

Neometals Ltd

(NMT \$0.29) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	6 th July 2017	\$0.41/sh

Company Update

Investment case

The Mt Marion mine (NMT 13.8% stake) is ramping up well, now at least 80% of design capacity, product well accepted by customer Ganfeng, and with pricing above our prior expectation. Our estimate is that NMT's stake is generating \$33mpa in EBITDA. NMT has signalled that it may crystallise its remaining investment in Mt Marion for US\$96m. Despite the previously mooted conditional deal failing to complete we think a sale may still be a possibility. The recent product pricing outcome suggests the asset value has been enhanced during the last few months. Beyond Mt Marion NMT is advancing its proprietary processing technologies which presently are at an early stage. NMT's proven model is to attract quality partners to derisk its projects and we expect this to be repeated. NMT has a low risk balance sheet with cash of ~\$50m, NIL debt, and an active on-market share buy-back.

Key points

Production

- Neometals and Mineral Resources (MIN) have agreed with Ganfeng the price for Mt Marion spodumene concentrate for September Q 2017 at US\$841/dmt CFR China basis 6.0% LiO₂. This is the first pricing settlement under the newly agreed formula.
- Pricing for previous shipments (March-June 2017) was at a nominal US\$750/dmt.
- Mt Marion has shipped 129kt (to early July) in a combination of ~6.0% Li₂O and ~4.0% Li₂O product which we believe to be approximately 50% of each.
- Mt Marion product pricing is now calculated as weighted average price of Chinese imported LiOH and LiCO₃ price (based on customs data) for the trailing three month period, and factored to reflect spodumene concentrate form. As Mt Marion product pricing is linked to downstream product pricing, rather than reflect the typical dynamic of upstream supply/demand, future pricing is expected to be less volatile than would normally be the case.
- Mt Marion performance is at 80% of design capacity (400ktpa of combined 6% & 4% Li₂O) based on the last 3 months of shipping data (80kt), up from <50% of design in the March Q'17. We expect Mt Marion to achieve 100% of design during the Dec H'17.
- Our annualised EBITDA forecast for NMT's 13.8% share of Mt Marion using this pricing is A\$33mpa.
- Production is ultimately expected to achieve 400ktpa of entirely 6.0% Li₂O from Jan'18.
- Ganfeng has publicly confirmed that it has produced Lithium Carbonate and Lithium Hydroxide satisfactorily from Mt Marion concentrate, and subsequently sold the product to its customers.

Strategy

- Neometals notified it was in a process to sell its stake in Mt Marion to Ganfeng, or a 3rd party, subject to JV pre-emptive rights, in April 2017 for US\$96m (A\$126m). The process has evidently failed to complete.
- The agreed price represents a multiple of 3.8x EBITDA (above). In our view this value represents close to the mid-point of fair value for the cashflow (typical range 3.0 - 5.0 x EV:EBITDA), but does not recognise any strategic value.

Neometals Ltd	Year End 30 June	
Share Price	0.29	A\$/sh
Price Target	0.41	A\$/sh
Valuation	0.41	A\$/sh

Shares on issue	549	m, diluted *
Market Capitalisation	159	A\$m
Enterprise Value	109	A\$m
Debt	0	A\$m
Cash	50	A\$m
Largest Shareholder	D Reed- 11.2%	

Production F/Cast	2016a	2017f	2018f
Conc Product. (kt)	0	115	402
LCE Product (kt)	0	15	54
Total Cost (US\$/t)	0	465	322

Assumptions	2016a	2017f	2018f
Li Price US\$/t	540	675	821
AUDUSD	0.73	0.75	0.76

Key Financials	2016a	2017f	2018f
Revenue (A\$m)	0	13	50
EBITDA (A\$m)	-5	2	29
NPAT (A\$m)	85	13	29
Cashflow (A\$m)	84	-5	29

CFPS (Ac)	15	-1	5
P/CFPS (x)	2.8	11.1	5.6

EPS (Ac)	15	2	5
EPS growth (%)	0%	-84%	123%
PER (x)	2.8	11.1	5.6

EV:EBITDA (x)	-33.6	36.0	2.8
EV:EBIT (x)	-33.6	37.0	2.8

DPS (Ac)	2.0	2.0	0.0
Dividend Yield (%)	5%	8%	0%

ND:Net Debt+Equity (%)	45%	40%	43%
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Share Price Chart



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Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Neometals Ltd during the last year. Euroz Securities has received a fee for these services.

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- Strategic value for NMT's 13.8% stake includes potential control of the JV, potential 3rd party competitor influence in the JV and a 25% share of offtake rights from Year 3.
- Coincidentally our NPV value for NMT's Mt Marion stake is similar at A\$128m (assume pricing trend down to US\$525/t basis 6% Li₂O by 2022, 10% dcf after tax).
- It is unclear whether the offtake rights are/were included in the sale process. This may be a significant bargaining item.
- Neometals is continuing to develop a Kalgoorlie based Li Hydroxide downstream strategy which would source its spodumene concentrate from its offtake rights from Mt Marion.
- While a sale of NMT's stake in Mt Marion has not concluded, we believe it remains a future possibility, as NMT has declared its interest in doing so at the right price.
- NMT has an unstressed balance sheet with cash of ~\$50m and NIL debt. Mt Marion is expected to be cashflow positive from 1st July, if not before.
- Our valuation on Neometals remains similar at \$0.41/sh. This reflects Mt Marion valued at the previously agreed US\$96m (A\$126m), plus cash of \$50m and nominal small values on the proprietary processing technology opportunities that are currently being pursued and investments. An ongoing on-market share buy-back has to date bought 16.9m shares at average price \$0.28/sh.
- 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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Market Statistics		Year End 30 June			
Share Price	\$0.29	A\$/sh	Directors		
Issued Capital			S Cole	Chair	
Fully Paid Ord	546	m	D Reed	NE Dir	
Options (var. prices)	3	m	N Streltsova	NE Dir	
Total Dil. FPOrd	549	m	D Ritchie	NE Dir	
			C Reed	MD	
Market Capitalisation (dil)	\$159	m	Shareholders		
Enterprise Value	\$109	m	D Reed		11.2%
Cash	\$50	m			
Debt	\$0	m			

Asset Valuation	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	126	0.23
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	6	0.01
unpaid capital	0	0.00
Debt	0	0.00
Cash	50	0.09
Total	227	0.41

F/Cast Production (A\$m)	2016a	2017f	2018f	2019f	2020f
Sales 100%					
Conc 6% Li2O kt	-	65	255	400	400
Conc 5% Li2O	-	-	67	-	-
Conc 4% Li2O kt	-	50	80	-	-
Li Conc Total kt	-	115	402	400	400
LCE kt	-	15	54	59	59
Cash Costs (feed) A\$/t	-	76	55	53	53
Cash Costs (prod) A\$/t	-	465	322	332	329

Assumptions	US\$/t	2016a	2017f	2018f	2019f	2020f
Spod Conc Price	540	675	821	725	650	
FX Rate ass'd	A\$/US\$ 0.73	0.75	0.76	0.76	0.78	

Ratio Analysis (A\$m)	2016a	2017f	2018f	2019f	2020f
Cashflow	84	-5	29	28	22
Cashflow per Share	15	-1	5	5	4
Cashflow Ratio (x)	0.0	-28.3	5.6	5.7	7.2
Earnings	85	13	29	28	22
Earnings per Share	15	2	5	5	4
EPS Growth (%)	0%	-84%	123%	-3%	-21%
Earnings Ratio (x)	2.8	11.1	5.6	5.8	7.3
Enterprise Value	164	89	81	55	32
EV : EBITDA	-33.6	36.0	2.8	1.9	1.4
EV : EBIT	-33.6	37.0	2.8	2.0	1.5

Net Debt : Net Debt+Equity (%)	45%	40%	43%	44%	45%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	94%	16%	26%	21%	14%
Return on Assets (%)	-5%	3%	25%	20%	14%
Dividend (c/sh)	2	2	0	0	0
Dividend payout ratio	13%	85%	0%	0%	0%
Dividend Yield	5%	8%	0%	0%	0%
Dividend Franking	100%	100%	100%	100%	100%

Profit and Loss (A\$m)	2016a	2017f	2018f	2019f	2020f
Sales Revenue	0	13	50	49	44
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
Total Revenue	0	13	50	49	44
Opex	0	6	18	18	18
O/H	5	5	3	3	3
Provisions	0	0	0	0	0
Other	-89	-10	0	0	0
EBITDA	-5	2	29	28	22
D&A	0	0	0	0	0
EBIT	-5	2	29	28	22
Finance costs	0	0	0	0	0
PBT	84	13	29	28	22
Tax	-1	0	0	0	0
NPAT	85	13	29	28	22

Cash Flow (A\$m)	2016a	2017f	2018f	2019f	2020f
Net Profit	85	13	29	28	22
Working Capital	0	-18	0	0	0
+ Dep/Amort	0	0	0	0	0
+ Tax Expense	-1	0	0	0	0
- Tax Paid	0	0	0	0	0
= Operating Cashflow	84	-5	29	28	22
-Capex + Development	2	1	2	2	0
-Exploration	1	0	0	0	0
-Assets Purchased	0	1	0	0	0
+Asset Sales	0	0	0	0	0
+Other	3	-1	0	0	0
= Investing Cashflow	-1	-3	-2	-2	0
+ Equity Issues (Rts,plc,opts)	0	-1	0	0	0
+Loan Drawdown	0	0	0	0	0
+Other	1	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	-10	-12	0	0	0
Period Surplus	73	-20	27	26	22
FX Adjustments	-1	1	0	0	0
CASH	73	54	81	107	130

Balance Sheet (A\$m)	2016a	2017f	2018f	2019f	2020f
Assets					
Cash	73	54	81	107	130
Current Receivables	1	1	1	1	1
Other Current Assets	2	2	2	2	2
Total Current Assets	75	57	84	110	133
PP&E, MineProp, EE&D	12	12	12	12	12
Other	8	19	19	19	19
Total NC Assets	20	31	31	31	31
Total Assets	96	88	115	141	164
Liabilities					
Borrowings	0	0	0	0	0
Trade Payables	0	0	0	0	0
Provisions	5	5	5	5	5
Other Liabilities	0	0	0	0	0
Total Liabilities	6	5	5	5	5
Net Assets	90	82	109	136	158

Reserves and Resources

Mt Marion Lithium Deposits	Tonnes mt	Li2O %	Fe2O3 %
Indicated			
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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