

Ticker: WAF AU

Cash: A\$230m

Project: Sanbrado / Kiaka

Market cap: A\$1.43b

Price: A\$1.40/sh

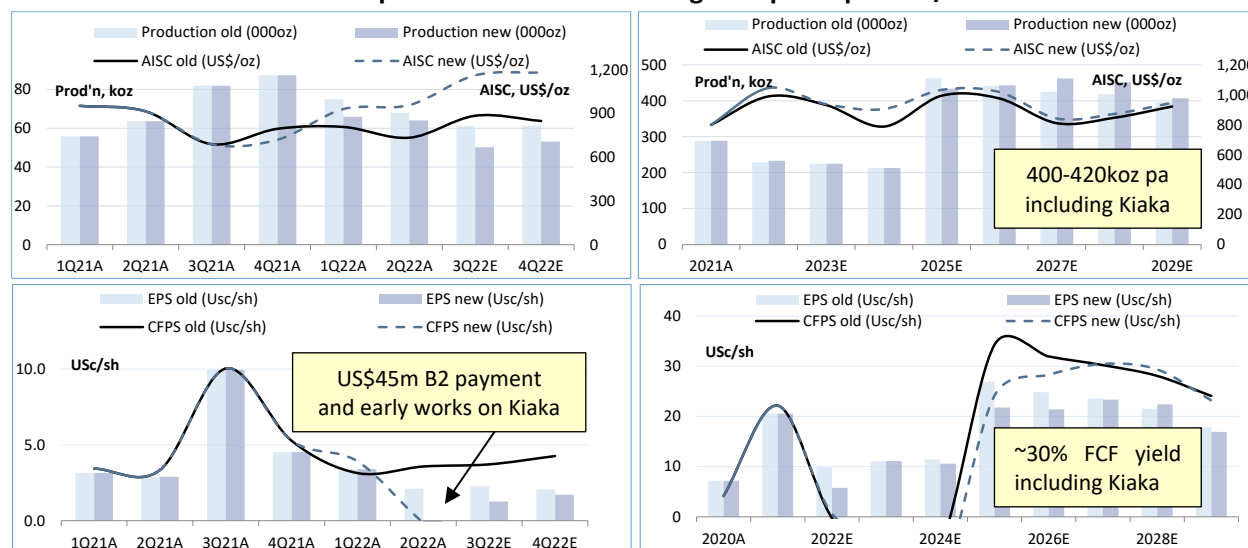
Country: Burkina Faso

REC. (unc): BUY

TARGET (unc): A\$2.05/sh

RISK RATING (unc): HIGH

This week sees Kiaka come storming into the production plans with its maiden BFS, bulking out production ~200koz pa to 400-450koz pa from late 2025 on economics slightly ahead of our forecast. Skipping to the punch line, we estimate a minimum US\$50m of debt will be required, likely closer to US\$100m for exploration and contingency, but see **risk of recourse to equity as low** given 14 interested parties in the debt process already. Digging into the MRE, Kiaka saw +745koz @ 0.44g/t of low grade added as a result of the 0.5g/t cut off being dropped to 0.4g/t, and commensurate drop in strip from 3.0 to 1.8, with a **4.5Moz @ 0.9g/t reserve a ~30% beat** on our forecast, albeit at 0.1g/t lower grade. The BFS itself is extremely close to our forecast, with an 8.4Mt / 214koz pa operation for capex of US\$472m against our own 7Mt / 233koz pa / US\$500m forecast. Cost inflation and lower grades lifted AISC to US\$1,052/oz against our US\$933/oz forecast, however this was offset by an impressive 33% beat on ounces given the 4.5Moz reserve materially eclipsed our 3.4Moz forecast. We model on the same basis as the BFS for similar NPV1750 to the published US\$1,020/oz, lifting our gold price to US\$1,850/oz, and deducting B2 royalty payments for 1xNAV_{5%-1850} at build start of US\$948m with a 27% IRR. Discounting that back to today, and netting off a US\$45m residual B2 payment, leaves our **Kiaka contribution broadly flat at US\$857m to US\$847m**. As such, **we maintain our BUY rating and A\$2.05/sh PT** including Kiaka at 0.7xNAV (3.4Moz @ 1.0g/t modelled inventory), Sanbrado at 0.9xNAV (2.5Moz @ 2.4g/t). The key share price driver over the coming ~2.5Y will depend on the drag of production declines from ~260koz pa in 1H22 to 200-220koz pa now the M1S pit is depleted, vs the production of ~420koz in 2025. While the temptation could be to wait until commissioning, we put 1xNAV_{5%-1850} at ~A\$3.50 by 2025. While the stock may not hit that level, one wouldn't want to be too cute if the risk is missing this prize. We think M&A buyers could see the same value, all the more given updated group resources of 13Moz @ 1.1g/t and reserves + inventory of 7Moz @ 1.2g/t was built under the nose of larger operators such as Endeavour, Perseus and Iamgold.

Table 1. Operations and financials against prior quarter / SCPE


Source: SCP estimates

Kiaka books 33% more ounces than forecast with NPV beat too; onward to 400-450koz pa

Kiaka maiden reserve, and MRE update: has been released, updating a historic 2012 PFS. The resource cut-off was lowered from 0.5g/t to 0.4g/t, resulting in the addition of 745koz @ 0.44g/t, for a 24% lift in ounces and 15% drop in grade to 7.5Moz @ 0.85g/t, lifting to 7.7Moz @ 0.90g/t adding 210koz @ 1.1g/t at Kiaka South. The reserve of 4.5Moz @ 0.9g/t is ~30% larger than our estimates, at 14% lower grade.

After ramp up, the operation averages ~245koz pa until 2028 with an elevated ~1g/t, before falling back to ~212koz from 2030 to 2043. Global resource and reserve impact: Sanbrado pits, UG and Toega remain unchanged, with the only addition being to add Kiaka, lifting global resources to 13Moz @ 1.1g/t. Given the lower grades at Kiaka, this sees a 20% addition of tonnes and 10% drop in grade for net 8% lift in global ounces. On a reserve basis, including M1S UG inventory (in 10Y guidance, but inferred category), tonnes are up a more aggressive 44%, with a 22% increase in ounce net of 16% grade drop, for 7Moz @ 1.2g/t.

Table 2. (A) Kiaka MRE additions, (B) group resources and (C) reserves against prior / SCP estimates

Kiaka, Burkina (90%)	Tonnes (Mt)	Grade (g/t Au)	Ounces (000oz)	Resource	Tonnes (000t)	Grade (g/t)	Ounces (koz)	M&I (% oz)	Reserve / inventory	Tonnes (000t)	Grade (g/t)	Ounces (koz)	P&P (% oz)
Kiaka Main	274	0.85	7,520	Sanbrado pits	54,500	1.2	2040	70%	Sanbrado - pits	13,093	1.4	570	100%
Δ (% 1Q22 MRE)	+24%	-15%	+11%	Δ old (%)	0%	0%	0%	0%	Δ old (%)	0%	0%	0%	0%
Implied additions	53.1	0.44	745	Sanbrado UG	4,680	10.5	1,580	45%	Sanbrado UG P&P + Inf	5,100	7.7	1,270	39%
Kiaka South	5.2	1.10	210	Δ old (%)	0%	0%	0%	0%	Δ old (%)	0%	0%	0%	0%
Total resource	279.2	0.90	7,730	Toega pits	21,400	1.9	1300	54%	Toega OP inventory	9,700	1.9	580	100%
Kiaka reserve	155	0.90	4,510	Δ old (%)	0%	0%	0%	0%	Δ old SCPe (%)	0%	0%	0%	0%
Reserve conversion (%)	55%	0%	58%	Kiaka pits	280,000	0.9	7,700	77%	Kiaka pits	154,700	0.9	4,510	100%
Δ (% SCPe)	+43%	-14%	+28%	Δ old (%)	27%	-10%	14%	-1%	Δ old (%)	23%	-6%	16%	
Source: Volta, West African				GLOBAL RESOURCE	360,180	1.1	12,620	23%	ROM Stockpile	1,730	1.0	56	100%
				Δ old (%)	20%	-10%	8%	-7%	TOTAL INVENTORY	184,323	1.2	6,986	89%
									Δ old (%)	44%	-16%	22%	30%

Kiaka DFS: against the prior PFS we have more ounces, lower grade, and smaller mill for a 15% lift in LOM production, but at reduced rate of 214koz pa. This is a material 33% beat on our ounces, and miss on grade, with 214koz pa very close to our 233koz forecast. With lower grade included, strip dropped from 2-3:1 (SCPe/PFS, respectively) to 1.8:1 as the new ounces came from, rather than deepening, prior pit shells, but also benefitted from the Kiaka South satellite. Capex of US\$472m includes US\$430m pre-gold spend, and comes in under our US\$500m forecast for a 7Mtpa operation. Group production impact: the prior 10Y guidance saw 190-200koz pa from Sanbrado from 2025 to 2031. Simply adding in Kiaka lifts this to 420-450koz pa from late 2025 once Kiaka has ramped up.

Table 3. Kiaka BFS vs historic 2012 PFS, and SCP old/new

Kiaka production metrics	Kiaka		Δ to PFS	SCP		Δ to SCP old
	'12 PFS	22 DFS	(%)	Old	New	(%)
Pit inventory (000oz)	3,886	4,510	+16.1%	3,377	4,520	+33.5%
Pit grade (g/t Au)	0.96	0.91	-5.4%	1.05	0.91	-13.7%
Strip (x)	3.0	1.8	-39.0%	2.0	1.8	-9.9%
Peak throughput (000t pa)	11,462	8,400	-26.7%	6,897	8,400	+21.8%
Recovery (LOM, %)	90.0%	90.0%	-	90.0%	90.0%	-0.0%
Production (avg, 000oz pa)	318	214	-32.7%	233	214	-8.3%
Production (Y1-3, 000oz pa)	328	235	-28.5%	257	235	-8.7%
LOM production (000oz)	3,493	4,059	+16.2%	3,040	4,060	+33.5%
Mine life (years)	11	19	+72.7%	14.5	19	+31.0%
AISC (US\$/oz, LOM @ 1750)	671	1052	+56.8%	933	1,055	+12.7%
Pre-Au capex (US\$m)	610	430	-29.5%	545	430	-21.1%
Sustaining capex (US\$m LOM)	230	173	-24.9%	114	173	+51.2%
Gold price (US\$/oz)	1372	1850	+34.8%	1850	1850	
Asset NPV_{5%} (US\$m)	592*	1020	-	-	1,011	-
NPV _{5%} -1850 net B2 royalty (US\$m)				850	949	+11.6%

Source: B2, West African, SCP estimates

Our view: Kiaka opex on sound footing, capex under peer averages on economies of scale

Our NPV_{5%-1750} of US\$1,011m ~matches the published US\$1,020m, both of which are net government 10% minority. Adjusting for a staged B2 royalty drives our NPV_{5%-1850} of US\$949m, a solid 12% beat on our US\$850m forecast. Unit mining and processing costs seem in line with peers so at lower risk of anything other than ongoing inflation. Capital intensity of US\$56/t pa is lower than US\$70-80/t peers, but benefits

from scale and nearby infrastructure – we would say that is the key risk item overall given global supply-chain and inflation issues. The big win is of course the additional ounces, which at 33% above our forecast gives significant additional leverage, albeit that operates both ways given the lower grade. The flip side is that in a low-gold environment, if required, the company could simply elevate the cut off to drop costs, and stockpile lower-grade for end of life.

Why we like West African

1. Stock trades at <0.70xNAV,
2. Production set to double in coming 3Y to ~30% FCF yields once Kiaka in production
3. M1S future reserve conversion >850m deep (current 1.3Moz @ 9g/t is <850m)
4. M5 UG future conversion around historic 8m @ 17g/t
5. Toega future reserve conversion as only 580koz of 1.3Moz converted to mine plan
6. Regional exploration gains momentum with 13m @ 6.5g/t 6km from Sanbrado

Catalysts

- 2H22: M5 and M1S UG resource drilling
- 2H22: Regional exploration drilling
- 4Q22 / CY25: Kiaka construction / production
- CY24: Switch from M1S to Toega pit mining

Research

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Ticker: WAF AU	Price / mkt cap: A\$140c/sh, A\$1429m	Group P/NAV today: 0.68x	Asset: Sanbrado
Author: B Salier / E Ma Rec/O.9xNAV	PT: BUY, A\$2.05/sh	1xNAV3_{Q22} FF FD: A\$2.05/sh	Country: Burkina Faso

Group-level SOTP valuation					
	A\$	US\$m	O/ship	NAVx	A\$/sh*
NPV Sanbrado 3Q22	1,640	1,143	90%	0.90x	1.43
NPV Kiaka 3Q22	1,229	857	90%	0.70x	0.83
Central, fin. & aq'n cost	(114)	(80)	-	1.0x	(0.11)
Cash 2Q22	228	159	-	1.0x	0.22
Cash from options	0.5	0.3	-	1.0x	0.00
Nominal exploration	72	50.0	-	1.0x	0.07
1xNAV5% US\$1850/oz	3,055	2,130		PT:	2.05

Asset value: 1xNPV project today (US\$m, ungeared)*					
Group NAV (US\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1,242	1,437	1,632	1,823	2,017
7% discount	1,414	1,634	1,854	2,070	2,290
5% discount	1,627	1,878	2,130	2,376	2,626
Group 1xNAV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1.31	1.48	1.65	1.81	1.98
7% discount	1.45	1.64	1.83	2.01	2.20
5% discount	1.62	1.83	2.05	2.26	2.47

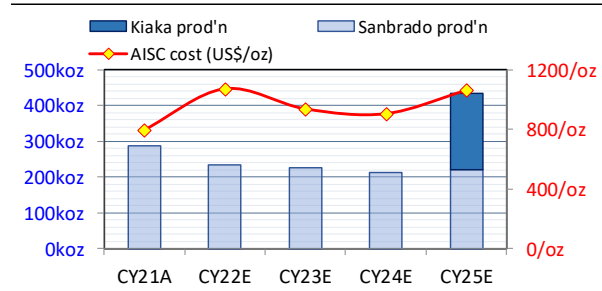
*Project level NPV, excl finance costs and central SGA, discounted to build start

Group NAV over time					
	Sep 22	Sep 23	Sep 24	Sep 25	Sep 26
Sanbrado (US\$m)	1,143	1,081	1,026	926	819
Kiaka (US\$m)	857	1,048	1,244	1,560	1,455
Central, fin. & aq'n cost	(80)	(67)	(58)	(19)	(13)
Net cash (US\$m)	159	125	38	27	326
Options cash (US\$m)	0.3	0.3	0.3	0.3	0.3
Nominal explo (US\$m)	50	50	50	50	50
1xNAV (US\$m)	2,130	2,238	2,301	2,543	2,638
1xNAV5%/sh FF FD (A\$/sh)	2.96	3.11	3.19	3.53	3.66

1.0xNAV/sh @ 4Q21 in prod'n (US\$m, geared)^					
4Q22 NAV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1,242	1,437	1,632	1,823	2,017
7% discount	1,414	1,634	1,854	2,070	2,290
5% discount	1,627	1,878	2,130	2,376	2,626
4Q22 NAV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	1.72	1.99	2.27	2.53	2.80
7% discount	1.96	2.27	2.57	2.87	3.18
5% discount	2.26	2.61	2.96	3.30	3.65

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

Production					
	CY21A	CY22E	CY23E	CY24E	CY25E
Sanbrado prod'n (koz)	289	233	225	213	220
Kiaka prod'n (koz)	-	-	-	-	214
Total prod'n (000oz)	289	233	225	213	434
Guidance CY22:	220-240koz @ US\$1040-1100/oz AISC				
AISC cost (US\$/oz)	796	1,072	938	906	1,062



Source: SCP estimates

Resource					
	Au (koz)	Au (g/t)	Inv'try: Au (koz)	Au (g/t)	
Sanbrado/Toega pits	3,340koz	1.4g/t	Pit: 1,140koz	1.6g/t	
Sanbrado UG	1,580koz	10.5g/t	UG: 1,219koz	7.7g/t	
Sanbrado total	4,920koz	1.9g/t	Total: 2,359koz	2.8g/t	
Kiaka pits	7,700koz	0.9g/t	Pit: 4,520koz	0.9g/t	
Global	12,620koz	1.1g/t	Total: 6,879koz	1.2g/t	

Share data			
Basic shares (m)	1,021.0	Spot share price (A\$/sh)	A\$1.40
FD with options (m)	1,033.4		

Commodity price					
	CY21A	CY22E	CY23E	CY24E	CY25E
Gold price	1,803	1,818	1,850	1,850	1,850
Ratio analysis					
	CY21A	CY22E	CY23E	CY24E	CY25E
Shares on issue (m)	1,020	1,021	1,021	1,021	1,021
EPS (US\$/sh)	0.21	0.06	0.11	0.11	0.22
CFPS before w/c (US\$/sh)	0.22	0.01	(0.04)	(0.11)	0.24
EV (US\$m)	861.3	861.5	908.2	1,029.8	815.2
FCF yield (%)	23%	1%	-	-	25%
PER (x)	4.7x	16.9x	8.8x	9.2x	4.5x
P/Cf (x)	4.4x	160.4x	-	-	4.0x
EV/EBITDA (x)	2.6x	3.9x	4.1x	4.7x	1.9x

Income statement attrib.					
	CY21A	CY22E	CY23E	CY24E	CY25E
Revenue, attrib (US\$m)	531.1	413.1	410.6	391.9	801.0
COGS, attrib (US\$m)	159.1	150.5	142.3	127.3	297.8
D&A, attrib (US\$m)	53.3	84.6	62.1	62.6	109.7
Gross profit (US\$m)	318.6	177.9	206.2	202.0	393.6
Admin (US\$m)	4.9	7.1	7.0	7.0	7.0
Finance cost (US\$m)	27.3	0.5	-	-	-
Expln, royalty, min. (US\$m)	30.5	37.0	37.8	38.4	74.5
Tax (US\$m)	45.9	74.4	48.0	48.4	90.0

Net income (US\$m)					
	CY21A	CY22E	CY23E	CY24E	CY25E
Net income (US\$m)	210.0	58.9	113.5	108.3	222.2
Cash flow, attrib.					
	CY21A	CY22E	CY23E	CY24E	CY25E
EBITDA (US\$m)	336.5	218.4	223.5	219.2	421.8
Less working cap. (US\$m)	(34.0)	7.9	(5.3)	(5.2)	(31.9)
Less finance costs (US\$m)	0.6	0.0	-	-	-
Less tax paid (US\$m)	(30.9)	(74.4)	(48.0)	(48.4)	(90.0)
Cash flow ops (US\$m)	272.2	151.9	170.3	165.7	299.9
PP&E - build (US\$m)	(80.4)	(138.6)	(217.0)	(287.3)	(85.4)
Capitalised interest (US\$m)	-	-	-	-	-

Cash flow inv. (US\$m)					
	CY21A	CY22E	CY23E	CY24E	CY25E
Cash flow inv. (US\$m)	(80.4)	(138.6)	(217.0)	(287.3)	(85.4)
Share issue (US\$m)	97.3	(0.2)	-	-	-
Debt draw (repay) (US\$m)	(202.7)	(8.7)	-	-	-
Cash flow fin. (US\$m)	(105.4)	(8.9)	-	-	-
Net change in cash (US\$m)	86.5	4.4	(46.7)	(121.6)	214.6

Balance sheet					
	CY21A	CY22E	CY23E	CY24E	CY25E
Cash (US\$m)	134.0	134.9	88.2	(33.4)	181.1
AR + inv + other (US\$m)	140.2	141.6	145.8	146.2	196.1
PPE (US\$m)	266.6	322.4	475.6	700.3	676.0
Total assets (US\$m)	540.9	598.9	709.6	813.0	1,053.2
Debt (US\$m)	-	-	-	-	-
Accnts payable (US\$m)	(50.0)	(49.1)	(46.4)	(41.5)	(59.5)
Total liabilities (US\$m)	(50.0)	(49.1)	(46.4)	(41.5)	(59.5)
S/holders equity (US\$m)	248.8	248.8	248.8	248.8	248.8
Retained earnings (US\$m)	193.9	252.8	366.2	474.5	696.7
Liabilities+equity (US\$m)	540.9	598.9	709.6	813.0	1,053.2

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1	SCP and its affiliates collectively beneficially owns 1% or more of any class of the issuer's equity securities ¹	YES
2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	NO
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	NO
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	YES
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	NO
6	SCP is making a market in an equity or equity related security of the issuer	NO
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	NO
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	YES
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

Sprott Capital Partners Equity Research Ratings:

Summary of Recommendations as of August 2022	
BUY:	50
HOLD:	1
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	51

¹ As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month