

Neometals Ltd

(NMT \$1.02) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	26 th October 2021	\$1.41/sh ▲ from \$1.03/sh

Commissions battery recycling demo plant

Event

NMT announced the full commissioning of the demo plant (50% NMT) in Germany. The trial on customer lithium batteries will commence in November;

We have also broken out our NMT valuation to separate the “Stage 1 front end black mass” economics from the “Stage 2 backend hydro-met” economics;

Impact

The results of the demo trials will be used for the feasibility study and for process optimisation. Ideally, the feasibility study will be optimised to customer’s specific feedstock – hence we assume the November trials will also process potential customer feedstock. Subsequent to the trials, we hope to see feedstock agreements ahead of the feasibility study and fid, due in early CY22;

Action

We maintain our Buy recommendation. Feedstock agreements will be a huge catalyst (that also makes them a risk);

Our base valuation is \$1.00/shr (NPV12). Our valuation is penalised by the high discount rate (12%) and the assumption big processing volumes (ie 160Kt pa plant) don’t happen until FY31. De-risking the operation (feedstock / offtake & customer trials) should result in lower discount rate. As an indication, our NPV5 is >\$6/shr;

Our spot price valuation (NPV12) is \$2.34/shr;

Hence, NMT is very attractively priced for a battery material growth stock. Recycling will be a very large and necessary source of raw materials for the EV industry, but the equities are not pricing in the same growth as the primary producers...yet;

Key Catalysts

- LIB Class 3 (feasibility) Opex and Capex – end CY21;
- NMT secondary listing on London Stock Exchange (AIM) – 2H CY21;
- Feasibility study and FID for first European LIB plant – 31 Mar 2022;
- FID for first North American LIB plant – 2HCY22;
- FS for vanadium recovery project in Europe - JunQ 2022
- FID for vanadium recovery project in Europe – end CY22
- Barrambie vanadium smelting trials and binding offtakes – mid CY22;

Neometals Ltd	Year End 30 June	
Share Price	1.02	A\$/sh
Price Target	1.41	A\$/sh
Valuation (DCF)	1.00	A\$/sh
WACC	12.0%	
Terminal Growth	0%	
Shares on issue	552 m,	diluted
Market Capitalisation	562.8	A\$m
Enterprise Value	452.2	A\$m
Cash (30 Jun 21a)	110.6	A\$m
Debt (30 Jun 21a)	-	A\$m

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	0.0	0.0	55.9
EBITDA (A\$m)	-10.2	-8.2	31.5
EBITA (A\$m)	-14.4	-13.0	20.9
Reported NPAT (A\$m)	-13.8	-15.8	13.0
Normalised NPAT (A\$m)	-9.9	-11.3	9.3

Op. Cashflow (A\$m)	-10.0	-11.3	18.8
Capex (A\$m)*	-15.4	-106.3	-204.4
Op. Free Cashflow (A\$m)	-25.4	-117.6	-185.6

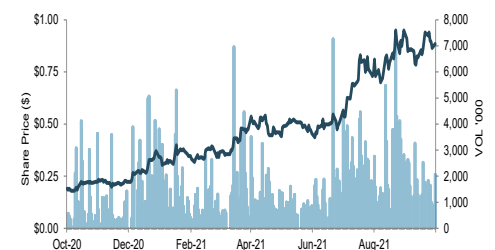
Revenue Growth (%)	nm	nm	nm
EBITDA Growth (%)	nm	nm	nm
Norm. NPAT Growth (%)	nm	nm	nm

Normalised EPS (Ac)	-1.8	-2.1	1.7
Norm. EPS growth (%)	nm	nm	nm
PER (x)	nm	nm	59.9
EV:EBITDA (x)	nm	nm	14.4
EV:EBIT (x)	nm	nm	21.7

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

Net Debt (A\$m)	-59.3	58.2	243.8
Net Debt:Equity (%)	nm	68%	251%
Interest Cover (x)	nm	nm	2.6

Share Price Chart



Disclaimer

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

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Neometals Ltd

(NMT \$1.02) Buy

Analysis

We have broken out our NMT valuation to separate the Stage 1 front end black mass economics (strong payback) from the Stage 2 backend hydro-met economics (strong payback, but longer than Stage 1). This is to help investors if the full scale commercialisation is phased between Stage 1 & Stage 2. Remember, NMT has already committed to a Stage 1 (ie black mass only) 10t/pd plant in CY22.

We estimate that Stage 1 capex is substantially lower than Stage 2. Remember, the demo plant was effectively a Stage 1 10t/pd commercial operation – and the capex for that is minimal. Consequently, it is possible NMT rolls out a significant number of Stage 1 plants ahead of a much larger Stage 2 plant. These are speculative assumptions, and dependent on customers preferences. We breakout our valuation for investors to help build their own scenarios for the potential high growth rollout over the next two years.

Corporate Valuation	Base		Spot
	\$m	A\$/sh	A\$/sh
50% LIB 20ktpa- Germany (pre-tax NPV@12%)	148	0.27	0.50
- Stage 1: Black Mass (50% shr capex A\$21m)	49	0.09	0.13
- Stage 2: Hydromet (50% shr capex A\$100m)	99	0.18	0.37
50% LIB 160ktpa- Germany (pre-tax NPV@12%)	561	1.02	1.99
- Stage 1: Black Mass	192	0.35	0.53
- Stage 2: Hydromet	369	0.67	1.46
59% Vanadium Slag - Scandinavia (pre-tax NPV@12%)	34	0.06	0.32
100% Barrambie - (pre-tax NPV@14%)	64	0.12	0.79
Other Assets/Exploration	20	0.04	0.04
Forwards	0	0.00	0.00
Corporate Overheads	-68	-0.12	-0.12
Net Cash (Debt)	111	0.20	0.20
AASB16 Debt	0	0.00	0.00
Investments	8	0.01	0.01
Tax (NPV future liability)	-325	-0.59	-1.44
Options & Other Equity	0	0.00	0.00
Total	553	1.00	2.30

Price Target

We have increased our price target to \$1.41 (from \$1.03);

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	75%	\$1.00	\$1.14
1.5x NAV	5%	\$1.50	\$1.70
NPV at spot commodity and fx prices	15%	\$2.34	\$2.69
NPV5	1%	\$6.22	\$6.90
Grossed up dividend yield of 6.0%	1%	\$0.00	\$0.00
Net cash	3%	\$0.20	\$0.11
Risk weighted composite		\$1.25	
12 Months Price Target		\$1.41	
Shareprice - Last		\$1.020	
12 mth total return (% to 12mth target + dividend)		38.5%	

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Profit & Loss	2022F	2023F	2024F	2025F
Revenue	0.0	0.0	55.9	374.8
Total Costs	-10.2	-8.2	-24.4	-275.2
EBITDA	-10.2	-8.2	31.5	99.6
margin	-	-	56%	27%
- LIB Batt. Recyl.	0.0	0.0	35.6	46.0
- Scand. Vanadium	0.0	0.0	0.0	10.2
- Barrambie	0.0	0.0	0.0	45.4
- Overheads	-10.2	-8.2	-4.1	-2.0
D&A	-4.2	-4.8	-10.6	-17.5
EBIT	-14.4	-13.0	20.9	82.1
Net Interest	0.6	-2.8	-7.9	-12.3
Pre-Tax Profit	-13.8	-15.8	13.0	69.8
Tax Expense	0.0	0.0	0.0	0.0
Normalised NPAT	-9.9	-11.3	9.3	50.3
Abnormal Items	-3.9	-4.4	3.6	19.6
Reported Profit	-13.8	-15.8	13.0	69.8
Minority	0.0	0.0	0.0	0.0
Profit Attrib	-13.8	-15.8	13.0	69.8
DPS	0.0	0.0	0.0	0.0

Cash flow (A\$m)	2022F	2023F	2024F	2025F
Pro-forma EBITDA	-10.2	-8.2	31.5	99.6
Working Capital	-0.3	-0.3	-4.7	-5.9
Cash retained in JV	0.0	0.0	0.0	0.0
Operating Cashflow	-10.6	-8.4	26.8	93.7
Income Tax Paid	0.0	0.0	0.0	0.0
Interest & Other	0.6	-2.8	-7.9	-12.3
Operating Activities	-10.0	-11.3	18.8	81.4

Property, Plant & Equip.	-15.4	-106.3	-204.4	-149.5
Exploration and Devel.	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investment Activities	-15.4	-106.3	-204.4	-149.5

Borrowings	100.0	100.0	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	100.0	100.0	80.0
Net Cashflow	74.6	-17.6	-85.6	11.8

Balance Sheet (\$m)	2022F	2023F	2024F	2025F
Cash	160.6	143.0	57.4	69.3
Other Current Assets	1.2	1.2	8.1	47.4
Total Current Assets	161.8	144.2	65.5	116.7
Property, Plant & Equip.	-11.2	90.4	284.2	416.2
Exploration	44.1	44.1	44.1	44.1
Investments/other	9.7	9.7	9.7	9.7
Tot Non-Curr. Assets	42.6	144.1	337.9	470.0
Total Assets	204.4	288.3	403.4	586.6

Short Term Borrowings	-	-	-	-
Other	3.0	2.8	4.9	38.3
Total Curr. Liabilities	3.0	2.8	4.9	38.3
Long Term Borrowings	100.0	200.0	300.0	380.0
Other	2.0	2.0	2.0	2.0
Total Non-Curr. Liabil.	102.0	202.0	302.0	382.0
Total Liabilities	105.1	204.8	307.0	420.3
Net Assets	99.3	83.5	96.5	166.3
Net Debt (pre AASB16)	-61	57	243	311
Net Debt (post AASB16)	-59	58	244	312

LIB Production (100%)	2022F	2023F	2024F	2025F
Throughput	-	-	13.69	18.25
- Production	-	-	-	-
- Li Sulphate	-	-	2.5	3.4
- Co Sulphate	-	-	0.9	1.2
- Ni Sulphate	-	-	7.6	10.1
- Copper	-	-	1.4	1.9
Capex	-20	-101	-121	0

Scandinavian Vanadium (100%)	2022F	2023F	2024F	2025F
V2O5	-	-	-	5.8
Cash Costs	-	-	-	-6.2
Capex	0	-87	-87	-87

Barrambie (100%)	2022F	2023F	2024F	2025F
Concentrate	-	-	-	1.1
Cash Costs	-	-	-	-140
Capex	0	0	-88	-88

Valuation	A\$m	A\$/sh
50% LIB 20ktpa- Germany (pre-tax NPV@12%)	148	0.27
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Total	553	1.00

Price Assumptions	2022F	2023F	2024F	2025F
AUDUSD	0.74	0.74	0.74	0.74
Spodumene - Chemical (ie Battery)	825	700	700	700
LiOH	15000	15000	13000	13000
LC	15000	15000	13000	13000
Nickel	8.8	8.5	8.3	8.0
Copper	4.1	3.7	3.6	3.5
Cobalt	24	24	24	24
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:	92.8%
12-mth High/Low (A\$/sh)	\$1.01 - \$0.180405
Average daily volume (A\$m)	1.1
ASX Code	NMT
Next result	Feb-22

Company Description

Very advanced lithium battery recycling project in Europe.

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