

Neometals Ltd

(NMT \$0.29) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	3 rd March 2016	\$0.37/sh

Company Update

Investment case

Neometals is a near term producer of lithium into a strong market. NMT's model is unique in that it has a strong balance sheet at startup due to no capital outlay, strong and credible partners, albeit at the cost of a diluted ownership in the mine. Nevertheless NMT remains the best ASX leverage to this asset which should outperform operationally, and possibly deliver significant resource growth. Both equity partners, MinRes (operator) and Ganfeng (offtaker) have demonstrated their desire for Mt Marion to succeed. Margins for Lithium producers have historically been in downstream conversion into value added products. While Neometals has diluted its upstream leverage in order to eliminate risk it retains downstream leverage with its LiOH Project. This project will be the value driver in the med-long run. Meanwhile shareholders will be rewarded with a 2cps return. Our valuation is upgraded to \$0.37/sh.

Key points

We have reviewed our assumptions in light of several positive developments during the last month, and fine-tuned our financial model.

- Tianqi Lithium (China), a 51% owner in Talison (Greenbushes, WA) announced a 15-20% price increase for its spodumene concentrate products. This is understood to have direct implication for other spodumene producers and emerging producers. Spodumene concentrate prices were previously US\$435-US\$450/t CIF China, and now indicated at ~US\$540/t CIF China.
- We have assumed Mt Marion pricing of US\$540/t in FY'17 & FY'18, then moderating to US\$475/t over the ensuing 2 yrs, flat thereafter.
- Mineral Resources revealed it expects \$35m pa EBITDA from its 30% share of Mt Marion, up from A\$23m pa as guided in November 2015. We have made assumptions about the respective BOO and mine equity splits and aligned our model accordingly on a like-for-like basis for NMT's 26.9% stake.
- Ganfeng requested early exercise on its right to acquire an additional 18.1% of RIM (the subsidiary that owns Mt Marion) for US\$27.15m. The 2nd tranche of US\$13.575m is due to settle by 31st March. NMT will then have A\$66-A\$68m in cash and no debt.
- NMT have announced an intention to pay a \$0.01/sh capital return and \$0.01/sh unfranked dividend (\$11m total), to be followed by a \$5m on-market share buy-back. The mix of capital return and dividend are subject to an ATO ruling and shareholder approval, with the shareholder meeting expected mid April 2016.
- We have modelled the LiOH project (NMT 70% and MIN 30%) which is currently the subject of a DFS due for completion in mid 2016. This project offers very attractive financial returns and has significant strategic value in the current tight market for lithium products. We have upgraded the value assigned to the project to \$57m (100% basis). This is a heavily discounted value reflecting the development, funding and price risks which still lay ahead. We expect the discount to diminish as we become more comfortable with the risks, and as project milestones evolve. We also expect NMT & MIN to seek a partner that will assist in offtake and funding the development, like as occurred with Mt Marion.

Neometals has numerous identifiable milestones over the next six months, including:

- Update on progress of ongoing exploration drilling, including assay results;
- Commencement of operations at Mt Marion, including mining, crushing, final product and shipments progressively;
- Mineral Resource estimate revision, based on the drilling results;
- Ore Reserve estimate for the first time;
- LiOH Project Definitive Feasibility Study;
- Capital return and dividend.

Neometals Ltd	Year End 30 June	
Share Price	0.29	A\$/sh
Price Target	0.37	A\$/sh
Valuation	0.37	A\$/sh

Shares on issue	565	m, diluted *
Market Capitalisation	163	A\$m
Enterprise Value	96	A\$m
Debt	0	A\$m
Cash	67	A\$m
Largest Shareholder	D Reed- 11.7%	

Production F/Cast	2016f	2017f	2018f
Conc Product. (kt)	280	200	200
Li2O Product. (kt)	0.00	37.59	37.59
Total Cost (US\$/t)	0.00	324.29	322.71

Assumptions	2016f	2017f	2018f
Li Price US\$/lb	445	540	540
AUDUSD	0.71	0.71	0.74

Key Financials	2016f	2017f	2018f
Revenue (A\$m)	0	47	45
EBITDA (A\$m)	-5	19	18
NPAT (A\$m)	-5	19	18
Cashflow (A\$m)	-4	19	18

CFPS (Ac)	-1	3	3
P/CFPS (x)	-35.2	8.7	9.4

EPS (Ac)	-1	3	3
EPS growth (%)	0%	-505%	-7%
PER (x)	-35.2	8.7	9.4

EV:EBITDA (x)	-25.6	5.3	4.9
EV:EBIT (x)	-24.8	5.4	4.9

DPS (Ac)	2.0	0.0	0.0
Dividend Yield (%)	7%	0%	0%

ND:Net Debt+Equity (%)	43%	44%	46%
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Share Price Chart



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Neometals Ltd

(NMT \$0.29) Buy

Market Statistics		Year End 30 June	
Share Price	\$0.29 A\$/sh	Directors	
Issued Capital		S Cole	Chair
Fully Paid Ord	559 m	D Reed	NE Dir
Options (var. prices)	6 m	C Reed	MD
Total Dil. FPOrd	565 m		
		Shareholders	
Market Capitalisation (dil)	\$163 m	D Reed	11.7%
Enterprise Value	\$96 m	Melaid	7.2%
Cash	\$67 m		
Debt	\$-		

Asset Valuation	A\$m	A\$/sh
NMT-Mt Marion	84	0.15
Li Hydroxide	40	0.07
Barrambie Ti	3	0.01
Other Exploration	1	0.00
Corp&Tax Losses	17	0.03
Working Capital	(6)	(0.01)
Debt	-	-
Cash	67	0.12
Unpaid Capital	1	0.00
Total	206	0.37

F/Cast Production (A\$m)	2016f	2017f	2018f	2019f	2020f	
Sales 100%						
Li Conc 6% Li2O	kt	-	200	200	200	200
Li Conc 4% Li2O	kt	-	80	80	80	80
Li Conc Total	kt	-	280	280	280	280
Li2CO3 eq	kt	-	38	38	38	38
Cash Costs (feed)	A\$/t	-	52	52	51	50
Cash Costs (prod)	A\$/t	-	324	323	317	315

Assumptions	US\$/t	445	540	540	500	475
Spod Conc Price	US\$/t	445	540	540	500	475
FX Rate ass'd	A\$/US\$	0.71	0.71	0.74	0.77	0.78

Ratio Analysis (A\$m)	2016f	2017f	2018f	2019f	2020f
Cashflow	-4	19	18	13	11
Cashflow per Share	-1	3	3	2	2
Cashflow Ratio (x)	0.0	8.5	9.1	12.5	14.7
Earnings	-5	19	18	13	11
Earnings per Share	-1	3	3	2	2
EPS Growth (%)	0%	-505%	-7%	-28%	-16%
Earnings Ratio (x)	-35.2	8.7	9.4	12.9	15.5
Enterprise Value	116	102	86	75	64
EV : EBITDA	-25.6	5.3	4.9	5.8	5.9
EV : EBIT	-24.8	5.4	4.9	5.9	6.1

Net Debt : Net Debt+Equity (%)	43%	44%	46%	46%	46%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	-7%	25%	19%	12%	9%
Return on Assets (%)	-7%	23%	18%	11%	9%
Dividend (c/sh)	2	0	0	0	0
Dividend payout ratio	-243%	0%	0%	0%	0%
Dividend Yield	7%	0%	0%	0%	0%
Dividend Franking	100%	100%	100%	100%	100%

Profit and Loss (A\$m)	2016f	2017f	2018f	2019f	2020f
Sales Revenue	0	47	45	40	38
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
Total Revenue	0	47	45	40	38
Opex	1	24	24	24	24
O/H	4	3	3	3	3
Provisions	0	0	0	0	0
Other	0	0	0	0	0
EBITDA	-5	19	18	13	11
D&A	0	0	0	0	0
EBIT	-5	19	18	13	11
Finance costs	0	0	0	0	0
PBT	-5	19	18	13	11
Tax	0	0	0	0	0
NPAT	-5	19	18	13	11

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	-5	19	18	13	11
Working Capital	0	0	0	0	0
+ Dep/Amort	0	0	0	0	0
+ Tax Expense	0	0	0	0	0
- Tax Paid	0	0	0	0	0
= Operating Cashflow	-4	19	18	13	11
-Capex + Development	1	2	2	2	0
-Exploration	1	0	0	0	0
-Assets Purchased	0	0	0	0	0
+Asset Sales	63	0	0	0	0
+Other	1	0	0	0	0
= Investing Cashflow	63	-2	-2	-2	0
+ Equity Issues (Rts,plc,opts)	1	-4	0	0	0
+Loan Drawdown	0	0	0	0	0
+Other	0	0	0	0	0
-Loan Repayment	2	0	0	0	0
-Dividends	11	0	0	0	0
-Interest Payments	0	0	0	0	0
= Financing Cashflow	-12	-4	0	0	0
Period Surplus	47	13	16	11	11
FX Adjustments	0	0	0	0	0
CASH	48	61	77	88	99
CASH & Equiv	54	68	84	95	106

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	48	61	77	88	99
Current Receivables	1	1	1	1	1
Other Current Assets	1	1	1	1	1
Total Current Assets	49	63	79	90	101
PP&E, MineProp, EE&D	14	14	14	14	14
Other	7	7	7	7	7
Total NC Assets	21	21	21	21	21
Total Assets	70	84	100	111	122
Liabilities					
Borrowings	0	0	0	0	0
Trade Payables	1	1	1	1	1
Provisions	7	7	7	7	7
Other Liabilities	0	0	0	0	0
Total Liabilities	7	7	7	7	7
Net Assets	63	76	92	103	114

Reserves and Resources

Mt Marion Lithium Deposits	Tonnes	Li2O	Fe2O3
	mt	%	%
Area 1	Ind	4.4	1.46
Area 1	Inf	2.2	1.34
Area 2	Ind	1.3	1.47
Area 2	Inf	1.0	1.44
Area 2W	Ind	3.4	1.48
Area 2W	Inf	4.5	1.40
Area 4	Ind	0.9	1.25
Area 4	Inf	1.3	1.34
Area 5	Inf	1.0	1.33
Area 6	Inf	3.2	1.24
Total Indicated		10.1	1.45
Total Inferred		13.2	1.34
Total		23.2	1.40
Exploration Target (add'l)		15-25	1.3-1.4

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