

Neometals Ltd

(NMT \$0.27) Buy

Analyst Jon Bishop	Date September 2018	Price Target \$0.50/sh
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Comments

- NMT has announced its intention to demerge its Barrambie Titanium-Vanadium Project and associate non-lithium assets – completion set for Mar Q FY'19;
- This will provide for a vertically integrated lithium business to continue to evolve within the NMT structure whilst realise value for the emerging DSO Barrambie operation in the short to medium term;
- Longer term, NewCo will seek to advance potential development of downstream process flow sheets to produce high-purity vanadium and titanium chemicals;
- On our analysis, the demerger makes sense, with the market paying nothing for the remainder of the NMT business outside of its 13.8% stake in the Mt Marion lithium mine plus cash.

Val/ Sh	Li2O Ref Price									
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
AUD/USD	\$0.53	\$0.46	\$0.46	\$0.47	\$0.48	\$0.48	\$0.49	\$0.50	\$0.50	\$0.51
15%	\$0.46	\$0.46	\$0.47	\$0.48	\$0.48	\$0.49	\$0.50	\$0.50	\$0.51	\$0.51
10%	\$0.47	\$0.48	\$0.49	\$0.49	\$0.50	\$0.51	\$0.51	\$0.52	\$0.52	\$0.53
5%	\$0.49	\$0.49	\$0.50	\$0.51	\$0.52	\$0.52	\$0.53	\$0.54	\$0.54	\$0.54
0%	\$0.50	\$0.51	\$0.52	\$0.53	\$0.53	\$0.54	\$0.55	\$0.56	\$0.56	\$0.56
-5%	\$0.52	\$0.53	\$0.54	\$0.55	\$0.56	\$0.56	\$0.57	\$0.58	\$0.58	\$0.58
-10%	\$0.55	\$0.55	\$0.56	\$0.57	\$0.58	\$0.58	\$0.59	\$0.60	\$0.60	\$0.60
-15%	\$0.57	\$0.57	\$0.58	\$0.59	\$0.60	\$0.60	\$0.61	\$0.62	\$0.62	\$0.63

Val/ Sh	Li2O Ref Price									
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
LiOH	\$0.53	\$0.55	\$0.55	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60	\$0.60	\$0.60
15%	\$0.55	\$0.55	\$0.56	\$0.57	\$0.58	\$0.58	\$0.59	\$0.60	\$0.60	\$0.60
10%	\$0.53	\$0.54	\$0.55	\$0.55	\$0.56	\$0.57	\$0.58	\$0.58	\$0.59	\$0.59
5%	\$0.52	\$0.53	\$0.53	\$0.54	\$0.55	\$0.56	\$0.56	\$0.57	\$0.58	\$0.58
0%	\$0.50	\$0.51	\$0.52	\$0.53	\$0.53	\$0.54	\$0.55	\$0.56	\$0.56	\$0.56
-5%	\$0.49	\$0.50	\$0.51	\$0.51	\$0.52	\$0.53	\$0.54	\$0.54	\$0.55	\$0.55
-10%	\$0.48	\$0.48	\$0.49	\$0.50	\$0.51	\$0.51	\$0.52	\$0.53	\$0.53	\$0.54
-15%	\$0.46	\$0.47	\$0.48	\$0.49	\$0.49	\$0.50	\$0.51	\$0.52	\$0.52	\$0.52

Investment Case

The potential demerger of NMT's Barrambie Titanium business appears sensible enabling the market to more efficiently invest to two distinct businesses. We view the timing of this announcement reflects positive momentum on the Barrambie DSO development, with positive feedback from recent trial sample testwork by Chinese downstream titanium producers potentially translating to commercial agreements in the short to medium term. Furthermore, on our analysis, the market is paying nothing for NMT's Barrambie DSO project (lest its other downstream battery technology businesses), valuing simply cash and its 13.8% Mt Marion lithium mine interests. Whilst the demerger will be followed by the usual shuffling of shareholder base to align with the respective businesses' strategies, it should crystallise value for Barrambie in due course and particularly if our 'read of the play' is proven correct. 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 and this announcement should serve to simplify the business. We retain our Buy recommendation.

Our Market Sensitivity

Price Target: \$0.50/sh

Valuation: \$0.53/sh

Bull Scenario - \$2.00/sh

NMT advances to commercialisation of Barrambie DSO development and commercialisation of the LiOH processing plant and commercialisation of the Li-Ion Battery Recycling process.

Base Scenario - \$0.50/sh

NMT advances to commercialisation of Barrambie DSO development or commercialisation of the LiOH processing plant or commercialisation of the Li-Ion Battery Recycling process.

Bear Scenario - \$0.25/sh

NMT fails to commercialise its other ventures outside of its core Mt Marion interest (EZL valuation - \$0.26/sh).

Company Summary

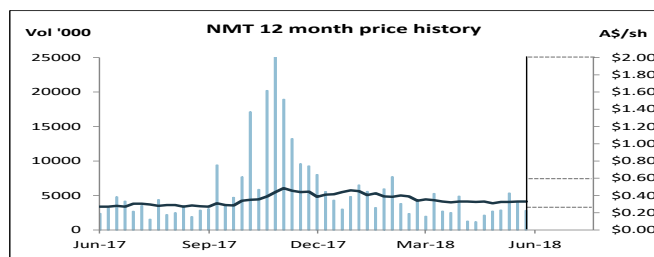
Neometals Ltd (NMT) is primarily a minerals exploration -production company with operations in Western Australia. Key assets include the Barrambie Titanium Project and the Mt Marion Lithium spodumene mine with MIN.ASX. At Barrambie short-term catalysts relate to progressing commercially via mid-stream beneficiation and DSO. Successful commissioning of the Lithium-ion battery recycling plant and advancement of the Li-Hydroxide plant in Kalgoorlie will attract Lithium producers in a healthy macro.

Market Statistics

Share price	\$0.27 A\$/sh	Directors	
Issued Capital		S Cole	Chair
Fully Paid Ord	544 m	D Reed	NE Dir
Options (var. prices)	- m	N Streltsova	NE Dir
Total Dil. FPOrd	544 m	D Ritchie	NE Dir
		C Reed	MD
Market Capitalisation (dil)	151 \$m	Shareholders	
Enterprise Value	121 \$m	D Reed	9.0%
Cash	30 \$m		
Debt	0 \$m		

Year End 30 June

Share Price Performance



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RESOURCES QUARTERLY SEPTEMBER 2018

Euroz Securities Limited

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Asset Valuation	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	144	0.27
RAM (LiOH) 70.0%	63	0.12
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	30	0.06
Total	290	0.53

F/Cast Production	2017a	2018a	2019f	2020f
Sales 100%				
Li Conc 6% Li2O kt	170	326	250	250
Li Conc 4% Li2O kt	80	200	200	200
Li Conc Total kt	250	526	450	450
LCE kt	33	68	57	57
Cash Costs (feed) A\$/t	59	54	52	51
Cash Costs (prod) A\$/t	377	274	257	251

Assumptions		2017a	2018a	2019f	2020f
Spod Conc Price US\$/t		650	600	550	500
FX Rate ass'd A\$/US\$		0.75	0.78	0.75	0.78

Ratio Analysis (A\$m)	2017a	2018a	2019f	2020f
Cashflow	-7	3	12	8
Cashflow per Share	-1	1	2	1
Cashflow Ratio (x)	-33.9	43.9	12.2	18.2
Earnings	5	11	12	8
Earnings per Share	1	2	2	1
EPS Growth (%)	-78%	136%	6%	-34%
Earnings Ratio (x)	46.0	13.2	12.4	18.9

Enterprise Value	183	109	99	90
EV : EBITDA	42.5	26.7	8.0	11.1
EV : EBIT	46.1	27.6	8.1	11.3

Net Debt : Net Debt+Equity (%)	35%	32%	35%	36%
EBIT Margin (%)	0%	0%	0%	0%
Return on Equity (%)	6%	13%	12%	8%
Return on Assets (%)	5%	4%	12%	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%

Reserves and Resources

Mt Marion Lithium Deposits	Tonnes mt	Li2O %	Fe2O3 %
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
Total	23.2	1.40	1.4
Exploration Target (add'l)	15-25	1.3-1.4	

Profit and Loss (A\$m)	2017a	2018a	2019f	2020f
Sales Revenue	31	19	35	31
Interest Revenue	0	0	0	0
Other Revenue	0	1	0	0
Total Revenue	31	19	35	31
Opex	20	8	16	16
O/H	7	6	7	7
Provisions	0	0	0	0
Other	-1	-6	0	0
EBITDA	4	4	12	8
D&A	0	0	0	0
EBIT	4	4	12	8
Finance costs	0	0	0	0
PBT	5	11	12	8
Tax	0	-1	0	0
NPAT	5	11	12	8

Cash Flow (A\$m)	2017a	2018a	2019f	2020f
Net Profit	4	3	12	8
Working Capital	-11	0	-1	0
+ Dep/Amort	0	0	0	0
+ Tax Expense	0	-1	0	0
- Tax Paid	0	0	-1	0
= Operating Cashflow	-7	3	12	8

-Capex + Development	2	1	2	0
-Exploration	0	1	0	0
-Assets Purchased	0	0	0	0
+Asset Sales	0	0	0	0
+Other	-8	0	0	0
= Investing Cashflow	-10	-2	-2	0

+ Equity Issues (Rts,plc,opts)	-5	-2	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
= Financing Cashflow	-15	-2	0	0

Period Surplus	-31	0	10	8
FX Adjustments	0	0	0	0

CASH	42	42	52	61
CASH & Equiv	49	70	80	89

Balance Sheet (A\$m)	2017a	2018a	2019f	2020f
Assets				
Cash	43	42	52	61
Current Receivables	1	1	1	1
Other Current Assets	8	8	8	8
Total Current Assets	52	51	61	70
PP&E, MineProp, EE&D	26	14	14	14
Other	6	28	28	28
Total NC Assets	33	42	42	42
Total Assets	85	93	103	112

Liabilities				
Borrowings	0	0	0	0
Trade Payables	0	1	1	1
Provisions	6	4	4	4
Other Liabilities	0	0	0	0
Total Liabilities	6	5	5	5

Net Assets	79	88	98	107
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