

26th October 2021

Mining & Metals

Market data

Ticker	WRES
Price (p/sh)	6.87
12m High (p/sh)	23.9
12m Low (p/sh)	6.1
Shares (m)	120.6
Mkt Cap (£m)	8.3
Market	AIM



Source: IRESS

Description

W Resources is a European mining company with tungsten, tin and gold assets in Spain and Portugal. The main focus is the La Parrilla tungsten and tin mine in Spain which is currently ramping up production. WRES aims to be one of the lowest cost tungsten producers globally.

www.wresources.com

Board & key management

Chairman	Michael Masterman
Non-Exec	Ismael Cabanillas Verde
Non-Exec	David Garland
Non-Exec	James Argalas
LP Ops Manager	Juan Garcia Valledor
CFO	Paul Hailes

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W Resources*

A couple of hurdles left to jump

WRES reported quarterly production numbers for Q3-2021 from the company's La Parrilla tungsten-tin mine in Spain. The numbers indicate another record quarter for tungsten production with all tungsten metrics recording further increases. This is largely driven by a further increase in tungsten metallurgical recovery, sitting at 58% for the quarter. This translated to the highest quarterly production of tungsten concentrate since mine start-up. The final remedial work required to prevent further water issues will be completed in November with the construction of second water dam. Unfortunately, further unplanned maintenance and supply-chain bottle necks have resulted in WRES lowering 2021 production guidance although WRES believes the target T2 run-rate will be reached in Q1 2022.

- ▶ **Q3 production.** Q3 figures and comparison to Q2-2021 (in brackets): ROM tonnes 279kt (↑21% vs 232kt), WO₃ concentrate 168.3t (↑58%, 106.4t), WO₃ contained metal 11,229mtu (↑62%, 6,919mtu), WO₃ recovery 58% (↑23%, 47%), Sn concentrate 24.1t (↑1%, 23.8t), Sn contained metal 12.5dmt (↑1%, 12.4dmt), Sn recovery 23% (↓15%, 27%). Total concentrate production 192.4t (↑48%, 130.2t). WO₃ concentrate shipped 180t (↑80%, 100t), Sn concentrate shipped 40.8t (↑111%, 19.3t).
- ▶ **Tungsten from strength to strength.** Q3 provided further evidence that the La Parrilla plant is starting to bed down. ROM throughput increased and tungsten head grades remained stable. Tungsten metallurgical recovery, one of the key metrics by which La Parrilla is being judged continued to rise. Tungsten recovery was 58% for Q3, a 23% increase over Q2 and a 14% beat on our 50% assumption. Plant optimisation work appears to have been successful in eliminating the recovery gremlin and the quarter-on-quarter performance is impressive. Furthermore, the company reported that August saw the highest monthly tungsten recovery to date at 65% which is getting close to the 72% as per the August 2017 Final Investment Decision Report. Tungsten concentrate grades remain excellent, an important factor for concentrate saleability.
- ▶ **But challenges remain.** The tangible progress on tungsten recoveries provides renewed confidence in the La Parrilla flowsheet. On the plus side, the tungsten recovery equation appears to have been cracked and the plant is at 24/7 operation and we don't see anything insurmountable to stop WRES from meeting future targets. However, challenges remain whilst the operation is still in a fledgling state and the stop-start nature of unplanned plant maintenance and optimisation is a fly in the ointment that has stopped La Parrilla having a straight run at ramp-up. Torrential rain is still causing some grief and a silo is being constructed to provide one week's worth of dry ore feed. Power outages also adversely impacted plant utilisation during the quarter and a water treatment plant is being leased to improve water quality feed to the process plant. Tin metallurgical recovery still appears to be well below target and this will require further focus going forward.
- ▶ **Reset required.** Plant maintenance issues and supply chain bottlenecks associated with the above challenges have led to lower plant availability. Consequently, WRES has adjusted down its full year production guidance for 2021 to between 650t and 750t of concentrate, c.25% lower than the inaugural guidance of 880t - 1,000t of concentrate. Current concentrate production YTD 2021 amounts to 415t which would have required a big Q4 (min 465t) to meet the lower range of previous guidance. Whilst WRES expects Q4 production to be greater than Q3, it does not expect to hit the target T2 production rate (2Mtpa ROM, c.2,500t concentrate) until Q1 2022. This looks achievable but will require a continuation of the high tungsten recovery, better plant utilisation and a big push in ROM tonnes as the T2 rates implies quarterly ROM throughput of 500kt.
- ▶ **Discussion.** We have updated our model to reflect new guidance. We now assume 622t of concentrate production for FY21 (down from 882t) and have conservatively elongated ramp-up which pushes 2022 production down to 1,600t concentrate (from 2,500t). We have also tweaked down tin recovery assumptions until further clarity emerges. This results in a reduction in our estimate of fair value to 19p/sh from 23p/sh, based on a blend of NAV and forward EBITDA. There are still reasons to be optimistic; the European APT price continues to nudge higher (now in the \$315-\$320/mtu range) and the tin price remains strong (LME spot \$38,950/t). The transition to profitability is in sight if WRES can maintain production without interruption, push throughput and manage any interim funding requirements. Operating costs are not disclosed and remain difficult to peg but, on our assumptions, La Parrilla should turn net profit positive in 2022 at the asset level. It's clearly not plain sailing yet and 2022 needs to be the year that La Parrilla delivers on its potential. This may allow WRES to investigate options to refinance its senior debt facility, with total long-term borrowings standing at €58.7m at the end of June 2021. We anticipate publishing full numbers in a forthcoming 2022+ outlook note.

La Parrilla – quarterly production results (Q3)

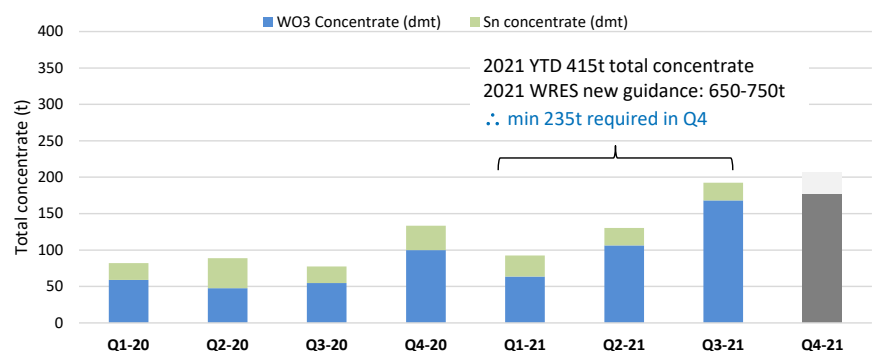
Figure 1 - La Parrilla – Q3 2021 production results

Quarterly Production	Q2-21	Q3-21	Q-on-Q variance
			Q2-21 vs Q3-21
ROM tonnes (kt)	232	279	21%
Strip ratio	2.89	3.53	22%
Jig plant Processed (kt)	174	207	19%
WO ₃ feed grade (ppm)	855	934	9%
WO ₃ recovery (%)	47%	58%	23%
WO ₃ Concentrate (dmt)	106.4	168.3	58%
WO ₃ concentrate grade (%)	65%	67%	3%
Tungsten (mtu)	6,919	11,229	62%
Sn feed grade (ppm)	259	263	2%
Sn Recovery (%)	27%	23%	-15%
Sn concentrate (dmt)	23.8	24.1	1%
Sn concentrate grade (%)	52%	52%	0%
Sn contained metal (dmt)	12.4	12.5	1%
Total concentrate (dmt)	130.2	192.4	48%
Total contained metal (dmt)	81.6	124.8	53%
Shipments	Q2-21	Q3-21	Q2-21 vs Q3-21
Tungsten concentrate (dmt)	100.0	180.0	80%
Tin concentrate (dmt)	19.3	40.8	111%

Source: W Resources, Shard Capital

Figure 2 - La Parrilla – historical quarterly production summary

Quarterly Production	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
ROM tonnes (kt)	274	253	171	262	196	232	279
Strip ratio	1.07	0.58	1.38	1.19	5.13	2.89	3.53
Jig plant Processed (kt)	241	228	148	237	164	174	207
WO ₃ feed grade (ppm)	800	845	857	943	744	855	934
WO ₃ recovery (%)	17.0%	16.0%	30.0%	31.0%	32.0%	47.0%	58.0%
WO ₃ Concentrate (dmt)	58.9	47.6	54.7	100.0	63.5	106.4	168.3
WO ₃ concentrate grade (%)	56%	57%	70%	67%	62%	65%	67%
Tungsten (MTU)	3,306	2,756	3,820	6,698	3,916	6,919	11,229
Sn feed grade (ppm)	282	307	181	321	228	259	263
Sn Recovery (%)	22%	25%	37%	26%	44%	27%	23%
Sn concentrate (dmt)	23.3	41.2	22.9	33.4	28.9	23.8	24.1
Sn concentrate grade (%)	52%	49%	43%	56%	57%	52%	52%
Sn contained metal (dmt)	12.1	20.0	9.8	18.8	16.3	12.4	12.5
Total concentrate (dmt)	82.2	88.8	77.6	133.4	92.4	130.2	192.4
Total contained metal W+Sn (dmt)	45.2	47.6	48.0	85.8	55.5	81.6	124.8



Source: Table (W Resources), Chart (Shard Capital)

Quarterly production charts

Figure 3 - La Parrilla, quarterly production actuals



Source: Shard Capital, using WRES data

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Figure 4 – Our view of quarterly ramp up for the remainder of 2021



(Grey forecast) indicate Shard Capital forecasts

Source: Shard Capital estimates

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