (koz)	Au (g/t)	Inv'try: 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	2.7g/t

Share data			
Basic shares (m)	883.0	Spot share price (A\$/sh)	A\$1.04
FF FD with options (m)	895.1		

Ratio analysis	CY19E	CY20E	CY21E	CY22E	CY23E
Shares on issue (m)	871.2	873.6	895	895	895
EPS (US\$/sh)	(0.01)	0.08	0.15	0.10	0.16
CFPS before w/c (US\$/sh)	(0.01)	0.12	0.23	0.17	0.21
EV (US\$m)	456.9	435.9	514.8	533.8	455.3
FCF yield (%)	-	16%	30%	21%	27%
PER (x)	-	9.3x	5.2x	8.0x	4.9x
P/CF (x)	-	6.4x	3.3x	4.7x	3.7x
EV/EBITDA (x)	-	3.7x	2.0x	2.9x	1.8x

Income statement attrib.	CY19E	CY20E	CY21E	CY22E	CY23E
Revenue, attrib (US\$m)	0.5	225.5	453.3	337.8	435.8
COGS, attrib (US\$m)	-	87.8	149.8	118.2	134.9
D&A, attrib (US\$m)	0.1	17.5	60.3	56.2	43.1
Gross profit (US\$m)	0.4	120.2	243.2	163.3	257.8

Admin (US\$m)	2.4	4.7	5.1	4.8	4.8
Finance cost (US\$m)	4.3	14.6	14.2	5.3	1.7
Expln, royalty, min. (US\$m)	1.5	16.6	34.6	29.0	45.3
Tax (US\$m)	-	11.1	54.2	36.5	61.9
Net income (US\$m)	(7.8)	73.2	135.2	87.7	144.1

Cash flow, attrib.	CY19E	CY20E	CY21E	CY22E	CY23E
EBITDA (US\$m)	(3.4)	116.4	263.8	185.7	250.8
Less working cap. (US\$m)	1.0	18.7	(22.5)	(6.5)	(4.7)
Less finance costs (US\$m)	0.4	1.0	0.4	-	-
Less tax paid (US\$m)	-	(11.1)	(54.2)	(36.5)	(61.9)
Cash flow ops (US\$m)	(2.0)	125.1	187.5	142.7	184.3
PP&E - build (US\$m)	(138.1)	(59.1)	(60.5)	(63.6)	(11.2)
Capitalised interest (US\$m)	(6.1)	(5.1)	-	-	-
Cash flow inv. (US\$m)	(144.3)	(64.2)	(60.5)	(63.6)	(11.2)

Share issue (US\$m)	0.7	0.9	0.4	-	-
Debt draw (repay) (US\$m)	159.3	(15.9)	(102.2)	(51.7)	(48.2)
Cash flow fin. (US\$m)	160.0	(15.1)	(101.8)	(51.7)	(48.2)
Net change in cash (US\$m)	13.7	45.8	25.3	27.4	125.0

Balance sheet	CY19E	CY20E	CY21E	CY22E	CY23E
Cash (US\$m)	58.2	73.1	99.1	126.5	251.4
AR + inv + other (US\$m)	74.2	57.4	66.0	60.1	71.4
PPE (US\$m)	91.3	277.7	276.8	284.1	252.1
Total assets (US\$m)	223.7	408.2	441.8	470.7	575.0
Debt (US\$m)	(166.2)	(174.1)	(86.1)	(39.6)	6.8
Accnts payable (US\$m)	(8.7)	(65.6)	(51.7)	(39.3)	(46.0)
Total liabilities (US\$m)	(174.9)	(239.7)	(137.7)	(78.9)	(39.2)
S/holders equity (US\$m)	114.2	127.1	127.1	127.1	127.1
Retained earnings (US\$m)	(71.0)	(3.0)	132.2	219.8	363.9
Liabilities+equity (US\$m)	223.7	408.2	441.4	470.3	574.6

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BUY:	44
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SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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