



## AUSTRALIA/CANADA

WAF AU/WAF CN

Outperform

Price (at 05:10, 11 Jan 2018 GMT)

A\$0.44/C\$0.44

Valuation **A\$0.60/C\$0.59**

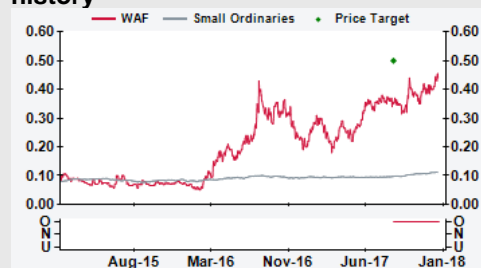
- DCF (WACC 10.0%, beta 0.4, ERP 5.0%, RFR 3.3%)

12-month target **A\$0.50/C\$0.49**12-month TSR **% +13.6/+12.6**Volatility Index **Very High**GICS sector **Materials**Market cap **A\$m 255**30-day avg turnover **A\$m 0.2**Number shares on issue **m 578.7**

## Investment fundamentals

Year end 30 Jun		2017A	2018E	2019E	2020E
Revenue	m	0.0	0.0	0.0	367.2
EBIT	m	-14.8	-9.7	-9.6	151.7
Reported profit	m	-14.3	-6.8	-5.8	103.8
Adjusted profit	m	-14.5	-6.8	-5.8	103.8
Gross cashflow	m	-1.6	-2.2	-4.4	138.4
CFPS	¢	-0.3	-0.4	-0.5	14.3
CFPS growth	%	80.8	-7.2	-22.4	nfm
PGCFPS	x	nfm	nfm	nfm	3.1
PGCFPS rel	x	nfm	nfm	nfm	0.29
EPS adj	¢	-3.1	-1.1	-0.6	10.7
EPS adj growth	%	17.5	62.8	47.3	nfm
PER adj	x	nfm	nfm	nfm	4.1
PER rel	x	nfm	nfm	nfm	0.28
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-130.5	-11.5	-4.9	51.7
ROE	%	-236.9	-8.3	-3.9	51.8
EV/EBITDA	x	-102.7	-47.4	-51.1	2.3
Net debt/equity	%	-116.2	-85.7	-0.1	7.6
P/BV	x	22.9	1.7	2.9	1.7

## WAF AU vs Small Ordinaries, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2018

(all figures in AUD unless noted)

## Analyst(s)

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12 January 2018

Macquarie Securities (Australia) Limited

## West African Resources

## M1S infill drilling-high grade continuity

## Event

- WAF has reported further high grade infill and extensional drilling results at depth at M1S, as part of the Burkina Faso based Sanbrado Gold Project.

## Impact

- Recent drilling confirms high-grade continuity to ~500m depth:** Results continue to support a robust high-grade underground development at M1S. The latest round of assays have returned impressive results including; 4m at 74.4g/t gold from 567m, 9m at 17.18g/t from 551.5m, 16.5m at 15.68g/t from 511m and 3.5m@ 30.46g/t. Drillhole TAN17-DD166B has confirmed the continuation of the high grade shoot at depth returning assays of 13.5m at 18.21g/t and 2.5m at 43.97g/t at a depth from surface of ~500m.
- WAF targets upgrade to inferred resource category:** The current round of drilling is designed to upgrade the inferred resources of M1S to indicated category between 350-500m below surface using a 25m x 25m drill pattern. WAF aims to include indicated resource ounces in the underground mining schedule of the feasibility study that is due for completion mid-2018.
- High grade shoot remains open at depth and to the NW:** The majority of the latest results are considered to be infill drilling with only hole TAN17-DD166B extending the mineralisation at depth. WAF has reported that four drill rigs are currently on site. The high grade shoot at M1S remains open at depth and to the North West. Drilling is planned to test the region below TAN17-DD166B (+500m below surface) once valuable structural information is gathered from infill drilling that is currently underway. Step out holes to the NW are also planned as no drilling to date constrains the deeper sections of M1S in this direction.

## Earnings and target price revision

- No change.

## Price catalyst

- 12-month price target: A\$0.50/C\$0.49 based on a DCF 0.8x NAV methodology.
- Catalyst: WAF has an aggressive exploration schedule in place over the current Burkina Faso drill season. We expect these programs to provide continuous positive news flow leading to a resource upgrade during 1HCY18. WAF intends to release an updated feasibility study for Sanbrado mid-2018, which we expect to be accompanied by an upgrade to reserve ounces and grade, driven by a high grade maiden underground reserve at M1S.

## Action and recommendation

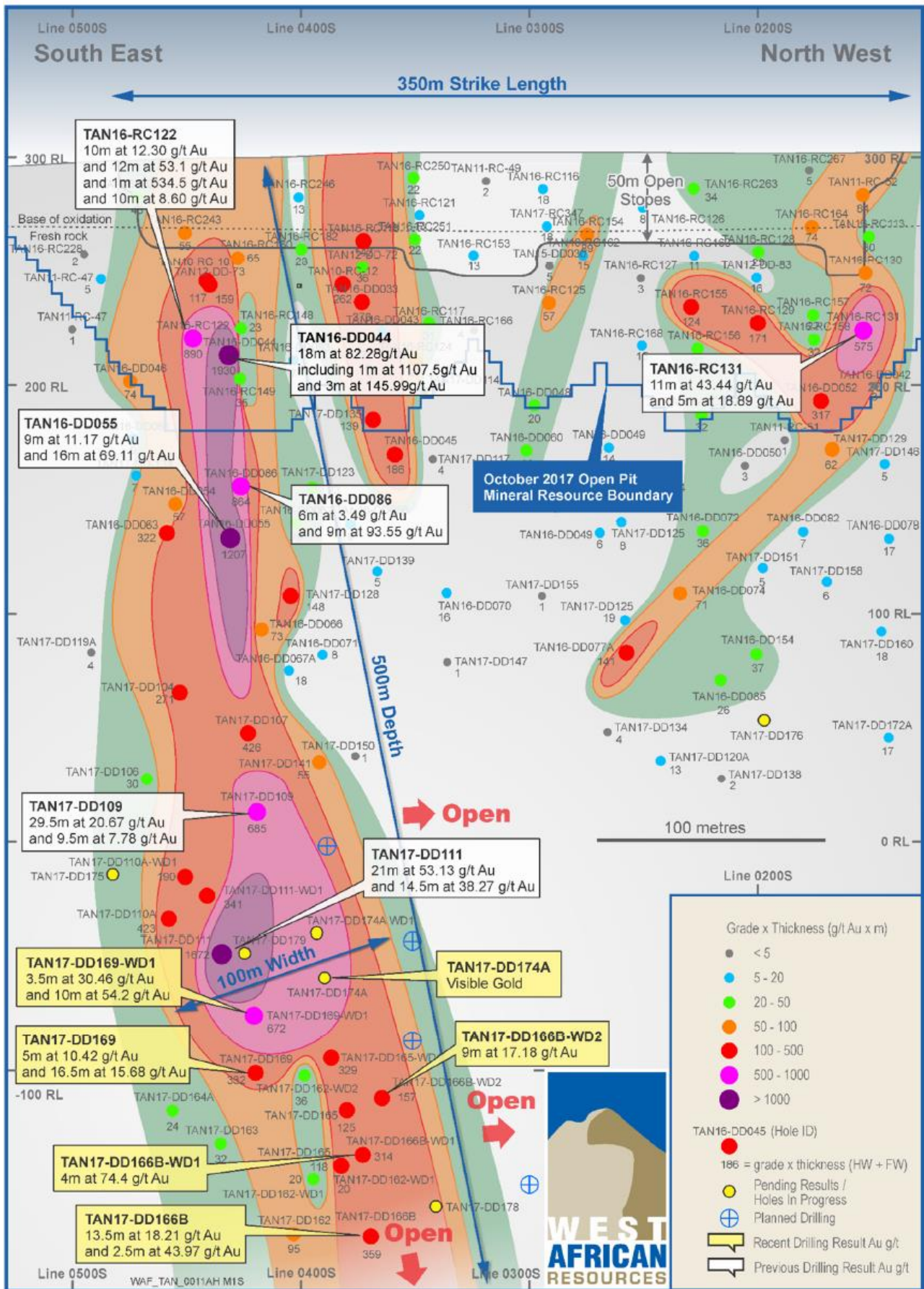
- Maintain Outperform.** This round of predominantly infill drilling results has demonstrated the solid continuity of M1S's high grade mineralisation in regions of previously sparse drilling. Upgrading inferred resources to the indicated category is an essential step in generating a maiden high-grade mineral reserve through the feasibility study process. WAF's systematic approach to define structural controls of the ore body is important to continue the effective targeting of the M1S shoot at depth. The optimised feasibility study for Sanbrado is expected to be complete mid-2018.

Please refer to page 5 for important disclosures and analyst certification, or on our website

[www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures).

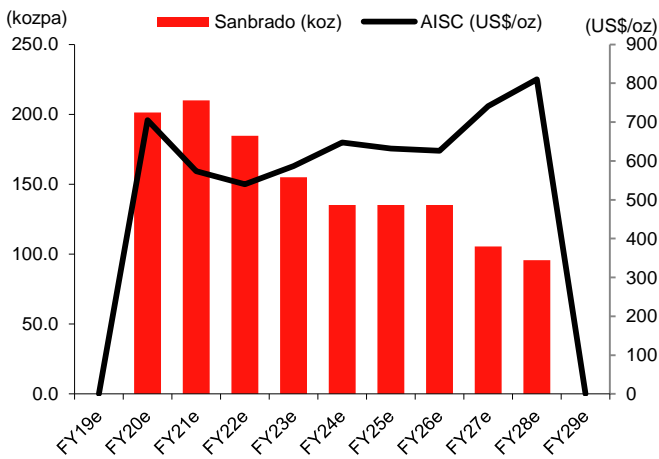
Fig 1 WAF's latest drill results infill high grade areas of M1S that were previously sparsely drilled.

Figure 1: M1 South – Long Section



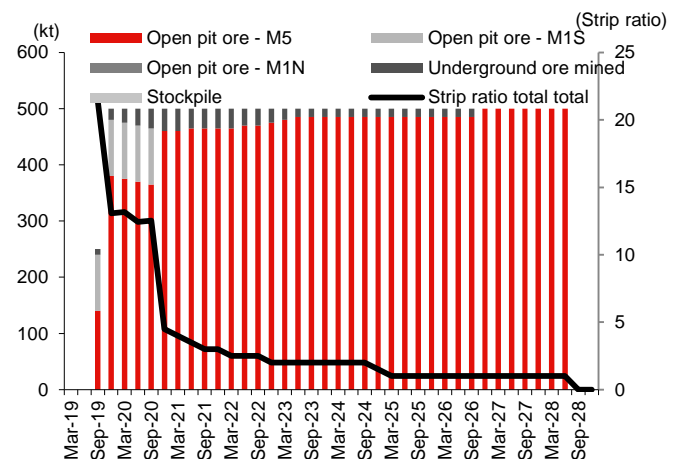
Source: WAF, Macquarie Research, January 2018

**Fig 2 anbrado quarterly production and costs**



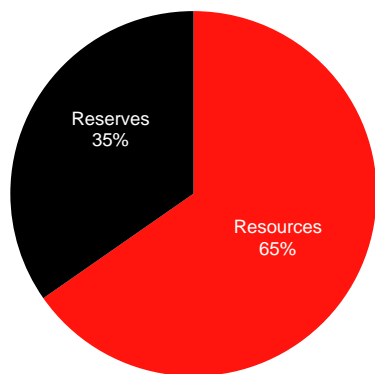
Source: WAF, Macquarie Research, January 2018

**Fig 3 Sanbrado quarterly ore sources and strip ratio**



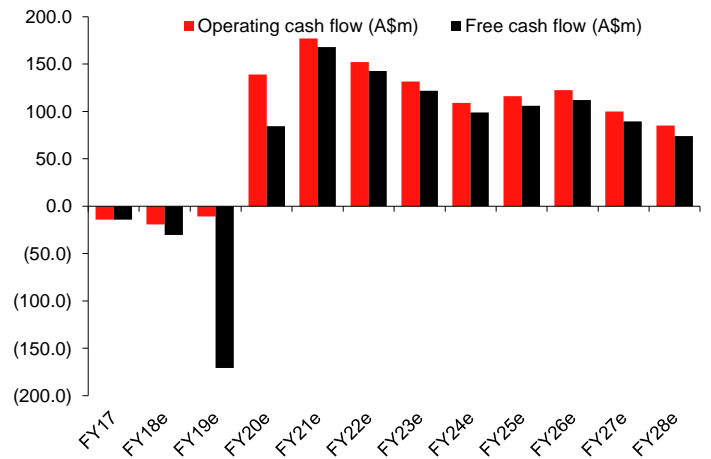
Source: WAF, Macquarie Research, January 2018

**Fig 4 Sanbrado resources and reserves**



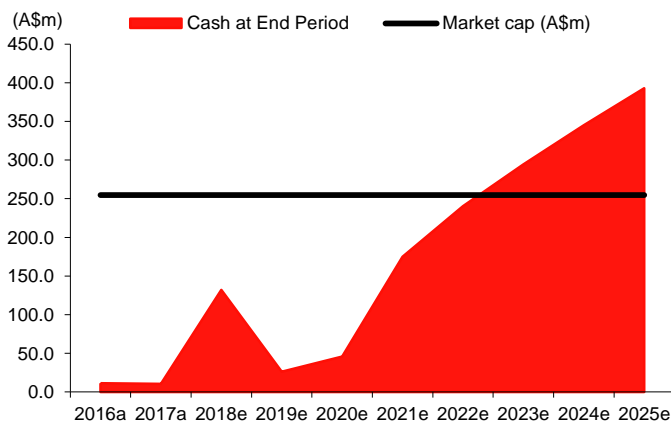
Source: WAF, Macquarie Research, January 2018

**Fig 5 WAF cash flow outlook**



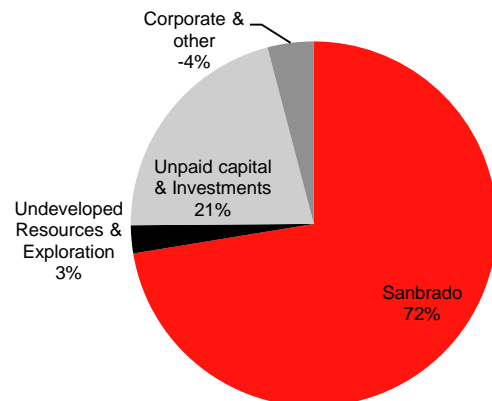
Source: WAF, Macquarie Research, January 2018

**Fig 6 WAF Market Cap vs. Net cash**



Source: WAF, Macquarie Research, January 2018

**Fig 7 WAF NPV breakdown**



Source: WAF, Macquarie Research, January 2018

Fig 8 WAF summary financials

West African Resources																
ASX: WAF	Price: (A\$ps)	0.44			Year end:	Jun	Rating:	Outperform	Up/dn	TSR						
	Mkt cap: (A\$m)	255			Diluted shares (m)	578.7	Target:	0.50	14%	14%						
							CAD Target:	0.49								
ASSUMPTIONS		FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	ATTRIBUTABLE MINE OUTPUT							
Exchange Rate	A\$/US\$	0.75	0.76	0.76	0.77	0.76	0.75	0.75	Gold production (100%)							
Spot Gold	(US\$/oz)	1,258	1,295	1,375	1,394	1,388	1,413	1,430	Sanbrado	(koz)	-	-	-	201.4	209.9	184.6
									Total	(koz)	-	-	-	201.4	209.9	184.6
RATIO ANALYSIS		FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	Production costs							
Diluted share capital	m	473.1	595.9	967.4	967.4	967.4	967.4	967.4	Cash cost	(US\$/oz)	-	-	-	621	488	450
EPS (diluted and pre sig. items)	A¢	-3.1	-1.1	-0.6	10.7	13.2	12.8	10.2	Cash costs - AISC	(US\$/oz)	-	-	-	705	574	540
P/E	x	-14.3x	-38.5x	-73.1x	4.1x	3.3x	3.4x	4.3x	EV/Production	(US\$/oz)	n/a	n/a	n/a	1,209	1,160	1,319
CFPS	A¢	(3.0)	(3.3)	(1.1)	14.4	18.3	15.7	13.6	OPERATIONAL OUTLOOK (100% basis)							
P/CF	x	-14.7x	-13.5x	-39.9x	3.1x	2.4x	2.8x	3.2x								
DPS	A¢	0.0	0.0	0.0	0.0	4.0	8.0	7.0								
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	9.1%	18.2%	15.9%								
Franking Level	%	0%	0%	0%	0%	0%	0%	0%								
Book value per share	x	0.02	0.26	0.15	0.27	0.38	0.44	0.48								
P/Book value	x	22.9x	1.7x	3x	1.7x	1.2x	1.0x	0.9x								
R.O.E. (pre sig items)	%	-158%	-4%	-4%	36%	35%	29%	21%								
R.O.A. (pre sig items)	%	-134%	-6%	-4%	43%	45%	38%	29%								
Interest Cover	x	89.2x	27.9x	6.3x	124.4x	-59.1x	-30.0x	-17.9x								
EBITDA per share	A\$ps	-0.03	-0.02	-0.01	0.19	0.23	0.22	0.18								
EV/EBITDA	x	-16.6x	-12.9x	-27.2x	1.5x	0.4x	0.1x	-0.2x								
FCF Yield	(%)	(6%)	(12%)	(67%)	33%	66%	56%	48%								
EARNINGS		FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	RESERVES AND RESOURCES (ATTRIBUTABLE)							
Sales Revenue	A\$m	0	0	0	367	385	348	295	Reserves							
Other Revenue	A\$m	0	0	0	0	0	0	0	Project							
Total Revenue	A\$m	0	0	0	367	385	348	295	Sanbrado	Mt	gft	koz				
Operating Costs	A\$m	0	0	0	(178)	(151)	(125)	(113)	Total	16.8	1.7	894				
Operational EBITDA	A\$m	0	0	0	189	234	223	182	Resources							
Exploration Expense/Write-offs	A\$m	(13)	(4)	(1)	(1)	(1)	(1)	(1)	Project							
Corporate & Other Costs	A\$m	(2)	(5)	(8)	(8)	(9)	(9)	(9)	Sanbrado	37.4	1.4	1682				
EBITDA	A\$m	(15)	(10)	(9)	180	225	213	172	Total	37.4	1.4	1,682				
D&A	A\$m	(0)	(0)	(0)	(29)	(29)	(29)	(29)	EV/Reserve (A\$/oz)							
EBIT	A\$m	(15)	(10)	(10)	152	196	184	143	297							
Net Interest	A\$m	0	0	2	(1)	3	6	8	EV/Resource (A\$/oz)							
Profit Before Tax	A\$m	(15)	(9)	(8)	150	199	190	151	158							
Significant Items	A\$m	0	0	0	0	0	0	0	Mining Inventory							
Tax Expense	A\$m	0	3	2	(41)	(55)	(52)	(42)	Project							
NPAT	A\$m	(14)	(7)	(6)	109	144	138	110	M5	21.5	1.6	1096				
Minorities	A\$m	0	0	0	(16)	(16)	(14)	(11)	M1S	0.5	6.7	103				
Reported NPAT	A\$m	(14)	(7)	(6)	93	128	124	98	M1N	0.4	2.4	34				
Underlying NPAT	A\$m	(15)	(7)	(6)	93	128	124	98	M1 UG	0.6	23.4	485				
									Total	23.1	8.1	1717				
CASHFLOW		FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	Reserves and assumed inventory							
Net Profit	A\$m	(14)	(7)	(6)	104	128	124	98	Ore sources and strip ratio							
Interest/Tax/D&A	A\$m	0	(13)	(5)	68	42	27	28								
Working Capital/other	A\$m	(0)	0	0	(33)	7	1	5								
Net Operating Cashflow	A\$m	(14)	(19)	(11)	139	177	152	131								
Capex	A\$m	(0)	(11)	(160)	(55)	(9)	(9)	(10)								
Investments	A\$m	0	0	0	0	0	0	0								
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0								
Free cash flow	A\$m	(14)	(30)	(171)	85	168	143	122								
Dividends Paid	A\$m	0	0	0	0	(39)	(77)	(68)								
Debt	A\$m	(7)	0	65	(65)	(0)	0	0								
Equity Issuance	A\$m	20	152	0	0	0	0	0								
Other	A\$m	0	0	0	0	0	0	0								
Net Financing Cashflow	A\$m	13	152	65	(65)	(39)	(77)	(68)								
Net change in cash	A\$m	(1)	121	(106)	20	129	65	54								
BALANCE SHEET		FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	EQUITY DCF VALUATION							
Cash	A\$m	11	132	26	46	175	240	294	Macquarie forecasts							
PP&E & Mine Development	A\$m	0	0	65	78	68	59	49	Spot prices							
Exploration	A\$m	0	10	13	15	17	19	20	Projects	A\$m	A\$ps	A\$m	A\$ps			
Total Assets	A\$m	11	158	231	355	438	482	495	Sanbrado	455	0.47	461	0.48			
Debt	A\$m	0	0	26	65	0	0	0	Undeveloped Resources & Exploration	16	0.02	15	0.02			
Total Liabilities	A\$m	2	4	83	98	75	58	29	Unpaid capital & Investments	132	0.14	132	0.14			
Total Net Assets / Equity	A\$m	9	154	148	257	363	424	465	Forwards	0	0.00	0	0.00			
Net Debt / (Cash)	A\$m	(11)	(132)	(0)	20	(175)	(240)	(294)	Corporate	(37)	(0.04)	(37)	(0.04)			
Gearing (net debt/(nd + equity))	%	718%	(600%)	(0%)	7%	(93%)	#####	#####	Net cash (debt)	11	0.01	11	0.01			
Gearing (net debt/equity)	%	(116%)	(86%)	(0%)	8%	(48%)	(57%)	(63%)	Net Equity Value (@ 10% WACC)	578	0.60	582	0.60			
							Price Target (0.8x NAV)	0.50								
							PNAV	0.74x								

Source: WAF, Macquarie Research, January 2018

**Important disclosures:**

**Recommendation definitions**

**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie – South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 December 2017**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.82%	55.57%	44.05%	45.06%	60.00%	42.51%	(for global coverage by Macquarie, 4.36% of stocks followed are investment banking clients)
Neutral	35.40%	28.60%	36.90%	47.59%	28.67%	40.42%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
Underperform	12.77%	15.83%	19.05%	7.34%	11.33%	17.07%	(for global coverage by Macquarie, 0.69% of stocks followed are investment banking clients)

**WAF AU vs Small Ordinaries, & rec history**



(all figures in AUD currency unless noted)

**WAF CN vs TSX, & rec history**



(all figures in CAD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2018

**12-month target price methodology**

WAF AU: A\$0.50/C\$0.49 based on a DCF 0.8x NAV methodology

WAF CN: C\$0.49 based on a DCF 0.8x NAV methodology

**Company-specific disclosures:**

**WAF AU:** Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of West African Resources Ltd. An analyst has visited the material operations and development assets of West African Resources within the past year; the company furnished local transportation and accommodations as part of these site visits. **WAF CN:** Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of West African Resources Ltd. An analyst has visited the material operations and development assets of West African Resources within the past year; the company furnished local transportation and accommodations as part of these site visits.

Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures).

Date	Stock Code (BBG code)	Recommendation	Target Price
04-Sep-2017	WAF AU	Outperform	A\$0.50

**Target price risk disclosures:**

**WAF AU:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**WAF CN:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:**

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