

Adding Moly to the mix

Almonty Industries Inc (ASX:All) is a global mining company specialising in the mining, processing and sale of tungsten concentrate, with primary operations located in Spain, Portugal and South Korea. The company's flagship asset, the Sangdong Tungsten-Molybdenum Project, should underpin a transformational growth opportunity which aims to increase tungsten concentrate production seven-fold out to 2028. The company has declared an initial JORC resource for the molybdenum (Mo) option associated with the Sangdong project and is progressing further evaluation studies looking at the integration of the molybdenum phase into the project. Adding molybdenum provides an additional growth option that can be delivered concurrently with the tungsten opportunity, likely as a stand-alone project but certainly sharing infrastructure with the current development. Sangdong construction remains on schedule with commissioning expected in mid-2023. All is well positioned to drive value accretion from its pre-development portfolio, particularly over the next six-12 months with a number of significant re-rating events in the offing.

Business model

Almonty Industries is a mid-cap miner holding a portfolio of production and pre-production assets across Europe and South Korea. The company has an ambitious and transformational tungsten growth strategy set to impact from mid-2023. **An early-stage molybdenum play at Sangdong can add tangible 'growth on growth' with a maiden JORC resource declared.** The company continues to seek acquisition opportunities to which it can apply its mining expertise (a core competency of the company) and in that regard, the operating portfolio could look materially different over the forecast period...the growth options appear unlikely to end with Sangdong and Valtreixal.

Moly has legs

The company has completed its initial phase of drilling across the Sangdong Molybdenum Project and has declared a maiden JORC resource of 21.48Mt @ 0.26% MoS₂. We note the previous resource estimate based on drilling conducted in the 1980s of ~16.30Mt, highlighting that the recent work has suggested the play is considered to be open-ended to the NE/NW with potentially higher grades. Further evaluation work is planned over the next six months to better define the resource and grade distribution. Management is confident the molybdenum opportunity can support a major project on a stand-alone basis. Given the potential for a project to integrate with and leverage the tungsten development, initial capital expenditure should be low with further benefits on operating costs. Importantly, molybdenum is traded on the LME, providing transparency on pricing and hedging potential.

We upgrade our valuation to A\$2.27/share

We set our base asset value against risk-weighted development (NPV) scenarios underpinned by company guidance, applying where appropriate, discretionary probability weightings to pricing, volume and success factors. On adjustments to Sangdong Moly underpinned by the current Mo price and spot FX rates, we upgrade our risk weighted valuation to A\$2.27/share against a **reference share price of A\$0.952/share**. We highlight the risk weightings applied to inferred resources or in construction, noting the significant value upside inherent in unwinding the risk delivery of evaluation and feasibility results. We await confirmation of potential project expansions and extensions, but feel comfortable assigning an **'unrisked' valuation upside to >A\$3.00**. Our assumptions are subject to potentially significant adjustment through the course of delivery of the company's growth strategy and particularly given the global economic and operating risks inherent in the present COVID environment.

Specialty Metals

28th July 2022

Share Details

ASX code	All
Share price (4-Mar)	A\$0.952
Market capitalisation	A\$206M
Shares on issue	209M
Net cash (est.) at 31-Mar	~C\$0.84M
Free float	~50.2%

Share Performance (12 months)



Upside Case

- Above-model production outcomes across the operating portfolio and the potential for further upgrades on planned developments and expansions
- Rapid global economic recovery driving tungsten demand – upwards price pressure
- Bringing forward inferred resource commercialisation at Sangdong Molybdenum

Downside Case

- Delays in the delivery of the Sangdong Project in the short-term and Valtreixal in the long-term
- Margin squeeze on revenues and costs versus guidance and forecasts
- Persistent global economic weakness on rising interest rates and inflation

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Lewis Black	Executive Chairman/CEO
Daniel D'Amato	Independent Director
Mark Trachuk	Independent Director
Thomas Gutschlag	Independent Director
Michael Costa	Independent Director
James Kim	Independent Director

Company Contacts

Lewis Black (Exec. Chair/CEO)	+1 64 7438 9766
lewis.black@almonty.com	

RaaS Contacts

Andrew Williams	+61 417 880 680 andrew.williams@raasgroup.com
Finola Burke	+61 414 354 712 finola.burke@raasgroup.com

A Strong First Step...A JORC Resource On Sangdong Molybdenum

Almonty has announced a maiden JORC resource estimate (Inferred) for the Sangdong Molybdenum (Mo) opportunity – 21.48Mt @ 0.26% MoS₂ (0.19% cut-off) after undertaking a drilling programme aimed at confirming previous evaluation studies.

Importantly, the resource is materially greater than previous estimates and “...may continue to the northeast and northwest where significant (mineralisation) was intersected in historical exploration drilling.”

Data from previous investigations conducted in the 1980s, based on 12,390m of core drilling, suggested a tonnage in the order of c.16.30Mt with grades >0.40% MoS₂. The company considers Sangdong Molybdenum as having the potential to be of global industry scale.

The company has indicated that further evaluation activity will be undertaken to better define the size and grade distribution of the molybdenum resource; and underpin conversion of inferred tonnages into reserves.

Exhibit 1: Inferred resource – further work will underpin conversion to reserves

Rock type	kt	% MoS ₂
Slate	4,340	0.28
Quartzite	17,140	0.26
	21,480	0.26

Source: Company data, 0.19% MoS₂ cut-off, Mo price = US\$14.25/lb

Upgraded NAV on de-risking of the Sangdong Moly opportunity

We had previously assigned a nominal value only against the molybdenum play awaiting the results of the evaluation drilling.

As a result of the declaration of the Inferred Resource and significantly higher reference Mo prices, we are sufficiently confident enough to upgrade our carrying value for the project. We would highlight the potential for further significant adjustment to Sangdong Moly on the potential conversion of Inferred Resources to reserves, expansion of tonnages and identification of higher-grade zones.

Exhibit 2: All NAV – the NAV is compelling before unwinding of risk weightings

		Pr	A\$m	A\$/share	
Sangdong	100%	85%	\$352	\$1.68	Finalising financing would unwind some of the risk discount
Sangdong Moly	100%	25%	\$82	\$0.39	Based on potential unit NPV assumptions – declaration on maiden resources and higher Mo pricing
Valtreixal	100%		\$75	\$0.36	We apply 75% weighting to Valtreixal as proposed given the project is yet to finalise financing and timing We value the 'resource' upside against a 25% Pr weighting
Panasqueira	100%		\$47	\$0.23	We weight the resources upside at Pr=25% against the unit NPV of the producing operation
Los Santos	100%		\$6	\$0.03	
			\$564	\$2.70	
Net debt			(\$82)	(\$0.39)	Estimated as at 31-Dec-2022
Corporate			(\$8)	(\$0.04)	
TOTAL			\$474	\$2.27	
Shares issued (mn)	209				As at 31-Mar-2022

Source: RaaS analysis; Risked values based on Probabilities of Success (POS) and weighted by a RaaS risk overlay. Weightings at RaaS' discretion.

It's worth noting that the integration of a molybdenum phase into a greater Sangdong tungsten project will come at low capex through the sharing of infrastructure and concomitant development and operations...so lower unit costs.

The molybdenum opportunity – a revisit

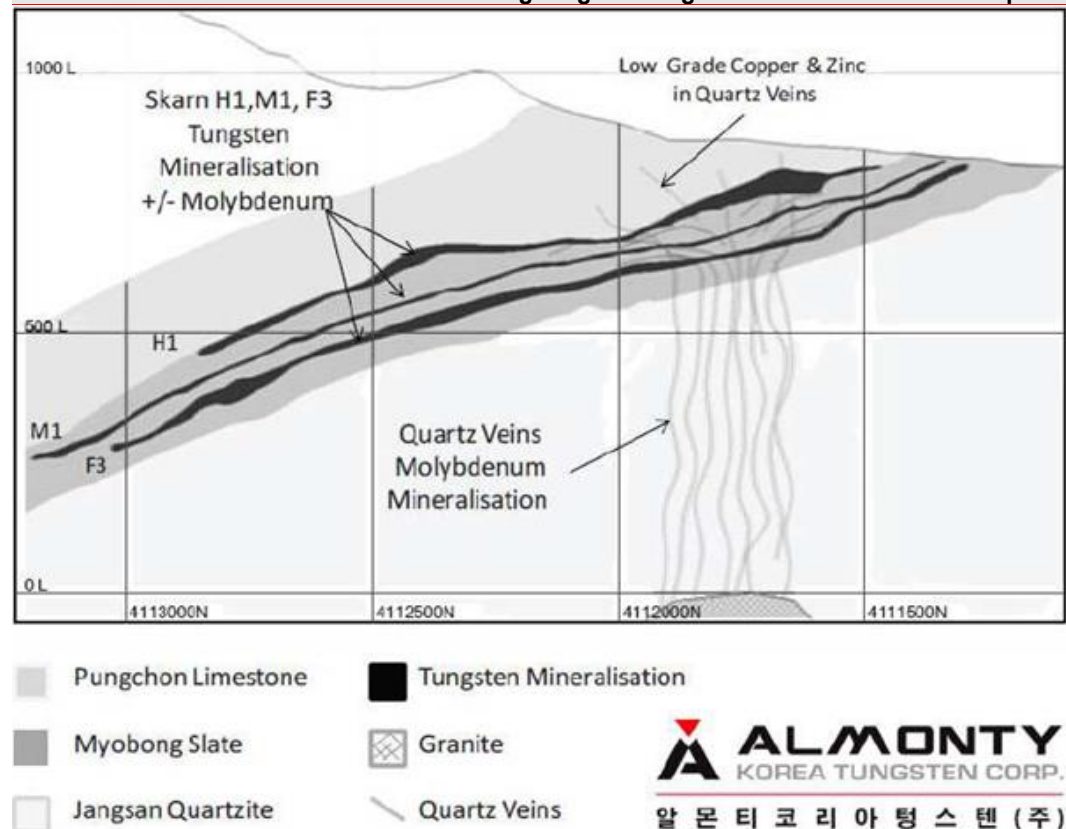
We briefly looked at this asset in our Scoping Report (10-Mar-2021) which was at that time subject to the commencement of a drilling campaign to “...convert the existing historical data for its Sangdong Molybdenum Project into a NI 43-101 and JORC compliant report.”

The molybdenum ore body is located just 150m below the tungsten deposit. Initial capital costs should be low from a mine development perspective as the Mo option has been considered and accounted for within the mine plan since inception.

There should be no material adjustments to the current plan and development schedule, with the Sangdong works incorporating a pre-investment in the molybdenum option.

Low capex and beneficial offsets in operating costs are the critical aspects underpinning the commerciality of the project in our view.

Exhibit 3: An indicative cross-section of Sangdong showing the mineralised relationship



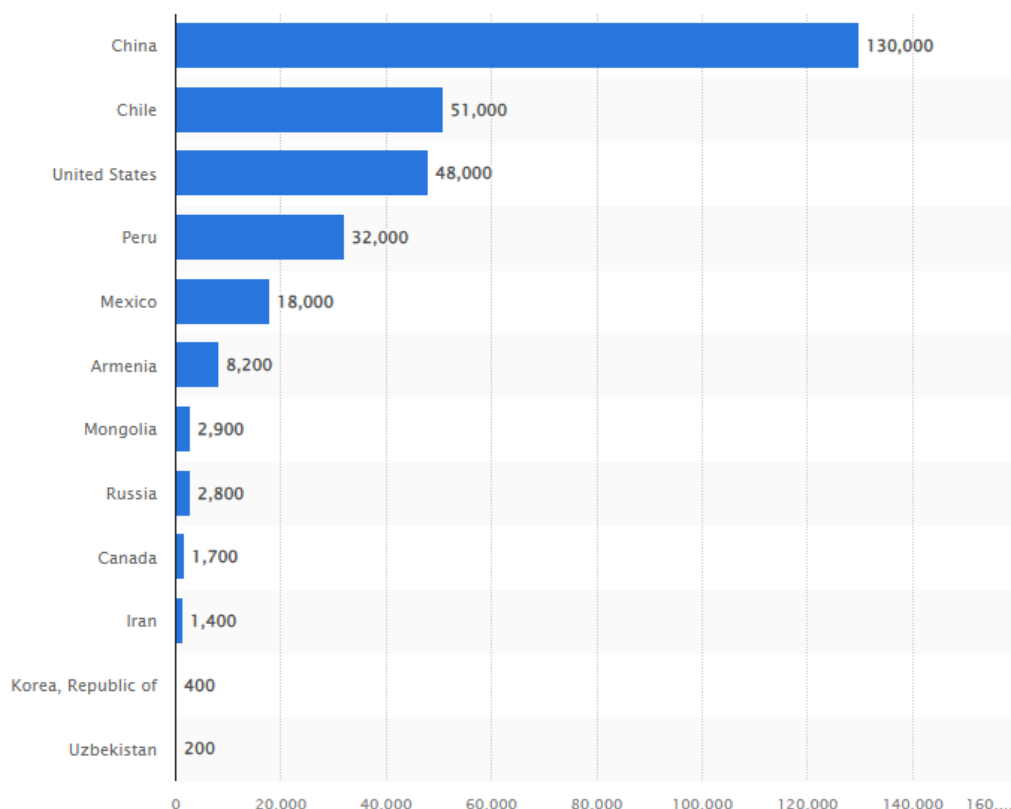
Source: Company data

Upon completion of the remaining evaluation drilling, Almonty will be able to attribute a value to the moly deposit. With molybdenum being LME traded, the company (and the market) will also benefit through pricing transparency and potential hedging.

Molybdenum Adds To The New World Opportunities

Molybdenum pricing is expected to remain strong through the investment cycle underpinned by steel demand. Whilst the decarbonisation of global economies may cap the demand for Mo, we can see the pull remaining strong from the energy sector, particularly in the LNG industry and associated pipelines.

Exhibit 4: Global Mo supply (2021), (unsurprisingly) dominated by China



Source: www.statista.com

In a similar aspect to the tungsten market, molybdenum supply is dominated by China, with the political implications associated with that, although the USGS Mineral Commodities Summaries 2022 suggests existing resources of Mo *'...are adequate to supply the world needs for the foreseeable future'*.

Exhibit 5: World production and reserves

	Mine production		Reserves ⁵ (thousand metric tons)
	2020	2021 ^e	
United States	51,100	48,000	2,700
Argentina	—	—	100
Armenia	^e 8,700	8,200	150
Canada	2,530	1,700	96
Chile	59,400	51,000	1,400
China	^e 120,000	130,000	8,300
Iran	^e 1,400	1,400	43
Korea, Republic of	411	400	NA
Mexico	16,600	18,000	130
Mongolia	2,890	2,900	NA
Peru	32,200	32,000	2,300
Russia	^e 2,700	2,800	430
Turkey	—	—	360
Uzbekistan	^e 200	200	60
World total (rounded)	298,000	300,000	16,000

Source: USGS Mineral Commodities Summaries 2022

Through 2021, imports into the US increased by 18% year on year, whilst there is no reported government inventory.

Whilst molybdenum supply may not be considered as critically constrained, the majority of Mo is generated as an associated metal of copper mining and the economics of supply in many cases is determined by decisions made with respect to copper operations.

We would highlight the increase in Mo prices through 2021 and into 2022, which implies demand-driven fundamentals on what appears to be a flattish supply platform.

We append some commentary with respect to trends that have been observed in the molybdenum market:

- ‘...(global) production is expected to continue to decline or remain flat’ largely on an historically prolonged period of low prices and subsequent lack of investment in exploration and development of new projects.
- The stainless-steel sector is expected to outpace crude steel as a positive for molybdenum demand. Although the impact of slowing global growth and inflation remain a critical variable.
- “...(we see) a decrease on the supply side” although the risk is that the demand side could fall away faster than supply. However, there could be a “...deficit for at least three or four years in the molybdenum market.”

Source: CPM Group

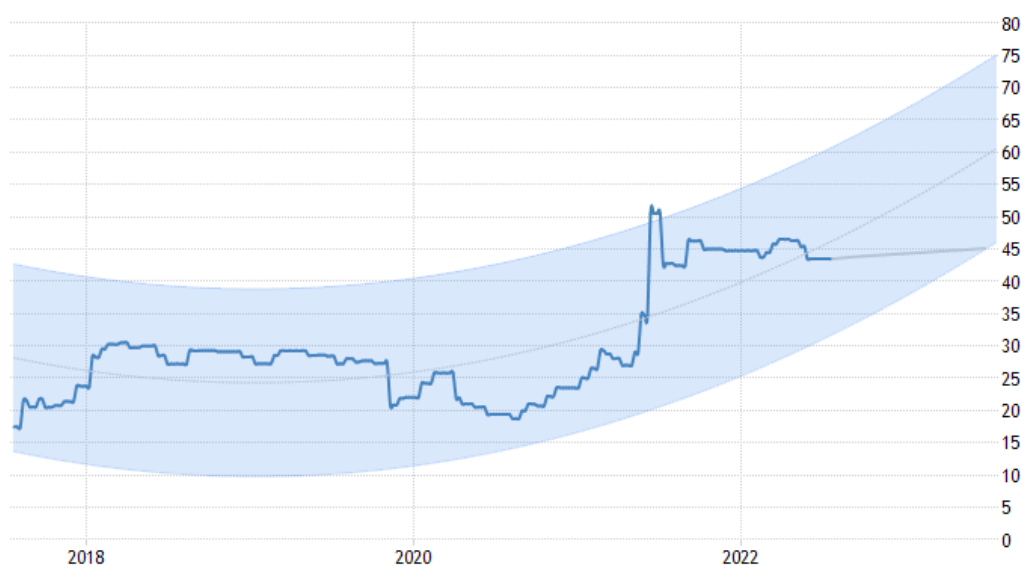
- An emerging trend is demand pull from the renewables sector with molybdenum and copper being key components in more than eight clean energy technologies especially wind and geothermal, where wind underpins (47.3%) and geothermal (41.7%) of the metal demand respectively.

Source: World Bank – Minerals for Climate Action (2020)

Forward pricing looks favourable

Global economies are slowing on rising interest rates and inflation, however, demand fears may be offset by worries with respect to supply where output is expected to be lower through 2022 from lower metal grades in copper and molybdenum ore, potential weather impacts, labour constraints and lack of new projects.

Exhibit 6: Pricing is projected to remain strong through 2023



Source: www.tradingeconomics.com

Exhibit 7: Financial Summary

ALMONTY INDUSTRIES INC		All			
YEAR END		Dec			
NAV	A\$	\$2.27			
SHARE PRICE	A\$	\$0.95			
MARKET CAP	A\$M	204			
ORDINARY SHARES	M	209.2			
OPTIONS	M				
COMMODITY ASSUMPTIONS		2020	2021f	2022f	2023f
Average Tungsten Price	US\$/MTU		296	285	287
CAD:USD		0.7458	0.7980	0.7809	0.7787
AUD:USD		0.6989	0.7513	0.6946	0.6807
Spot cross rate	AUD:CAD	0.9371	0.9415	0.8895	0.8741
RATIO ANALYSIS		2020	2021f	2022f	2023f
Shares Outstanding	M	183	208	216	225
EPS (pre sig items)	C\$ cps	(5.3)	(3.8)	(2.4)	14.0
EPS (post sig items)	C\$ cps				
PER (pre sig items)	x	na	na	na	6.8x
OCFPS	C\$ cps	(2.6)	(2.6)	(0.1)	1.1
CFR	x	na	na	na	84.3x
DPS	C\$ cps				
Dividend Yield	%				
BVPS	C\$ cps	17.0	19.2	23.0	37.9
Price/Book	x	5.6x	5.0x	4.1x	2.5x
ROE	%	na	nm	-10%	48%
ROA	%	na	nm	-3%	22%
(Trailing) Debt/Cash	x				
Interest Cover	x				
Gross Profit/share	C\$ cps	(4.9)	(3.6)	(2.1)	15.7
EBITDAX	C\$M	704	2,886	6,313	49,243
EBITDAX Ratio	%	3%	10%	14%	
EARNINGS		2020	2021f	2022f	2023f
Revenue		25,095	28,949	44,951	119,178
Cost of sales		(26,466)	(28,138)	(40,713)	(76,451)
Gross Profit		(1,371)	811	4,238	42,727
Other revenue					
Other income					
Exploration written off					
Finance costs		(3,836)	(1,083)	(2,269)	(2,574)
Impairment		0	0	0	0
Other expenses		(4,936)	(7,191)	(7,224)	117
Profit before tax		(10,143)	(7,463)	(5,254)	40,270
Taxes		1,086	0	788	(4,916)
NPAT Reported		(9,057)	(7,463)	(4,466)	35,354
Underlying Adjustments		0	0	0	0
NPAT Underlying		(9,057)	(7,463)	(4,466)	35,354
CASHFLOW		2020	2021f	2022f	2023f
Operational Cash Flow					
Net Interest					
Taxes Paid					
Other					
Net Operating Cashflow		(4,831)	(5,305)	(122)	35,945
Payments for Mining assets		(5,284)	(38,421)	(44,770)	(4,340)
PP&E					
Development					
Net Asset Sales/other					
Net Investing Cashflow		(6,294)	(39,421)	(44,770)	(4,340)
Dividends Paid					
Net Debt Drawdown		9,280	41,009	17,006	(25,000)
Equity Issues/(Buyback)		474	20,275		
Other					
Net Financing Cashflow		11,906	61,284	27,033	(25,000)
Net Change in Cash		781	16,558	(17,859)	6,605
BALANCE SHEET		2020	2021f	2022f	2023f
Cash & Equivalents		2,372	1,048	1,071	7,676
PP&E & Development		134,919	138,564	156,453	149,937
Exploration					
Total Assets		151,063	165,856	160,028	159,206
Debt		61,524	67,706	74,715	47,249
Total Liabilities		121,894	128,363	115,861	84,843
Total Net Assets/Equity		29,169	37,493	44,167	74,363
Cash/(Debt)		(59,152)	(66,658)	(73,644)	(39,573)
Gearing (d ₁ /(d ₁ +e))		67%	64%	63%	35%

nm = not meaningful

na = not applicable

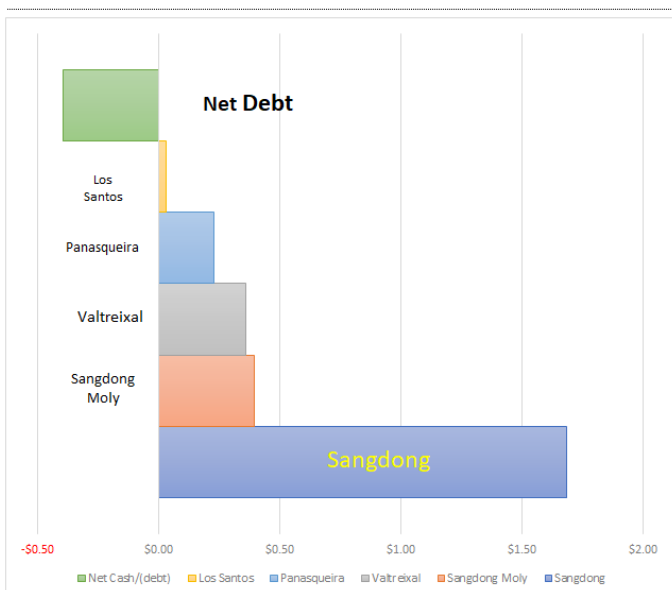
priced COT (ASX) 27-Jul

PRODUCTION		2020	2021f	2022f	2023f
Tungsten	000s MTU				
Sangdong		0	0	190,180	
Valtreixal		0	0	10,004	
Panasqueira		78,100	78,100	78,100	
Los Santos		0	45,000	45,000	
TOTAL		78,100	123,100	323,283	
Ave Unit Production Cost	C\$/MTU		256.08	235.58	162.44
Ave Unit Revenue	C\$/MTU		370.66	365.16	368.65
Operating Margin			31%	35%	56%

RESERVES & RESOURCES		Proven		Probable		Proven+Probable	
Reserves		kt	%	kt	%	kt	%
Sangdong						7,896	0.45%
Los Santos						3,767	0.13%
Valtreixal						2,577	0.35%
Panasqueira						3,056	0.21%

Resources		Measured		Indicated		Inferred	
		kt	%	kt	%	kt	%
Sangdong				8,029	0.51%	50,686	0.43%
Sangdong Moly						21,480	0.26%
Los Santos				2,133	0.28%	1,878	0.25%
Valtreixal				2,833	0.25%	16,755	0.80%
Panasqueira				8,799	0.24%	10,631	0.24%

EQUITY VALUATION		Interest	Pr	A\$M	A\$ cps
Sangdong		100%	75%	\$352	\$1.68
Sangdong Moly		100%	25%	\$82	\$0.39
Valtreixal		100%		\$76	\$0.36
Panasqueira		100%		\$48	\$0.23
Los Santos		100%		\$6	\$0.03
				\$564	\$2.70
Net Cash/(debt)				(\$82)	(\$0.39)
Corporate costs				(\$8)	(\$0.04)
TOTAL				\$474	\$2.27



Source: RaaS estimates, Company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS, 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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