



WPG Resources BUY

Current Price: **\$0.91**
Valuation: **\$1.50**

Ticker: **WPG**
Sector: **Materials**

Shares on Issue (m): **247.8**
Market Cap (A\$m): **225.5**
Net Cash (A\$m): **81.0**
Enterprise Value (A\$m): **144.5**

52 wk High/Low: **\$1.14** **\$0.60**
12m Av Daily Vol (m): **0.66**

Key Metrics

	11F	12F	13F
P/E (x)	n/a	n/a	4.1
EV/EBITDA (x)	n/a	n/a	1.3

Financials:

Revenue (\$m)	0.0	0.0	345.2
EBITDA (\$m)	-8.9	-15.2	108.9
NPAT (\$m)	-8.9	-18.4	55.0

Net Assets (\$m)	112.9	163.7	206.4
Op CF (\$m)	-0.8	-0.3	65.0

Per Share Data:

EPS (cps)	-4.7	-7.4	22.2
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	-0.5	-0.1	26.3

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

19 July 2011

Creating a buzz

Buzzard DSO development and maiden long term sales agreement:

WPG Resources (WPG) has made two significant announcements in recent days:

- Fast-tracking of Buzzard DSO project (Reserve - 12.8Mt @ 60.4% Fe), which will now be mined in parallel with the flagship 19Mt Peculiar Knob (PK) deposit
- A maiden 0.35Mtpa, 5 year sales agreement with a 'blue chip Asian customer'

Impact:

Positive

Buzzard is expected to contribute an additional 1.7Mtpa, lifting total production from 3.3Mtpa to 5Mtpa by FY14 and expand project mine life to 7 years (+ 12 months).

Incremental capex of ~\$30m (total ~\$200m) including pre-strip, construction of a ~60km haul road and expanding the accommodation camp are expected to be funded from early cashflows. No additional capex for the port is required (the proposed iron ore receiver, storage and export facility at Port Pirie is capable of handling up to 7Mtpa). This equates to a capital intensity of \$40/t (was \$43/t) for the combined production profile.

WPG have allowed 12 months to obtain the necessary approvals, which include receipt of a mining licence, environmental clearances, expanding the Development Application (DA) to export >3.3Mtpa through Port Pirie as well as Defence and FIRB approval.

We had previously incorporated upside from Buzzard via calculating the present value of an incremental 3 years extension to mine life (years 7-9), which we have now brought forward in the profile. The changes to our model result in a 14% reduction in our FY13 NPAT estimate, but a 34% uplift to FY14 numbers.

View:

Positive

WPG has got the key ingredients required for a successful bulk commodity business:

- Quality Product - Peculiar Knob is one of (if not) the highest grade (~63%Fe), undeveloped iron ore deposits in Australia
- Logistics solution - The Company has developed an integrated infrastructure solution from mine to port, involving rail and road haulage to Port Pirie, where it will have capacity to export up to ~7Mtpa
- Low capital intensity - As a low capital intensity producer (~\$40/t), it has the ability to capitalise on buoyant pricing imminently
- Value - WPG compares favourably against other iron ore peers - it represents value across a range of metrics.

Recommendation:

Buy

Maintain BUY recommendation. Valuation - \$1.50 (up from \$1.40).

Recent developments

Fast tracking Buzzard

WPG has elected to fast track the development of its Buzzard DSO project

WPG Resources (WPG) has elected to bring forward the development of its 100% owned Buzzard DSO project (Reserve – 12.8Mt @ 60.4% Fe , Resource – 18.4Mt @ 61.6% Fe), to be mined in parallel with the flagship Peculiar Knob project. Buzzard (MC 3810) is part of the 398km² Hawks Nest tenement, but is outside of the WISCO JV agreement.

Buzzard is expect to contribute an additional 1.7Mtpa, lifting total production from 3.3Mtpa to ~5Mtpa.

Incremental capital cost of ~\$30m

We estimate incremental capex of ~\$30m, including pre-strip, construction of a ~60km haul road and expanding the accomodation camp. No additional capex for the port is required (the proposed iron ore receival, storage and export facility at Port Pirie is capable of handling up to 7Mtpa). Our opex estimates at this point are unchanged.

Table 1: Production scenarios

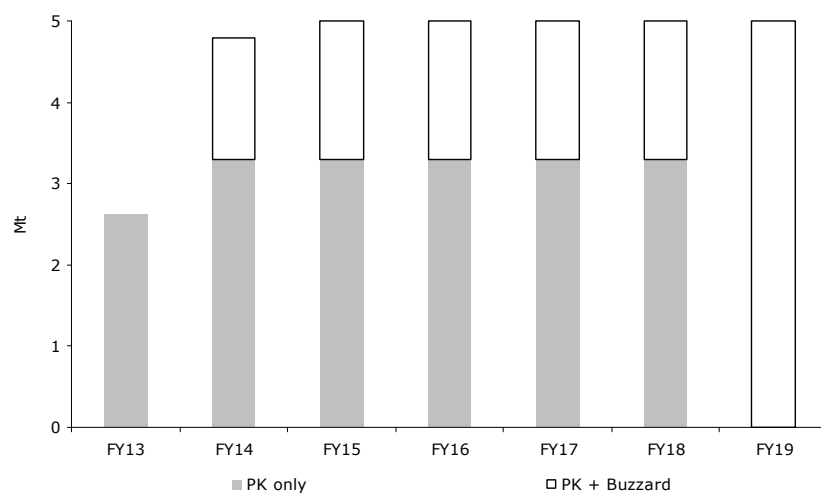
WPG Resources		
Project snapshot	Peculiar Knob Only	PK + Buzzard
Ownership	100%	100%
Mine type	Open pit	Open pit
Production and Sales target	3.3Mtpa	5Mtpa
Project capex	\$170m	\$200m
First Export	June Q 2012	June Q 2012
Product	Fines	Fines
Reserve	16.7Mt @ 63.2% Fe	29.5Mt @ 62.0% Fe
Resource	19.2Mt @ 64.0% Fe	33.3Mt @ 63.1% Fe
Mine Life	6	7

Source: Argonaut

Lifting production by 50% to 5Mtpa by FY14

Figure 1 illustrates the impact of adding Buzzard to our production profile. We assume Buzzard comes online from FY14 onward, adding 50% to our base case production case as well as an additional 12 months mine life (FY19).

Figure 1: Expanded Production Profile



Source: Argonaut

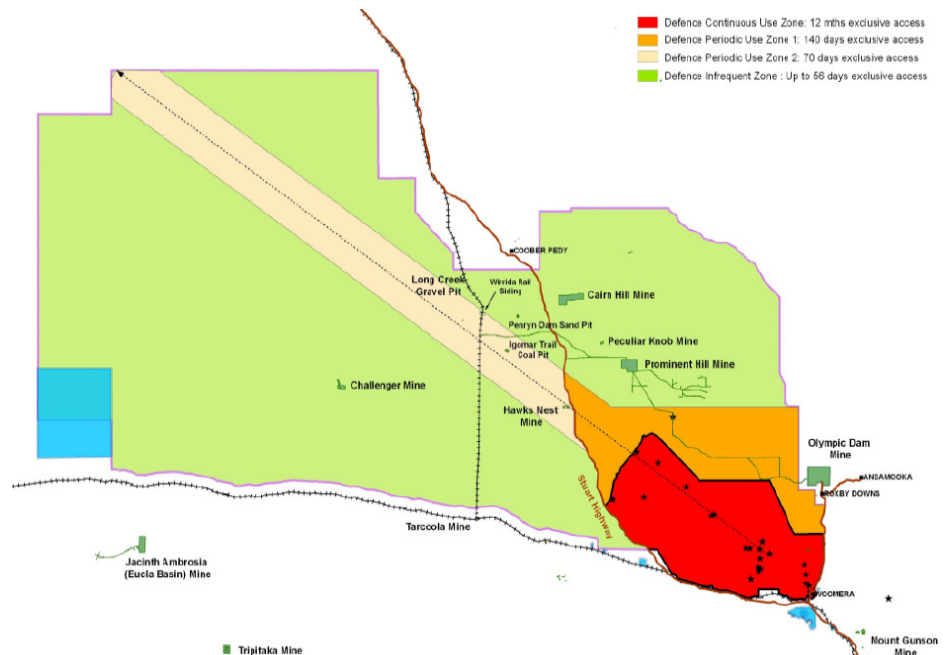
Approvals

Approvals

WPG anticipates it will take ~12 months to put all necessary approvals in place, including:

- A Mining Licence
- Relevant environmental clearances, including an approved Mining and Rehabilitation Program (MARF)
- Expanding the Development Application (DA) to export >3.3Mtpa through Port Pirie
- Department of Defence and FIRB approval to re-zone the Woomera Prohibited Area (WPA) in line with the Commonwealth's endorsement of the Hawke Review (Buzzard lies in the 'Amber Zone' of the WPA, which may require site evacuation for up to 70 days per annum)

Figure 2: Woomera Prohibited Area (WPA) - Zones



Source: WPG

Maiden long term sales agreement

Maiden long term sales agreement

WPG has signed its maiden long term sales agreement for its 'Coober Pedy Superior Fines' with a 'blue chip Asian customer.' Key terms of the agreement are:

- 0.35Mtpa over 5 years
- Pricing is to be based on Platts index for the month prior to delivery on a free-on-board (FOB) basis (Upper Spencer Gulf). WPG has indicated in the past it expects to command a premium (currently ~\$8/t) for every % point product is delivered above the quoted 62% Platts price.

We anticipate further off take agreements to be reached with end users over the coming months.

The long term sales agreement is in addition to the US\$50m iron ore pre-payment facility (satisfied by delivery of 526kt iron ore 4 shipments over 18 months commencing in July 2012) with financier Deutsche Bank AG. Deutsche will also purchase (at arms length) 1.1Mt of iron ore over the life-of-mine (LOM) at prevailing market prices.

Contact Details
Research:
Ian Christie

Director Research
+61 8 9224 6872

Troy Irvin

Director Research
+61 8 9224 6871

Tim Serjeant

Associate Director Research
+61 8 9224 6806

Gianluca Paglia

Analyst
+61 8 9224 6824

Patrick Chang

Analyst
+61 8 9224 6835

Institutional Sales:
Paul Carter

Executive Director
+61 8 9224 6864

Chris Wippl

Executive Director
Head of Research & Sales
+61 8 9224 6875

John Santul

Consultant, Sales & Research
+61 8 9224 6859

Damian Rooney

Senior Institutional Dealer
+61 8 9224 6862

Ben Willoughby

Institutional Dealer
+61 8 9224 6876

Bryan Johnson

Institutional Dealer
+61 8 9224 6834

Corporate and Retail Sales:
Kevin Johnson

Executive Director
+61 8 9224 6880

Glen Colgan

Executive Director
+61 8 9224 6874

Simon Lyons

Director, Retail Stockbroking
+61 8 9224 6881

James McGlew

Director, Corporate Stockbroking
+61 8 9224 6866

Geoff Barnesby-Johnson

Senior Dealer
+61 8 9224 6854

Andrew Venn

Senior Dealer
+61 8 9224 6865

Melaney Brans

Dealer
+61 8 9224 6873

Cam Fraser

Dealer
+61 8 9224 6851

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