

Neometals Ltd

(NMT \$0.30) Buy

EUROZ

Analyst
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Price Target
\$0.44/sh

Comments

Mt Marion (NMT 13.8%) forecast EBITDA for Dec H'17 is \$73m 100% basis (\$145mpa run-rate), up from \$15m in June H'17. NMT's share is \$10m (or \$20m annualised).

Mt Marion Project		2H FY17 (Actual)	3H FY18 (Forecast)
6% Tonnes exported	000 WMT	50	100
4% Tonnes exported	000 WMT	66	100
Total Tonnes exported (100%)	000 WMT	116	200
Revenue	A\$/WMT	782.9	823
CI costs	A\$/WMT	570.9	369
Total expenses	A\$/WMT	658.0	460
EBITDA	A\$/WMT	124.9	363
MRL Share (43.1%)	A\$/WMT	53.8	156

Source: Mineral Resources Ltd

Product split has been 43% of 6% LiO₂ product, and 57% of 4% LiO₂ product. This will improve to 50/50 for the next 6-9 months until additional flotation capacity is added in Q1'18, thereafter 100% 6% Li₂O product.

Price received guided A\$823/wt, assuming headline US\$841/dt for 6%Li₂O cfr China, A\$1=US\$0.78, after adjustment for moisture, discount for lower grade product, ocean freight. Price for Dec Q is expected to be set prior to October, and probably with further upward momentum.

Ultimately Mt Marion will produce ~400ktpa of 6% Li₂O, equivalent to ~60ktpa LCE from early 2018. NMT's share EBITDA is forecast at A\$30mpa in FY'19, the first full year of the upgrade.

Neometals had conditionally agreed to sell its stake in Mt Marion to Ganfeng for US\$96m in April 2017, however the deal

failed complete.

NMT has subsequently indicated its strategy is to retain the stake, intending to integrate a downstream LiOH plant.

Nevertheless NMT has commenced a process to demerge its titanium and mineral processing technology assets from NMT.

Separately MinRes declared it intends to monetise 100% of its interest in Mt Marion (and 50% of interest in Wodgina) as a priority. It is probable that NMT, as a minority shareholder in RIM, has a right to participate in any transaction with a 3rd party. While MinRes appears brash in its plans, it does have a habit of delivering on them.

There is an above average likelihood that Neometals' stake in Mt Marion may be the subject of a corporate action in the medium term.

Neometals intends to pursue downstream opportunities in the Li battery sector and its Barrambie TiO₂ asset, using its proprietary processing technologies.

It will invest \$1m in a pilot plant trial to recover Cobalt from spent Li-ion NMC batteries sourced from EV/HEV applications. A scoping study has determined it can produce 666tpa Co at US\$4.45/lb after an investment of US\$4.5m.

Results of the trial will be known in November. NMT will seek partners for this project.

Investment case

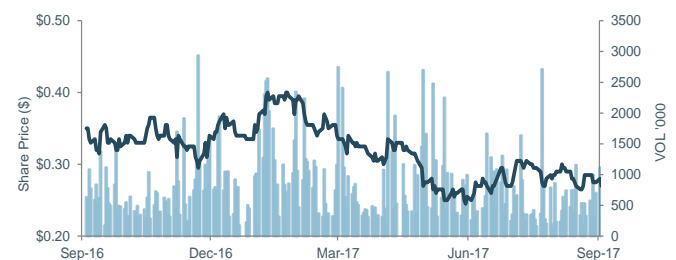
Mt Marion is operating at capacity, with product quality confirmed by customer/partner Ganfeng, and pricing mechanism recently derisked. NMT's stake will generate EBITDA of +\$20m in FY'18 (guidance) and \$30m in FY'19 (our estimate). Neometals has indicated it intends to retain Mt Marion, however we believe it remains open to all possibilities given its demerger proposal, and with partner MinRes having declared itself a seller. Our valuation of \$0.44/sh aligns with typical market EBITDA multiples (4x), NPV and the prior agreed sale price with Ganfeng. NMT is also advancing its proprietary processing technologies which presently are at an early stage and modest cash burn rates. NMT's proven model is to attract quality partners to derisk its projects and we believe this will be repeated. NMT has a low risk balance sheet with cash of ~\$46m, NIL debt, and an active on-market share buy-back.

Market Statistics

Year End 30 June

Share price	\$0.30 A\$/sh	Directors	
Issued Capital		S Cole	Chair
Fully Paid Ord	542 m	D Reed	NE Dir
Options (var. prices)	3 m	N Streltsova	NE Dir
Total Dil. FPOrd	545 m	D Ritchie	NE Dir
		C Reed	MD
Market Capitalisation (dil)	164 \$m	Shareholders	
Enterprise Value	118 \$m	D Reed	10.9%
Cash	46 \$m	Kilkenny	4.4%
Debt	0 \$m		

Share Price Performance



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.

RESOURCES QUARTERLY SEPTEMBER 2017

Euroz Securities Limited

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Asset Valuation	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	151	0.28
ELi Process	5	0.01
Batt Recycle - Cobalt	8	0.01
Barrambie TiO2	10	0.02
Neomet Process	3	0.01
Other	-	-
Expl'n & Inv (HNR)	9	0.02
Corp & Tax Losses	-	-
Working Capital	8	0.01
unpaid capital	0	0.00
Debt	0	0.00
Cash	46	0.08
Total	241	0.44

F/Conc Production	2017f	DH'17f	JH'18f	2018f	2019f	
Sales 100%						
Conc 6% Li2O	kt	50	110	165	275	420
Conc 4% Li2O	kt	66	110	50	160	-
Li Conc Total	kt	116	220	215	435	420
LCE	kt	14	27	29	57	62
Cash Costs (feed)	A\$/t	145	84	75	79	68
Cash Costs (prod)	A\$/t	795	457	435	446	419
Assumptions						
Spod Conc Price	US\$/t	690	850	850	850	775
FX Rate ass'd	A\$/US\$	0.75	0.78	0.78	0.78	0.78

Ratio Analysis (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Cashflow	-10	10	14	23	27
Cashflow per Share	-2	2	2	4	5
Cashflow Ratio (x)	-14.7	0.0	0.0	7.0	6.0
Earnings	8	10	13	23	27
Earnings per Share	1	2	2	4	5
EPS Growth (%)	-90%	0%	0%	183%	18%
Earnings Ratio (x)	17.4	0.0	0.0	7.1	6.0
Enterprise Value	94	106	93	93	68
EV : EBITDA	-42.5	0.0	0.0	4.0	2.5
EV : EBIT	-41.2	0.0	0.0	4.0	2.5

Net Debt : Net Debt+Equity (%)	39%	0%	0%	42%	44%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	11%	0%	0%	23%	22%
Return on Assets (%)	-3%	0%	0%	22%	21%
Dividend (c/sh)	2	0	0	0	0
Dividend payout ratio	134%	0%	0%	0%	0%
Dividend Yield	8%	0%	0%	0%	0%
Dividend Franking	100%	0%	0%	100%	100%

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

Profit and Loss (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Sales Revenue	16	25	28	53	55
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
Total Revenue	16	25	28	53	55
Opex	13	14	13	27	24
O/H	5	2	2	3	3
Provisions	0	0	0	0	0
Other	-10	0	0	0	0
EBITDA	-2	10	13	23	27
D&A	0	0	0	0	0
EBIT	-2	10	13	23	27
Finance costs	0	0	0	0	0
PBT	8	10	13	23	27
Tax	0	0	0	0	0
NPAT	8	10	13	23	27

Cash Flow (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Net Profit	8	10	13	23	27
Working Capital	-18	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	-10	10	14	23	27
-Capex + Development	1	1	1	2	2
-Exploration	0	0	0	0	0
-Assets Purchased	1	0	0	0	0
+Asset Sales	0	0	0	0	0
+Other	-1	0	0	0	0
= Investing Cashflow	-3	-1	-1	-2	-2
+ Equity Issues (Rts,plc,opts)	-1	0	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	0	0	0	0
-Interest Payments	0	0	0	0	0
= Financing Cashflow	-12	0	0	0	0
Period Surplus	-25	9	13	21	25
FX Adjustments	1	0	0	0	0
CASH	49	58	71	71	96

Balance Sheet (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Assets					
Cash	49	58	71	71	96
Current Receivables	1	1	1	1	1
Other Current Assets	2	2	2	2	2
Total Current Assets	52	61	74	74	99
PP&E, MineProp, EE&D	12	12	12	12	12
Other	19	19	19	19	19
Total NC Assets	31	31	31	31	31
Total Assets	83	92	105	105	130
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	5	5	5	5	5
Net Assets	78	87	99	99	125

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