

Neometals Ltd

Industry player confirms Mt Marion's value

NMT announced on 3 February 2016 that Mt Marion JV partner Jiangxi Ganfeng Lithium (Ganfeng) has exercised its option to acquire an additional 18.1% in the Mt Marion Lithium Project for US\$27.15m (~A\$38m at US\$0.71). Financial close is expected to occur within ten (10) business days.

Figure 1: Mt Marion Project ownership

	Old	New	Change
Neometals	45.0%	26.9%	-18.1%
Mineral Resources	30.0%	30.0%	0.0%
Ganfeng	25.0%	43.1%	18.1%
Total	100.0%	100.0%	

Note: Mineral Resources has a call option to acquire 13.1% from NMT at a similar price paid by Ganfeng (i.e., US\$1.5m per 1% interest). The expiry date of the call option is linked to certain Project milestones, expected to be achieved in Q4 2016.

Source: Company, compiled by State One Stockbroking

NPV-based valuation: A\$0.29ps (A\$0.27ps)

NMT's interest in the Mt Marion Project has fallen to 26.9% from 45%, while Ganfeng's interest has increased to 43.1% from 25%. Mineral Resources' (ASX: MIN) interest is unchanged at 30%. We believe that Ganfeng's decision to exercise the option to increase its stake for a higher consideration - relative to the US\$19.5m paid in July 2015 for an initial 25% interest - illustrates the robustness of the project, and its strategic importance to China's second largest lithium producer. The US\$27.15m consideration equates to US\$1.5m per 1% equity interest and implies a project value (100%) of US\$150m (A\$211m); this is significantly above our estimated Mt Marion NPV of A\$155m.

We note with interest that the announcement states that the NMT board "is finalising its approach with respect to capital management having regards to its future strategic needs and outlook". We suggest that with A\$31m cash in the bank (A\$29m net) as at the end of December 2015, and a A\$38m (pre-tax) cash injection due shortly, **a share buyback or special dividend may be in the offing**. We revise up our NPV-derived target price to A\$0.29ps (A\$0.27ps previously). 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, and project development at the downstream Li Project and Barrambie.

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	53,800	53,800	53,800
Revenue (A\$m)	0	0	29.3	29.8	30.4
EBITDA (A\$m)	-11.3	-4.3	4.5	4.7	4.9
Costs (A\$/t ore)	na	na	53	53	54
Costs (A\$/conc.)	na	na	460	467	474
Normalised NPAT (A\$m)	-10.7	-4.4	2.8	3.0	3.2
EPS Reported (A\$)	-0.02	-0.01	0.00	0.01	0.01
EPS Normalised (A\$)	-0.02	-0.01	0.00	0.01	0.01
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
PER (x)	na	na	36.4	34.3	32.4
Net debt / (cash) (A\$m)	1	-55	-58	-61	-63
Capex (A\$m)	-3	-3	-2	-2	-2

Source: IRESS, Company Data, State One Stockbroking. Share price: \$ 0.180 Feb 03, 2016

3 February 2016

NMT A\$0.175 (TP A\$0.29)

Recommendation
Speculative Buy

Risk Assessment
Higher

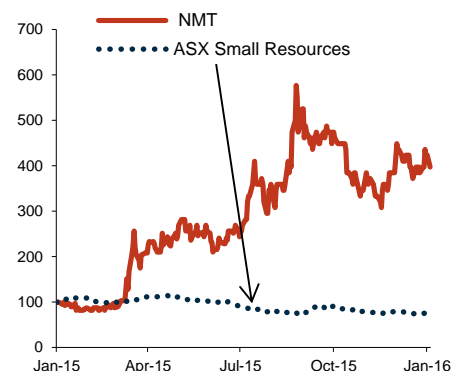
Resources – Lithium

David Brennan, CFA
Senior Investment Analyst
dbrennan@stateone.com.au
+61 (0)2 9024 9142

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	4,950
FY16E BV per share (A\$)	0.08
EPS FY16E (A\$)	-0.01
Net Debt/(Cash) FY16E (A\$m)	-55

Relative price performance



Source: IRESS

Financial Statements

Neometals Limited

Year ending June

Profit & Loss Statement (A\$M)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	0.0	0	29	30	30
Mining	0.0	0	(7)	(7)	(7)
Processing	0.0	0	(8)	(8)	(8)
Corporate/Royalty/Other	(11.3)	(4)	(9)	(10)	(10)
EBITDA	(11.3)	(4)	5	5	5
Depreciation & Amortisation	0.0	0	(2)	(2)	(2)
Operating profit	(11.3)	(4)	3	3	3
NOI	0.0	0	0	0	0
EBIT	(11.3)	(4)	3	3	3
Interest income	0.8	0	1	1	1
Interest expense	(0.5)	(0)	(0)	(0)	(0)
Tax expense	0.3	0	(1)	(1)	(1)
Reported NPAT	(10.7)	(4)	3	3	3
Normalised NPAT	(10.7)	(4)	3	3	3
EBITDA Margin (%)	na	na	15%	16%	16%
Operating profit margin (%)	na	na	10%	11%	11%
EPS Reported (A\$)	(0.02)	(0.01)	0.00	0.01	0.01
EPS Normalised (A\$)	(0.02)	(0.01)	0.00	0.01	0.01
EPS growth (%)	nm	nm	nm	6%	6%
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)	5	5	5
Investment in working capital	(0.2)	(0)	1	0	0
Tax expense	0.3	0	(1)	(1)	(1)
Operating Cash Flow	(10.8)	(4)	4	3	4
Capex	(2.7)	(3)	(2)	(2)	(2)
Other investments	0.0	26	0	0	0
Investing Cash Flow	(2.7)	23	(2)	(2)	(2)
Net interest received / (paid)	0.3	(0)	1	1	1
Debt draw down / (repayment)	0.0	0	0	0	0
Dividends paid	0.0	0	0	0	0
Equity raised / (repaid)	(0.1)	38	0	0	0
Financing Cash Flow	0.2	38	1	1	1
Non-operating & Other	7.7	(0)	0	0	0
Inc/(Dec) in Cash	(5.6)	56	3	3	3

Balance Sheet (A\$M)	FY15A	FY16E	FY17E	FY18E	FY19E
Cash & Equivalents	1.4	57	60	63	65
Receivables	0.6	1	3	3	3
Inventories	0.0	0	2	2	2
Other Current Assets	1.0	1	1	1	1
PPE and Exploration & Development	12.7	16	17	17	18
Deferred tax asset	0.0	0	0	0	0
Other Non Current Assets	6.8	(19)	(19)	(19)	(19)
Total Assets	22.6	56	64	67	70
Payables and other current Liabilities	2.1	2	7	7	7
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	14	14	14
Total Equity	13.2	47	50	53	56
Net Debt (Cash)	0.5	(55)	(58)	(61)	(63)

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	27%	27%	27%	27%
NMT equity share (t)	na	0	53,800	53,800	53,800

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	176	178	180
Total unit cash costs	na	na	460	467	474

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	-33.1	na	na	na

Valuation Ratios (x)	FY15A	FY16E	FY17E	FY18E	FY19E
Normalised P/E	na	na	36.4	34.3	32.4
Price/OP Cash Flow	-10	-24	26.6	29.6	28.6
Book value per share (A\$)	0.03	0.08	0.09	0.09	0.10
EV/EBITDA	-8	-8	7	6.1	5.3
ROE (%)	-81%	-9%	6%	6%	6%

SOTP Valuation	(A\$m)	(A\$/share)	Comment
Mt Marion Lithium Mine inventory	42	0.07	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	111	0.20	
Net (debt)/cash (FY16E)	55	0.10	
Group Equity value	167	0.29	

Neometals Ltd (NMT, formerly Reed Resources Ltd) has a 26.9% 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); NMT's pre-feasibility study (PFS) estimates the project's NPV at A\$355m.



Graeme Johnson
Equities & Derivatives
Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Karen Tan
Equities Advisor
Phone: +61 8 9288 3303
ktan@stateone.com.au

Peter Wong
Equities Advisor
Phone: +61 8 9288 3330
pwong@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

Alexander Bax
Equities Advisor
Phone +61 8 9288 3340
abax@stateone.com.au

Robert Chen
Equities Advisor
Phone: +61 2 9024 9132
rchen@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

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