EQ Resources (tungsten): FCF in sight | EQR, mcap $91m, reiterate BUY

EQUITY RESEARCH

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COMPANY	**EQ Resources (ASX:EQR)**	4 April 2023
EVENT	**Resource and Company Update Ahead of Open Pit Mining**	
LINK SECTOR RPT	Tungsten Industry - A critical renaissance (March-23)	
LINK EQR REPORT	EQ Resources: Small start, significant potential (Dec-22)	

Ahead of starting open pit operations, EQ Resources has released a **significant** Mineral Resource update.

- An increase in total in-situ **Mineral Resource of ~30%**,
- An increase in **Indicated** Category by **64%** (to ~10 million mtu of WO3)**,**
- This follows the recent 24'000 metre diamond drilling campaign which revealed some industry leading higher grade results at depth (8.65m @ 0.56% WO3, 18.24m @ 1.00% WO3).
- The increase in Indicated Resource Classification is key to potential conversion into Mineral Reserves so as to **extend EQR's modest beginnings (of a 4-year reserve life)**.

EQR has also updated its near-term outlook as it approaches first open pit mining:

- Mining **contractor** is set to fully mobilize in **May**
- Open cut **mining** is on track to commence in **June**
- Year 1 **production guidance** issued: 760kt ore mined at 0.44% WO3.

Figure: Mt Carbine MRE April 2023

Orebody	Resource Classification	Tonnes (Mt)	Grade (%WO_3)	WO_3 (mtu)
Low-Grade Stockpile	Indicated	10.126	0.075	759,450
	Indicated	2.75	0.07	178,517
	Inferred	0.83	0.06	53,789
	Subtotal	***13.71***	***0.07***	***991,756***
In-Situ	Indicated	18.06	0.30	5,405,901
	Inferred	10.68	0.30	3,217,311
	Subtotal	***28.74***	***0.30***	***8,623,212***
All	**Total**	**42.45**		**9,614,968**

Notes:
1. Total Estimates are rounded to reflect confidence and resource categorisation
2. Classification of Mineral Resources incorporates the terms and definitions from the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2012) published by the Joint Ore Reserve Committee (JORC)
3. No uppercut was applied to individual assays for this resource; lower cuts of 0.05% & 0.08% WO3 were applied to the resource and reported as Low Grade Insitu and In Situ respectively. These cuts are where mineralisation forms distinct vein zones.
4. Drilling used in this methodology was all diamond drilling with 1/2 core sent acoording to geological intervals to ALS for XRF-15b analysis
5. Resource estiamtation was completed using the Kriging Variable Orientation Estimation Methodology
6. Indicated spacing is approximatley 30 x30m inferred is approximatley 60 x 60m.
7. The deposit is sheeted vein system with subparrallel zones of quartz tungsten mineralisation that extends for >1.2km in length and remains open to the west and north. At depth the South Wall Fault cuts the Iolanthe to Johnson's veins but the Iron Duke zones remain open to depth.

Source: ASX

Track record of positive updates: This Resource increase follows on from other recent updates confirming EQ's ability to deliver on expectations:

- **Fully Funded Development Confirmed:** $5m Drawn from Royalty Pre-payment Agreement. Plus $4.2m due to be received from Critical Minerals Grant Program (31-March)
- Mining Lease Renewed 19 years (24-March)
- **$2.6m in Revenue** from Tungsten and Quarry Rock Sales 6 months to 31-Dec Half Year (15-March)
- Regulatory Approval to Commence Open Pit Mining (6-March)
- **High grade mineralisation identified** (27-Feb)

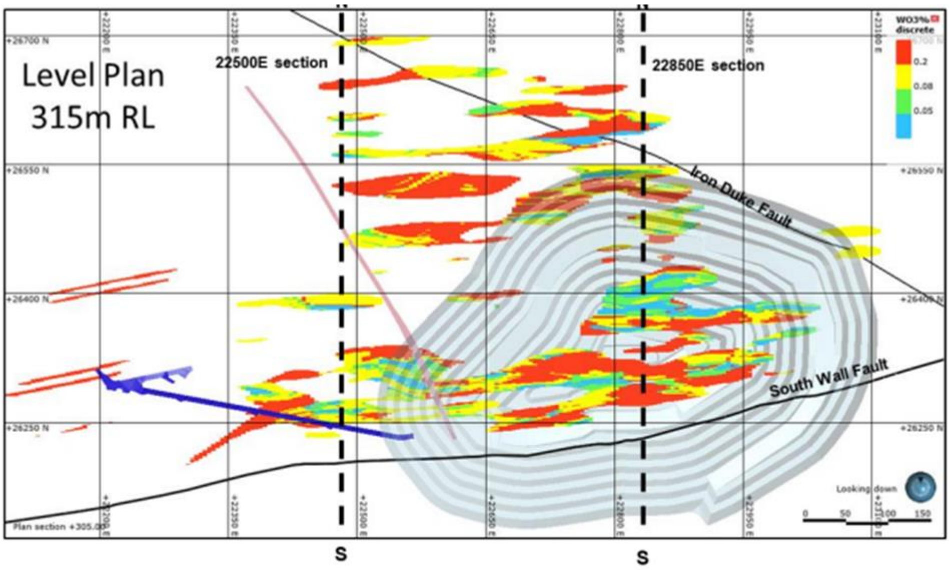
Where to from here? FCF in sight…

- Expect an **updated mining Reserve by mid-year**. We already model 8 years of open cut mining within our ~$200m or 12c valuation, so for us this should be confirmatory (or otherwise) of our positive view on valuation.
- The high-grade drilling results at depth also indicate a **long-term underground extension of Mt Carbine is likely**, providing other long term valuation upside.
- This should see a step change in the Mt Carbine project from modest beginnings as a tailings processing operation, into a multi-year open cut and underground mining project capable of being financed from FCF.

Same tonnage, more concentrate? As tailings swapped out for mined ore.
The risks of restart of the open pit are top of mind given the tumult we see elsewhere in the global tungsten industry (refer Tungsten West's recent recapitalization announcement). Our risk assessment discussions with EQR management broadly confirm:

- **Fully funded** development with drawdowns from royalty and grant agreements announced.
- Processing risk low given tailings have been processed for 18 months now ("trail mining") and plant throughput to be unchanged except for the introduction of roll crushers and more jigs. The company has already processed higher 0.3% material in recent months within expected recoveries (up from the 0.07% material currently).
- Visibility on **1st year production** with guidance 760kt @ 0.44% WO3 to be sourced from a low risk pit floor location. This production guidance is inline with our estimates.
- Open pit has been successfully dewatered, mining fleet and contractor staff sourced and on schedule.
- **FCF in sight:** Management are confident that as first production commences, profitability will follow fast as tungsten prices $320-$330/MTU are well over cost of production ~$170/MTU (PAC estimate).
- We reiterate our positive view on EQR.

Figure: Higher Grade "Pit Floor" Material to be Mined in Year 1



Source: ASX

Meanwhile in the UK

Tungsten West (LSE:TUN) shares were down 53% on 3-April as they launched a recapitalisation plan, largely due to capex inflation and the difficulty in finding finance for a vast lower grade (0.12%) tungsten mine. We profiled the company and its large Hemerdon Mine redevelopment in our recent sector note on page 13.Previous guidance was to commission production later this year. This development highlights that despite wide margins currently on offer from tungsten mining, it remains notoriously difficult to get a tungsten mine financed, developed and into production including successful process plant realisations. This is covered in our recent sector note: [Tungsten Industry - A critical renaissance](March-23)

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