

Await price of capital raising

Investment Highlights

- We are downgrading our recommendation on WVL to HOLD from BUY with the quantum of capital raising announced today at \$81m larger than we had anticipated (PSL est: \$40m). The structure of the proposed fund raising is yet to be finalised however WVL has noted it is likely to include a rights issue. New debt is capped at \$30m under existing debt arrangements, meaning the remaining capital required under a rights issue is 1.5x the size of WVL's existing market capitalisation. Accordingly the issue price is the key determinant of our per share valuation from here.**
- Funding sources remain unclear.** Discussions are underway with a major Australian bank for provision of up to \$30m. In parallel the company is in negotiations with its key stakeholders for funding. WVL is confident key shareholders/stakeholders are capable of underwriting an equity issue however with global markets remaining volatile demand for the new issue remains a key risk.
- Cost overrun larger than expected.** Little detail was provided on the use of new funds with the cost over run attributed to slippage in the vanadium refinery construction and commissioning / working capital requirements.
- Conservation of cash.** The company has taken a number of measures to conserve cash including staff reductions and approaches to key contractors to renegotiate terms. The rate of ramp up to nameplate capacity has been examined by an independent expert to ensure that working capital requirements are minimised from here. WVL had \$91m in cash at the end of November which is sufficient to meet project expenditure to the end of the March Q 2009.
- Our assumptions.** We have updated our assumptions to include a \$30m debt and \$51m equity raise in the March Q. Our per share valuation for WVL assumes equity is raised at \$0.18/share with 287m new shares to be issued (versus 157m currently on issue). Our NPV (10% discount rate) for the Windimurra project is \$282m which incorporates a US\$29/kg ferrovanadium price for the first five years of production and a US\$30/kg price thereafter (2008 dollars). Our valuation is sensitive to exchange rate fluctuations, with forecasts calling for US\$0.71 USD-AUD cross rate. Operating costs once the project is ramped up are expected to average A\$130m p.a. which implies a US\$17/kg FeV unit cash cost.

23 December 2008

12mth Rating		HOLD
Price	A\$	0.23
Target Price	A\$	0.23
12m Total Return	%	0.0
RIC: WVL.AX		BBG: WVL AU
Shares o/s	m	156.8
Free Float	%	
Market Cap.	A\$m	35.3
Net Debt (Cash)	A\$m	-39.6
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.21
52wk High/Low	A\$	3.00/0.23
2yr adj. beta		1.49

Valuation:

Methodology		DCF
Value per share	A\$	0.45

Analyst:

Alex Passmore

Phone:

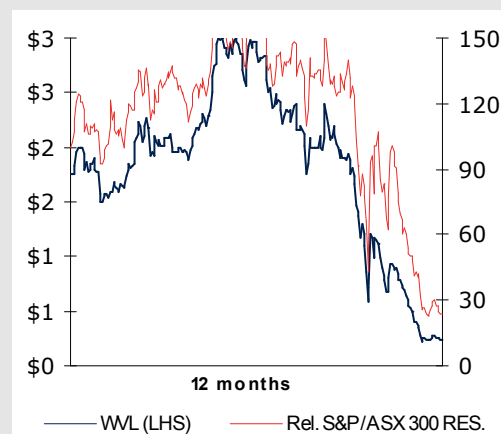
(+61 8) 9263 1239

Email:

apassmore@psl.com.au

Year End June 30	2007A	2008A	2009F	2010F	2011F
Reported NPAT (\$m)	6.5	(2.1)	(21.6)	42.3	53.9
Recurrent NPAT (\$m)	6.5	(2.1)	(21.6)	42.3	53.9
Recurrent EPS (cents)	6.2	(1.4)	(4.8)	9.4	11.9
EPS Growth (%)	na	na	na	na	27.5
PER (x)	3.6	(16.6)	(4.7)	2.4	1.9
EBITDA (\$m)	7.5	6.5	(7.9)	97.2	117.4
EV/EBITDA (x)	4.3	29.0	(36.2)	2.9	2.4
Capex (\$m)	50.0	83.0	247.4	3.7	3.8
Free Cashflow	(45.6)	(99.2)	(253.9)	33.3	63.4
FCFPS (cents)	(43.7)	(63.3)	(56.2)	7.4	14.0
PFCF (x)	(0.5)	(0.4)	(0.4)	3.1	1.6
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0	100.0

Share Price Performance



Performance	%1mth	3mth	12mth
Absolute	-52.3	-86.9	-84.9
Relative	-54.2	-81.2	-73.0

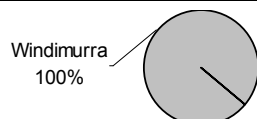
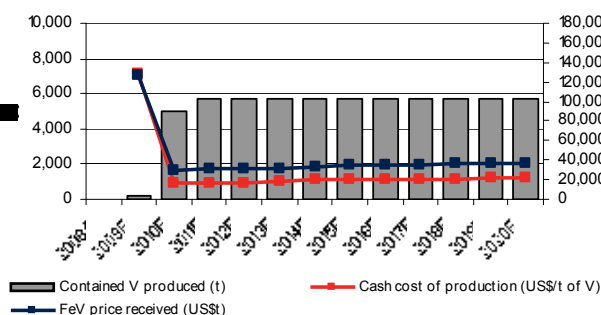
Windimurra Vanadium Ltd**\$0.23**

Valuation	A\$m	A\$/sh**
Windimurra	282	0.62
FX and Commodity Hedging	0	0.00
Unpaid Capital	1	0.00
Corporate	(27)	(0.06)
Exploration	0	0.00
Unpaid Capital/Equity Issue proceeds	51	0.11
Cash (post issue)	81	0.18
Debt (post issue)	(184)	(0.41)
Price Target	203	0.45

(DCF @ 10% Discount Rate)

Sensitivity Analysis

Ferrovanadium Price (US\$/kg)	EBITDA (A\$m)	EV/EBITDA (FY10)
US\$30	62.7	2.2
US\$40	133.7	10
US\$50	176.7	0.8
US\$60	233.7	0.6
US\$70	290.7	0.5

Valuation Summary of Operating Assets**Ferrovanadium Production Summary****Reserves & Resources**

Ore Reserves	Mt	% V2O5	t V
Windimurra	98.0	0.47	257936

Mineral Resources	Mt	% V2O5	kt V
Windimurra	176.6	0.46	454896

Directors

Name	Position
Wolf Martinick	Non-Executive Chairman
Iain Scott	Managing Director
Gary Korte	Executive Director
Earl of Warwick	Non-Executive Director
Ricardo Lieman	Non-Executive Director
Phillip Laskaris	Non-Executive Director
Nicholas Morland	Non-Executive Director

Major Shareholders

	Shares (m) est	%
Matterhorn Investment Management, L.L.P.	19.2	12.3
Ward Ferry Management	9.4	6.0
JPMorgan Asset Management U.K. Limited	9.0	5.8
INVESCO Australia	8.9	5.7
Gersec Trust	8.9	5.6
Kinetic Investment Partners Limited	7.7	4.9

**fully diluted for assumed \$50m equity raise March Q 2009 eq raise at:
17.75

Year End June 30

Commodity Assumptio	2008A	2009F	2010F	2011F
A\$/US\$	0.90	0.70	0.68	0.71
Copper (US\$/lb)	3.53	2.21	1.79	1.81
Lead (US\$/lb)	1.31	0.67	0.61	0.61
Zinc (US\$/lb)	1.8	0.62	0.58	0.60
Nickel (US\$/lb)	12.93	5.97	5.23	5.42
Tin (US\$/lb)	8.5	6.91	5.86	4.53
Ferrovanadium (US\$/kg)	35.00	29.22	29.81	30.41
Iron Ore Fines (US\$/t)	6175	84.48	60.18	57.92

Production Summary 2008A 2009F 2010F 2011F

Contained V produced (t)	2008A	2009F	2010F	2011F
FeV price received (US\$/t)	126,046	29,677	30,410	
Cash cost of production (US\$/t of V)	128,474	17,088	16,921	
Exchange rate received	0.69	0.68	0.71	

Profit & Loss (A\$m) 2008A 2009F 2010F 2011F

Sales Revenue	0.1	42.0	215.6	244.5
Other Income	9.3	4.1	0.6	19
Operating Costs	(19)	42.0	108.0	117.7
Exploration Exp.	0.4	0.8	0.8	0.8
Corporate/Admin	4.4	112	10.3	10.5
EBITDA	6.5	(7.9)	97.2	117.4
Deprn & Amort	0.0	0.6	12.3	14.0
EBIT	6.5	(8.5)	84.9	103.4
Interest	8.7	15.5	17.7	17.7
Operating Profit	(2.2)	(24.0)	67.2	85.6
Tax expense	0.0	0.0	20.2	25.7
Minorities	(0.1)	(2.4)	4.7	6.0
NPAT	(2.1)	(21.6)	42.3	53.9
Significant Items	0.0	0.0	0.0	0.0
Normalised NPAT	(1.5)	(14.4)	42.3	53.9

Cash Flow (A\$m) 2008A 2009F 2010F 2011F

Adjusted Net Profit	(2.1)	(21.6)	42.3	53.9
+Interest/Tax/Expl Exp	9.1	16.3	38.7	44.3
-Interest/Tax/Expl Inc	14.7	17.1	39.5	45.1
+Deprn/Amort	0.0	0.6	12.3	14.0
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	(7.8)	(21.8)	53.8	67.1
- Capex (+asset sales)	83.0	247.4	3.7	3.8
- Working Capital Increase	8.4	(15.2)	16.8	0.0
Free Cashflow	(99.2)	(253.9)	33.2	63.3
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+Equity raised	79.7	51.0	0.0	0.0
+Debt drawdown (repaid)	143.4	32.4	0.0	0.0
Net Change in Cash	123.9	(170.6)	33.2	63.3
Cash at End Period	1913	20.7	54.0	117.3
Net Cash/(LT Debt)	39.6	(163.3)	(130.0)	(66.7)

Balance Sheet (A\$m) 2008A 2009F 2010F 2011F

Cash	1913	20.7	54.0	117.3
Total Assets	339.1	400.9	443.2	497.2
Total Debt	1516	184.0	184.0	184.0
Total Liabilities	152.7	185.1	185.1	185.1
Shareholders Funds	182.8	219.4	261.7	315.7

Ratios

Net Debt/Equity (%)	na	74.4	49.7	21.1
Interest Cover (x)	0.7	na	4.8	5.8
Return on Equity (%)	na	na	16.2	17.1

Research

Mark Simpson – Head of Research Phone: (+61 8) 9263 1678 Email: msimpson@psl.com.au
Andrew Quin - Research Strategy Coordinator Phone: (+61 8) 9263 1152 Email: aquin@psl.com.au

Resources

Andrew Harrington – Coal Analyst Phone: (+61 2) 8238 6214 Email: aharrington@psl.com.au
Alex Passmore – Head of Metals & Mining Phone: (+61 8) 9263 1239 Email: apassmore@psl.com.au
Scott Simpson – Oil & Gas Analyst Phone: (+61 8) 9263 1679 Email: ssimpson@psl.com.au
Levi Spry – Resources Analyst Phone: (+61 8) 9263 1610 Email: lspry@psl.com.au
Josh Welch – Resources Analyst Phone: (+61 8) 9263 1668 Email: jwelch@psl.com.au

Industrials

Allan Franklin – Assistant Analyst Phone: (+61 8) 9263 1151 Email: afranklin@psl.com.au
David Gibson – Industrial Analyst Phone: (+61 8) 9263 1664 Email: dgibson@psl.com.au
Jonathan Kriska – Property Analyst Phone: (+61 2) 8238 6245 Email: jkriska@psl.com.au
Russell Wright - Retail Analyst Phone: (+61 2) 8238 6219 Email: rwright@psl.com.au

Institutional Dealing

Phil Schofield Phone: (+61 2) 8238 6223 Email: pschofield@psl.com.au
Michael Brindal Phone: (+61 2) 8238 6274 Email: mbrindal@psl.com.au
Dan Bahen Phone: (+61 2) 8238 6237 Email: dbahen@psl.com.au
Paul Doherty Phone: (+61 3) 8803 0108 Email: pdoherty@psl.com.au
Trent Foxe Phone: (+61 2) 8238 6265 Email: tfoxe@pls.com.au
Andrew Frazer Phone: (+61 8) 9263 1241 Email: afraczer@psl.com.au
Jason Lal Phone: (+61 2) 8238 6276 Email: jlal@psl.com.au
Ben McIlvrive Phone: (+61 2) 8238 6253 Email: bmcilvrive@psl.com.au
Jeremy Nugara Phone: (+61 3) 8803 0166 Email: jnugara@psl.com.au
Trevor Pike Phone: (+61 3) 8803 0110 Email: tpike@psl.com.au
Nicholas Whiteley Phone: (+61 2) 8238 6244 Email: nwhiteley@psl.com.au
Sandy Wylie Phone: (+61 8) 9263 1232 Email: swylie@psl.com.au

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Participant of ASX Group
Securities & Derivatives Industry Association Principal Member
Financial Planning Association Principal Member



Western Australia

Perth - Head Office: Level 23, Exchange Plaza, 2 The Esplanade, Perth, Western Australia 6000
Ph: (+61 8) 9263 1111 Fax: (+61 8) 9325 6452 Email: patersons@psl.com.au

West Perth Office: Level 2, 34 Colin Street, West Perth Western Australia 6005
Ph: (+61 8) 9482 0900 Fax: (+61 8) 9482 0999 Email: patersons@psl.com.au

Albany Office: Level 2, Middleton Centre, 184 Aberdeen Street, Albany, Western Australia 6330
Ph: (+61 8) 9842 4700 Fax: (+61 8) 9841 4211 Email: albany@psl.com.au

Bunbury Office: Unit 3, 53 Victoria Street Bunbury, Western Australia 6230
Ph: (+61 8) 707 2000 Fax: (+61 8) 9721 1840 Email: bunbury@psl.com.au

Busselton Office: Suite 1, 72 Duchess Street, Busselton Western Australia 6280
Ph: (+61 8) 9754 0700 Fax: (+61 8) 9754 4333 Email: busselton@psl.com.au

Kalgoorlie Office: 63 Hannan Street, Kalgoorlie, Western Australia 6430
Ph: (+61 8) 9021 1422 Fax: (+61 8) 9021 8133 Email: kalgoorlie@psl.com.au

New South Wales

Sydney Office: Level 27, 264 George Street, Sydney New South Wales 2000
Ph: (+61 2) 8238 6222 Fax: (+61 2) 8238 6266 Email: sydney@psl.com.au

Victoria

Melbourne Office: Level 18, 90 Collins Street, Melbourne Victoria 3000
Ph: (+61 3) 8803 0100 Fax: (+61 3) 8803 0199 Email: melbourne@psl.com.au

Queensland

Brisbane Office: Level 37, 123 Eagle Street, Brisbane Queensland 4000
Ph: (+61 7) 3737 8000 Fax: (+61 7) 3737 8100 Email: brisbane@psl.com.au

ACT

Canberra Office: Level 4, 53 Blackall Street, Barton ACT 2600
Ph: (+61 2) 6120 2222 Fax: (+61 2) 6273 3433 Email: canberra@psl.com.au