

WPG Resources Limited

Hawke approval increases DSO reserves to 30mt

- The recent announcement by the Federal Resources Minister Martin Ferguson that the Commonwealth has accepted the recommendations of the Hawke Review into the Woomera Prohibited Area is a further key milestone for WPG.
- The MARP and DA approval remains on track for Peculiar Knob by early July 2011, which will see first ore mined and shipped in May 2012 (we previously assumed February 2012).
- The addition of the Buzzard/Tui reserves takes the total DSO reserves to 30mt, sufficient for a 10 year mine life at the planned 3.3mtpa production rates.

Production upside scenario to 5.0mtpa

- With the approval and implementation of procedures for the WPA over the next 6 months, we anticipate it will take a further 12 months for WPG to procure permit approval under its MARP for mining of the Buzzard/Tui DSO reserves (12.8mt at 60.4% Fe).
- Under this assumption we have completed a scenario for the addition of a third train to take Buzzard ore at a rate of 1.7mtpa. On this basis we have assumed an increase in production in January 2013 to 5.0mtpa for a period of 6 years based on current reserves.
- Our recent site trip highlighted the upside from depth extensions at Peculiar Knob and in the Hawkes Nest area for further high grade DSO reserve additions. Also highlighted were the 0.5Bt magnetite resource at Hawkes Nest and a pending resource at the Penrhyn coal deposit.

Production upside earnings

- Our revised 2012FY production has reduced our projected earnings in 2012FY to 8.9c (from 10.0c). Our earnings in 2013FY with a 5.0mtpa scenario increase to 64.2c (from 46.3c at 3.3mtpa) and in 2014FY to 94.8c (from 66.2c at 3.3mtpa).
- At current prices we place WPG on a PE multiple of 9.0 times (from 8.6x) in 2012FY, 1.2 times in 2013FY with a 5.0mtpa scenario and 0.8 times in 2014FY with a 5.0mtpa scenario.

Recommendation

- The Peculiar Knob project is fully funded and ready for a project go-ahead by early July 2011. The approval of the Hawke Review is a significant step for WPG with the immediate addition of DSO reserves that now become mineable with permit approval.
- We recommend a BUY and continue with a price target of \$1.72 per fully diluted share based on DCF methodology on a 3.3mtpa operation at Peculiar Knob. Our upside scenario values WPG at \$2.44 per fully diluted share based on a 5.0mtpa production rate.

WPG.ASX

BUY

Monday 9 May 2011

Price	\$0.80
Valuation - 3.3mtpa	\$1.72
Valuation - 5.0mtpa	\$2.44
Valuation Method	DCF

GICS sector	Metals & Mining	
Market Cap*	\$m	215
Shares on Issue*	m	268.5
EV	\$m	139
Previous rating	BUY	

* Fully diluted for options

Year Ended June 30		11e	12e	13e	14e
5.0mtpa scenario					
Production (Mt)		0.00	0.50	4.15	5.00
Sales revenue	\$m	0.0	73.6	584.5	771.8
EBITDA	\$m	-5.3	29.2	266.5	388.4
EBITDA margin	%		39.7	45.6	50.3
Reported NPAT	\$m	-2.7	22.3	162.6	254.5
Adjusted NPAT	\$m	-2.7	22.3	162.6	254.5

EPS adj	c	-1.1	8.9	64.2	94.8
EPS adj growth	%			623	48
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0%	0%	0%	0%
PER	x	na	9.0	1.2	0.8
Dividend yield	%	na	na	na	na

EV/EBITDA	x	-26.4	4.8	0.5	0.4
ROA	%	na	35	945	-1174
ROE	%	na	16	53	44
Debt / Debt + equity	%	na	33	19	11

WPG Vs ASX 300 (XKO)



Source: IRESS

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WPG Resources - 3.3mtpa base case

Share Price \$ 0.80

Valuation \$ 1.72

Profit & Loss

Year ending June	2011e	2012e	2013e	2014e
Sales	0.0	73.6	449.9	503.1
Op. costs	0.0	34.5	226.2	225.6
Royalty	0.0	3.3	20.7	22.6
Corporate	5.3	6.0	6.0	6.0
Exploration Writeoff	0.0	0.5	1.0	1.0
EBITDA	-5.3	29.2	196.0	247.9
Dep/Amtz	0.0	4.0	36.3	42.5
EBIT	-5.3	25.2	159.7	205.4
Net Interest	2.6	0.0	-0.2	8.6
Pre-Tax Profit	-2.7	25.2	159.5	213.9
Tax Provision	0.0	2.9	47.9	64.2
Net Profit/(Loss)	-2.7	22.3	111.7	149.8
Abnormals	0.0	0.0	0.0	0.0
Reported Net Profit	-2.7	22.3	111.7	149.8

Balance Sheet

Year ending June	2011e	2012e	2013e	2014e
Cash	76.0	76.4	249.1	463.5
Receivables	0.5	8.5	8.5	8.5
Fixed assets	41.3	139.3	105.0	64.5
Other assets	0.4	0.4	0.4	0.4
Total Assets	118.2	224.6	363.0	536.9
Creditors	1.2	9.2	9.2	9.2
Borrowings	0.0	70.0	70.0	70.0
Other liabilities	1.6	4.5	28.6	34.1
Total Liabilities	2.8	83.7	107.7	113.3
Net Assets	115.4	140.8	255.3	423.5
Share capital	125.3	128.4	131.2	149.7
Retained earnings	-14.0	8.3	120.0	269.7
Shareholders Funds	115.4	140.8	255.3	423.5

Cashflow

Year ending June	2011e	2012e	2013e	2014e
Sales Revenue	0.0	73.6	449.9	503.1
Less Outflows	0.0	-34.5	-226.2	-225.6
Prod. costs in exc. sales	-5.3	-9.3	-26.7	-28.6
Net interest	2.6	0.0	-0.2	8.6
Income tax paid & other	0.0	0.0	-23.8	-58.6
Operational Cash Flow	-2.7	29.7	173.0	198.8
Exploration	-2.0	-2.0	-2.0	-2.0
Capex	-70.0	-100.5	-1.0	-1.0
Asset (Purchases)/Sales & other	50.0	0.0	0.0	0.0
C/Flow from Investing	-22.0	-102.5	-3.0	-3.0
Dividends paid	0.0	0.0	0.0	0.0
Debt (Repay)/Borrowings	0.0	70.0	0.0	0.0
Equity Raised	85.2	3.2	2.8	18.5
Other	0.0	0.0	0.0	0.0
C/Flow from Financing	85.2	73.2	2.8	18.5
Cash at Beginning	15.5	76.1	76.4	249.1
Net Increase/(Decrease)	60.5	0.4	172.7	214.4
Cash at end	76.1	76.4	249.1	463.5

Company Description

WPG is developing the Peculiar Knob DSO deposit in South Australia. The Company is targeting first production in JQ12 at a rate of 3.3mtpa. WPG also has substantial magnetite in the Hawks Nest project and have acquired a coal project near to its iron ore tenure.

Market Measures

Year ending June		2011e	2012e	2013e	2014e
EPS adjusted	cps	-1.1	8.9	44.1	55.8
EPS growth	%			396.4	26.6
PE multiple	x	na	9.0	1.8	1.4
CFPS	cps	-1.9	11.0	67.5	73.3
CF multiple	x	na	7.3	1.2	1.1
DPS	cps	0.0	0.0	0.0	0.0
Dividend Yield	%	na	na	na	na
Enterprise value	\$m	122.2	191.8	19.1	-195.3

Profitability & liquidity ratios

Year ending June		2011e	2012e	2013e	2014e
ROE	%	na	16	44	35
ROA	%	na	35	1,815	(375)
NPAT / Sales	%	na	30	25	30
EBITDA / sales	%	na	40	44	49
Gearing (D/[D+E])	%	na	33	22	14

Valuation

Valuation	dr @ 10%		dr @ 5%		
	Equity	A\$m	A\$ps	A\$m	A\$ps
Peculiar Knob	100%	488.7	1.82	547.6	2.16
MRRT (10% of PK/Buzz NPV)		-48.9	-0.18	-54.8	-0.22
Hawks Nest Mt/Hmt, Penrhyn coal		60.0	0.22	60.0	0.24
Other		0.0	0.00	0.0	0.00
Cash		53.7	0.20	53.7	0.21
Total Borrowings		-79.2	-0.29	-79.2	-0.31
Corporate/Other		-12.0	-0.04	-13.2	-0.05
Total Valuation		462.3	1.72	514.2	2.03

Production

Year ending June	2011e	2012e	2013e	2014e
Direct shipping ore (Mt)	0.00	0.50	3.30	3.30
Other	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total Attrib. Prod. (mmboe)	0.00	0.50	3.30	3.30
Op. Costs DSO (A\$/t)	0.0	75.7	74.8	75.2
Op. Costs Other (A\$/t)	0.0	0.0	0.0	0.0
Total Op. Costs (A\$/t)	0.0	75.7	74.8	75.2
Cash margin (A\$/t)	na	68.9	78.2	85.8

Price Assumptions

Year ending June	2011e	2012e	2013e	2014e
Exchange Rate (A\$/US\$)	0.99	0.97	0.85	0.78
Benchmark FOB Fines (62% Usc/mtu)	194	216	200	194
Av. PK FOB fines to benchmark (A\$/t)	125	145	153	161

Resources

	Company		Veritas estimate	
	Mt	% FeO	Mt	% FeO
Peculiar Knob	19.2	64.0	19.2	64.0
Buzzard/Tui	18.4	61.6	18.4	61.6
Kite	30.0	50.5	30.0	50.5
Magnetite Resources	569.0	35.0	569.0	35.0
Total	636.6	37.4	636.6	37.4

Reserves DSO - 29.6mt at 62.0% Fe at Peculiar Knob and Buzzard

WPG Resources - 5.0mtpa scenario

Share Price \$ 0.80

Valuation \$ 2.44

Profit & Loss

Year ending June	2011e	2012e	2013e	2014e
Sales	0.0	73.6	584.5	771.8
Op. costs	0.0	34.5	284.3	341.8
Royalty	0.0	3.3	26.7	34.5
Corporate	5.3	6.0	6.0	6.0
Exploration Writeoff	0.0	0.5	1.0	1.0
EBITDA	-5.3	29.2	266.5	388.4
Dep/Amtz	0.0	4.0	33.4	36.6
EBIT	-5.3	25.2	233.2	351.8
Net Interest	2.6	0.0	-0.8	11.7
Pre-Tax Profit	-2.7	25.2	232.3	363.5
Tax Provision	0.0	2.9	69.7	109.1
Net Profit/(Loss)	-2.7	22.3	162.6	254.5
Abnormals	0.0	0.0	0.0	0.0
Reported Net Profit	-2.7	22.3	162.6	254.5

Balance Sheet

Year ending June	2011e	2012e	2013e	2014e
Cash	76.0	76.4	289.0	600.9
Receivables	0.5	8.5	8.5	8.5
Fixed assets	41.3	139.3	137.9	103.3
Other assets	0.4	0.4	0.4	0.4
Total Assets	118.2	224.6	435.8	713.1
Creditors	1.2	9.2	9.2	9.2
Borrowings	0.0	70.0	70.0	70.0
Other liabilities	1.6	4.5	50.4	54.7
Total Liabilities	2.8	83.7	129.6	133.9
Net Assets	115.4	140.8	306.2	579.2
Share capital	125.3	128.4	131.2	149.7
Retained earnings	-14.0	8.3	170.9	425.4
Shareholders Funds	115.4	140.8	306.2	579.2

Cashflow

Year ending June	2011e	2012e	2013e	2014e
Sales Revenue	0.0	73.6	584.5	771.8
Less Outflows	0.0	-34.5	-284.3	-341.8
Prod. costs in exc. sales	-5.3	-9.3	-32.7	-40.5
Net interest	2.6	0.0	-0.8	11.7
Income tax paid & other	0.0	0.0	-23.8	-104.8
Operational Cash Flow	-2.7	29.7	242.8	296.4
Exploration	-2.0	-2.0	-2.0	-2.0
Capex	-70.0	-100.5	-31.0	-1.0
Asset (Purchases)/Sales & other	50.0	0.0	0.0	0.0
C/Flow from Investing	-22.0	-102.5	-33.0	-3.0
Dividends paid	0.0	0.0	0.0	0.0
Debt (Repay)/Borrowings	0.0	70.0	0.0	0.0
Equity Raised	85.2	3.2	2.8	18.5
Other	0.0	0.0	0.0	0.0
C/Flow from Financing	85.2	73.2	2.8	18.5
Cash at Beginning	15.5	76.1	76.4	289.0
Net Increase/(Decrease)	60.5	0.4	212.6	311.9
Cash at end	76.1	76.4	289.0	600.9

Company Description

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Market Measures

Year ending June		2011e	2012e	2013e	2014e
EPS adjusted	cps	-1.1	8.9	64.2	94.8
EPS growth	%			623.0	47.7
PE multiple	x	na	9.0	1.2	0.8
CFPS	cps	-1.9	11.0	95.0	109.6
CF multiple	x	na	7.3	0.8	0.7
DPS	cps	0.0	0.0	0.0	0.0
Dividend Yield	%	na	na	na	na
Enterprise value	\$m	122.2	191.8	-20.8	-332.7

Profitability & liquidity ratios

Year ending June		2011e	2012e	2013e	2014e
ROE	%	na	16	53	44
ROA	%	na	35	945	(1,174)
NPAT / Sales	%	na	30	28	33
EBITDA / sales	%	na	40	46	50
Gearing (D/(D+E))	%	na	33	19	11

Valuation

		dr @ 10%		dr @ 5%	
	Equity	A\$m	A\$ps	A\$m	A\$ps
Peculiar Knob	100%	702.6	2.62	800.5	3.16
MRRT (10% of PK/Buzz NPV)		-70.3	-0.26	-80.1	-0.32
Hawks Nest Mt/Hmt, Penrhyn coal		60.0	0.22	60.0	0.24
Other		0.0	0.00	0.0	0.00
Cash		53.7	0.20	53.7	0.21
Total Borrowings		-79.2	-0.29	-79.2	-0.31
Corporate/Other		-12.0	-0.04	-13.2	-0.05
Total Valuation		654.9	2.44	741.8	2.93

Production

Year ending June	2011e	2012e	2013e	2014e
Direct shipping ore (Mt)	0.00	0.50	4.15	5.00
Other	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total Attrib. Prod. (mmboe)	0.00	0.50	4.15	5.00
Op. Costs DSO (A\$/t)	0.0	75.7	74.9	75.3
Op. Costs Other (A\$/t)	0.0	0.0	0.0	0.0
Total Op. Costs (A\$/t)	0.0	75.7	74.9	75.3
Cash margin (A\$/t)	na	68.9	77.6	84.7

Price Assumptions

Year ending June	2011e	2012e	2013e	2014e
Exchange Rate (A\$/US\$)	0.99	0.97	0.85	0.78
Benchmark FOB Fines (62% Usc/mtu)	194	216	200	194
Av. PK FOB fines to benchmark (A\$/t)	125	145	153	160

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Magnetite Resources	569.0	35.0	569.0	35.0
Total	636.6	37.4	636.6	37.4

Reserves DSO - 29.6mt at 62.0% Fe at Peculiar Knob and Buzzard

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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