

# Altech Chemicals Limited (ASX: ATC)

## Slow progress on finalising mezzanine debt

### Events

Altech Chemicals (ASX:ATC) announced on 12 March 2019 a construction update for Stage 1 of its high purity alumina (HPA) plant in Johor, Malaysia. Initial site establishment activities are complete, with the site fully fenced and secured. The site construction office has been erected, and safety and access controls put in place. Removal of top soil is complete and bulk earthworks and site levelling is in progress. Workshop foundation piling is expected to commence shortly and preparations for the reinforced concrete works are in progress.

On 8 March 2019, ATC announced that it had officially mandated Macquarie Bank as the preferred mezzanine lender. Completion of the mezzanine facility is conditional upon the bank's views of usual due diligence processes (legal, market, technical), and agreement with KfW-IPEX Bank on inter-creditor arrangements.

### State One comment

The official ground-breaking ceremony at the Johor HPA site took place on 8 August 2018. The construction update indicates that slow but steady progress has been made on site preparation works over the past seven months. On 11 May 2018, ATC received an indicative non-binding US\$90m mezzanine debt term sheet (from Macquarie Bank). Eight months later, Macquarie is now mandated as the preferred mezzanine lender – but due diligence is still outstanding. Securing US\$90m in mezzanine debt is vital as it fills the “hole” required to fund the US\$280m lump-sum fixed-price HPA plant EPC contract with German engineering firm SMS Group GmbH. Note: ATC has already secured US\$190m in senior debt funding from German government-owned KfW IPEX-Bank. Thus, while the latest mezzanine debt announcement shows that progress on this front is advancing, it appears, at least from the outside, to be progressing a lot slower than initially expected. Our base case forecast of HPA production commencing in FY22E (at ~25% plant operating capacity) is predicated on ATC obtaining full project financing of US\$280m (A\$400m) in FY19E, followed by a two-year construction period. Based on the time it has taken to date, we suggest that it may be stretching expectations to get any mezzanine debt agreement signed sealed and delivered by June 2019.

### Risk-weighted target price: A\$0.16ps (unchanged)

Our estimated post-tax NPV<sub>7.5</sub> for the HPA Project is A\$711m (see initiating coverage “[HPA – a “sapphire”-hard act to follow](#)”, 31 October 2018). Adjusting for assumed project debt of A\$400m, our un-risked equity valuation is A\$315m or A\$0.52 per fully diluted share. While ATC's recent announcements indicate that progress is being made, continued poor visibility on the timing of a complete project funding solution suggests that it is appropriate to maintain our original deep project-risk discount. We note there have been no updates on a June 2018 indicative non-binding US\$60m stream finance facility, or on progress with mooted project-level JV options. Attaching a 70% project-risk discount, we calculate ATC's risk-adjusted equity value at A\$95m or A\$0.16 per diluted share. At current share price levels, we believe that ATC offers attractive risk-adjusted upside potential. **We maintain a Speculative Buy (Higher Risk) recommendation.** Note: in our view, ATC securing the required funding balance would lead to a reduction in the risk-discount attached to the group. Thus, positive funding news could act as a significant share price catalyst.

Risks to our earnings profile and target price include, but are not limited to: the US\$ HPA price and AUD:USD exchange rate volatility, plant construction date (dependent on securing project financing), commissioning schedule, production start-date, and ramp up profile, securing product off-take beyond the 10-year agreement currently secured with Mitsubishi, operating costs particularly mining, logistics, and processing, sovereign risk (with the processing plant location in Malaysia), competition from new suppliers, lower than expected demand for HPA due to substitution by other materials in making substrates for the LED industry (currently >50% of HPA demand), key personnel/management risk.

**14 March 2019**

Share Price: A\$0.125

Target Price: A\$0.16

**Target Upside: 28%**

Recommendation

**Speculative Buy**

Risk Assessment

**Higher**

### Resources – High Purity Alumina (HPA)

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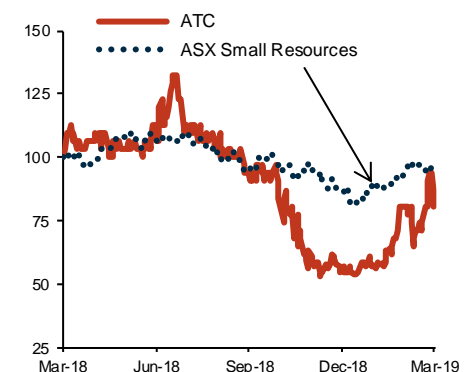
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### Altech Chemicals Limited

ASX Code	ATC
52-week range (A\$cps)	A\$0.08-A\$0.22
Market Cap (A\$m)	72
Quoted shares (m)	573
Av Daily Turnover (shares)	942k
ASX All Ordinaries	6,235
FY19E BV per share (A\$c)	0.08
FY19E EPS (A\$c)	-0.01
FY19E Net (Debt)/Cash (A\$m)	14

### Relative Price Performance



**Altech Chemicals Limited**

Year ending June

Profit & Loss Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue (net of TC/RC)	0.0	0.0	0.0	0.0	37.8
Mining / logistics	0.0	0.0	0.0	0.0	(6.3)
Processing	0.0	0.0	0.0	0.0	(11.4)
Corporate/Royalty/Other	(3.6)	(4.0)	(5.0)	(7.0)	(8.2)
<b>EBITDA</b>	<b>(3.6)</b>	<b>(4.0)</b>	<b>(5.0)</b>	<b>(7.0)</b>	<b>12.0</b>
Depreciation & Amortisation	(0.0)	0.0	0.0	0.0	(2.5)
<b>Operating profit</b>	<b>(3.6)</b>	<b>(4.0)</b>	<b>(5.0)</b>	<b>(7.0)</b>	<b>9.5</b>
NOI	(1.0)	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(4.7)</b>	<b>(4.0)</b>	<b>(5.0)</b>	<b>(7.0)</b>	<b>9.5</b>
Interest income	0.1	0.0	12.4	6.6	0.6
Interest expense	0.0	0.0	0.0	0.0	(10.0)
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>(4.6)</b>	<b>(4.0)</b>	<b>7.4</b>	<b>(0.4)</b>	<b>0.1</b>
<b>Normalised NPAT</b>	<b>(3.5)</b>	<b>(4.0)</b>	<b>7.4</b>	<b>(0.4)</b>	<b>0.1</b>
EBITDA Margin (%)	na	na	na	na	32%
Operating profit margin (%)	na	na	na	na	25%
EPS Reported (A\$)	(0.01)	(0.01)	0.01	(0.00)	0.00
<b>EPS Normalised (A\$)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>0.01</b>	<b>(0.00)</b>	<b>0.00</b>
EPS growth (%)	nm	nm	nm	-105%	-140%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	363	601	601	601	601
YE no. of fully-diluted shares (m)	601	601	601	601	601

Cash Flow Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(3.6)	(4.0)	(5.0)	(7.0)	12.0
Investment in working capital	(3.9)	0.1	0.0	0.0	(5.9)
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>(7.5)</b>	<b>(3.9)</b>	<b>(5.0)</b>	<b>(7.0)</b>	<b>6.1</b>
Capex	(16.1)	0.0	(200)	(200)	(5.0)
Other investments	0.0	(2.1)	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(16.1)</b>	<b>(2.1)</b>	<b>(200)</b>	<b>(200)</b>	<b>(5.0)</b>
Net interest received / (paid)	0.1	0.0	12.4	6.6	(9.4)
Debt draw down / (repayment)	0.0	400	0.0	0.0	0.0
Dividends paid	0.0	0	0.0	0.0	0.0
Equity raised / (repaid)	18.4	20	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>18.5</b>	<b>420</b>	<b>12.4</b>	<b>6.6</b>	<b>(9.4)</b>
Non-operating & Other	4.0	0.0	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>(1.2)</b>	<b>414</b>	<b>(193)</b>	<b>(200)</b>	<b>(8.3)</b>

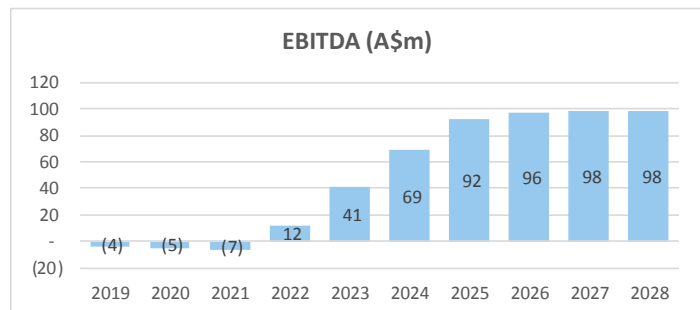
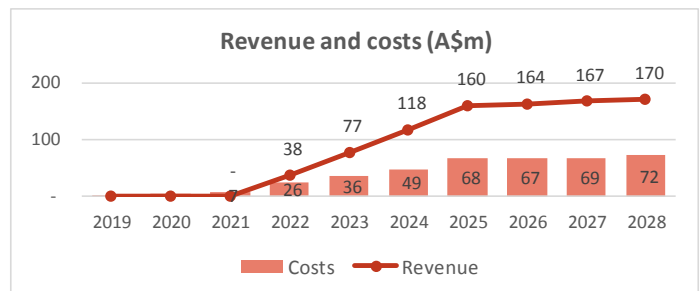
Balance Sheet (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	0.3	414	222	21.3	13.0
Receivables	0.1	0.0	0.0	0.0	3.8
Inventories	0.0	0.0	0.0	0.0	2.8
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	34.4	34	234	434	437
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	2.1	2.1	2.1	2.1
<b>Total Assets</b>	<b>34.7</b>	<b>451</b>	<b>458</b>	<b>458</b>	<b>459</b>
Payables and other current Liabilities	3.3	3.3	3.3	3.3	3.9
Short Term Debt	0.0	0.0	0.0	0	0
Long Term Debt	0.0	400	400	400	400
Other Liabilities (incl silver stream)	0.0	0	0	0	0
<b>Total Liabilities</b>	<b>3.3</b>	<b>403</b>	<b>403</b>	<b>403</b>	<b>404</b>
<b>Total Equity</b>	<b>31.4</b>	<b>47</b>	<b>55</b>	<b>55</b>	<b>55</b>
Net Cash / (Debt)	0.3	14.2	(178)	(379)	(387)

Substantial Shareholders	%	Date
SMS Investments	6.8%	
MMA Group Berhad	5.8%	Aug-18
HSBC Custody Nominees	5.5%	

Source: Company, IRESS, State One Stockbroking forecasts

HPA production and revenue	FY18A	FY19E	FY20E	FY21E	FY22E
Mill throughput (t kaolin ore)	na	0	0	0	10,702
HPA market price (US\$/kg)	na	25.0	25.5	26.0	26.5
.....customer discount (%)	na	5%	5%	5%	5%
HPA received price (US\$/kg)	na	23.8	24.2	24.7	25.2
AUD:USD exchange rate	na	0.75	0.75	0.75	0.75
HPA received price (A\$/kg)	na	31.7	32.3	32.9	33.6
HPA production (tonnes)	na	0	0	0	1,125
<b>HPA revenue (A\$m)</b>	<b>na</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>38</b>

Unit costs (US\$/kg HPA)	FY18A	FY19E	FY20E	FY21E	FY22E
Mining and loading	na	na	na	na	1.08
Processing	na	na	na	na	7.57
Logistics	na	na	na	na	3.10
<b>Operating costs</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>11.74</b>

**Longer-term forecast revenue, costs, EBITDA profile (FY19E-FY28E)**


Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Debt (A\$m)	0	400	400	400	400
Net Debt/Equity	cash	cash	-325%	-695%	-708%
Interest Cover (x)	na	na	na	na	1.0

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	na	na	10.1	na	529.8
Price/OP Cash Flow	-10	-19	-15.0	-10.7	12.4
Book value per share (A\$)	0.05	0.08	0.09	0.09	0.09
EV/EBITDA	-21	-16	-51	-65.1	38.7
ROE (%)	-11%	-8%	14%	-1%	0%

Valuation	(A\$m)	(A\$/share)	Comment
HPA Project Reserve (1.22Mt)	711	1.18	NPV
Resource outside of Reserve	4	0.01	Nominal
Enterprise value	715	1.19	
Project debt	(400)	(0.67)	
Equity value (unrisked)	315	0.52	Equity valuation - unrisked
<b>Risk discount</b>	<b>70%</b>		<b>Timing / financing /operational</b>
Equity value (risked) & target price	95	0.16	Equity valuation - risked

Note: Per share valuation based on 601 million shares (diluted)

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