

Neometals Ltd

(NMT \$0.225) Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	24 th December 2018	\$0.40/sh ▼ from \$0.50/sh

Sale of Mt Marion Interests for \$104m

Investment case

NMT has realised \$200m for an initial \$3m investment in Mt Marion after announcing divestment of its remaining interests for \$104m in cash. The Company is now trading at its \$130m cash backing of 23cps, effectively valuing the remainder of its downstream Li chemical and Barambie TiO₂ & V₂O₅ businesses at \$0. We believe that value will crystallise for (particularly) Barambie in the medium term for little cost given the relative maturity of the commercialisation work completed to date. We retain our Buy recommendation as a consequence and set a revised \$0.40/sh Price Target and determining a SOTP Valuation of \$0.43/sh.

Key points

- NMT has agreed to sell its remaining 13.8% interest in the operating Mt Marion lithium (spodumene) mine for \$104m;
- The sale was made to the JV partners, Ganfeng and Mineral Resources Ltd (ASX:MIN) subject to FIRB approval (for Ganfeng);
- NMT will retain a binding option for LOM offtake of 6% Li₂O (spodumene) concentrate at mkt linked pricing to progress NMT's proposed downstream, lithium chemical processing business;
- At close, NMT will have -\$130m (24cps) in cash assuming that any capital gains will be offset by the balance of corporate tax losses;
- Our Valuation reduces to \$0.43/sh (prev. \$0.51/sh) due to look-through vs \$146m valuation last published (inc. \$50m nominal undeveloped Resources value);
- We retain our Buy recommendation as NMT is trading cash backing (\$130m or 23cps), providing for no value attributable to the maturing Barambie TiO₂-V₂O₅ and downstream Lithium processing businesses;
- Our Price Target is set at \$0.40/sh. We see medium term catalysts from finalisation of offtake discussions pertaining to the proposed Barambie DSO development: This will consume very little cash to realisation;
- As a result of this divestment, NMT will no longer proceed with the proposed demerger of the Barambie business.

Neometals Ltd	Year End 30 June	
Share Price	0.23	A\$/sh
Price Target	0.40	A\$/sh
Valuation	0.43	A\$/sh
Shares on issue	544m, diluted *	
Market Capitalisation	122	A\$m
Enterprise Value	-8	A\$m
Debt	0	A\$m
Cash est.	130	A\$m
Largest Shareholder	D Reed- 11.7%	

Directors

S Cole	Chair
D Reed	NE Dir
N Streltsova	NE Dir
D Ritchie	NE Dir
C Reed	MD

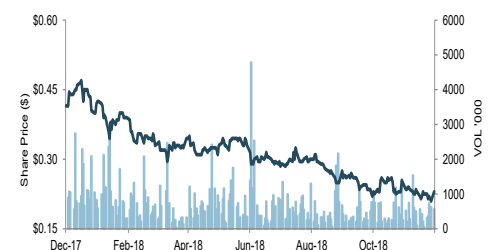
Shareholders

D Reed	9.0%
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 Australia
<http://www.neometals.com.au/>

Share Price Chart



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(NMT \$0.225) Buy

Analysis

NMT has agreed to sell its remaining 13.8% interest in the operating Mt Marion lithium (spodumene) mine for \$104m.

Valuation Impact

The price achieved was above our \$96m NPV of NMT's producing interests but below our \$146m total Mt Marion valuation, inclusive of \$50m in nominal value for undeveloped Resources.

Our Valuation reduces to \$0.43/sh (from \$0.51/sh) due to implied look-through on the transaction effectively removing our pre-exiting \$50m nominal valuation for undeveloped resources.

We have removed our financial forecasts for NMT as a result of the divestment removing the Company's producing and cash generating asset.

We present a SOTP, risked nominal valuation of the NMT ventures until full economic feasibilities are tabled:

ASSET VALUATION		
	A\$m	A\$/sh
RIM (Mt Marion) 13.8%	-	-
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	(27)	(0.05)
Working Capital	-	-
unpaid capital	1	0.00
Debt	0	0.00
Cash	130	0.24
Total	235	0.43

Tax Implications

We assume that the price agreed will be almost fully realisable ie not subject to any significant tax liabilities due to existing corporate tax losses.

NMT has realised \$200m in equity divestments and project dividends from an initial \$3m investment in the project.

Since NMT's initial \$3m investment in Mt Marion, it has successfully realised \$193m via equity sell downs and a further -7m in dividend distributions;

A total of \$34m has been returned via dividends and share buy-backs.

We anticipate the bulk of the proceeds will be retained for development of the remaining projects, however, the Board will likely consider further one-off tax effective returns post completion.

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Transaction and Timing

The sale was made to the JV partners, Ganfeng and Mineral Resources Ltd (ASX:MIN) subject to FIRB approval (for the Ganfeng portion).

Subject to FIRB and Chinese regulatory bodies, completion will occur within 5 days of all conditions being satisfied and by 31-01-2019 (unless mutually agreed to extend to 28-02-2019 awaiting Chinese regulatory consents).

NMT will retain a binding option for LOM offtake of 6% LiO₂ (spodumene) concentrate at mkt linked pricing.

This preserves the Company's ability to progress its proposed downstream, lithium chemical processing business.

As a result of this divestment, NMT will no longer proceed with the proposed demerger of the Barrambie business.

Price Target and Recommendation

We see medium term catalysts from finalisation of offtake discussions pertaining to the proposed Barrambie DSO development.

We retain our Buy recommendation as NMT is trading cash backing, providing for no value attributable to the maturing Barrambie TiO₂-V₂O₅ and downstream Lithium processing businesses.

Our Price Target is set at \$0.40/sh ▼ from \$0.50/sh

Our \$0.43/sh Valuation provides for a mere \$50m nominal value for Barrambie yet there is clear and substantial upside as the development parameters and time frame are set-out.

This should consume very little cash to realisation as Barrambie is well advanced with:

- A granted mining permit;
- Native Title Agreement;
- Application has been lodged with the WA Dept of Mines to commence the initial 1mtpa open pit operation;
- Over \$30m of historical spend on exploration-Resource drilling and technical evaluation; and
- Current Vanadium prices of -US\$130/kg have benefited from China's directive to improve environmental standards.

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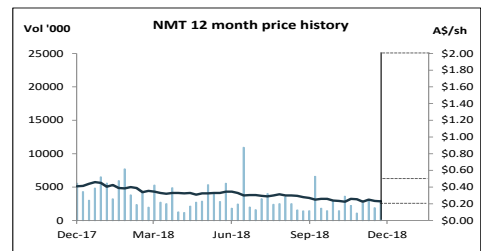


Key Variables

Val/ Sh		Li2O Ref Price								
\$0.43		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.41	\$0.41	\$0.41	\$0.42	\$0.42	\$0.42	\$0.42	\$0.42	\$0.42
	10%	\$0.41	\$0.42	\$0.42	\$0.42	\$0.42	\$0.42	\$0.43	\$0.43	\$0.43
	5%	\$0.42	\$0.42	\$0.42	\$0.42	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43
	0%	\$0.42	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43	\$0.44	\$0.44	\$0.44
	-5%	\$0.43	\$0.43	\$0.43	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.45
	-10%	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.45	\$0.45	\$0.45	\$0.45
	-15%	\$0.44	\$0.44	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45

Val/ Sh		Li2O Ref Price								
\$0.43		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.47	\$0.47	\$0.47	\$0.47	\$0.47	\$0.47	\$0.48	\$0.48	\$0.48
	10%	\$0.45	\$0.45	\$0.46	\$0.46	\$0.46	\$0.46	\$0.46	\$0.47	\$0.47
	5%	\$0.44	\$0.44	\$0.44	\$0.44	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45
	0%	\$0.42	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43	\$0.44	\$0.44	\$0.44
	-5%	\$0.41	\$0.41	\$0.41	\$0.42	\$0.42	\$0.42	\$0.42	\$0.42	\$0.43
	-10%	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.41	\$0.41	\$0.41	\$0.41
	-15%	\$0.38	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.40	\$0.40	\$0.40

Our Share Price Sensitivity



Our Market Sensitivity

Price Target: \$0.40/sh

Valuation: \$0.43/sh

Bull Scenario - \$2.00/sh

NMT advances to commercialisation of Barambie DSO TiO2 and V2O5 developments 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 Barambie DSO development or commercialisation of the LiOH processing plant or commercialisation of the Li-Ion Battery Recycling process.

Bear Scenario - \$0.20/sh

NMT fails to commercialise its TiO2 & V2O5 Barambie and downstream LiOH and Battery Recycling ventures.

Company Summary

Neometals Ltd (NMT) is primarily a minerals exploration -production company with operations in Western Australia. Key assets include the Barambie Titanium Project and the Mt Marion Lithium spodumene mine with MIN.ASX. At Barambie 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.

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