EQUITY RESEARCH QUICK TAKE

RBC Europe Limited
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Neometals Ltd

Finnish Vanadium receives EU backed funding and investment

LSE: NMT | GBp 4.00 | Outperform | Speculative Risk | Price Target GBp 25.00

Sentiment: Positive

Event

Neometals has announced that the Finnish Vanadium Recovery project has secured EUR0.5m in grant funding and further investment from EIT RawMaterials, an EU entity.

Our view

We expect a positive reaction to today's announcement. The support from an EU backed entity de-risks the financing of the project which could help NMT in monetizing its stake. Although vanadium prices remain depressed, NMT's vanadium project would be profitable in the current environment given its tier 1 costs ($4.19/lb according to the latest PFS) and premium product. We rate Neometals Outperform (Spec Risk) with a price target of 25p.

Key details

- The Finnish Vanadium Recovery project involves the application of a hydrometallurgical leaching process to produce high-purity vanadium pentoxide from vanadium-bearing steel slag. A 2023 feasibility study calculated a pre-tax NPV (10% discount rate, based on a V2O5 price of $9.82/lb) of $323m with a 24.8% IRR and a payback of 5.7 years (see here) following an initial capex investment of $314m. The project has received the necessary permits and has an offtake agreement with Glencore for 100% of its V2O5 product. NMT is entitled to receive a 2.5% gross revenue royalty on the project. The value of this Vanadium royalty represents 15% of RBCe NAV.
- **Under the agreement, EIT RawMaterials will provide the project with EUR0.5m in grant funding and be issued approximately 1.1% of the issued share capital of RISAB for EUR50m**. EIT RawMaterials also has the option to subscribe for up to an additional EUR10m in equity funding in RISAB at the earliest of: 1) a period of 18 months from signing the agreement, 2) the execution of a binding agreement of an equity commitment for at least EUR160m into RISAB from one or more investors.
- The project financing process will commence following the receipt of the funds, seeking c.EUR400m (40% equity, 60% debt) with Nordic banks SEB and Aventum, with assistance from EIT RawMaterials.
- EIT RawMaterials is a legally independent part of the European Institute of Innovation and Technology. It is mandated by the European Commission to lead and manage the European Raw Materials Alliance.
- In line with its recent strategic update, Neometals stated that it does not intend to provide further material funding to RISAB to develop the project and expects to dilute its current holding to a minority equity position from its current 89% stake.

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All values in AUD unless otherwise noted. Priced as of prior trading day's market close, EST (unless otherwise noted).
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For Required Non-U.S. Analyst and Conflicts Disclosures, see page 2

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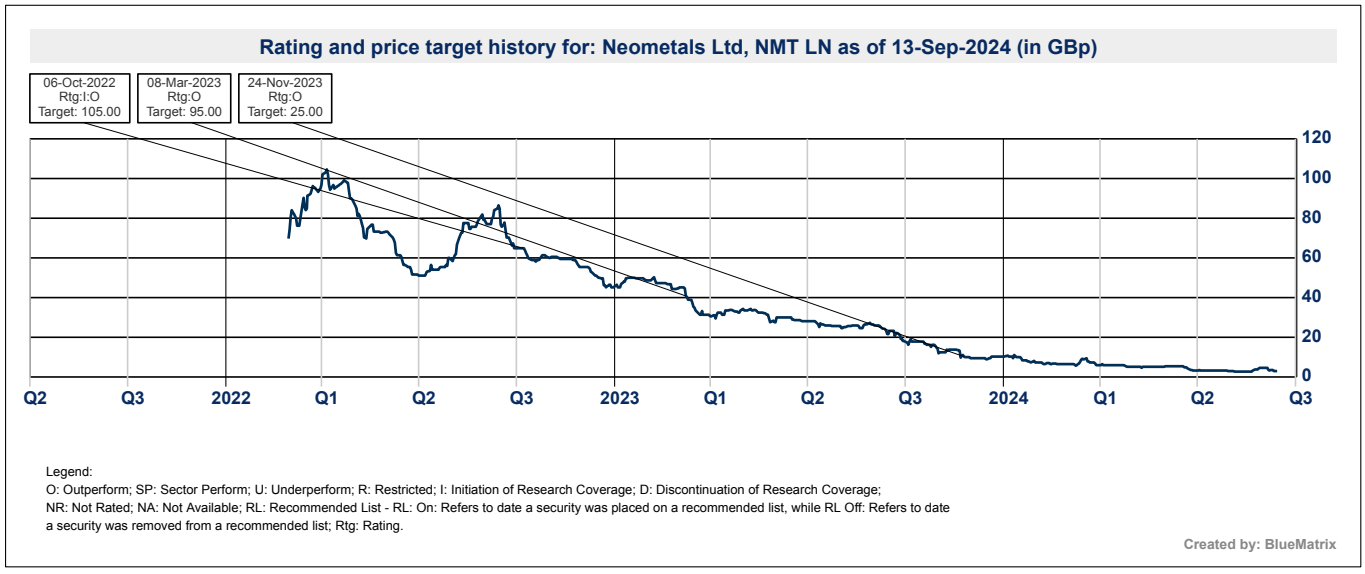
SELL [Underperform]	**47**	**3.15**	**5**	**10.64**



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Neometals Ltd

Valuation

Our base case valuation includes DCF driven values for Stelco and Mercedes Benz royalties (10% revenue royalty and 8% discount rate). We expect Primobius will be able to build two plants every 18 months. If we run this from 2027-31 and then finish with a 200ktpa plant, we would generate a discounted value of some US$420m. With financing, partnership and permitting risks

outstanding, we heavily risk this and only take 20% of this value into our base case. Together with a 0.3x NAV valuation for the Vanadium retreatment royalty, we arrive at a post-finance share price of 25p (would be 65p unrisked). The implied return to our price target supports our Outperform rating. We assign a Spec risk qualifier due to the company remaining pre-revenue till 2025 and risks around successful execution of partnerships.

Risks to rating and price target

Neometals operates in a new and evolving industry. The company is exposed to various risks as follows

- The hydromet technology struggles to achieve scale and commerciality
- LIB batteries are hazardous and represent safety risks
- Company struggles to capture market share driven by higher-than-expected competition
- Funding risks - The industry struggles to access/deploy capital to build recycling capacity
- Industry margins move down sharply than forecasted due to increased competition

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