

Neometals Ltd

All on track for mid-year lithium production

Construction of the Mt Marion Lithium Mine in WA (NMT 45%, Mineral Resources (ASX:MIN) 30%, Jiangxi Ganfeng Lithium 25%) started in November 2015, with MIN funding the capex on a BOO basis. In the 28 January 2016 Quarterly Activities Report, NMT restated a **mid-2016 production start-date** (State One forecast: July 2016) with first shipments expected in the September 2016 quarter.

NMT and MIN also announced that 100% offtake partner **Ganfeng has agreed to expand the scope of the current 200ktpa 6% spodumene concentrate offtake agreement**, by 80ktpa of additional lower-grade (4-6%) material which could be generated through the addition of a flotation circuit to the current beneficiation plant.

During the quarter, work commenced on the DFS for the down-stream Lithium Hydroxide Project (the DFS is on-schedule for completion in mid-2016).

Post the quarterly activities report, NMT announced that the first 46 RC drill holes of a 335-hole resource infill and extension programme at Mt Marion was completed at the No.6 Deposit. The drill programme is expected to be completed in the June quarter 2016, with an upgraded Mineral Resource Estimate and Ore Reserve planned to be completed in the June and September 2016 quarters respectively.

NPV-based valuation: A\$0.27ps (unchanged)

With production on track for a mid-year start, and with 100% offtake contracted to JV partner Ganfeng for the first three years, we believe that NMT is well-positioned to take advantage of a strong demand environment for lithium oxide. Risks to our earnings profile and target price include, but are not limited to: lithium oxide and AUD:USD exchange rate volatility, the production start-date at Mt Marion and subsequent ramp-up profile, the start-up date and operational performance at the lithium oxide beneficiating plant (currently in DFS-stage), and project development (particularly funding) at NMT's (100%) Barrambie Titanium-Vanadium Project.

2 February 2016

NMT A\$0.155 (TP A\$0.27)

Recommendation
Speculative Buy

Risk Assessment
Higher

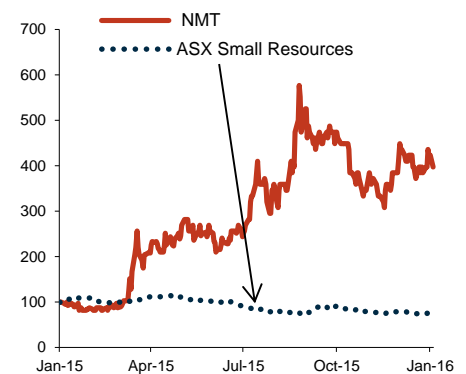
Resources – Lithium

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Neometals Ltd

ASX Code	NMT
52 week range	A\$0.03-A\$0.23
Market Cap (A\$m)	92
Shares Outstanding (m)	559
Av Daily Turnover (shares)	1.7m
ASX All Ordinaries	5,094
FY16E BV per share (A\$)	0.02
EPS FY16E (A\$)	-0.01
Net Debt/(Cash) FY16E (A\$m)	-16

Relative price performance



Source: IRESS

Key Financials

Year-end June	FY15A	FY16E	FY17E	FY18E	FY19E
Spodume price (US\$/t)	450	450	450	459	468
AUD:USD	0.83	0.74	0.80	0.80	0.80
ARP (A\$/t)	na	na	544	555	566
Sales (NMT interest) (t)	na	0	90,000	90,000	90,000
Revenue (A\$m)	0	0	48.9	49.9	50.9
EBITDA (A\$m)	-11.3	-4.4	10.3	10.6	10.9
Costs (A\$/t ore)	na	na	49	50	51
Costs (A\$/conc.)	na	na	430	437	444
Normalised NPAT (A\$m)	-10.7	-4.6	6.3	6.6	6.9
EPS Reported (A\$)	-0.02	-0.01	0.01	0.01	0.01
EPS Normalised (A\$)	-0.02	-0.01	0.01	0.01	0.01
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
PER (x)	na	na	14.0	13.4	12.7
Net debt / (cash) (A\$m)	1	-16	-23	-29	-36
Capex (A\$m)	-3	-4	-2	-2	-2

Source: IRESS, CompanyData, State One Stockbroking. Share price: \$ 0.155 Feb 01, 2016



Financial Statements

Neometals Limited

Year ending June

Profit & Loss Statement (A\$M)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	0.0	0	49	50	51
Mining	0.0	0	(12)	(12)	(12)
Processing	0.0	0	(14)	(14)	(14)
Corporate/Royalty/Other	(11.3)	(4)	(13)	(13)	(14)
EBITDA	(11.3)	(4)	10	11	11
Depreciation & Amortisation	0.0	0	(2)	(2)	(2)
Operating profit	(11.3)	(4)	9	9	9
NOI	0.0	0	0	0	0
EBIT	(11.3)	(4)	9	9	9
Interest income	0.8	0	0	1	1
Interest expense	(0.5)	(0)	(0)	(0)	(0)
Tax expense	0.3	0	(3)	(3)	(3)
Reported NPAT	(10.7)	(5)	6	7	7
Normalised NPAT	(10.7)	(5)	6	7	7
EBITDA Margin (%)	na	na	21%	21%	21%
Operating profit margin (%)	na	na	18%	18%	19%
EPS Reported (A\$)	(0.02)	(0.01)	0.01	0.01	0.01
EPS Normalised (A\$)	(0.02)	(0.01)	0.01	0.01	0.01
EPS growth (%)	nm	nm	nm	5%	5%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	502	544	569	569	569
YE no. of fully-diluted shares (m)	509	569	569	569	569

Cash Flow Statement (A\$M)	FY15A	FY16E	FY17E	FY18E	FY19E
EBITDA	(10.9)	(4)	10	11	11
Investment in working capital	(0.2)	(0)	1	0	0
Tax expense	0.3	0	(3)	(3)	(3)
Operating Cash Flow	(10.8)	(4)	9	8	8
Capex	(2.7)	(4)	(2)	(2)	(2)
Other investments	0.0	26	0	0	0
Investing Cash Flow	(2.7)	22	(2)	(2)	(2)
Net interest received / (paid)	0.3	(0)	0	0	0
Debt draw down / (repayment)	0.0	0	0	0	0
Dividends paid	0.0	0	0	0	0
Equity raised / (repaid)	(0.1)	0	0	0	0
Financing Cash Flow	0.2	(0)	0	0	0
Non-operating & Other	7.7	(0)	0	0	0
Inc/(Dec) in Cash	(5.6)	17	7	6	6

Balance Sheet (A\$M)	FY15A	FY16E	FY17E	FY18E	FY19E
Cash & Equivalents	1.4	18	25	31	38
Receivables	0.6	1	5	5	5
Inventories	0.0	0	4	4	4
Other Current Assets	1.0	1	1	1	1
PPE and Exploration & Development	12.7	17	17	18	18
Deferred tax asset	0.0	0	0	0	0
Other Non Current Assets	6.8	(19)	(19)	(19)	(19)
Total Assets	22.6	18	33	40	47
Payables and other current Liabilities	2.1	2	11	11	11
Short Term Debt	1.9	2	2	2	2
Long Term Debt	0.0	0	0	0	0
Other Non Current Liabilities	5.3	5	5	5	5
Total Liabilities	9.3	9	18	18	18
Total Equity	13.2	9	15	22	28
Net Debt (Cash)	0.5	(16)	(23)	(29)	(36)

Top 3 Shareholders	%	Date
Melaid Holding Inc	7.9	
HSBC Custody Nominees (Australia) l	3.7	Sep-15
JP Morgan Nominees Australia Ltd	3.4	

Source: Company, IRESS, State One Stockbroking forecasts

Lithium Price	FY15A	FY16E	FY17E	FY18E	FY19E
Spodumene (6% Li ₂ O) (CIF, US\$/t)	450	450	450	459	468
AUD:USD	0.83	0.74	0.80	0.80	0.80
Spodumene (Li ₂ O) (CIF, A\$/t)	542	608	563	574	585
NMT Average Received Price (A\$/t)	na	na	544	555	566
Premium / (discount)	na	na	-3%	-3%	-3%

Production profile (Mt Marion)	FY15A	FY16E	FY17E	FY18E	FY19E
Mill throughput (Mt)	0	0	1.75	1.75	1.75
Li ₂ O grade (%)	0	1.37%	1.37%	1.37%	1.37%
Target concentrate Li ₂ O grade (%)	0	6.00%	6.00%	6.00%	6.00%
Spodumene grade (%)	0	22.8%	22.8%	22.8%	22.8%
Spodumene tonnage (t)	0	0	399,583	399,583	399,583
Recovery (%)	0	50%	50%	50%	50%
Spodumene conc. (t) (100%)	0	0	200,000	200,000	200,000
NMT equity share (%)	na	45%	45%	45%	45%
NMT equity share (t)	na	0	90,000	90,000	90,000

Costs (A\$/t Spodumene conc.)	FY15A	FY16E	FY17E	FY18E	FY19E
Mining	na	na	132	134	136
Processing	na	na	152	155	158
Corporate/Royalty/Other	na	na	146	148	150
Total unit cash costs	na	na	430	437	444

Resources (JORC)	Status	Mt	Grade (%)	Tonnes
Mt Marion Lithium Project	Indicated	10.1	1.5%	145,725
	Inferred	13.2	1.3%	176,746
	Total	23.2	1.4%	322,471
Barrambie Ti-V Project	TiO ₂	47.2	22.2%	10,468,960
	V ₂ O ₅	47.2	0.6%	297,360
	Fe ₂ O ₃	47.2	46.7%	22,042,400

Note: Barrambie Resource is 74% Indicated and 26% Inferred

Leverage	FY15A	FY16E	FY17E	FY18E	FY19E
Net Debt/Equity	4%	cash	cash	cash	cash
Gearing (ND/ND+E)	2%	cash	cash	cash	cash
Interest Cover (x)	na	-34.5	na	na	na

Valuation Ratios (x)	FY15A	FY16E	FY17E	FY18E	FY19E
Normalised P/E	na	na	12.2	11.6	11.1
Price/OP Cash Flow	-7	-17	8.9	9.9	9.6
Book value per share (A\$)	0.03	0.02	0.03	0.04	0.05
EV/EBITDA	-7	-13	5	4.4	3.6
ROE (%)	-81%	-53%	42%	31%	24%

SOTP Valuation	(A\$m)	(A\$/share)	Comment
Mt Marion Lithium Mine inventory	70	0.12	NPV valuation
Downstream Processing (unrisked)	119	0.21	NPV valuation
Downstream risk weighting	50%		
Downstream Processing (risked)	60	0.10	50% of unrisked NPV
Barrambie Titanium Project	10	0.02	Nominal
Other (Lake Johnston Ni Project)	0	0.00	
Group Enterprise value	139	0.24	
Net (debt)/cash (FY16E)	16	0.03	
Group Equity value	155	0.27	

Neometals Ltd (NMT, formerly Reed Resources Ltd) has a 45% equity interest in the Mt Marion Lithium Project (WA), which is scheduled for first production of 200ktpa Li₂O from mid-2016. NMT also has a 70% interest in a downstream processing venture - Reed Advanced Materials (RAM) - which is looking to beneficiate a portion of the Mt Marion output to higher-value Lithium Hydroxide (LiOH) and Lithium Carbonate (Li₂CO₃). In addition, NMT has a 100% interest in the large (44Mt) Barrambie Titanium-Vanadium Project (WA); NST's pre-feasibility study (PFS) estimates the project's NPV at A\$355m.



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