

# Neometals Ltd

## (NMT \$0.39) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	2 <sup>nd</sup> May 2016	\$0.44/sh

### March 2016 Quarterly Report & Resource Drilling

#### Investment case

Neometals is a near term producer of lithium (spodumene concentrate) into a strong market. NMT's model is unique in that it has a strong balance sheet at startup, strong and credible partners, albeit at the cost of a diluted ownership in the mine. Nevertheless NMT remains the best ASX leverage to the Mt Marion mine. Mt Marion offers growth in resources, production and margin into a tight market. Both equity partners, MinRes (operator) and Ganfeng (offtaker) have demonstrated their desire for Mt Marion to succeed. Margins for Lithium producers have historically favoured 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. NMT recently paid 2cps dividend indicating its intention to reward shareholders in the long run.

#### Key points

##### Lithium Market

- Downstream Lithium product pricing remains strong. June Q'16 contract prices for Lithium Carbonate are cited at US\$10,000-US\$15,000/t (volume, del. USA) and Lithium Hydroxide US\$14,000-US\$20,000/t (volume, del. Europe/USA). Until recently these prices were relatively stable at US\$6,500/t-8,500/t and US\$9,750/t respectively. Spot market prices within China for Lithium Carbonate are >US\$20,000/t and China spot Lithium Hydroxide >US\$25,000/t.
- Lithium (spodumene) mineral product pricing also remains very tight while demand growth is strong and Talison (Greenbushes WA, owned by Albemarle 49% and Tianqi 51%) is effectively restricting supply to 3rd party Chinese converters. NMT refers to spodumene concentrate pricing of US\$540/t CIF China (basis 6.0% Li2O) as was published by Tianqi in Feb'16, and also confirmed by Ganfeng.
- General Mining Corp (ASX:GMM) has subsequently achieved superior pricing, agreeing to supply 60kt spodumene concentrate during December H'16 at US\$600/t FOB, basis 5.5% Li2O) to two Chinese buyers via Mitsubishi as its marketing agent, with 50% of the contract value (US\$18m) to be received upfront as a pre-payment.

##### Mt Marion Project

- Mt Marion Lithium Project (NMT 27%, MIN 30%, Ganfeng 43%) development remains on track for 1st sales in Sep'16 Q.
- Mining on Pit 1 has commenced with overburden removal, and first ore delivery to the ROM pad is expected in early May.
- The project is designed to produce in excess of 200,000tpa of chemical (battery) grade spodumene concentrate (grading 6.0% Li2O), with Ganfeng committed to purchase 100% of product for the 1st 3 years.
- Mineral Resources Ltd, under its BOO arrangement has effectively warranted this as a minimum level of production, with associated costs. Ultimately we believe the plant will be capable significantly greater production volumes with lower unit costs a natural consequence. MinRes has an excellent reputation for actual production volumes ahead of original expectation, and we believe Mt Marion is likely to follow a similar pattern.

Neometals Ltd	Year End 30 June	
Share Price	0.39	A\$/sh
Price Target	0.44	A\$/sh
Valuation	0.44	A\$/sh

Shares on issue	565	m, diluted
Market Capitalisation	220	A\$m
Enterprise Value	166	A\$m
Debt	0	A\$m
Cash	54	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	326.69	326.69

Assumptions	2016f	2017f	2018f
Li Price US\$/lb	445	600	600
AUDUSD	0.73	0.75	0.75

Key Financials	2016f	2017f	2018f
Revenue (A\$m)	0	49	49
EBITDA (A\$m)	-3	21	21
NPAT (A\$m)	22	21	21
Cashflow (A\$m)	22	22	22

CFPS (Ac)	4	4	4
P/CFPS (x)	9.9	10.5	10.4

EPS (Ac)	4	4	4
EPS growth (%)	0%	-6%	1%
PER (x)	9.9	10.5	10.4

EV:EBITDA (x)	-52.1	7.2	6.3
EV:EBIT (x)	-50.0	7.4	6.4

DPS (Ac)	2.0	0.0	0.0
Dividend Yield (%)	5%	0%	0%

ND:Net Debt+Equity (%)	44%	45%	46%
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#### Share Price Chart



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## Neometals Ltd

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- An additional 80ktpa of 4.0% Li<sub>2</sub>O fines concentrate to be produced through a flotation circuit is conditionally agreed by the partners. An offtake MoU on this product has been agreed with Ganfeng. Modifications to the plant design, and commercial and operational arrangements are being formulated prior to formal agreements.
- Mt Marion is currently supported by a Indicated & Inferred Mineral Resource of 23mt grading 1.4% Li<sub>2</sub>O.
- Exploration drilling has been ongoing since late 2015 with a 40,000m program that remains ongoing, with approx. 21,000m drilled during the March Q'16. The objective of the program is to convert the existing Exploration Target of 15-25mt of 1.3-1.4% Li<sub>2</sub>O into a larger JORC compliant Mineral Resource.
- Results to date have shown mineralisation is wider to the east, open to the north & east, and possibly faulted to the west. Generally the ore horizon is thicker than previously seen. We expect the Exploration Target will be realised into a Mineral Resource and ultimately high conversion ratio into Ore Reserve. It is possible a larger mineral resource estimate will support greater production volumes.
- An updated Mineral Resource estimate and maiden Ore Reserve estimate is scheduled for June Q'16 and Sep Q'16 respectively.

#### Other

- Cash at 31st March stood at \$65m prior to allowing for payment of the 2cps unfranked dividend on 7th April. Proforma cash stands at \$54m.
- Lithium Hydroxide Project (LiOH) Definitive Feasibility Study (70% NMT & 30% MIN) utilising the patented ELi Process, is on track for completion in June 2016.
- Barrambie Titanium Project (NMT 100%) will undergo mini-pilot plant optimisation testwork from June 2016, leading to full pilot plant evaluation in early 2017, leading to a feasibility study later in 2017. NMT will ultimately seek an industry partner to participate once the project has advanced to a suitable stage.
- NMT has entered into an exclusive global (ex Russia, China) licence arrangement with the owner of the proprietary processing technology (on a 25/75 basis) to be used at Barrambie to commercialise and develop the technology suitable on other sites globally. NMT and Sedgman (Cimic Group ASX:CIM) have agreed a strategic alliance to identify opportunities globally and subsequent implementation the technology at no upfront cost to NMT.

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Market Statistics		Year End 30 June	
<b>Share Price</b>	<b>\$0.390 A\$/sh</b>	<b>Directors</b>	
Issued Capital		S Cole	Chair
Fully Paid Ord	559 m	D Reed	NE Dir
Options (var. prices)	6 m	C Reed	MD
<b>Total Dil. FPOrd</b>	<b>565 m</b>		
		<b>Shareholders</b>	
Market Capitalisation (dil)	\$220 m	D Reed	11.7%
Enterprise Value	\$166 m	Melaid	7.2%
Cash	\$54 m		
Debt	\$0 m		

Asset Valuation	A\$m	A\$/sh
NMT-Mt Marion	113	0.20
Li Hydroxide	53	0.09
Barrambie Ti	5	0.01
Other Exploration	5	0.01
Corp&Tax Losses	15	0.03
Working Capital	-	-
Debt	0	0.00
Cash	54	0.10
Unpaid Capital	1	0.00
<b>Total</b>	<b>246</b>	<b>0.44</b>

F/Cast Production (A\$m)	2016f	2017f	2018f	2019f	2020f	
<b>Sales 100%</b>						
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	-	327	327	318	315

Assumptions	US\$/t	445	600	600	500	475
Spod Conc Price	US\$/t	445	600	600	500	475
FX Rate ass'd	A\$/US\$	0.73	0.75	0.75	0.77	0.78

Ratio Analysis (A\$m)	2016f	2017f	2018f	2019f	2020f
Cashflow	22	22	22	13	11
Cashflow per Share	4	4	4	2	2
Cashflow Ratio (x)	0.0	10.2	10.2	16.5	19.8
Earnings	22	21	21	13	11
Earnings per Share	4	4	4	2	2
EPS Growth (%)	0%	-6%	1%	-39%	-18%
Earnings Ratio (x)	9.9	10.5	10.4	17.1	20.8
Enterprise Value	171	155	136	125	113
EV : EBITDA	-52.1	7.2	6.3	9.4	10.4
EV : EBIT	-50.0	7.4	6.4	9.6	10.7

Net Debt : Net Debt+Equity (%)	44%	45%	46%	47%	47%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	36%	27%	22%	12%	9%
Return on Assets (%)	-5%	25%	20%	11%	8%
Dividend (c/sh)	2	0	0	0	0
Dividend payout ratio	51%	0%	0%	0%	0%
Dividend Yield	5%	0%	0%	0%	0%
Dividend Franking	100%	100%	100%	100%	100%

Profit and Loss (A\$m)	2016f	2017f	2018f	2019f	2020f
Sales Revenue	0	49	49	40	38
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>0</b>	<b>49</b>	<b>49</b>	<b>40</b>	<b>38</b>
Opex	0	25	25	24	24
O/H	3	3	3	3	3
Provisions	0	0	0	0	0
Other	-26	0	0	0	0
<b>EBITDA</b>	<b>-3</b>	<b>21</b>	<b>21</b>	<b>13</b>	<b>11</b>
D&A	0	0	0	0	0
<b>EBIT</b>	<b>-3</b>	<b>21</b>	<b>21</b>	<b>13</b>	<b>11</b>
Finance costs	0	0	0	0	0
PBT	22	21	21	13	11
Tax	0	0	0	0	0
<b>NPAT</b>	<b>22</b>	<b>21</b>	<b>21</b>	<b>13</b>	<b>11</b>

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	22	21	21	13	11
Working Capital	-1	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
<b>= Operating Cashflow</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>13</b>	<b>11</b>
-Capex + Development	1	2	2	2	0
-Exploration	1	0	0	0	0
-Assets Purchased	0	0	0	0	0
+Asset Sales	37	0	0	0	0
+Other	3	0	0	0	0
<b>= Investing Cashflow</b>	<b>38</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>0</b>
+ 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	0	0	0	0	0
-Dividends	11	0	0	0	0
-Interest Payments	0	0	0	0	0
<b>= Financing Cashflow</b>	<b>-12</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Period Surplus</b>	<b>48</b>	<b>16</b>	<b>20</b>	<b>11</b>	<b>11</b>
FX Adjustments	0	0	0	0	0
CASH	49	64	84	95	106
<b>CASH &amp; Equiv</b>	<b>55</b>	<b>71</b>	<b>90</b>	<b>102</b>	<b>113</b>

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
<b>Assets</b>					
Cash	49	64	84	95	106
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>49</b>	<b>65</b>	<b>84</b>	<b>96</b>	<b>107</b>
PP&E, MineProp, EE&D	13	13	13	13	13
Other	6	6	6	6	6
<b>Total NC Assets</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>
<b>Total Assets</b>	<b>68</b>	<b>84</b>	<b>104</b>	<b>115</b>	<b>126</b>
<b>Liabilities</b>					
Borrowings	0	0	0	0	0
Trade Payables	0	0	0	0	0
Provisions	6	6	6	6	6
Other Liabilities	0	0	0	0	0
<b>Total Liabilities</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Net Assets</b>	<b>62</b>	<b>78</b>	<b>98</b>	<b>109</b>	<b>120</b>

## 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
<b>Total</b>		<b>23.2</b>	<b>1.40</b>
Exploration Target (add'l)		15-25	1.3-1.4

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