

AUSTRALIA

NMT AU **Outperform**

Price (at 05:11, 02 Nov 2016 GMT) **A\$0.36**

Valuation **A\$ 0.40**

- DCF (WACC 8.0%, beta 0.1, ERP 5.0%, RFR 11.9%)

12-month target **A\$ 0.40**

12-month TSR **% +12.7**

Volatility Index **Very High**

GICS sector **Materials**

Market cap **A\$m 200**

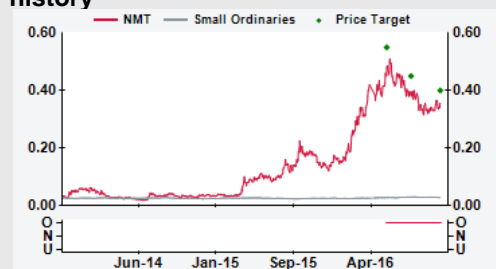
30-day avg turnover **A\$m 0.1**

Number shares on issue **m 563.0**

Investment fundamentals

Year end 30 Jun		2016A	2017E	2018E	2019E
Revenue	m	0.0	17.6	46.2	44.6
EBIT	m	-5.0	6.0	27.7	26.1
Reported profit	m	84.6	5.6	21.1	20.6
Adjusted profit	m	-3.9	5.6	21.1	20.6
Gross cashflow	m	-3.9	5.8	21.5	21.0
CFPS	¢	-0.7	1.0	3.8	3.7
CFPS growth	%	57.5	nfmf	269.7	-2.1
PGCFPS	x	nfmf	34.6	9.4	9.6
PGCFPS rel	x	nfmf	3.52	1.03	1.17
EPS adj	¢	-0.7	1.0	3.7	3.6
EPS adj growth	%	57.5	nfmf	273.9	-2.2
PER adj	x	nfmf	35.7	9.5	9.8
PER rel	x	nfmf	2.25	0.68	0.81
Total DPS	¢	2.0	0.0	0.0	0.0
Total div yield	%	5.6	0.0	0.0	0.0
ROA	%	-8.5	6.1	23.9	18.0
ROE	%	-7.5	6.1	19.9	16.3
EV/EBITDA	x	-25.1	20.5	4.5	4.8
Net debt/equity	%	-81.7	-74.6	-85.3	-93.4
P/BV	x	2.2	2.1	1.7	1.5

NMT AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2016 (all figures in AUD unless noted)

2 November 2016

Macquarie Securities (Australia) Limited

Neometals

Mt Marion commissioning begins

Event

- We update our view on NMT.

Impact

- Mt Marion approaching production.** Construction of the Mt Marion spodumene project continued during the September quarter. Commissioning of the crushing and beneficiation circuits is now underway. First ore was fed into the beneficiation plant of 28 September.
- Exploration programme and resource upgrade.** An exploration drilling programme has been underway at Mt Marion to extend the resource. This programme was completed in September and a revised resource was released at the end of October. The current resource now stands at 77.8Mt at a grade of 1.37% LiO₂ containing 1.06Mt of Lithia. A total of 28.9Mt at 1.35% LiO₂ is now classified as Indicated. Further exploration potential still exists to the north of Deposit 2 and north-west of Deposit 6.
- ELi project progressing.** NMT continued to advance its ELi Process project, completing and Feasibility Study in the September quarter. The FS envisages the production of 20,000tpa of lithium carbonate equivalent as lithium hydroxide at a plant located in Malaysia. NMT has come to the conclusion that such a project would probably take too long to commercialise to enter the current market. The project is being continued but NMT will also pursue more conventional means of entering the conversion sector.
- Downstream MoU with MIN.** NMT and Mineral Resources (MIN AU, A\$11.56, Neutral, TP: A\$11.70, Andrew Wackett), its partner in the Mt Marion project have signed an MoU to examine options for downstream processing of spodumene concentrate. The MoU envisages processing of concentrate from Mt Marion at a plant in Western Australia's Eastern Goldfields region to produce battery quality lithium hydroxide. The company expects to be able to leverage off its existing relationship with Ganfeng.

Earnings and target price revision

- We have updated our model for a slight delay in the expected first production from Mt Marion and NMT's FY16 financial result.

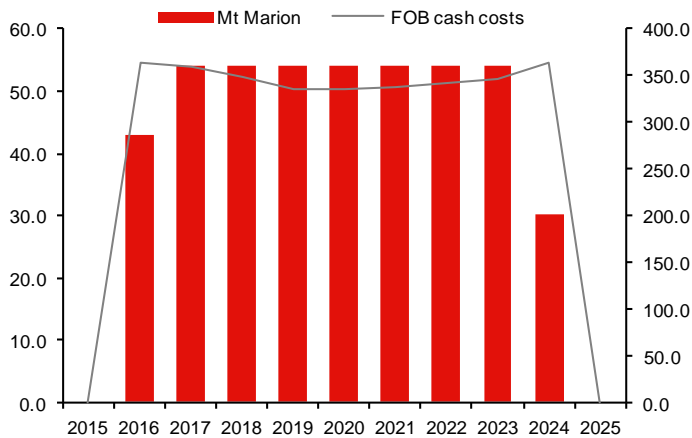
Price catalyst

- 12-month price target: A\$0.40 based on a DCF methodology.
- Catalyst: Commercial production at Mt Marion will be a key catalyst for NMT as will progress on the evaluation of the potential downstream processing option.

Action and recommendation

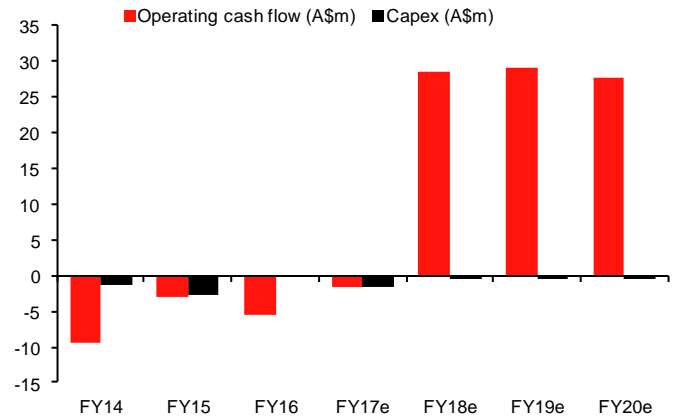
- Maintain Outperform.** Mt Marion is approaching production, NMT through its JV with MIN and Ganfeng looks likely to be the first new market entrant in the spodumene market. However, we believe the clear drive towards downstream processing is indicative of an expected reversion of the current market dynamic with pricing power returning to the downstream processors.

Fig 1 Modelled Mt Marion production



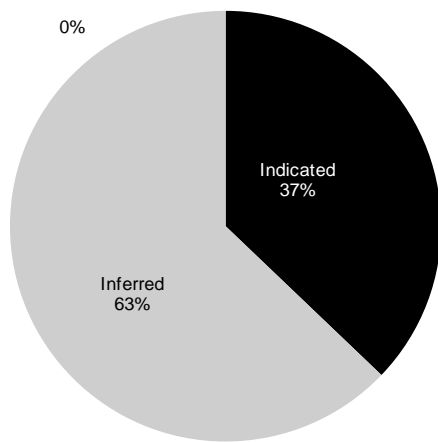
Source: NMT, Macquarie Research, November 2016

Fig 2 NMT cash flow and capex profile



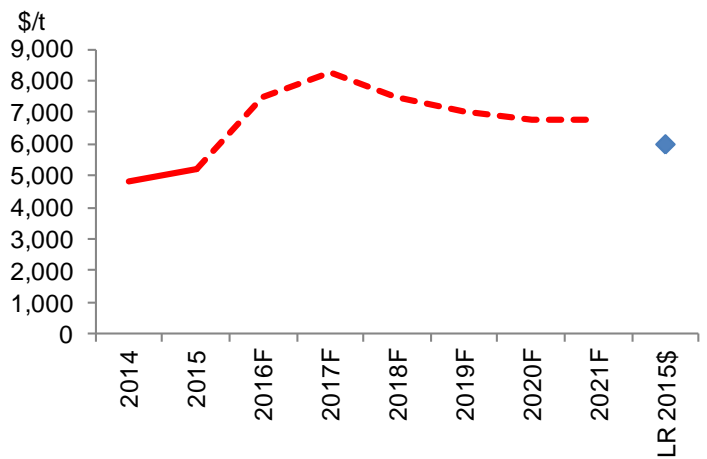
Source: NMT, Macquarie Research, November 2016

Fig 3 Mt Marion resources



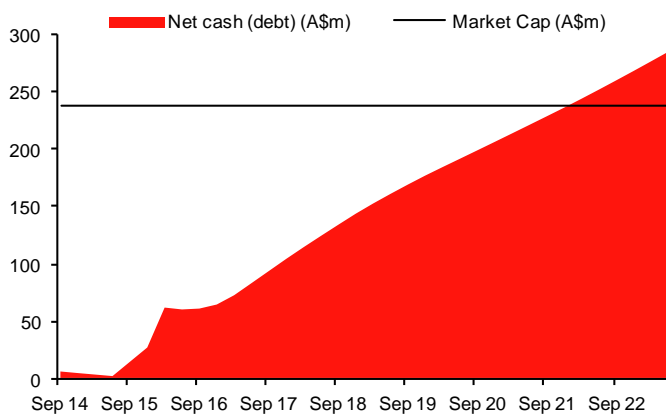
Source: NMT, Macquarie Research, November 2016

Fig 4 Macquarie benchmark LCE price forecast



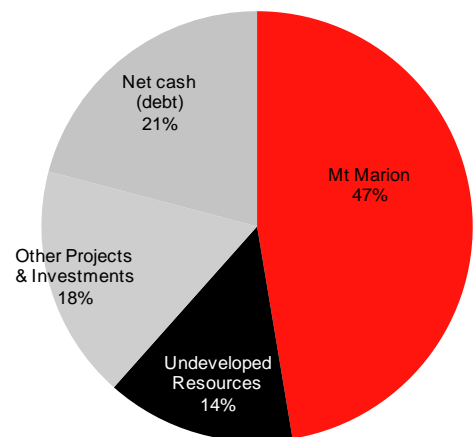
Source: NMT, Macquarie Research, November 2016

Fig 5 NMT cumulative cash generation



Source: NMT, Macquarie Research, November 2016

Fig 6 NMT NPV breakdown



Source: NMT, Macquarie Research, November 2016

Fig 7 NMT summary model

ASSUMPTIONS		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Exchange Rate	A\$/US\$	0.73	0.75	0.72	0.73	0.74	0.75
Lithium Carbonate Equivalent	US\$/t	6114	8294	8000	7100	6875	6750
Spodumene (6% CIF)	US\$/t	328	480	512	469	454	445
RATIO ANALYSIS		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Diluted share capital	m	566.4	566.4	566.4	566.4	566.4	566.4
EPS (diluted and pre sig. items)	A¢	-0.7	1.0	3.7	3.6	3.4	3.3
P/E	x	-52.6x	36.2x	9.7x	9.9x	10.7x	10.9x
CFPS	A¢	(1.0)	(0.3)	5.0	5.1	4.9	4.8
P/CF	x	-36.5x	-135.9x	7.1x	7.0x	7.3x	7.5x
DPS	A¢	2.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	5.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking Level	%	0%	0%	0%	0%	0%	0%
Book value per share	x	0.16	0.17	0.21	0.24	0.20	0.24
P/Book value	x	2.3x	2.1x	1.8x	1.5x	1.8x	1.5x
R.O.E. (pre sig items)	%	-4%	6%	18%	15%	16%	14%
R.O.A. (pre sig items)	%	-5%	6%	21%	16%	12%	10%
Interest Cover	x	12.5x	-2.9x	-11.5x	-7.9x	-5.6x	-4.4x
EBITDA per share	A\$ps	-0.01	0.01	0.05	0.05	0.04	0.04
EV/EBITDA	x	-25.9x	21.5x	3.7x	2.9x	2.1x	1.0x

ATTRIBUTABLE MINE OUTPUT		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Spodumene (kt)							
Mt Marion	kt	-	21	51	56	56	56
Total	kt	-	21	51	56	56	56
Tantalite (k lb)							
Mt Marion	k lb	-	0	0	0	0	0
Total	k lb	-	0	0	0	0	0
Sales							
Spodumene	kt	-	136	372	403	403	403
Tantalite	kt	-	0	0	0	0	0
Total	kt	-	136	372	403	403	403
Total LCE produced							
FOB cash costs	(A\$/wmt)	-	392	273	251	248	246
AISC	(A\$/wmt)	-	479	281	257	253	251
FOB Costs (LCE)	(US\$/t)	-	4439	2987	2531	2501	2491
All in Cash Costs (LCE)	(US\$/t)	-	4967	3034	2569	2534	2519

OPERATIONAL OUTLOOK							

EARNINGS		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Sales Revenue	A\$m	0	18	46	45	43	41
Other Revenue	A\$m	0	0	0	0	0	0
Total Revenue	A\$m	0	18	46	45	43	41
Operating Costs	A\$m	0	(7)	(14)	(14)	(14)	(13)
Operational EBITDA	A\$m	0	10	32	31	29	28
Exploration Expense/Write-offs	A\$m	0	0	0	0	(1)	(1)
Corporate & Other Costs	A\$m	(5)	(4)	(4)	(4)	(4)	(4)
EBITDA	A\$m	(5)	6	28	27	24	22
D&A	A\$m	0	(0)	(0)	(0)	(0)	(0)
EBIT	A\$m	(5)	6	28	26	23	22
Net Interest	A\$m	0	2	2	3	4	5
Profit Before Tax	A\$m	(5)	8	30	29	27	27
Tax Expense	A\$m	1	(2)	(9)	(9)	(8)	(8)
Minorities	A\$m	0	0	0	0	0	0
Adjusted NPAT	A\$m	(4)	6	21	21	19	19
Significant Items (post tax)	A\$m	88	0	0	0	0	0
Reported NPAT	A\$m	85	6	21	21	19	19

CASHFLOW		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Net Profit	A\$m	85	6	21	21	19	19
Interest/Tax/D&A	A\$m	(2)	2	8	8	9	8
Working Capital/other	A\$m	(89)	(9)	(1)	0	0	0
Net Operating Cashflow	A\$m	(6)	(2)	29	29	28	27
Capex	A\$m	(0)	(2)	(0)	(1)	(1)	(1)
Investments	A\$m	89	0	0	0	0	0
Sale of PPE and Other	A\$m	(1)	0	0	0	0	0
Free cash flow	A\$m	83	(3)	28	29	27	27
Dividends Paid	A\$m	(11)	0	0	0	0	0
Debt	A\$m	1	0	0	0	0	0
Equity Issuance	A\$m	(0)	0	0	0	0	0
Other	A\$m	0	0	0	0	0	0
Net Financing Cashflow	A\$m	(10)	0	0	0	0	0
Net change in cash	A\$m	73	(3)	28	29	27	27

BALANCE SHEET		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Cash	A\$m	73	71	99	128	155	182
PP&E & Mine Development	A\$m	0	2	2	2	2	2
Exploration	A\$m	12	13	14	15	15	15
Total Assets	A\$m	96	101	130	160	187	214
Debt	A\$m	0	0	0	0	0	0
Total Liabilities	A\$m	6	6	14	23	71	79
Total Net Assets / Equity	A\$m	90	95	116	137	116	135
Net Debt / (Cash)	A\$m	(73)	(71)	(99)	(128)	(155)	(182)
Gearing (net debt/(nd + equity))	%	(446%)	(294%)	(579%)	nm	396%	386%
Gearing (net debt/equity)	%	(82%)	(75%)	(85%)	(93%)	(134%)	(135%)
Total asset/debt	(x)	nm	nm	nm	nm	nm	nm

RESERVES AND RESOURCES (100%)			LiO2 (%)	LiO2 (kt)	
Reserves					
Mt Marion	Mt				
Proved		0.0	0.0%	0.0	
Probable		0.0	0.00%	0.0	
Total	0.0	0.00%	0.0		
Resources					
Mt Marion Lithium	Mt				
Measured		0.0	0.0%	0	0.0%
Indicated		28.9	1.35%	390	1.1%
Inferred		48.9	1.38%	675	1.1%
Total	77.8	1.37%	1065	1.09%	
Barrambie TiO2					
Measured		0.0	0.0%	0.0	0.00%
Indicated		34.7	22.3%	7.7	0.64%
Inferred		12.5	22.0%	2.7	0.58%
Total	47.2	22.2%	10.5	0.62%	

EQUITY DCF VALUATION		A\$m	A\$ps
Projects			
Mt Marion		108	0.19
Undeveloped Resources		32	0.06
Other Projects & Investments		40	0.07
Corporate		(18)	(0.03)
Unpaid capital		0	0.00
Net cash (debt)		66	0.12
Net Equity Value (@ 8% WACC)		228	0.40
Price Target		(1x NPV)	0.40

Source: NMT, Macquarie Research, November 2016

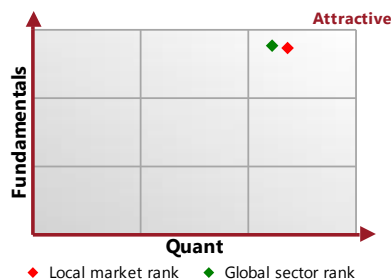
Macquarie Quant View

The quant model currently holds a reasonably positive view on Neometals. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

397/1522

Global rank in Materials

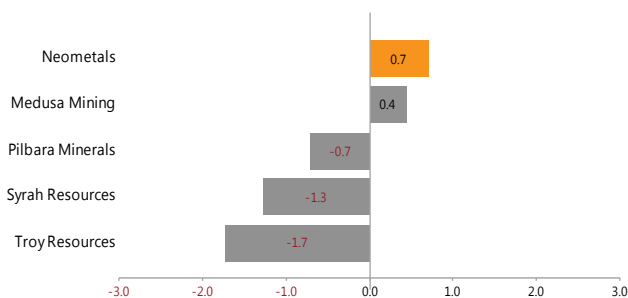
% of BUY recommendations 100% (2/2)
Number of Price Target downgrades 0
Number of Price Target upgrades 0



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (Australia & NZ) and Global sector (Materials)

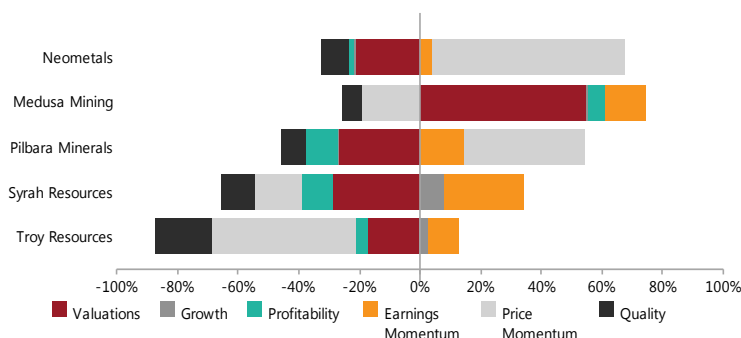
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



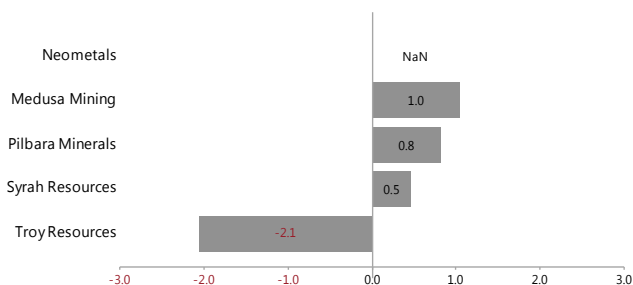
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



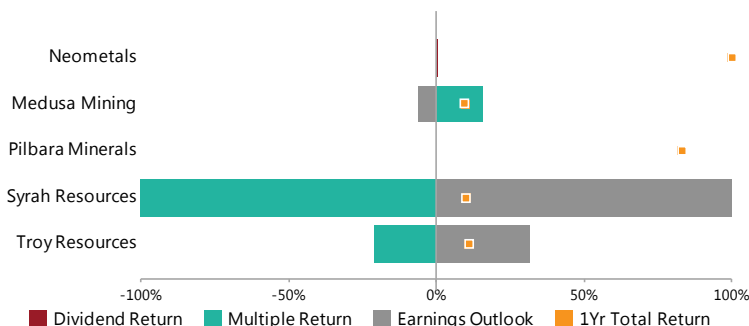
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



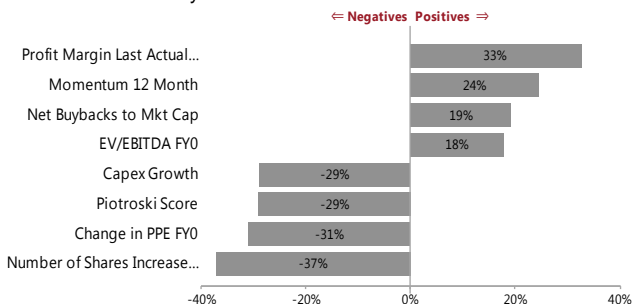
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



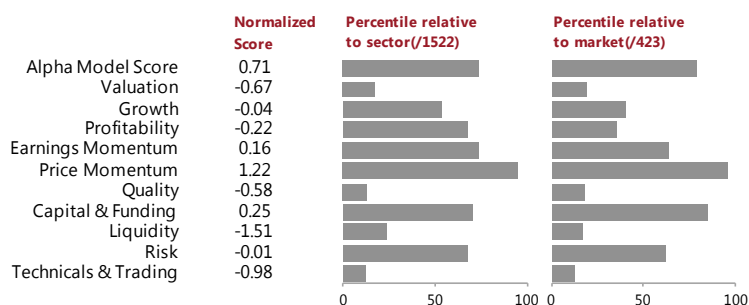
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
 * Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for US coverage by MCUSA, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for US coverage by MCUSA, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for US coverage by MCUSA, 8.00% of stocks followed are investment banking clients)

NMT AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

MIN AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
 Source: FactSet, Macquarie Research, November 2016

12-month target price methodology

NMT AU: A\$0.40 based on a DCF methodology

MIN AU: A\$11.70 based on a EV/EBITA methodology

Company-specific disclosures:

MIN AU: Macquarie Bank Limited makes a market in the securities in respect of Mineral Resources Limited. Macquarie and its affiliates collectively and beneficially own or control 1% or more of any class of Mineral Resources's equity securities.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BVG code)	Recommendation	Target Price
09-Aug-2016	NMT AU	Outperform	A\$.45
31-May-2016	NMT AU	Outperform	A\$.55

Target price risk disclosures:

NMT AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

MIN AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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