



Neometals Ltd

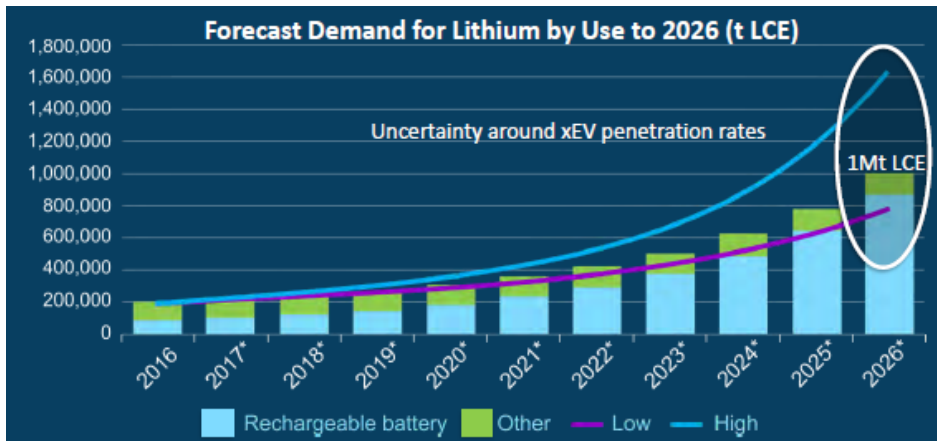
Internal combustion engine's days are numbered

27 July 2017

As part of a government strategy to improve air quality, the UK recently announced [a ban all new petrol and diesel cars](#) and vans from 2040. This follows [a similar pledge by France](#) as part of an ambitious plan to meet targets under the Paris climate accord. Both announcements in turn come hot on the heels of [Volvo's announcement](#) that it would only make fully electric or hybrid cars from 2019 onwards. While Tesla's Model 3 continues to land-grab in the electrified vehicles (EV) space, several other major carmakers, including Renault-Nissan, BMW and VW, have declared ambitious plans for electric cars; BMW predicts that electrified vehicles will account for 15 to 25% of its sales by 2025. The VW emissions scandal has also given added impetus for companies to focus on the technology.

Each announcement could be seen as ground breaking. In combination however, we suggest they give the very real sense that the global car manufacturing sector has reached an inflection point. The next few years could mark the beginning of the end for the internal combustion engine's dominance after more than a century.

Reflecting this shift in the auto market toward electrification, commodity consultant Roskill forecasts lithium demand increasing by a factor of 4x over the next 10 years i.e., from 200kt LCE (Lithium Carbonate Equivalent) in 2016 to 1Mt LCE in 2026. This additional 800Kt LCE is equivalent to 6Mt of 6% Li₂O spodumene concentrate. To put this in perspective, the Mt Marion Lithium Mine (NMT 13.8% interest)) - one of the world's largest new sources of spodumene with 400ktpa - will fill (only) 6.7% of this forecast new demand. Thus, we believe that lithium prices have the potential to remain stronger for longer.



We believe that the Mt Marion Lithium Project has clearly demonstrated management's ability to identify opportunities, de-risk projects, and bring on board JV partners for final commercialisation. A cash-rich and market-knowledgeable operator is looking to replicate this success in the downstream lithium-beneficiating space. Risks to our earnings profile and target price include, operational performance at the Mt Marion Lithium Mine, lithium hydroxide/lithium carbonate and AUD:USD exchange rate volatility, project development at Barrambie Titanium (NMT 100% interest), and development of the group's downstream lithium Projects (various interests). **Our SOTP valuation for NMT of A\$238m or A\$0.42ps, indicates significant upside potential relative to NMT's current share price of A\$0.27.**

Share Price: A\$0.27 (close 26 July 2017)

Target Price: A\$0.42

Recommendation
Speculative Buy

Risk Assessment
Higher

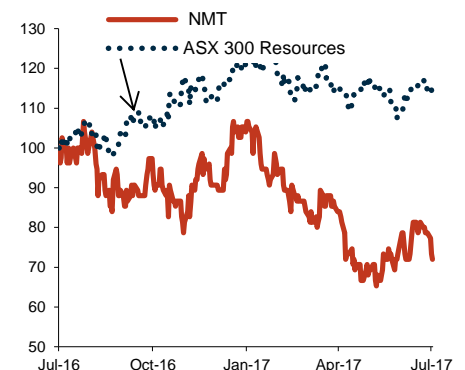
Resources – Lithium

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Neometals Ltd

ASX Code	NMT
52 week range	A\$0.25-A\$0.41
Market Cap (A\$m)	147
Shares Outstanding (m)	546
Av Daily Turnover (shares)	0.98m
ASX All Ordinaries	5,823
FY17E BV per share (A\$)	0.15
EPS FY17E (A\$)	0.02
Net Cash/(Debt) FY17E (A\$m)	62

Relative price performance (Source: IRESS)



Source: IRESS

Financial Statements

Neometals Limited

Year ending June

Profit & Loss Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	0.0	6.0	0.0	0.0	0.0
Mining	0.0	0.0	0.0	0.0	0.0
Processing	0.0	0.0	0.0	0.0	0.0
Corporate/Admin	(4.9)	(6.5)	(3.0)	(3.0)	(3.0)
EBITDA	(4.9)	(0.5)	(3.0)	(3.0)	(3.0)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Operating profit	(4.9)	(0.5)	(3.0)	(3.0)	(3.0)
NOI /income from 13.8% of Mt Marion	88.3	8	30	25	20
EBIT	83.4	8	27	22	17
Interest income	0.7	2.9	2	2	2
Interest expense	(0.3)	(0.0)	0	0	0
Tax expense	0.8	(1.0)	(3)	(7)	(6)
Reported NPAT	84.6	9	26	17	13
Normalised NPAT	(3.7)	9	26	17	13
EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	0.15	0.02	0.05	0.03	0.02
EPS Normalised (A\$)	(0.01)	0.02	0.05	0.03	0.02
EPS growth (%)	nm	nm	176%	-35%	-21%
DPS - Declared (A\$)	0.02	0.02	0.02	0.02	0.02
Avg. no. of fully-diluted shares (m)	542	557	548	548	548
YE no. of fully-diluted shares (m)	565	548	548	548	548

Cash Flow Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(4.5)	(1)	(3)	(3)	(3)
Investment in working capital	(1.1)	1	0	0	0
Tax expense	0.8	(1)	(3)	(7)	(6)
Operating Cash Flow	(4.7)	(1)	(6)	(10)	(9)
Capex	(1.3)	(5)	(5)	(5)	(5)
Other investments	0.0	0	0	0	0
Investing Cash Flow	(1.3)	(5)	(5)	(5)	(5)
Net interest received / (paid)	0.4	3	2	2	2
Debt draw down / (repayment)	(1.9)	(0)	0	0	0
Dividends paid	(11.2)	(11)	(11)	(11)	(11)
Equity raised / (repaid) / Other Adj.	2.5	(6)	0	0	0
Financing Cash Flow	(10.1)	(14)	(9)	(9)	(9)
Non-operating & Other	88.0	9	30	25	20
Inc/(Dec) in Cash	71.8	(11)	10	1	(2)

Balance Sheet (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	73	62	72	73	71
Receivables	0.6	0	0	0	0
Inventories	0.0	0	0	0	0
Other Current Assets	1.6	0	0	0	0
PPE and Exploration & Development	12.0	17	22	27	32
Deferred tax asset	0.0	0	0	0	0
Other Non Current Assets	8.3	8	8	8	8
Total Assets	95.7	87	102	108	111
Payables and other current Liabilities	1.6	0	0	0	0
Short Term Debt	0.0	0	0	0	0
Long Term Debt	0.0	0	0	0	0
Other Non Current Liabilities	4.4	5	5	5	5
Total Liabilities	6.1	5	5	5	5
Total Equity	89.6	82	97	103	106
Net Cash/(debt)	73	62	72	73	71

Top 3 Shareholders	%	Date
David Reed	11.7	
Melaid Holding Inc	6.8	Sep-16
HSBC Custody Nominees (Australia) I	3.7	

Source: Company, IRESS, State One Stockbroking forecasts

Received Lithium Price	FY16A	FY17E	FY18E	FY19E	FY20E
Spodumene (6% Li ₂ O) (US\$/t, CIF)		525	840	725	650
AUD:USD		0.75	0.75	0.75	0.75
Spodumene (Li ₂ O)(A\$/t, CIF)		700	1,120	967	867
Lithium Hydroxide and Lithium Carbonate basket price (US\$/t)		15,000	12,500	10,000	10,200

Production (Mt Marion)	FY16A	FY17E	FY18E	FY19E	FY20E
Spodumene tonnage (kt) (100%)	0	115	400	400	400

We assume NMT retains a 13.8% interest in the Mt Marion. Tonnage above is on 100% basis and includes 4-5% Spodumene concentrate in FY17E.

Production (Downstream)	FY16A	FY17E	FY18E	FY19E	FY20E
Lithium Hydroxide and Lithium Carbonate - combined tonnage	0	0	0	0	0

We assume first production of Lithium Hydroxide (LiOH.H₂O) and Lithium Carbonate (Li₂CO₃) from NMT's proposed Malaysia-based downstream operation in FY21E (i.e., from mid-2020).

Costs (A\$/t Spodumene conc.)	FY16A	FY17E	FY18E	FY19E	FY20E
Mining	na	na	na	na	na
Processing	na	na	na	na	na
Admin/Royalty/Other	na	na	na	na	na
Total unit cash costs	na	na	na	na	na

Resources (JORC)	Status	Mt	Grade (%)	Tonnes
Mt Marion Lithium Project (Resource at Dec 2016)	Indicated	28.9	1.35%	390,150
	Inferred	48.9	1.38%	674,820
	Total	77.8	1.37%	1,064,970
Barrambie Ti-V Project	TiO ₂	47.2	22.2%	10,468,960
	V ₂ O ₅	47.2	0.63%	297,360
	Fe ₂ O ₃	47.2	46.7%	22,042,400

Note: We assume NMT has zero interest in Mt Marion Resource as from end June 2017

Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	cash	cash	cash	cash	cash
Gearing (ND/ND+E)	cash	cash	cash	cash	cash
Interest Cover (x)	na	na	na	na	na

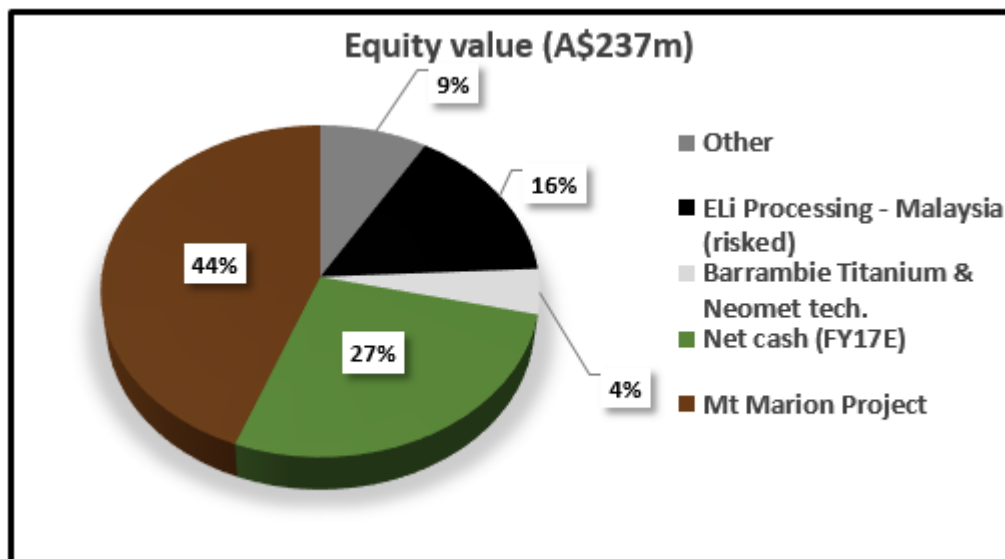
Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised P/E	na	21.6	7.8	12.0	15.1
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$)	0.16	0.15	0.18	0.19	0.19
EV/EBITDA	na	na	na	na	na
ROE (%)	-ve	11%	27%	16%	13%

SOTP Valuation	(A\$m)	(A\$/share)	Comment
13.8% interest in Mt Marion (risked)	101	0.18	Asking price less 20%
ELi Project - Malaysia (unrisked)	356	0.65	State One estimate
Risk discount	90%		
ELi Project - Malaysia (risked)	36	0.06	10% of unrisked NPV
ELi Processing - technology licensing	2.0	0.00	Nominal
Conventional Lithium Processing	2.0	0.00	Nominal
Battery recycling	5.0	0.01	Nominal
Barrambie Titanium & Neomet tech.	10	0.02	Nominal
Equity interest in Hannans (HNR)	11	0.04	
Group Enterprise value	166	0.30	
Net (debt)/cash (FY17E)	62	0.11	
Group Equity value	228	0.42	

We assume NMT retains its remaining 13.8% interest in the Mt Marion Lithium Project over our forecast time period, while concentrating on its downstream Li-processing projects, and in progressing the Barrambie Titanium Project.

Figure 1: Sum-of-the-parts (SOTP) valuation

	(A\$m)	(A\$ps)	Comment
Mt Marion Lithium (13.8% interest) (risky)	126	0.23	US\$96m @ US\$0.75
<i>Risk weighting</i>	<i>20%</i>		<i>20% discount for transaction risk/timing</i>
Mt Marion Lithium (13.8% interest) (unrisky)	101	0.18	i.e., 80% of asking price
ELi Processing -Malaysia (unrisky)	356	0.65	State One NPV estimate
<i>Risk weighting</i>	<i>90%</i>		<i>90% discount</i>
ELi Processing - Malaysia (risky)	36	0.06	i.e., 10% of State One unrisky valuation
ELi Processing - technology licensing	2	0.00	Nominal
Conventional Lithium Processing	2	0.00	Nominal
Battery recycling	5	0.01	Nominal
Barrambie Titanium & Neomet tech.	10	0.02	Nominal (versus PFS NPV of A\$355m)
Equity interest in Hannans (ASX:HNR)	11	0.02	709m shares @ A\$1.5cps
Group Enterprise value	166	0.30	
Net cash/(debt) (FY17E)	62	0.11	State One estimate
Group Equity value	228	0.42	



Source: IRESS, Company, State One Stockbroking forecasts

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