

# Neometals Ltd

## (NMT \$0.33) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	7 <sup>th</sup> April 2017	\$0.40/sh

### Neometals Sells 13.8% of Mt Marion

#### Investment case

Neometals has disposed of its 13.8% stake in Mt Marion for US\$96m cash. The deal positions NMT temporarily as a cash proxy with \$0.33/sh net cash. We expect NMT will manage its surplus capital via dividend and/or share buyback in due course, noting the Reed family owns -14% of NMT. Meanwhile NMT will further develop downstream opportunities. Its proprietary technology projects in the Li-ion battery sector are exciting. The company has a track record of attracting quality partners with balance sheets and experience capable of advancing the projects expediently. We believe NMT is well positioned to repeat the success of Mt Marion in its next chapter, and we look to introduction of partners as value creating events. In particular, the Lithium Battery Recycling Project has potential to add \$0.15-\$0.25/sh of value in the long run, with little upfront risk in our view.

#### Key points

- Neometals will sell its remaining 13.8% stake in Reed Ind Minerals P/L, which owns Mt Marion, for US\$96m (A\$126m).
- The deal values the mine with capacity of 50ktpa LCE spodumene concentrate, and associated deferred offtake rights, at A\$925m on 100% basis.
- NMT has realised US\$163m cash in progressive sell down of its interest in Mt Marion over the last 24 months, and exposed shareholders to virtually Nil funding risk. It has already returned A\$22m to shareholders in dividend during 2016.
- Reuters reported yesterday that Ganfeng (Shenzen listed), owner of 43.1% of Mt Marion, had approved acquisition of a 13.8% stake for US\$96m.
- MinRes (MIN), also owning 43.1% of Mt Marion, now has 30 days to elect whether it will exercise its pre-emptive rights to a pro-rata stake on equal terms.
- Neometals already has \$61m cash and Nil debt. Completion of this transaction will result in it holding \$184m cash, equivalent to \$0.327/sh. NMT also holds listed investments of \$10m, mainly Hannans Reward (HNR).
- Neometals is understood to hold carried forward tax losses of ~\$120m, meaning that the sale of Mt Marion is effectively tax-free.
- Capital management initiatives will be considered, with a definitive plan expected upon settlement of the transaction. NMT recently renewed its on-market share buy-back, which has \$5m capacity over the next 11 months.
- The sale of Mt Marion also includes the right to Mt Marion offtake after year 3, and the intention to develop a LiOH project in Kalgoorlie jointly with MinRes, using conventional technology.
- Neometals will now pursue its downstream opportunities in the Li battery sector and its Barrambie TiO2 asset, using its proprietary processing technologies.

Neometals Ltd	Year End 30 June	
Share Price	0.33	A\$/sh
Price Target	0.40	A\$/sh
Valuation	0.40	A\$/sh
Shares on issue	566	m, diluted *
Market Capitalisation	187	A\$m
Enterprise Value	3	A\$m
Debt	0	A\$m
Cash	184	A\$m
Largest Shareholder	D Reed- 11.7%	

#### Share Price Chart



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- Our valuation has reduced to \$0.40/sh (was \$0.53/sh), with 82% of this value made up by net cash. NMT's downstream processing technology opportunities are at an early stage from a valuation perspective but offer exciting future value uplift potential. The catalyst for value uplift will be introduction of partners that provide 3rd party validation of the project, a valuation metric, and a de-risking of execution.

ASSET VALUATION		
	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	-	-
ELi Process	10	0.02
Batt Recycle - Cobalt	10	0.02
Barrambie TiO2	10	0.02
Neomet Process	3	0.01
Other	-	-
Expl'n & Inv (HNR)	11	0.02
Corp & Tax Losses	-	-
Working Capital	-	-
unpaid capital	0	0.00
Debt	0	0.00
Cash	184	0.32
<b>Total</b>	<b>228</b>	<b>0.40</b>

- Neometals' downstream proprietary processing technology opportunities are:
  - ELi Process:** (owned by RAM P/L, NMT 70% MIN 30%) - Patented process to convert lithium feedstock (brine or hard-rock) into LiOH at competitive capital and operating cost. NMT intends to exploit the technology as either principal, partner or license/royalty holder. NMT has already indicated it is in discussions with potential users of the ELi Process.
  - Lithium Battery Recycling:** NMT has completed a scoping study to recover Cobalt from spent Li-ion batteries at low operating and capital cost. Lab scale testwork on a 100kg sample was used in the scoping study. The study showed that a 10t/d module, with scalability, can be built for capex US\$4.5m, recovering 666tpa Co at a very low operating cost, yielding an IRR (ungeared) of +200%. Mini-pilot plant testwork will be completed in September 2017 using a 1,000kg sample on a continuous 10 day program. This data will form the basis of a Pre-Feasibility Study. NMT has commenced seeking partners with emphasis on provision of feedstock, offtake and suitable location.
  - Barrambie Titanium:** NMT owns 100% Barrambie TiO2 deposit, the 2nd highest grade hard rock deposit globally. NMT and CIMIC (Sedgeman) have developed the Neomet Process to produce pigment feedstock at low cost. NMT will generate a bulk sample for testing at its own facility in a pilot study, and for testing by potential offtake customers. Full pilot evaluation is planned to commence in Dec H'17 leading to a full feasibility study in 2018. TiO2 feedstock price has doubled in the last year which may result in a speed up in the development timetable.
  - Neomet Process:** (NMT 25% NPI via Alphamet P/L) Strategic alliance with CIMIC (Sedgeman) to deploy the same technology as intended at Barrambie (above), licenced to 3rd parties with suitable orebodies, with NMT to retain a royalty interest. Process development is at no cost to Neometals.

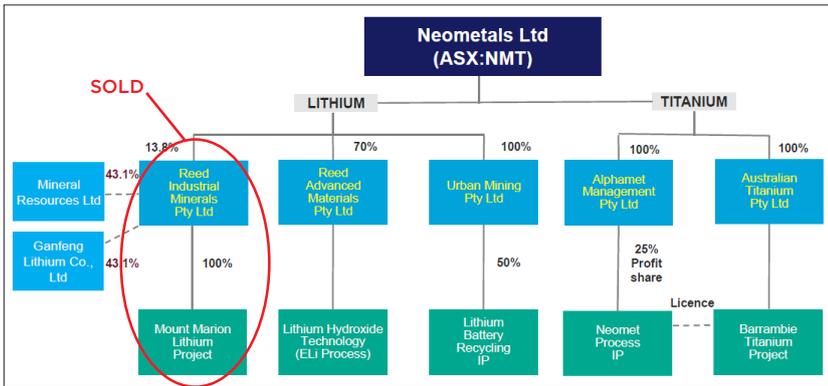
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Source: Neometals Ltd

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