

Neometals Ltd

(NMT \$0.54) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	5 th May 2021	\$1.03/sh ▲ from \$1.00/sh

Secondary 'mega trend' assets are adding up to be meaningful

Investment case

NMT is in JV to develop a LIB ("lithium-ion battery") recycling business with an initial footprint in Europe. It is very advanced, with the demonstration scale plant due for commissioning in coming months. FID for subsequent commercial starter plant (20ktpa capacity) is early CY22. The potential growth is substantial, and industry tailwinds (mega-trends) are extremely strong. NMT also has several secondary projects. The secondary European project is vanadium recovery from stockpiled steel slags in Finland and Sweden. A third project is the very large Australian Barrambie titanium/vanadium deposit, likely to be exported as a high margin concentrate. The longer-term projects are a lithium conversion facility to process Mt Marion offtake (current plan is India) and the Mt Edwards nickel & PGE early stage development/exploration.

Key points

- As a reminder, we assume the LIB recycling facility capex (for 100%, NMT share is 50%) is A\$140m and EBITDA of A\$74m pa for 20ktpa of feedstock. The JV is targeting modular growth to 200ktpa;
- NMT has recently updated the market on the economics of its two vanadium assets;
- We view both as secondary, and our Buy recommendation has instead been based on the lithium battery recycling opportunity (higher NPV, much larger growth potential);
- In the current bull market for resources though, the vanadium assets have potential for meaningful value;
- We value the Vanadium Slag (59% NMT) opportunity at 7cps. This is significantly lower than the Company estimate of around 33cps, but we use a higher discount rate (12% versus 10%), and we use lower vanadium prices and higher costs. On spot prices (US\$10/lb), our NPV12 increase to 30cps. Momentum in vanadium prices, plus current shortages suggest prices could continue to rise. Prices are still well below previous peaks;
- We value the Barrambie vanadium/ilmenite/iron opportunity (100% NMT) at 11cps. We assume A\$175m capex (2.4Mtpa) and opex US\$140/t and selling prices of US\$165/t. Our assumptions err closer to tin / tantalum capex requirements (crush, mill, spiral, no flotation), but given the significantly higher feedstock grade, we hope we are drastically too high for our capex assumption. On our assumptions, Barrambie generates A\$35m pa post tax free cash flow (100% basis). On spot prices (we estimate around US\$265/t), our Barrambie NPV increases to 99cps (100% basis), or free cash flow of A\$127m pa. We expect a partner to fund capex and earn an interest in the project;
- Separately, we are also watching with interest the Mt Edwards (Nickel in WA) project. The recent palladium grades were very interesting. If palladium is proven to exist in payable quantities the potential for a re-rating is high. For now, we only attribute a small nominal project value;
- Our NMT valuation is \$1.02, of which over three quarters is the LIB recycling opportunity. On spot prices, our valuation increases to \$1.53/sh and the non-core assets contribute over half our valuation;
- Consequently, the longer a bull market in resources continues, and the more NMT can de-risk the development assets, the more diversified the company will become, in our view;
- We maintain our Buy recommendation.

Neometals Ltd	Year End 30 June	
Share Price	0.54	A\$/sh
Price Target	1.03	A\$/sh
Valuation (DCF)	1.02	A\$/sh
WACC	12.0%	
Terminal Growth	0%	
Shares on issue	549 m,	diluted
Market Capitalisation	295.0	A\$m
Enterprise Value	227.5	A\$m
Cash (31 Mar 21a)	67.5	A\$m
Debt (31 Mar 21a)	-	A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	0.0	0.0	0.0
EBITDA (A\$m)	-16.0	-12.8	-10.2
EBITA (A\$m)	-16.7	-18.2	-14.0
Reported NPAT (A\$m)	-14.6	-16.7	-14.1
Normalised NPAT (A\$m)	-11.1	-12.0	-10.2

Operating Cashflow (A\$m)	-11.5	-11.4	-10.7
Capex (A\$m)*	-8.7	-2.0	-41.1
Op. Free Cashflow (A\$m)	-20.2	-13.3	-51.8

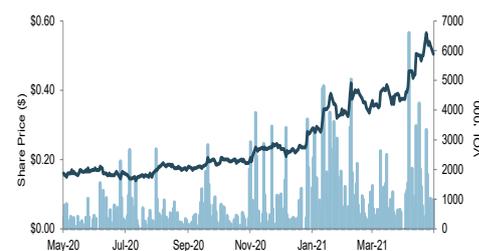
Revenue Growth (%)	nm	nm	nm
EBITDA Growth (%)	nm	nm	nm
Norm. NPAT Growth (%)	nm	nm	nm

Normalised EPS (Ac)	-2.0	-2.2	-1.9
Norm. EPS growth (%)	nm	nm	nm
PER (x)	nm	nm	nm
EV:EBITDA (x)	nm	nm	nm
EV:EBIT (x)	nm	nm	nm

DPS (Ac)	2.0	0.0	0.0
Dividend Yield (%)	3.7%	0.0%	0.0%

Net Debt (A\$m)	-75.8	-62.5	-10.6
Net Debt:Equity (%)	0%	nm	nm
Interest Cover (x)	0.0	nm	nm

Share Price Chart



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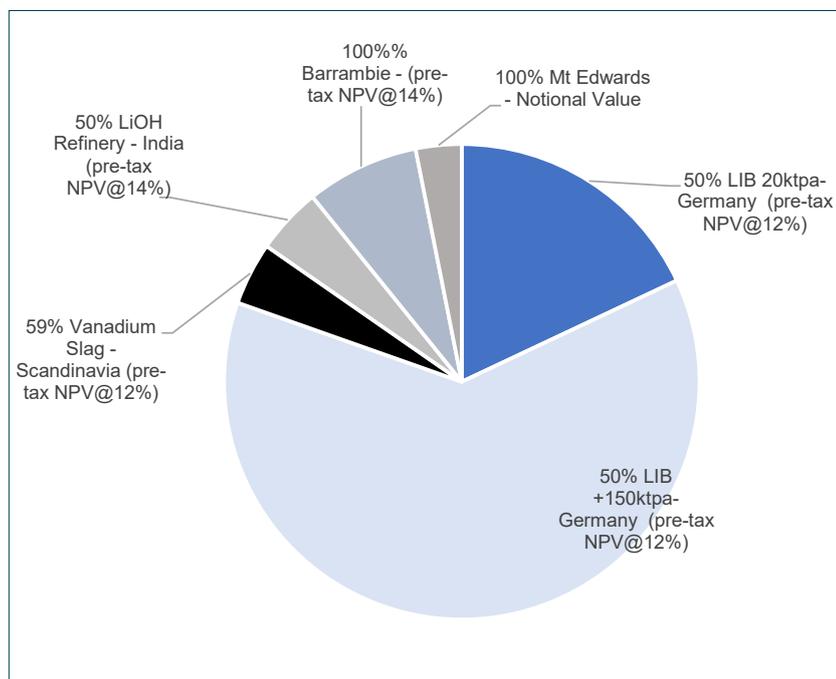
This analyst declares that he has a beneficial interest in NMT.

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Neometals Ltd
(NMT \$0.54) Buy

Estimated project contribution – Base Case



Source: Euroz Hartleys

Analysis

Our model assumes the development of the LIB recycling and the vanadium projects. On our base assumptions, the vanadium projects do not generate anywhere near the returns of the LIB recycling projects. We expect NMT will fund the vanadium projects off balance sheet or divest them. We note that NMT free-carried its interest in Mt Marion, and so there is a precedent of retaining interest without requiring capital. It becomes difficult to model speculative free-carry scenarios, and hence our model assumes that the NMT economic interest is funded by debt to retain 100% - this is probably unrealistic on our base assumptions for price and timing, although very possible using spot prices.

We model the vanadium slag business based on the recent PFS (presented below), but with more conservative assumptions.

Slag Vanadium PFS

Table 1 - PFS Highlights (all figures expressed on a 100% ownership basis and pre-tax)

PFS Highlights	
Annual Production	13.43m lbs V ₂ O ₅
Life of Plant	10.5 years
Life of Plant Revenue	US\$1,369 million
Pre-tax Operating Cashflow	US\$764 million
Pre-tax NPV (10% discount rate)	US\$231 million
Average Net Operating Cost of recovered V ₂ O ₅	US\$4.25/lb
Total initial capital costs	US\$183 million
Payback of capital costs	<4 years

Source: NMT

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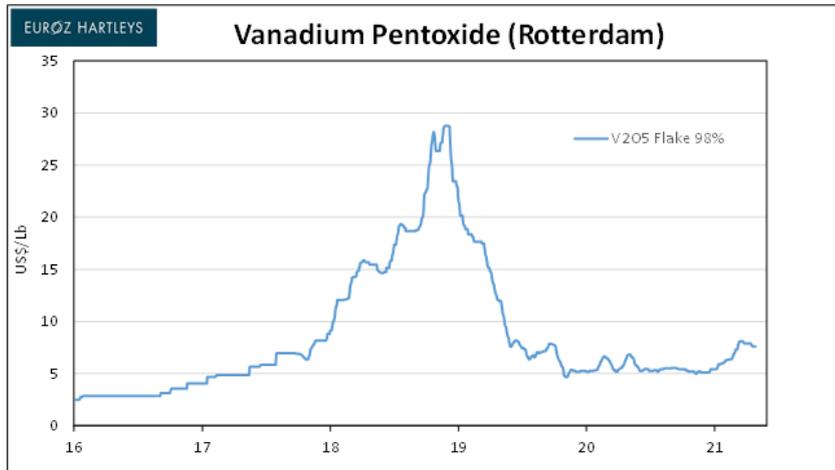
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Neometals Ltd

(NMT \$0.54) Buy



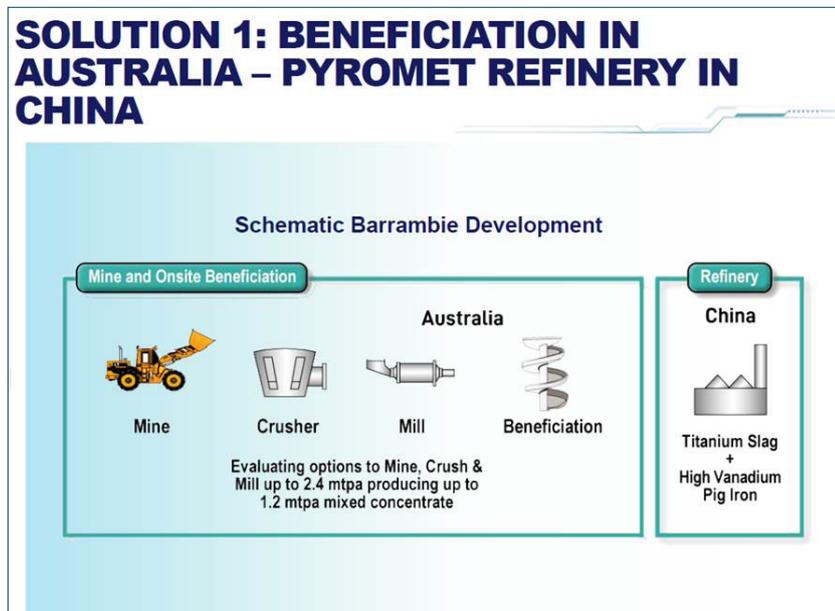
Vanadium prices rising, but well off peak



Source: Asian Metals

Our Barrambie model is highly speculative, given there is no study released for the current flow sheet. Our assumptions err closer to tin / tantalum capex requirements (crush, mill, spiral, no flotation), but given the significantly higher feedstock grade versus a tin / tantalum mine, we hope we are too high for our capex assumptions. See below the indicative flow sheet.

Barrambie Possible Flow Sheet (no study released)



Source: NMT

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Neometals Ltd
(NMT \$0.54) Buy

Mt Edwards released interesting testwork on the Armstrong deposit. Big rerating potential if PGEs are proven to exist and recover to nickel concentrates in the other 10 deposits.

Table 1 – Armstrong Float Test Work Results

PRODUCT	WEIGHT		NICKEL		COBALT		PALLADIUM		PLATINUM		GOLD	
	Gram	%	%	%dist	%	%dist	ppm	%dist	ppm	%dist	ppm	%dist
Head Grade	936.4	100.0	2.16	100.0	0.03	100.0	3.04	100.0	0.21	100.0	0.57	100.0
Rougher Concentrate		8.24	12.8	48.8	0.16	43.2	20.4	55.4	0.61	24.0	4.08	59.0
Prefloat Con +Decant		26.6	2.24	27.5	0.03	25.5	3.30	28.8	0.20	24.9	0.48	22.5
Tails		65.2	0.79	23.7	0.02	31.3	0.74	15.8	0.17	51.1	0.16	18.5

Source: NMT

Price Target

We increase our price target to \$1.03 (from \$1.00 previously).

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	66%	\$1.02	\$1.18
1.5x NAV	5%	\$1.53	\$1.77
NPV at spot commodity and fx prices	5%	\$1.58	\$1.85
NPV5	1%	\$5.74	\$6.39
Grossed up dividend yield of 6.0%	1%	\$0.00	\$0.00
Net cash	22%	\$0.12	\$0.02
Risk weighted composite		\$0.91	
12 Months Price Target		\$1.03	
Shareprice - Last		\$0.538	
12 mth total return (% to 12mth target + dividend)		91.6%	

Neometals Ltd

(NMT \$0.42) Buy

	2022F	2023F	2024F	2025F
Profit & Loss				
Revenue	0.0	0.0	70.3	363.8
Total Costs	-10.2	-8.2	-34.9	-278.9
EBITDA	-10.2	-8.2	35.3	84.9
margin	-	-	50%	23%
- LIB Batt. Recyl.	0.0	0.0	39.4	36.7
- Scand. Vanadium	0.0	0.0	0.0	10.2
- LiOH Refinery	0.0	0.0	0.0	0.0
- Barrambie	0.0	0.0	0.0	40.0
- Overheads	-10.2	-8.2	-4.1	-2.0
D&A	-3.7	-5.7	-10.0	-15.5
EBIT	-14.0	-13.9	25.3	69.4
Net Interest	-0.1	-3.2	-7.0	-10.8
Pre-Tax Profit	-14.1	-17.1	18.3	58.6
Tax Expense	0.0	0.0	0.0	0.0
Normalised NPAT	-10.2	-12.3	13.2	42.2
Abnormal Items	-4.0	-4.8	5.1	16.4
Reported Profit	-14.1	-17.1	18.3	58.6
Minority	0.0	0.0	0.0	0.0
Profit Attrib	-14.1	-17.1	18.3	58.6
DPS	0.0	0.0	0.0	0.0
Cash flow (A\$m)				
Pro-forma EBITDA	-10.2	-8.2	35.3	84.9
Working Capital	-0.3	-0.3	-5.1	-3.7
Cash retained in JV	0.0	0.0	0.0	0.0
Operating Cashflow	-10.6	-8.4	30.2	81.2
Income Tax Paid	0.0	0.0	0.0	0.0
Interest & Other	-0.1	-3.2	-7.0	-10.8
Operating Activities	-10.7	-11.6	23.2	70.4
Property, Plant & Equip.	-41.1	-90.9	-144.6	-148.9
Exploration and Devel.	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investment Activities	-41.1	-90.9	-144.6	-148.9
Borrowings	100.0	50.0	100.0	80.0
Equity or "tbc capital"	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Financing Activities	100.0	50.0	100.0	80.0
Net Cashflow	48.2	-52.5	-21.3	1.4
Balance Sheet (\$m)				
Cash	111.9	59.3	38.0	39.4
Other Current Assets	1.2	1.2	9.9	46.0
Total Current Assets	113.1	60.5	47.8	85.5
Property, Plant & Equip.	37.0	122.2	256.8	390.2
Exploration	44.1	44.1	44.1	44.1
Investments/other	9.7	9.7	9.7	9.7
Tot Non-Curr. Assets	90.8	176.0	310.5	443.9
Total Assets	203.8	236.5	358.4	529.4
Short Term Borrowings	-	-	-	-
Other	3.0	2.8	6.3	38.8
Total Curr. Liabilities	3.0	2.8	6.3	38.8
Long Term Borrowings	100.0	150.0	250.0	330.0
Other	2.0	2.0	2.0	2.0
Total Non-Curr. Liabil.	102.0	152.0	252.0	332.0
Total Liabilities	105.1	154.8	258.4	370.8
Net Assets	98.7	81.7	100.0	158.6
Net Debt (pre AASB16)	-12	91	212	291
Net Debt (post AASB16)	-11	92	213	292

	2022F	2023F	2024F	2025F
LIB Production (100%)				
Throughput	-	-	18.25	18.25
- Production	-	-	-	-
- Li Sulphate	-	-	3.4	3.4
- Co Sulphate	-	-	1.2	1.2
- Ni Sulphate	-	-	10.1	10.1
- Copper	-	-	1.9	1.9
Capex	-71	-71	0	0
LiOH Refinery (100%)				
LiOH	0	0	0	0
Cash Costs	-	-	-	-
Capex	0	0	0	-150
Scandinavian Vanadium (100%)				
V2O5	-	-	-	5.8
Cash Costs	-	-	-	-6.2
Capex	0	-87	-87	-87
Barrambie (100%)				
Concentrate	-	-	-	1.1
Cash Costs	-	-	-	-140
Capex	0	0	-88	-88
Valuation			A\$m	A\$/sh
50% LIB 20ktpa- Germany (pre-tax NPV@12%)			144	0.26
50% LIB +150ktpa- Germany (pre-tax NPV@12%)			500	0.91
59% Vanadium Slag - Scandinavia (pre-tax NPV@12%)			34	0.06
50% LiOH Refinery - India (pre-tax NPV@14%)			36	0.07
100% Barrambie - (pre-tax NPV@14%)			62	0.11
100% Mt Edwards - Notional Value			25	0.05
Other Assets/Exploration			8	0.01
Forwards			0	0.00
Corporate Overheads			-68	-0.12
Net Cash (Debt)			68	0.12
AASB16 Debt			0	0.00
Investments			0	0.00
Tax (NPV future liability)			-247	-0.45
Options & Other Equity			0	0.00
Total			561	1.02
Price Assumptions				
AUDUSD	0.75	0.74	0.74	0.74
Spodumene - Chemical (ie Battery)	675	700	700	750
LiOH	15000	13000	13000	13000
LC	15000	13000	13000	13000
Nickel	8.5	8.3	8.0	8.0
Copper	3.5	3.3	3.0	3.0
Cobalt	20	20	20	20
V2O5 - 98% China	7.0	7.0	7.0	7.0
V2O5 - 99.5% Rotterdam	8.4	8.4	8.4	8.4
Other Information				
Estimated free float:				91.5%
12-mth High/Low (A\$/sh)			\$0.57 - \$0.14	
Average daily volume (A\$m)				0.4
ASX Code				NMT
Next result				Aug-21

Company Description

Very advanced lithium battery recycling project in Europe.

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