EQUITY RESEARCH QUICK TAKE

RBC Europe Limited
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September 23, 2024

Neometals Ltd

Announces a gold exploration target for Barrambie

LSE: NMT | GBp 4.50 | Outperform | Speculative Risk | Price Target GBp 25.00

Sentiment: Positive

Event
Neometals ("NMT") provided an update on the gold exploration programme ongoing at the Barrambie Vanadium and Titanium project.

Our view
We expect a positive reaction to today's announcement. Although still in early stages, the potential for a gold resource at Barrambie opens the potential for a new business to be monetized either through development or divestment. Given the proximity to other projects, we see potential for infrastructure synergies something that could make a potential resource (if determined) relatively easy to monetize. We rate Neometals Outperform (Spec Risk) with a price target of 25p and expect the company's simplified strategy focused on the crucial battery recycling business to deliver value over time.

Key details
- Today, the company has announced a gold exploration target of between 8Mt at an average grade of 1.3g/t Au and 10.5Mt at an average grade of 2.3g/t Au, implying 335-775koz of contained gold. This target has been defined based on historical drilling observed mineralogical characteristics and current understanding of structural and lithological control.
- NMT has owned Barrambie since 2003. Through this time the company has focused on exploring the vanadiferous titanomagnetite (“VTM”) resource which has proved to be one of the largest globally. A 2023 PFS estimated the NAV of the project AUD375m over a 13-year life of mine, with a 45% IRR and a payback of 2.9 years, producing both direct shipping ore and mixed gravity concentrate (see here).
- Along with the VTM resource, NMT's 706 km2 tenure encompasses approximately 40km of strike of the Barrambie Greenstone Belt (BCG) which historically produced 27koz of gold and is located close to other gold projects (see figure 1). As part of its new strategy, NMT is exploring for gold within the property with the aim of assessing potential of gold resources separately from the main titanium and vanadium resource.
- An historical dataset over 1,500 drill holes shows multiple high-grade intersections (see figure 2). The historic drilling is spread across 10 prospects. However, most drilling is clustered around the two main gold centres, Ironclad and Barrambie Ranges, leaving much of Barrambie under-drilled.

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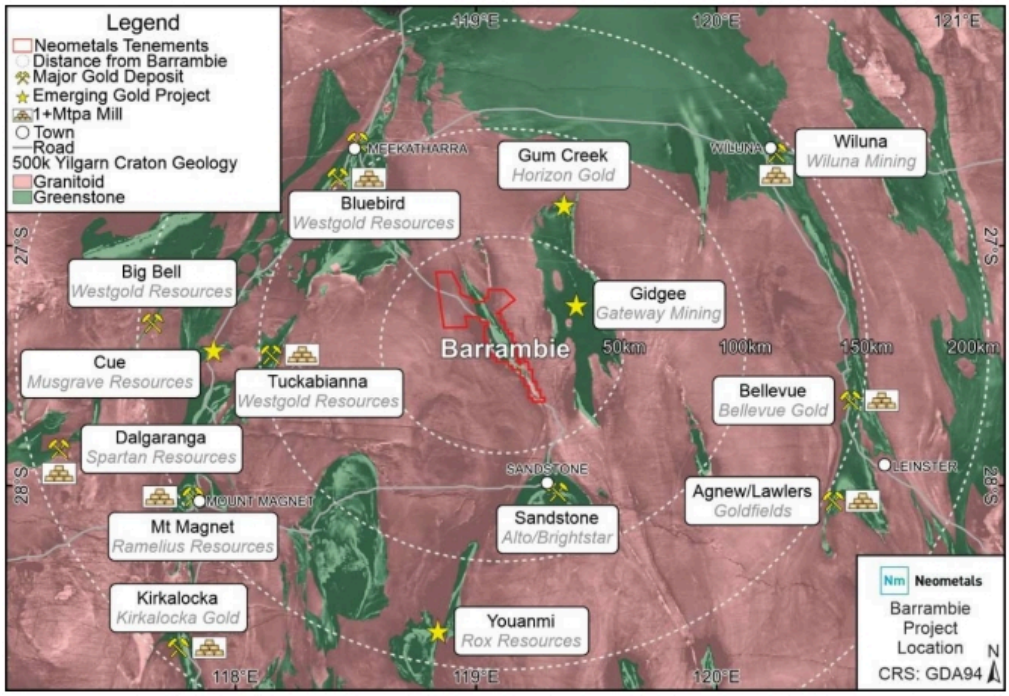
Figure 1 - The Barrambie project in relation to proximal gold projects



Source: Company reports

Figure 2 - Drillholes from historical database

Hole B194	– 4m at 6.1 g/t Au from 25	Hole I084	– 10m at 9.1 g/t Au from 10m
Hole BR064	– 6m at 11.8 g/t Au from 18m	Hole SG131	– 11m at 15.9 g/t Au from 69m
Hole I043	– 8m at 21.8 g/t Au from 8m		

Source: Company reports

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As of 30-Jun-2024

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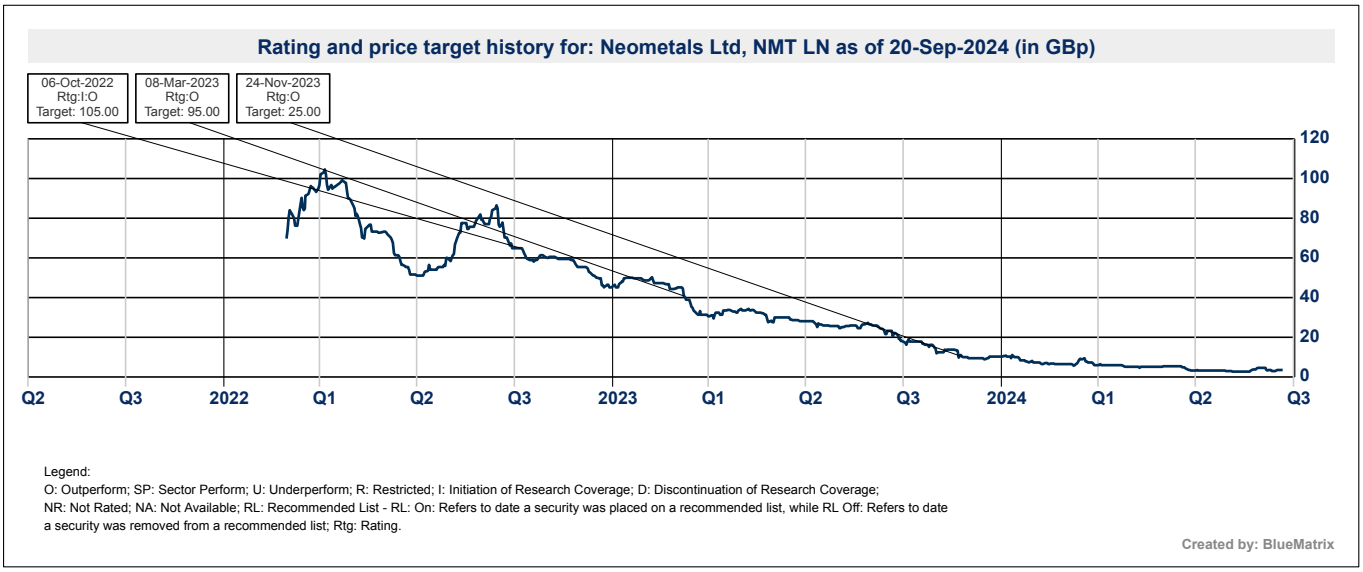

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Neometals Ltd

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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