

Neometals Ltd

(NMT \$0.40) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	1 st February 2017	\$0.53/sh

December 2017 Quarterly Results

Investment case

Mt Marion is emerging as a world class spodumene (Li) mine, with 1st shipment imminent, and ultimately should supply some 25% of the current market demand for LCE, at a time when demand growth is also steep causing elevated pricing. While NMT's stake is small at 13.8%, it remains strategic, amongst two quality partners both at 43.1%, and should contribute cashflow from June Q'17 onwards. NMT has a growth strategy into downstream Li production, where margins have historically been more robust. It has a track record of securing partners that assume risk and deliver outcomes. NMT has a great balance sheet, positive cashflow on the near-term horizon, a growth strategy, and propensity to pay dividends.

Key points

- First shipment of spodumene concentrate from Mt Marion (NMT 13.8%), comprising 15,000t, will be loaded 2nd – 5th February.
- Mt Marion start-up is essentially 6 months later than originally expected, however any additional capital cost is borne by Mineral Resources.
- Ramp-up is ongoing, however no production details or operating performance data is provided.
- Design capacity is 2.2mtpa of ore feed, producing 400kt of concentrate product, equivalent to 50kt LCE. We expect this level will be achieved in June Q'17. At design capacity Mt Marion will be the 2nd largest primary Li production facility globally.
- Mt Marion product will be sold to Ganfeng at the "market price", defined by the Talison (Greenbushes) chemical grade (6%Li₂O) product. This was last quoted at US\$572/t cif China, in mid-2016. However Galaxy Resources (ASX:GXY) supply agreements for delivery 2017, announced 14th December 2016, imply a price of -US\$925/t (like for like) on 120,000t. The GXY price is expected to influence the Talison "market price" when next settled.
- NMT holds \$61m in cash and nil debt. Its 42% holding in Hannans Reward (ASX:HNR) is valued at \$11m.
- A once-off \$8m cash outflow is expected in March Q'17, mostly to fund NMT's share of working capital and exploration activity to steady state. Thereafter ongoing working capital demands will be more than offset by product sales receipts.
- NMT & MIN are jointly assessing the development of a downstream (LiOH) facility near to Mt Marion which is expected to conclude in mid 2017. Critical to this project will be an offtake partner.
- Neometals is in discussion with potential partners/users regarding its ELi Lithium Hydroxide process. Process development on the Barrambie Titanium Project is ongoing, as a precursor to seeking a partner.

Neometals	Year End 30 June		
Share Price	0.40	A\$/sh	
Price Target	0.53	A\$/sh	
Valuation	0.53	A\$/sh	
Shares on issue	565	m, diluted *	
Market Capitalisation	225	A\$m	
Enterprise Value	164	A\$m	
Debt	0	A\$m	
Cash	61	A\$m	
Largest Shareholder	D Reed- 11.7%		
Production F/Cast	2016a	2017f	2018f
Conc Product. (kt)	0	245	400
LCE Product (kt)	0	32	51
Total Cost (US\$/t)	0	320	300
Assumptions	2016a	2017f	2018f
Li Price US\$/t	540	600	750
AUDUSD	0.73	0.75	0.76
Key Financials	2016a	2017f	2018f
Revenue (A\$m)	0	28	43
EBITDA (A\$m)	-3	11	24
NPAT (A\$m)	22	11	24
Cashflow (A\$m)	21	11	24
CFPS (Ac)	4	2	4
P/CFPS (x)	10.6	21.1	9.6
EPS (Ac)	4	2	4
EPS growth (%)	0%	-52%	120%
PER (x)	10.6	21.1	9.6
EV:EBITDA (x)	-49.6	14.3	5.7
EV:EBIT (x)	-47.7	14.7	5.8
DPS (Ac)	2.0	2.0	0.0
Dividend Yield (%)	5%	5%	0%
ND:Net Debt+Equity (%)	46%	45%	46%

Share Price Chart



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Neometals Ltd

(NMT \$0.40) Buy

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Market Statistics		Year End 30 June			
Share Price	\$0.40	A\$/sh	Directors		
Issued Capital			S Cole	Chair	
Fully Paid Ord	559	m	D Reed	NE Dir	
Options (var. prices)	6	m	N Streltsova	NE Dir	
Total Dil. FPOrd	565	m	D Ritchie	NE Dir	
			C Reed	MD	
Market Cap (dil)	\$225	m	Shareholders		
Enterprise Value	\$164	m	D Reed	11.7%	
Cash	\$61	m	Melaid	6.8%	
Debt	\$0	m			

Asset Valuation	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	141	0.25
RAM (LiOH) 25%	47	0.08
ELi tech	10	0.02
Barrambie Ti	5	0.01
Alphamet Ti	3	0.01
Expl'n & Inv (HNR)	11	0.02
Corp & Tax Losses	22	0.04
Working Capital	-	-
unpaid capital	1	0.00
Debt	0	0.00
Cash	61	0.11
Total	301	0.53

F/Cast Production (A\$m)	2016f	2017f	2018f	2019f	2020f
Sales 100%					
Conc 6% Li2O kt	-	140	200	200	200
Conc 5% Li2O	25	80	80	80	
Conc 4% Li2O kt	-	80	120	120	120
Li Conc Total kt	-	245	400	400	400
LCE kt	-	32	51	51	51
Cash Costs (feed) A\$/t	-	68	52	50	50
Cash Costs (prod) A\$/t	-	320	300	288	285
Assumptions					
Spod Conc Price US\$/t	540	600	750	600	575
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	21	11	24	15	14
Cashflow per Share	4	2	4	3	2
Cashflow Ratio (x)	0.0	20.3	9.5	14.7	16.5
Earnings	22	11	24	15	13
Earnings per Share	4	2	4	3	2
EPS Growth (%)	0%	-52%	120%	-36%	-11%
Earnings Ratio (x)	10.6	21.1	9.6	14.9	16.8
Enterprise Value	163	158	136	123	109
EV : EBITDA	-49.6	14.3	5.7	8.0	8.0
EV : EBIT	-47.7	14.7	5.8	8.1	8.1

Net Debt: Net Debt+Equity (%)	46%	45%	46%	47%	47%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	25%	13%	23%	13%	10%
Return on Assets (%)	-4%	12%	22%	12%	10%
Dividend (c/sh)	2	2	0	0	0
Dividend payout ratio	51%	105%	0%	0%	0%
Dividend Yield	5%	5%	0%	0%	0%
Dividend Franking	100%	100%	100%	100%	100%

Profit and Loss (A\$m)	2016f	2017f	2018f	2019f	2020f
Sales Revenue	0	28	43	34	32
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
Total Revenue	0	28	43	34	32
Opex	0	14	17	16	16
O/H	3	3	3	3	3
Provisions	0	0	0	0	0
Other	-26	0	0	0	0
EBITDA	-3	11	24	15	14
D&A	0	0	0	0	0
EBIT	-3	11	24	15	13
Finance costs	0	0	0	0	0
PBT	22	11	24	15	13
Tax	0	0	0	0	0
NPAT	22	11	24	15	13

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	22	11	24	15	14
Working Capital	-2	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	21	11	24	15	14
-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	3	0	0	0	0
= Investing Cashflow	64	-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	11	0	0	0
-Interest Payments	0	0	0	0	0
= Financing Cashflow	-12	-15	0	0	0
Period Surplus	73	-6	22	13	14
FX Adjustments	0	0	0	0	0
CASH	74	68	90	103	117
CASH & Equiv	80	74	96	109	123

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	74	68	90	103	117
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Total Current Assets	74	68	90	103	117
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	94	87	109	123	136
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	88	81	103	117	130

Reserves and Resources

Mt Marion Lithium Deposits Indicated	Tonnes	Li2O	Fe2O3
Area 1,2, 2W	19.3	1.41	1.08
Area 4	2.0	1.11	0.99
Area 6	7.7	1.29	1.04
Total Indicated	29.0	1.36	1.06
Inferred			
Area 1,2, 2W	43.5	1.39	1.09
Area 4	0.8	1.07	1.09
Area 5	1.0	1.32	1.71
Area 6	3.5	1.33	1.07
Total Inferred	48.8	1.38	1.10
Total Indicated + Inferred	77.8	1.37	1.08

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