

23 February 2021

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## Western Areas Limited

### Materials

#### UNDERPERFORM

**WSA A\$2.53**      **TARGET PRICE A\$2.19**

Western Areas Limited (WSA, formerly Western Areas NL) is an Australian-based nickel sulphide explorer and producer. The core asset is the 100% owned Forrestania Nickel Operation which comprises two operating mines Flying Fox and Spotted Quoll. They also has 100% interest in Bioheap Ltd, a patented bacterial leaching technology.

#### Company Data

Number of shares	275.1 M
Market Capitalisation	\$759.4M
Free float (%)	96.3
12-month high/low	\$3.06/\$1.66
Average Daily Turnover (\$m)	17.29
% S&P/ASX200	0.04%
DDM Ranking	344
% All Ordinaries	0.03%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

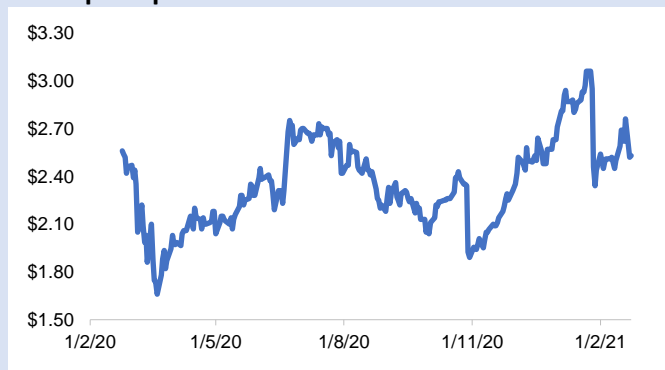
#### Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	308.4	257.6	279.1	306.0
EBITDA (\$M)	121.9	80.1	103.4	120.0
Reported NPAT (\$M)	31.9	5.9	18.3	36.0
Adjusted NPAT (\$M)	32.0	7.7	18.3	34.7
Reported EPS (c)	11.6	3.2	8.7	16.2
Adjusted EPS (c - FD)	11.5	2.6	7.2	12.2
Adjusted EPS growth (%)	124.0	-77.7	181.0	69.0
Adjusted P/E (x)	24.1	107.7	38.3	22.7
Dividend (c/sh)	2.0	1.5	1.4	3.0
Gross yield (%)	1.0	0.8	0.8	1.7
Net yield (%)	0.7	0.6	0.6	1.2
ROIC (%)	8.3	1.6	3.9	6.8

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

#### Share price performance.



Source: FactSet, Barclay Pearce Capital

## FY21 Interim Financial Result & Guidance Update

On 23<sup>rd</sup> February, Western Areas Ltd (WSA) released their interim financial results for the half year ended 31 December 2020 (1HFY21) with the following highlights:

- Sales revenue of A\$122.7m (A\$156.2m) (pcp);
- Average realised price of nickel (before payability) of A\$9.83/lb (A\$10.57/lb);
- Balance Sheet strength maintained – cash at bank of A\$98m and no debt;
- Nickel produced in concentrate 7.3kt (10.7kt), nickel in concentrate sales 7.4kt (9.0kt). Lower nickel production as a result of lower average grades mined, caused by operational issues encountered at Forrestania in the first half of FY21;
- A\$75m Revolving Credit Facility term sheet agreed with CBA – long form documentation commenced;
- EBITDA A\$24.0m (A\$69.7m) and EBITDA margin of 19.6% (44.6%);
- Net Loss After Tax of A\$12.0m (NPAT A\$24.7m);
- Odysseus Project advancing to plan with 1.5km of underground development completed;
- Shaft haulage equipment delivered to Australia – significant civil concrete works completed;
- AM6 Ore Reserve of 47kt nickel announced – adding a third mining area to the Odysseus project; and
- Integrated mine plan now being developed.

#### FY21 Guidance

- In light of the first half performance, the Company has adjusted guidance to account for the nickel production that has been deferred into FY22, primarily from Flying Fox; and
- Spotted Quoll mined grade is expected to progressively improve as material mined via ore drives is mostly completed by the end of the June quarter 2021 and an increased proportion of ore is sourced from stoping operations.

#### Commentary on FY21 Guidance is provided as follows:

##### Nickel in Concentrate

- As explained above, the Forrestania Nickel Operation has encountered operational challenges that have reduced the nickel produced in the first half of the financial year;
- While access to higher grade areas at Flying Fox has been re-established for production in the second half of the financial year, the deferral of significant tonnage in the first half has resulted in a reduction in current guidance; and
- Ultimately the balance of the deferred nickel will now be mined in FY22.

##### Unit Cash Costs

- The increased revised unit rates are as a result of the lower grade forecast for the mines; and
- Increased production in the second half will unwind some of this impact.

## Earnings changes

For H1 FY21, WSA reported a net loss of \$12 million. WSA's guidance indicates production will decrease 6% while cost will increase 6% for the full year. Hence, we expect negative earnings revisions of 7.5% for FY21 and future periods.

## Valuation

We are initiating on WSA with a price target of \$2.19 and a UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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### Valuation Methodology

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Buy	40.2%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	( 0.0% of stocks with recommendations are Barclay Pearce clients)