Neometals Ltd

(NMT $0.48) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	2nd June 2016	$0.60/sh

Expanded Offtake

Investment case

Mt Marion is emerging as a potential world class Li spodumene mine with initial production in a few months. A revised offtake agreement implies an expanded production outlook, now expected to produce ~50ktpa LCE. This will make Mt Marion the 2nd largest primary Li production source globally, behind Greenbushes, and with 100% of offtake committed by Ganfeng, the worlds largest producer of downstream Li products. This production level represents ~25% of current global LCE demand-supply. Neometals stake is modest, soon to be 13.8%, but also strategic, amongst two quality partners Ganfeng & MinRes at 43.1% each. Growth in Mt Marion mineral resources is expected in the near term. The LiOH Project (NMT 70%) will drive further value into NMT in the short-medium term, with BFS due imminently. Margins in Li production are historically in downstream conversion of concentrate. Neometals has a debt free balance sheet, and a track record for paying dividends. We have upgraded our valuation to $0.60/sh.

Key points

Ganfeng has agreed to an expanded “take or pay” offtake arrangement for Mt Marion product. The new volume commitment is for a total of 400ktpa of spodumene concentrate product, up from the previously announced 280ktpa.

This has caused us to upgrade our valuation to $0.60/sh only a week after our prior upgrades on the back of modified operating and product price assumption. We now have greater insight into expected Mt Marion production.

Mt Marion is owned by RIM PtyLtd, whose shareholders are Ganfeng 43.1%, MinRes 30% (option to 43.1%), Neometals 26.9% (going to 13.8% for US$19.65m cash). Mt Marion is operated by MinRes under a Build-Own-Operate arrangement.

The increased offtake is conditional upon MinRes and RIM agreeing variations to the Mining Services Agreement as part of the BOO arrangement.

Ganfeng and RIM agreed to an expanded offtake from 200ktpa to 280ktpa in January 2016. This remained subject to varying the MSA with MinRes which in turn was subject to completion of the metallurgical testwork. The additional material contemplated production of 80ktpa of fines grading 4% Li_2O to 6.0% Li_2O produced via a flotation circuit.

It is evident to us that metallurgical testwork on flotation recovery has yielded better results than anticipated, although no details have been provided. It is implicit the RIM partners are satisfied Mt Marion is technically capable of producing the 400ktpa of spodumene concentrate product.

We have upgraded our Mt Marion model to reflect this anticipated level of production. Our model assumes the following steady state parameters:

- Throughput: 2.0mtpa, unchanged;
- Head grade: 1.40% Li_2O, previously 1.37%;
- Li_2O recovery: 73.5%, up from 63% previously;
- Product – Std 6.0% Li_2O: 230ktpa, 236ktpa previously;
- Product – Fines 4.0% Li_2O: 170ktpa, 80ktpa previously;
- Operating Costs: A$260/t product inclusive royalty, $320/t previously.

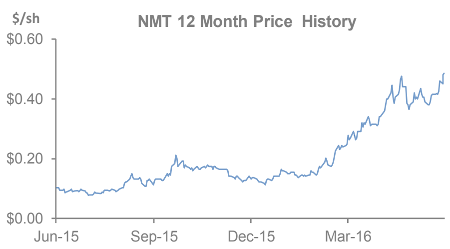
Neometals Ltd		Year End 30 June
Share Price	0.48	A$/sh
Price Target	0.60	A$/sh
Valuation	0.60	A$/sh
Shares on issue	565	m, diluted *
Market Capitalisation	271	A$m
Enterprise Value	217	A$m
Debt	0	A$m
Cash	54	A$m
Largest Shareholder		D Reed- 11.7%

Production F/Cast	2016f	2017f	2018f
Conc Product. (kt)	0	250	400
LCE Product (kt)	0	33	51
Total Cost (US$/t)	0	354	264

Assumptions	2016f	2017f	2018f
Li Price	540	650	600
AUDUSD	0.73	0.75	0.76

Key Financials	2016f	2017f	2018f
Revenue (A$m)	0	32	34
EBITDA (A$m)	-3	12	16
NPAT (A$m)	22	12	16
Cashflow (A$m)	22	13	16
CFPS (Ac)	4	2	3
P/CFPS (x)	12.1	22.4	16.7
EPS (Ac)	4	2	3
EPS growth (%)	0%	-46%	34%
PER (x)	12.1	22.4	16.7
EV:EBITDA (x)	-67.6	17.3	12.3
EV:EBIT (x)	-64.9	17.8	12.4
DPS (Ac)	2.0	0.0	0.0
Dividend Yield (%)	4%	0%	0%
ND:Net Debt+Equity (%)	44%	44%	45%

Share Price Chart



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The new expected production rate of 400ktpa equates to 51ktpa LCE (Lithium Carbonate Equivalents). This will make Mt Marion the 2nd largest primary Li producing facility globally. Second only to Talison (Greenbushes), producing some 60ktpa LCE, which is owned 51% Tianqi & 49% Albemarle.

Investors should recall the spectacular exploration success achieved at Mt Marion less than 2 weeks ago. We believe the Mt Marion Mineral Resource estimate will be 50-80mt by year end, up from the currently known 23mt. We expect further exploration updates in the coming weeks.

We are also cognisant that Ganfeng is the world's largest producer of downstream Li products, currently some 40ktpa LCE. Ganfeng has recently announced conversion capacity expansion by an additional 32ktpa LCE at two separate sites in China (15ktpa LCE Xinyu and 17ktpa LCE Ningdu). Our estimates suggest Ganfeng will satisfy 50% to 65% of its expanded demand under the new Mt Marion Offtake Agreements.

In other words we believe Ganfeng has yet further additional demand capacity to be addressed in future, perhaps by further expansion at Mt Marion. Remember that Mt Marion ultimate production rate has not been optimised in light of a the ultimate scale of mineral resource which are still being defined.

In our view Mt Marion is heading into "world class" territory in a Lithium sense. In our experience World Class mining assets are rarely owned by small companies (either partially or wholly) for the long term. Further, "world class" assets transact at "world class" values. We cite Rockwood (now Albemarle) paying US$475m for 49% share in Greenbushes in May 2014, well before the Li price rises were a reality and before the Li equity market boom.

Arguably Neometals' 13.8% stake in RIM and 70% stake in RAM has a strategic value in that it represents the "balance of power" between the two otherwise equal partners Ganfeng 43.1% and MinRes 43.1%.

Ultimately a takeover outcome for NMT is a possible scenario. Enhancing this possibility is that RIM is entitled to 51% of Mt Marion offtake after Year 3 should a greater commercial benefit be derived elsewhere.

We note that RAM Pty Ltd (70% NMT and 30% MIN) is expected to deliver a Bankable Feasibility Study on its LiOH Project, utilising the proprietary ELi process, in June 2016. The PFS has previously determined a +90% IRR can be earned on the LiOH Project. Arguably this constitutes a "greater commercial benefit" to RIM for the 51% share of Mt Marion product that would be consumed, should NMT & MIN proceed to invest approximately US$100m to build the project.

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Market Statistics — Year End 30 June

Share Price	**$0.48**	**A$/sh**
Issued Capital		
Fully Paid Ord	559	m
Options (var. prices)	6	m
Total Dil. FPOrd	**565**	**m**
Market Capitalisation	$271	m
Enterprise Value	$217	m
Cash	$54	m
Debt	$0	m

Directors	
S Cole	Chair
D Reed	NE Dir
N Streltsova	NE Dir
D Ritchie	NE Dir
C Reed	MD
Shareholders	
D Reed	11.7%
Melaid	7.2%

Asset Valuation

	A$m	A$/sh
RIM (Mt Marion) 13.8%	163	0.29
RAM (LiOH) 70.0%	84	0.15
Barrambie Ti	5	0.01
Alphamet Ti	3	0.01
Expl'n & Inv (HNR)	5	0.01
Corp & Tax Losses	22	0.04
Working Capital	-	-
unpaid capital	0	0.00
Debt	54	0.10
Cash	1	0.00
Total	**337**	**0.60**

F/Cast Production (A$m)

		2016f	2017f	2018f	2019f	2020f
Sales 100%						
Li Conc 6% Li2O	kt	-	170	230	230	230
Li Conc 4% Li2O	kt	-	80	170	170	170
Li Conc Total	kt		250	400	400	400
Li2CO3 eq	kt	-	33	51	51	51
Cash Costs (feed)	A$/t	-	59	53	52	51
Cash Costs (prod)	A$/t	-	354	264	260	256
Assumptions						
Spod Conc Price	US$/t	540	650	600	550	500
FX Rate ass'd	A$/US$	0.73	0.75	0.76	0.77	0.78

Ratio Analysis (A$m)

	2016f	2017f	2018f	2019f	2020f
Cashflow	22	13	16	13	11
Cashflow per Share	4	2	3	2	2
Cashflow Ratio (x)	0.0	21.7	16.5	20.4	25.5
Earnings	22	12	16	13	10
Earnings per Share	4	2	3	2	2
EPS Growth (%)	0%	-46%	34%	-20%	-21%
Earnings Ratio (x)	12.1	22.4	16.7	20.7	26.2
Enterprise Value	222	215	201	190	179
EV : EBITDA	-67.6	17.3	12.3	14.4	17.1
EV : EBIT	-64.9	17.8	12.4	14.5	17.3
Net Debt : Net Debt+Equity (%)	44%	44%	45%	46%	46%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	36%	18%	19%	14%	10%
Return on Assets (%)	-5%	16%	18%	13%	9%
Dividend (c/sh)	2	0	0	0	0
Dividend payout ratio	51%	0%	0%	0%	0%
Dividend Yield	4%	0%	0%	0%	0%
Dividend Franking	100%	100%	100%	100%	100%

Profit and Loss (A$m)

	2016f	2017f	2018f	2019f	2020f
Sales Revenue	0	32	34	31	28
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
Total Revenue	**0**	**32**	**34**	**31**	**28**
Opex	0	17	15	14	14
O/H	3	3	3	3	3
Provisions	0	0	0	0	0
Other	-26	0	0	0	0
EBITDA	**-3**	**12**	**16**	**13**	**10**
D&A	0	0	0	0	0
EBIT	**-3**	**12**	**16**	**13**	**10**
Finance costs	0	0	0	0	0
PBT	22	12	16	13	10
Tax	0	0	0	0	0
NPAT	**22**	**12**	**16**	**13**	**10**

Cash Flow (A$m)

	2016f	2017f	2018f	2019f	2020f
Net Profit	22	12	16	13	10
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
= Operating Cashflow	**22**	**13**	**16**	**13**	**11**
-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
= Investing Cashflow	**38**	**-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	0	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	**48**	**7**	**14**	**11**	**11**
FX Adjustments	0	0	0	0	0
CASH	49	55	70	81	92
CASH & Equiv	**55**	**62**	**76**	**87**	**98**

Balance Sheet (A$m)

	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	49	55	70	81	92
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Total Current Assets	49	56	70	82	92
PP&E, MineProp, EE&D	13	13	13	13	13
Other	6	6	6	6	6
Total NC Assets	**19**	**19**	**19**	**19**	**19**
Total Assets	**68**	**75**	**89**	**101**	**111**
Liabilities					
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
Total Liabilities	**6**	**6**	**6**	**6**	**6**
Net Assets	**62**	**69**	**83**	**95**	**105**

Reserves and Resources

Mt Marion Lithium Deposits		Tonnes mt	Li2O %	Fe2O3 %
Area 1	Ind	4.4	1.46	1.3
Area 1	Inf	2.2	1.34	1.6
Area 2	Ind	1.3	1.47	1.6
Area 2	Inf	1.0	1.44	1.7
Area 2W	Ind	3.4	1.48	1.2
Area 2W	Inf	4.5	1.40	1.1
Area 4	Ind	0.9	1.25	1.4
Area 4	Inf	1.3	1.34	1.3
Area 5	Inf	1.0	1.33	2.4z
Area 6	Inf	3.2	1.24	1.7
Total Indicated		**10.1**	**1.45**	**1.3**
Total Inferred		**13.2**	**1.34**	**1.5**
Total		**23.2**	**1.40**	**1.4**
Exploration Target (add'l)		**15-25**	**1.3-1.4**	

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