



# Resources Stocks Down Under

🗨️ *It is impossible to produce superior performance unless you do something different from the majority.* 🗨️

- John Templeton (1912-2008), investor

**WALKABOUT RESOURCES**

Funded and ready to roll

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Stocks Down Under rating: ★★★★★

**ASX: WKT**  
**Market cap: A\$113.1M**

**52-week range: A\$0.14 / A\$0.38**  
**Share price: A\$0.24**

When we first looked at the graphite project developer Walkabout Resources in October 2020, the company's flagship Lindi Jumbo Project in Tanzania had completed its Definitive Feasibility Study, but was not yet funded for development. The requisite US\$20m facility was secured six months later, in April 2021, and Walkabout is now building the mine. First production from Lindi Jumbo is now expected this year. With both graphite and Tanzania back in favour, we believe the timing for Walkabout couldn't be better.

## Share price chart



Source: Tradingview

The last few weeks in Resources Stocks Down Under we've been looking at companies developing graphite projects in Tanzania. We believe 2022 is the year in which graphite catches up to lithium in terms of investor interest in the commodity and when companies with projects in Tanzania enjoy a re-rating because of improved sentiment towards that country. The company we're looking at this week, Walkabout Resources, is particularly well placed because its Lindi Jumbo Project is fully funded and is expected to commence production later this year.

## A jumbo project

The 'Lindi' part of Lindi Jumbo refers to the project's location in Lindi Region, one of the 31 regions that make up Tanzania, and the place where you'll find the famous Selous Game Reserve, a UNESCO World Heritage Site. Lindi is also the name of the regional capital down on Tanzania's southeastern coast, but Walkabout's project is a little inland from there, near the town of Ruangwa, about 150 km by road from Lindi Town.

Walkabout discovered its Lindi graphite deposit at Ruangwa in late 2015 and by August 2017 had published a Definitive Feasibility Study. That study, on its second update in March 2019, became the basis for the mine that will come into production this year.

The 'Jumbo' part of Lindi Jumbo refers to the fact that the large portion of the mine's output will be graphite with jumbo-sized flakes. Jumbo, as the term suggests, is coarse-grained graphite that takes a +50 mesh or larger to sort. It's not the sort of material you'd normally seek to put into battery anodes, which is the 'fine'

material that sorts at more like +200 mesh. Jumbo material is, however, a premium product as far as graphite goes because such 'expandable' graphite can find a ready market in fire retardants, among other applications, and there's not much of it around.

### **How'd you like these grades?**

In the graphite game Lindi Jumbo is a relatively small project, but as a company-maker for Walkabout it has a lot to recommend it. For one thing it's very high grade - the Ore Reserve is 5.5 million tonnes at 17.9% TGC ('Total Graphitic Content'). For another, it comes with a very high bang for its buck. Walkabout modelled an operation yielding only 40,000 tonne per annum of graphite concentrate for 24 years. This generated a post-tax Net Present Value of US\$197m at a 10% discount rate, which currently translates to A\$276m. That's after modelling the Tanzanian government's 16% free carried interest, which the government confirmed in 2019 would be satisfied via an issue of shares with a right to 16% of the dividends of Lindi Jumbo. Those shares do not have to be issued until a distribution is made.

That A\$276m NPV may not seem like much compared to other companies we've looked at, but – get this – the Internal Rate of Return on Walkabout's project was a massive 119% while the payback period was less than two years. That's because all the company needed to get going was US\$27.8m in pre-production capital. An average basket price of US\$1,515 a tonne for the product, leading to a market-leading operating margin of 77% – one of the best in the world – did the rest.

No wonder Lindi Jumbo got funded in April last year thanks to a US\$20m facility from CRDB, Tanzania's version of the Commonwealth Bank. It's worthwhile remembering that only 37% of the Measured and Indicated Resource was used in the DFS Ore Reserve, so Lindi Jumbo could end up being one of those multi-generational mines a good graphite deposit is capable of creating.

### **Offtake almost taken care of**

If all goes well for Walkabout, this company will ship its first concentrate from the port of Mtwara, about 200 km to the east of Runagwa, in the September 2022 quarter. At the Annual General Meeting last November, Walkabout assured shareholders that it was on track. A possible risk to this timeline could be delays on shipments of capital goods given the stretched supply chain issues we have been seeing in all sorts of industries in recent months.

Regulatory risk is minimal, in our view, because all the relevant government licenses, approvals and permits for Lindi Jumbo are now in place. That only leaves sales risk. Walkabout already has about three quarters of Lindi Jumbo output spoken for in terms of binding offtake agreements and there are active Memoranda of Understanding for what's still available.

After Lindi Jumbo, Walkabout also has a lead-zinc-silver project in Scotland and a gold project, called Amani, in southwestern Tanzania in an area that has seen a lot of artisanal mining in the recent past. However, at the moment Walkabout Resources is trading at a fraction of just the DFS value of Lindi Jumbo, where that value already models the Tanzanian government's 16% free carry. The \$276m post-tax NPV divided by the 452 million shares on issue suggests 61 cents per share is more appropriate. We think solid execution on the Lindi Jumbo startup can help close that gap. Four stars from us.

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