

# Neometals Ltd

## (NMT \$0.50) Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	9 <sup>th</sup> November 2017	\$0.60/sh

### Barrambie Titanium Project Update & Inc. Price Target

#### Investment case

Though there are several moving parts to the NMT strategy, it appears the efforts with respect to both Barrambie and the Lithium-ion Recycling project are verging on proof of concept milestones. Success in the short term with respect to trial processing (DSO) and beneficiation and processing of the Barrambie ore will arguably crystallise value only partially recognised in the NMT share price. Moreover, it should provide commercial leverage in terms of negotiations with downstream DSO offtakers, thereby bringing forward commercialisation of the asset, improving payability and avoiding significant capex and lead time to developing a midstream operation. Successful commissioning of the Lithium-ion recycling plant will attract significant interest from downstream industry. As one of the few Lithium producers in a healthy macro, these additional catalysts could see NMT trade sustainably and well above our revised \$0.53/sh Valuation. We retain our Buy recommendation and set a \$0.60/sh Price Target.

#### Key points

- Ongoing drilling and metallurgical testwork continues at NMT's Barrambie Titanium Project;
- Beneficiation test work will be completed this month ahead of shipment to the Company's pilot plant in Canada;
- Pilot plant testing is schedule in the Jun Q after completion of commissioning of the Lithium-ion Battery Recycling pilot campaign expected from Dec;
- In parallel, NMT is seeking to fast track start-up of a DSO mining operation at Barrambie;
- Representative Barrambie ore samples from the planned starter pits have been shipped to China for evaluation by a titanium processor;
- Successful performance tests of the ore combined with positive outcomes on logistics' studies will prompt commercial negotiations with the downstream with a view to commencing a DSO mining operation;
- During October former Iluka and Talison executive, Mr Paul Wallwork, was appointed to the role of General Manager - Marketing and Product Development.

#### Analysis

We see value emerging and significant near term catalysts present in NMT's other businesses, which, to date; have attracted little market recognition arguably.

The Barrambie Titanium Project is being progressed commercial via two streams: mid-stream beneficiation and DSO.

Clearly the Company seeks to understand the commercial opportunity cost of a DSO development strategy offsetting this by understanding the capital cost and value loss with respect to time value of money/lead time to commercial scale production.

Arguably, an ability to demonstrate the economic cost-benefit of both approaches to potential DSO offtakers, could enhance commercial terms, thereby avoiding development capex, execution risk and lead time to commercialisation via the beneficiation route.

Neometals Ltd	Year End 30 June	
Share Price	0.50	A\$/sh
Price Target	0.60	A\$/sh
Valuation	0.53	A\$/sh

Shares on issue	565	m, diluted *
Market Capitalisation	282	A\$m
Enterprise Value	240	A\$m
Debt	0	A\$m
Cash	42	A\$m
Largest Shareholder	D Reed- 11.7%	

Production F/Cast	2017a	2018f	2019f
Conc Product. (kt)	250	450	450
LCE Product (kt)	33	57	57
Total Cost (US\$/t)	377	258	255

Assumptions	2017a	2018f	2019f
Li Price US\$/t	650	600	550
AUDUSD	0.75	0.78	0.78

Key Financials	2017a	2018f	2019f
Revenue (A\$m)	31	37	34
EBITDA (A\$m)	4	14	11
NPAT (A\$m)	5	13	11
Cashflow (A\$m)	-7	14	11

CFPS (Ac)	-1	2	2
P/CFPS (x)	46.0	21.0	26.5

EPS (Ac)	1	2	2
EPS growth (%)	-78%	174%	-21%
PER (x)	46.0	21.0	26.5

EV:EBITDA (x)	42.5	16.7	20.3
EV:EBIT (x)	46.1	16.9	20.5

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

ND:Net Debt+Equity (%)	35%	38%	39%
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#### Share Price Chart



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However, in the event that the pilot phase beneficiation process is successful, may prove compelling economically.

Either way, the work has to be done to understand the value opportunity.

Likewise, we near commissioning of the Li-ion Battery Recycling Pilot Plant (Dec).

Successful commissioning of the Lithium-ion recycling plant will attract significant interest from downstream industry.

We have increased our valuation to \$0.53/sh. This reflects an improved Valuation for Mt Marion following the recent outperformance of the plant.

It also boosts the nominal valuation applied to Barrambie in light of significant near term commercialisation catalysts: \$50m (prev. \$5m).

As one of the few lithium producers in a healthy macro, these additional catalysts could see NMT trade sustainably and well above our \$0.53/sh Valuation.

We retain our Buy recommendation and set an increased \$0.60/sh Price Target (prev. \$0.44/sh).

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## Market Statistics

		Year End 30 June			
<b>Share Price</b>	<b>\$0.50</b>	<b>A\$/sh</b>	<b>Directors</b>		
Issued Capital			S Cole	Chair	
Fully Paid Ord	559	m	D Reed	NE Dir	
Options (var. prices)	6	m	N Streltsova	NE Dir	
<b>Total Dil. FPOrd</b>	<b>565</b>	<b>m</b>	D Ritchie	NE Dir	
			C Reed	MD	
Market Capitalisation (dil)	\$282	m	<b>Shareholders</b>		
Enterprise Value	\$240	m	D Reed	11.7%	
Cash	\$42	m	Melaid	7.2%	
Debt	\$0	m			

<b>Asset Valuation</b>	<b>A\$m</b>	<b>A\$/sh</b>
RIM (Mt Marion) 13.8%	144	0.25
RAM (LiOH) 70.0%	63	0.11
Barrambie Ti	50	0.09
Alphamet Ti	3	0.01
Expl'n & Inv (HNR)	10	0.02
Corp & Tax Losses	(11)	(0.02)
Working Capital	-	-
unpaid capital	1	0.00
Debt	0	0.00
Cash	42	0.07
<b>Total</b>	<b>302</b>	<b>0.53</b>

<b>F/Cast Production (A\$m)</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>	
<b>Sales 100%</b>					
Li Conc 6% Li2O	kt	170	250	250	250
Li Conc 4% Li2O	kt	80	200	200	200
Li Conc Total	kt	250	450	450	450
LCE	kt	33	57	57	57
Cash Costs (feed)	A\$/t	59	53	52	51
Cash Costs (prod)	A\$/t	377	258	255	251
<b>Assumptions</b>					
Spod Conc Price	US\$/t	650	600	550	500
FX Rate ass'd	A\$/US\$	0.75	0.78	0.78	0.78

<b>Ratio Analysis (A\$m)</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
Cashflow	-7	14	11	8
Cashflow per Share	-1	2	2	1
Cashflow Ratio (x)	-33.9	20.7	26.0	34.1
Earnings	5	13	11	8
Earnings per Share	1	2	2	1
EPS Growth (%)	-78%	174%	-21%	-25%
Earnings Ratio (x)	46.0	21.0	26.5	35.3
Enterprise Value	183	227	219	210
EV : EBITDA	42.5	16.7	20.3	25.8
EV : EBIT	46.1	16.9	20.5	26.3
Net Debt : Net Debt+Equity (%)		35%	38%	39%
40%				
EBIT Margin (%)	0%	0%	0%	0%
Return on Equity (%)	6%	15%	11%	7%
Return on Assets (%)	5%	14%	10%	7%
Dividend (c/sh)	0	0	0	0
Dividend payout ratio	0%	0%	0%	0%
Dividend Yield	0%	0%	0%	0%
Dividend Franking	100%	100%	100%	100%

<b>Profit and Loss (A\$m)</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
Sales Revenue	31	37	34	31
Interest Revenue	0	0	0	0
Other Revenue	0	0	0	0
<b>Total Revenue</b>	<b>31</b>	<b>37</b>	<b>34</b>	<b>31</b>
Opex	20	16	16	16
O/H	7	7	7	7
Provisions	0	0	0	0
Other	-1	0	0	0
<b>EBITDA</b>	<b>4</b>	<b>14</b>	<b>11</b>	<b>8</b>
D&A	0	0	0	0
<b>EBIT</b>	<b>4</b>	<b>13</b>	<b>11</b>	<b>8</b>
Finance costs	0	0	0	0
PBT	5	13	11	8
Tax	0	0	0	0
<b>NPAT</b>	<b>5</b>	<b>13</b>	<b>11</b>	<b>8</b>

<b>Cash Flow (A\$m)</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
Net Profit	4	14	11	8
Working Capital	-11	0	0	0
+ Dep/Amort	0	0	0	0
+ Tax Expense	0	0	0	0
- Tax Paid	0	0	0	0
<b>= Operating Cashflow</b>	<b>-7</b>	<b>14</b>	<b>11</b>	<b>8</b>
-Capex + Development	2	2	2	0
-Exploration	0	0	0	0
-Assets Purchased	0	0	0	0
+Asset Sales	0	0	0	0
+Other	-8	0	0	0
<b>= Investing Cashflow</b>	<b>-10</b>	<b>-2</b>	<b>-2</b>	<b>0</b>
+ Equity Issues (Rts,plc,opts)	-5	0	0	0
+Loan Drawdown	0	0	0	0
+Other	0	0	0	0
-Loan Repayment	0	0	0	0
-Dividends	11	0	0	0
-Interest Payments	-1	0	0	0
<b>= Financing Cashflow</b>	<b>-15</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Period Surplus</b>	<b>-31</b>	<b>12</b>	<b>9</b>	<b>8</b>
FX Adjustments	0	0	0	0
<b>CASH</b>	<b>43</b>	<b>55</b>	<b>63</b>	<b>72</b>
<b>CASH &amp; Equiv</b>	<b>49</b>	<b>61</b>	<b>70</b>	<b>78</b>

<b>Balance Sheet (A\$m)</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
<b>Assets</b>				
Cash	43	55	63	72
Current Receivables	1	1	1	1
Other Current Assets	8	8	8	8
Total Current Assets	52	63	72	81
PP&E, MineProp, EE&D	26	26	26	26
Other	6	6	6	6
Total NC Assets	33	33	33	33
<b>Total Assets</b>	<b>85</b>	<b>96</b>	<b>105</b>	<b>113</b>
<b>Liabilities</b>				
Borrowings	0	0	0	0
Trade Payables	0	0	0	0
Provisions	6	6	6	6
Other Liabilities	0	0	0	0
<b>Total Liabilities</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Net Assets</b>	<b>79</b>	<b>90</b>	<b>99</b>	<b>107</b>

## Reserves and Resources

<b>Mt Marion Lithium Deposits</b>	<b>Tonnes mt</b>	<b>Li2O %</b>	<b>Fe2O3 %</b>
Area 1	4.4	1.46	1.3
Area 1	2.2	1.34	1.6
Area 2	1.3	1.47	1.6
Area 2	1.0	1.44	1.7
Area 2W	3.4	1.48	1.2
Area 2W	4.5	1.40	1.1
Area 4	0.9	1.25	1.4
Area 4	1.3	1.34	1.3
Area 5	1.0	1.33	2.4
Area 6	3.2	1.24	1.7
Total Indicated	10.1	1.45	1.3
Total Inferred	13.2	1.34	1.5
<b>Total</b>	<b>23.2</b>	<b>1.40</b>	<b>1.4</b>
Exploration Target (add'l)		15-25	1.3-1.4

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