Neometals Ltd

(NMT $1.09) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	13th December 2021	$1.55/sh ▲ from $1.51/sh

Plan to build 25ktpa lithium hydroxide/carbonate plant in Portugal

Event

NMT announced it is commercialising its ELi technology to process lithium-chloride into battery grade lithium chemicals;

The technology is co-owned 70:30 with MIN and the proposed 50:50 JV will be with the newly announced partner, Bondalti Chemicals (a large EU chemicals company);

The intention is to complete 18mths of pilot plant testwork and feasibility studies towards building a 25ktpa lithium hydroxide/carbonate refinery in Portugal to support car makers on the Iberian Peninsula (approx. 3m cars pa) transition to EV;

Impact

There is a significant price difference between low quality/partially finished brine concentrates (typically LiCl) and battery grade chemicals;

The ELi process offers a low capex & opex and low-carbon method to arbitrage the difference. The JV will need to secure feedstock, but with DLE likely to be a larger source of brine processing, there could be a large supply of LiCl. Hence, we expect a toll treating agreement is the most likely, although the economics are better if the JV secures its own product;

We estimate capex in order of US$200m, and a toll margin of US$4k/t (implying US$100m EBITDA pa). Using NPV12, this implies around 18cps, post-tax, net to NMT. Obviously, de-risked (lower discount rate + incorporating growth), the contribution would be far more. We have added 18cps to our valuation;

Note that the current difference between low quality brines (we use AKE.asx contract price as the benchmark) and battery chemicals is around US$15k/t. So, if the process was used on own product or in JV with a brine deposit owner rather than toll treating the NPV would be far larger;

Action

We retain our Buy recommendation. Our main value driver is the lithium recycling business, but the three other units (Vanadium Recovery Project, Barrambie & ELi) combined are beginning to be meaningful too.

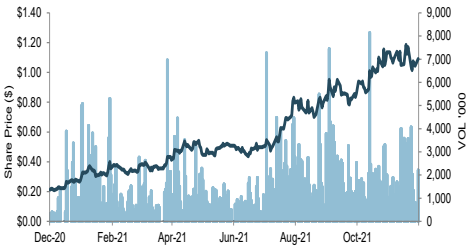
Key Catalysts

- Stage 1 LIB Class 3 (feasibility) Opex and Capex – February;
- 10tpd operations commence – MarQ 2022;
- Stage 2 demo first trial outcomes announced - March;
- NMT secondary listing on London Stock Exchange (AIM) – MarQ 2022;
- Stage 2 LIB Class 3 (feasibility) Opex and Capex – June;
- Feasibility study and FID for first Primobius European LIB plant – July;

Neometals Ltd	Year End 30 June	
Share Price	1.09	A$/sh
Price Target	1.55	A$/sh
Valuation (DCF)	1.21	A$/sh
WACC	12.0%	
Terminal Growth	0%	
Shares on issue	552 m, diluted	
Market Capitalisation	598.7	A$m
Enterprise Value	476.5	A$m
Cash (30 Sep 21a)	122.2	A$m
Debt (30 Sep 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	63.8
EV:EBITDA (x)	nm	nm	15.1
EV:EBIT (x)	nm	nm	22.8
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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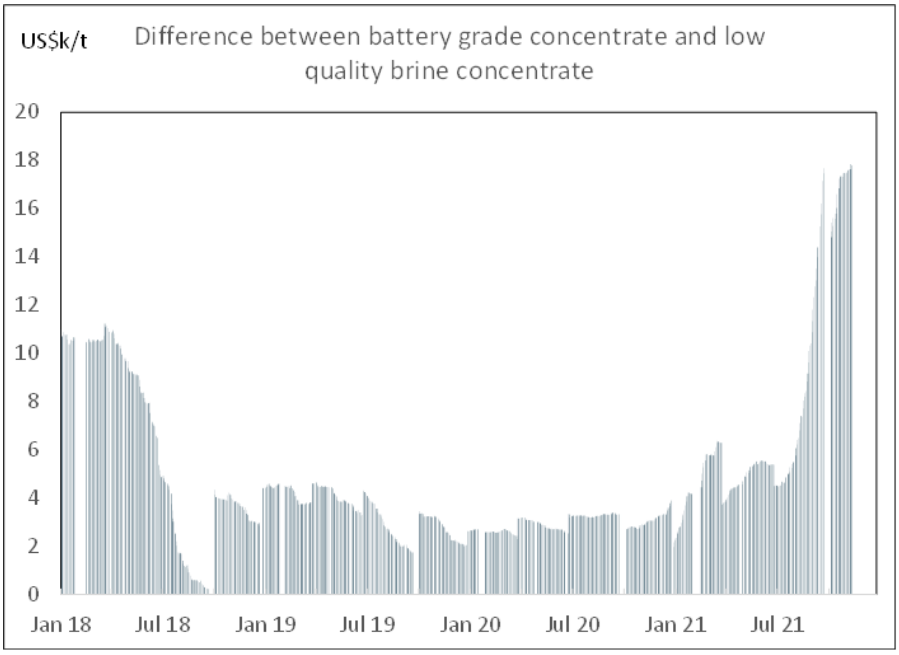
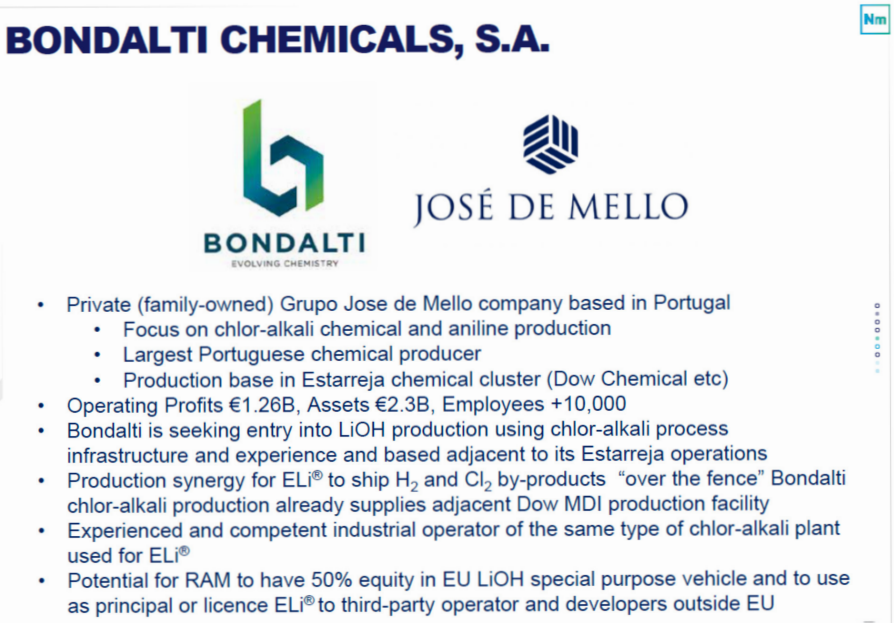
- FS for vanadium recovery project in Europe - JunQ 2022;
- FID for first North American LIB plant – 2HCY22;
- FID for vanadium recovery project in Europe – end CY22;
- Barrambie vanadium smelting trials and binding offtakes – mid CY22;
- ELi Portugal Class 3 (feasibility) July 22, Pilot 2H CY22, Class 2 (FEED) - July 23

Analysis



Source: Euroz Hartleys



Source: NMT

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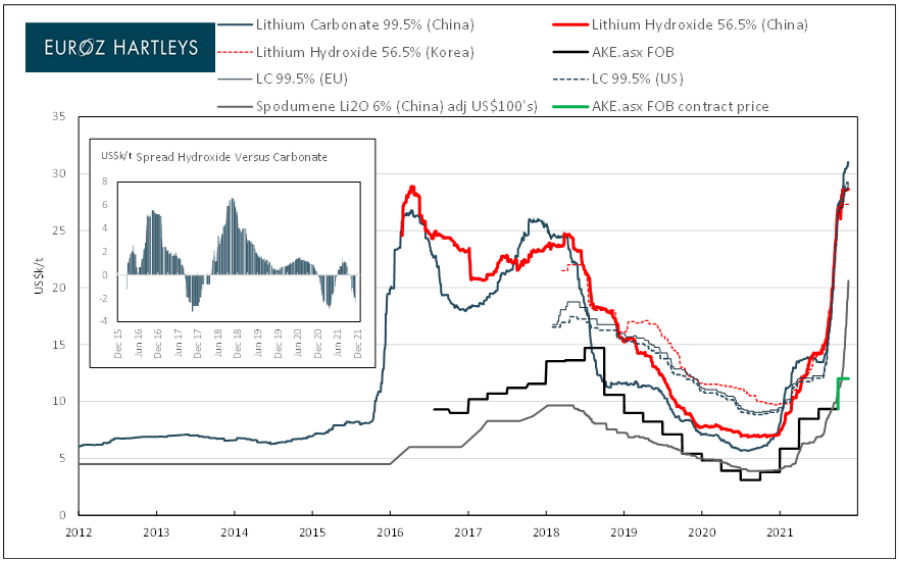

Source: Asian Metals, Euroz Hartleys, AKE

Price Target

Our price target is increased to $1.55 (from $1.51).

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	63%	$1.21	$1.34
1.5x NAV	10%	$1.81	$2.02
NPV at spot commodity and fx prices	15%	$2.62	$2.99
NPV5	1%	$6.81	$7.55
Grossed up dividend yield of 6.1%	1%	$0.00	$0.00
Net cash	11%	$0.22	$0.11
Risk weighted composite		**$1.39**	
12 Months Price Target		**$1.55**	
Shareprice - Last		$1.085	
12 mth total return (% to 12mth target + dividend)		**42.5%**	

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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
50% LIB 160ktpa- Germany (pre-tax NPV@12%)	561	1.02
59% Vanadium Slag - Scandinavia (pre-tax NPV@12%)	34	0.06
100%% Barrambie - (pre-tax NPV@14%)	64	0.12
Other Assets/Exploration	20	0.04
Forwards	0	0.00
Corporate Overheads	-68	-0.12
Net Cash (Debt)	122	0.22
AASB16 Debt	0	0.00
Investments	8	0.01
Tax (NPV future liability)	-325	-0.59
Options & Other Equity	0	0.00
Total	**666**	**1.21**

Price Assumptions	2022F	2023F	2024F	2025F
AUDUSD	0.74	0.74	0.74	0.74
Spodumene - Chemical (ie Battery)	1263	950	900	850
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)	$1.20 - $0.20
Average daily volume (A$m)	1.4
ASX Code	NMT
Next result	Feb-22

Company Description

Very advanced lithium battery recyling project in Europe.

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