

# Neometals Ltd

## (NMT \$0.27) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	18 <sup>th</sup> August 2017	\$0.41/sh

### Mt Marion Update

#### Investment case

Mt Marion is confirmed as operating at/above 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 \$32m 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 \$0.41/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 can be repeated. NMT has a low risk balance sheet with cash of ~\$46m, NIL debt, and an active on-market share buy-back.

#### Key points

##### Guidance

Mineral Resources (ASX:MIN, or MinRes) published results and guidance on Mt Marion Lithium mine (NMT owns 13.8%), as per table below.

Mt Marion forecast EBITDA for Dec H'17 is \$73m (\$145mpa run-rate), up from \$15m in June H'17.

NMT's share is \$10m for Dec H'17 (or \$20m annualised).

Mt Marion Project		2H FY17 (Actual)	1H 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
C1 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

#### Operational

Importantly Mt Marion is now cash generative and cashflow will be distributed as dividends from RIM, after tax, capital requirements and shareholder loans.

A recent site visit confirmed in our view that the mine is now operating to plan in terms of volume and product quality, after a slow start.

Neometals Ltd	Year End 30 June	
Share Price	0.27	A\$/sh
Price Target	0.41	A\$/sh
Valuation	0.41	A\$/sh

Shares on issue	549	m, diluted *
Market Capitalisation	148	A\$m
Enterprise Value	102	A\$m
Debt	0	A\$m
Cash	46	A\$m
Largest Shareholder	D Reed - 10.9%	

Production F/Cast	2017f	20178	2019f
Conc Product. (kt)	116	435	420
LCE Product (kt)	14	57	62
Total Cost (US\$/t)	795	446	421

Assumptions	2017f	20178	2019f
Li Price US\$/t	690	833	775
AUDUSD	0.75	0.76	0.76

Key Financials	2017f	20178	2019f
Revenue (A\$m)	16	53	56
EBITDA (A\$m)	-2	23	29
NPAT (A\$m)	8	23	29
Cashflow (A\$m)	-10	24	29

CFPS (Ac)	-2	4	5
P/CFPS (x)	-14.7	6.3	5.1

EPS (Ac)	1	4	5
EPS growth (%)	-90%	184%	23%
PER (x)	17.4	6.4	5.2

EV:EBITDA (x)	-42.5	3.3	1.8
EV:EBIT (x)	-41.2	3.3	1.8

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

ND:Net Debt+Equity (%)	39%	42%	44%
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#### Share Price Chart



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## Neometals Ltd

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We understand production in both June & July is some 5% above target at circa 35kt/mth;

Shipments of product to date in 2017 have been: Feb - 15kt; Mar - 32kt; Apr -18kt; May - 31kt; Jun - 35kt;

MinRes state that product yield through the beneficiation plant is exceeding design, however no specific data is provided;

Product split during ramp-up has been 43% of 6% Li<sub>2</sub>O product, and 57% of 4% Li<sub>2</sub>O product. This will improve to 50/50 for the next 6-9 months until additional flotation capacity is commissioned in Q1'18. Production will then be 100% 6% Li<sub>2</sub>O product.

Ganfeng has publicly declared its satisfaction with the metallurgical performance of Mt Marion concentrate in its conversion facilities in China.

Price received will be A\$823/wt. This assumes headline US\$841/dt for 6%Li<sub>2</sub>O cfr China, A\$1=US\$0.78, and after adjustment for moisture, and discount for lower grade product, ocean freight.

Operating costs are higher than we had expected (A\$460/t v A\$330/t) due mainly to strip ratio 3:1 v 4:1, capital recovery charge, partially offset by slightly higher playability and price assumption. We expect costs to trend lower over time as efficiencies are gained.

Mt Marion will produce ~400ktpa of 6% Li<sub>2</sub>O, equivalent to ~60ktpa LCE from early 2018. We estimate NMT's share EBITDA of A\$32mpa in FY'19, the first full year of the upgrade.

#### **Corporate**

Neometals had conditionally agreed to sell its stake in Mt Marion to Ganfeng for US\$96m in April 2017, however the deal failed complete. Nevertheless this is indicative of a valuation on Mt Marion worthy of consideration at the time. NMT has also since declared the intrinsic value of Mt Marion has been enhanced by:

- Revised offtake pricing, linked to Li Carbonate/Hydroxide prices, rather than the more volatile spodumene concentrate prices;
- Retention of rights to 12.37% of offtake volumes from Feb 2020;
- Completion of ramp-up to now above design rates;
- Proposed upgrade to Mt Marion plant.

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

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

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

Our valuation remains similar at \$0.41/sh. The Mt Marion component at \$132m is broadly supported by both NPV, the value previously agreed between Neometals and Ganfeng, and equates to an undemanding EBITDA multiple of 4x post upgrade.

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## Neometals Ltd

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## Market Statistics

		Year End 30 June			
<b>Share Price</b>	<b>\$0.27</b>	<b>A\$/sh</b>	<b>Directors</b>		
Issued Capital			S Cole	Chair	
Fully Paid Ord	546	m	D Reed	NE Dir	
Options (var. prices)	3	m	N Streltsova	NE Dir	
<b>Total Dil. FPOrd</b>	<b>549</b>	<b>m</b>	D Ritchie	NE Dir	
			C Reed	MD	
Market Cap (dil)	\$148	m	<b>Shareholders</b>		
Enterprise Value	\$102	m	D Reed	10.9%	
Cash	\$46	m	Kilkenny	4.4%	
Debt	\$0	m			

Asset Valuation	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	137	0.25
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)	11	0.02
Corp & Tax Losses	-	-
Working Capital	8	0.01
unpaid capital	0	0.00
Debt	0	0.00
Cash	46	0.08
<b>Total</b>	<b>228</b>	<b>0.41</b>

F/Cast Production (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
<b>Sales 100%</b>					
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	458	435	446	421
<b>Assumptions</b>					
Spod Conc Price US\$/t	690	841	825	833	775
FX Rate ass'd A\$/US\$	0.75	0.76	0.76	0.76	0.76

Ratio Analysis (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Cashflow	-10	10	13	24	29
Cashflow per Share	-2	2	2	4	5
Cashflow Ratio (x)	-14.7	0.0	0.0	6.3	5.1
Earnings	8	10	13	23	29
Earnings per Share	1	2	2	4	5
EPS Growth (%)	-90%	0%	0%	184%	23%
Earnings Ratio (x)	17.4	0.0	0.0	6.4	5.2
Enterprise Value	94	90	78	78	51
EV : EBITDA	-42.5	0.0	0.0	3.3	1.8
EV : EBIT	-41.2	0.0	0.0	3.3	1.8
Net Debt : Net Debt+Equity (%)	39%	0%	0%	42%	44%
EBIT Margin (%)	0%	0%	0%	0%	0%
Return on Equity (%)	11%	0%	0%	24%	23%
Return on Assets (%)	-3%	0%	0%	22%	22%
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%

Profit and Loss (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Sales Revenue	16	26	28	53	56
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>16</b>	<b>26</b>	<b>28</b>	<b>53</b>	<b>56</b>
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
<b>EBITDA</b>	<b>-2</b>	<b>10</b>	<b>13</b>	<b>23</b>	<b>29</b>
D&A	0	0	0	0	0
<b>EBIT</b>	<b>-2</b>	<b>10</b>	<b>13</b>	<b>23</b>	<b>29</b>
Finance costs	0	0	0	0	0
PBT	8	10	13	23	29
Tax	0	0	0	0	0
<b>NPAT</b>	<b>8</b>	<b>10</b>	<b>13</b>	<b>23</b>	<b>29</b>

Cash Flow (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
Net Profit	8	10	13	23	29
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
<b>= Operating Cashflow</b>	<b>-10</b>	<b>10</b>	<b>13</b>	<b>24</b>	<b>29</b>
-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
<b>= Investing Cashflow</b>	<b>-3</b>	<b>-1</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>
+ 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
<b>= Financing Cashflow</b>	<b>-12</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Period Surplus</b>	<b>-25</b>	<b>9</b>	<b>12</b>	<b>22</b>	<b>27</b>
FX Adjustments	1	0	0	0	0
<b>CASH</b>	<b>49</b>	<b>58</b>	<b>71</b>	<b>71</b>	<b>98</b>

Balance Sheet (A\$m)	2017f	DH'17f	JH'18f	2018f	2019f
<b>Assets</b>					
Cash	49	58	71	71	98
Current Receivables	1	1	1	1	1
Other Current Assets	2	2	2	2	2
Total Current Assets	52	61	74	74	101
PP&E, MineProp, EE&D	12	12	12	12	12
Other	19	19	19	19	19
<b>Total NC Assets</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>
<b>Total Assets</b>	<b>83</b>	<b>92</b>	<b>105</b>	<b>105</b>	<b>132</b>
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Net Assets</b>	<b>78</b>	<b>87</b>	<b>99</b>	<b>99</b>	<b>126</b>

## Reserves and Resources

Mt Marion Lithium Deposits	Tonnes mt	Li2O %	Fe2O3 %
<b>Indicated</b>			
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
<b>Total Indicated</b>	<b>29.0</b>	<b>1.36</b>	<b>1.06</b>
<b>Inferred</b>			
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
<b>Total Inferred</b>	<b>48.8</b>	<b>1.38</b>	<b>1.10</b>
<b>Total Indicated + Inferred</b>	<b>77.8</b>	<b>1.37</b>	<b>1.08</b>

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